

# 21st Century Aid

## Recognising success and tackling failure



Nosim shows her mother, Nolmaai, her school exercises. Nosim was proud to show off the great sheaf of papers that were in her school bag. 'I like writing best, and playing with Rebecca. She's my friend. At home I like collecting firewood, because it helps my mum and I can go with Lain (an older girl from the homestead). I wash dishes too and do my homework. But best of all I like school. In the holidays, I was just waiting to go back.' ©Geoff Sayer/Oxfam

**Aid plays a role in saving millions of lives. Recently, a barrage of criticism has been unleashed on aid, with critics using individual examples of failed aid to argue that all aid is bad and should be reduced or phased out altogether. This is both incorrect and irresponsible. This report examines the evidence, and finds that whilst there is much room for improvement, good quality 21st century aid not only saves lives, but is indispensable in unlocking poor countries' and people's ability to work their own way out of poverty.**

# Summary

In Mozambique, the government has a national plan to tackle poverty and inequality, but it cannot finance this plan from national resources alone. Despite this, Mozambique – just 20 years ago the poorest country in the world – has increased its spending on health care by over half, and in the past decade the number of children who die before their fifth birthday has come down by almost 20 per cent.

Aid has played an important role in stories like this one. And yet despite these achievements, poverty continues to cast a shadow over the lives of some 1.4 billion people worldwide. In Burundi, for example, 88 per cent of people live on just \$2 a day. A Burundian woman faces a 1-in-16 chance of dying in childbirth; those who manage to make it to motherhood face a 50 per cent chance that their children will suffer moderate or severe stunting before the age of five. The persistence of poverty like this has cast doubt over the effectiveness of aid and lately, unleashed a barrage of criticism. Critics take examples of where it is not working to argue that all aid is bad and should be reduced or phased out altogether. Of course it is true that not all aid works, and that a lot of it could work better. But this is an argument for aid to be fixed – not abandoned.

Aid that does not work to alleviate poverty and inequality – aid that is driven by geopolitical interests, which is too often squandered on expensive consultants or which spawns parallel government structures accountable to donors and not citizens – is unlikely to succeed. The same is true of aid conceived by ‘experts’ in Washington, Geneva, or London and imposed without meaningful consultation with, or participation by those it intends to help.

This report examines the evidence on aid, and finds that while aid alone cannot solve the deprivation experienced by people living in poverty or redress the extreme imbalance of wealth that characterises our world, good quality 21st century aid not only saves lives, but can be indispensable in unlocking poor people’s ability to work their own way out of poverty.

The need for good quality, 21<sup>st</sup> century aid is more pressing now than ever. Last year, the global economic crisis crashed across poor country borders, exacting heavy economic damage and blowing a fiscal hole in the finances of developing countries. Low-income countries – already hit by the prolonged impact of the food and fuel crises – have now seen severe falls in Gross Domestic Product (GDP) growth, resulting in millions more being pushed into poverty. This is layered on the increasing vulnerability of many communities to the growing threats of climate change.

We are now at a crossroads. On the one side, is politically motivated or ineffective aid – much of which still exists today. On the other, and looking to the future, is aid fit for the 21st century. Twenty-first century aid is liberated from rich countries' political incentives and is targeted at delivering outcomes in poverty reduction. Twenty-first century aid innovates and catalyses developing country economies, and is given in increasing amounts directly to government budgets to help them support small-holder farmers, build vital infrastructure, and provide essential public services for all, such as health care and education. Twenty-first century aid is transparent and predictable. It empowers citizens to hold governments to account, and helps them take part in decisions that affect their lives. In recent years we have seen more of this good 21st century aid but we need to see a lot more still, and soon.

## Understanding the arguments against aid

This report sets out to understand the arguments against aid, recognising them where they have value and debunking them when they are built on myths. Some of the criticisms of aid are valid, and support calls for reform of the system, to make it work to reduce poverty and inequality. Conversely, some critics argue that aid is the key cause of economic dependency, lack of growth, corruption, and even laziness amongst people living in poverty. Such critics prefer alternatives, and argue that aid itself should be reduced, then phased out altogether.

The call for reform of the aid system is legitimate and welcome. Aid should not and must not be given for the wrong reasons, to the wrong people, or through ineffective models. But while improvements, and a strategy for reducing dependence on aid are essential, pulling the plug on aid now, even with the financial alternatives suggested, could result in huge increases in poverty.

Critics argue that aid does not reach its intended recipients because it is siphoned off through corruption. Some aid is almost certainly lost in this manner – aid is an investment in some of the most difficult and dangerous environments in the world. But the successes over the last decade stand testament to the fact that not all aid is lost through corruption, or wasted in other ways. Four million more people receiving treatment for HIV or AIDS, more than four million children who now survive past the age of five, and the enormous rise in the number of children going to school are all signs of aid that works.

Donors have also learned how to better ensure that aid is not wasted. Governments receiving aid now must meet outcomes linked to poverty reduction previously agreed with donors. They are also required to open channels of accountability and to improve public financial management of government spending. The more that donor governments focus their aid on poverty reduction, the less it will be wasted on their politically and economically driven incentives. In fact, instead of encouraging corruption, aid can play a key part in helping people living in poverty to tackle it. In Mozambique the national audit office, which receives aid support, has increased scrutiny of government

spending. In Azerbaijan and Georgia, aid-funded work to enhance capacities in local government has led to improvements in accountability to citizens and subsequently to increases in the tax payments made by the local population.

Corruption often persists because for every bribe-taker there is a bribe-giver. One of the keys to beating corruption is to reduce the availability of hideaways for stolen assets and for rich nations to step up domestic prosecutions of their own companies when they are accused of bribery overseas. This is true whether or not aid is involved.

Aid critics argue that aid hampers growth, asserting that where aid is found, growth is usually absent. Arguing that because aid is found in countries that are poor, it must be the cause of low growth is like arguing that fire engines cause fires because they can be found at the scenes of burning houses. Aid is found in the very places where these problems are worst precisely because it is designed to help tackle them.

Factors that do keep people economically inactive are poor health, lack of access to education, training, and jobs in the formal economy, and exposure to vulnerability. Research shows that malaria alone costs Africa \$12bn each year in lost revenues due to the millions of days and the lives lost to sickness; eliminating malaria could add 1.3 per cent to the continent's GDP growth. By funding tens of millions of free mosquito nets over the past five years, aid has contributed to economic growth across the world.

Aid critics argue that instead of accepting aid, developing countries should rely on alternatives such as foreign direct investment (FDI). FDI should and does play an increasingly important role in generating growth in developing countries, but in few poor countries has the growth generated by FDI been high enough to support the provision of essential services to the population. Good 21st century aid should help countries to harness economic opportunities for pro-poor development by building human capital and rural infrastructure such as roads and electricity supply, which will make countries more attractive to foreign investors.

Aid critics also say that taxes should supplant aid. Tax collection is central to reducing poverty and strengthening the effective working of government, and in the long run, is the best way forward for aid-dependent countries. Making taxes work to pay for national development is about more than financing; it is about building the contract between the citizen and the state so that when people pay tax, they demand more from their governments. Developing countries need to promote progressive taxation to fight inequality by redistributing resources within a country, and aid has a key role to play in supporting governments to build strong, progressive domestic tax systems. But even with good tax collection, few if any developing countries can currently finance essential services without additional support from outside. And making the most of mobilising domestic sources of revenue to finance development also means helping developing countries tackle the unfair or illegal corporate practices of tax evasion

and avoidance that drain them of resources, and which so many rich countries are complicit in upholding.

## Making the case for more resources

The quality of aid clearly requires improvement, and this must be combined with systemic reforms aimed at tackling the underlying structural causes of inequality and poverty. However, the quantity of aid also needs to be addressed, and just five years away from the Millennium Development Goals (MDG) deadline, donors are giving far less than is needed.

Where financing has been galvanised and aid delivered effectively, it has resulted in some breathtaking successes over the past decade.

- There are 33 million more children in the classroom, partly as a result of increased resources to developing country governments over the past decade from aid and debt relief.
- There has been a ten-fold increase in the coverage of antiretroviral treatment (ART) for HIV and AIDS over a five-year time span.
- In Zambia, there are more than 60 times more people on lifesaving ART.

However, on current projections many of the MDGs will not be met for decades to come.

- As recently as 2007, nine million children under the age of five died from largely preventable diseases.
- On current projections, MDG 4, which aims to reduce deaths of children under the age of five by two-thirds, will not be met until 2045.
- Every year, 350,000 women and girls die as a result of complications due to child bearing – the vast majority of them in developing countries.

Despite the increasing need, the missed targets, and a number of good developing country plans on the table, total aid remains well below the United Nations target of 0.7 per cent of gross national income (GNI).

- The shortfall of aid that has not been provided since 1970, when governments first committed to the 0.7 per cent figure, now amounts to over \$3 trillion.
- In 2009, the only countries to reach or exceed the UN target were Denmark, Luxembourg, the Netherlands, Norway, and Sweden.
- If governments had provided what they committed to in 1970, extreme poverty (at 2005 levels) could now have been ended 22 times over.
- On current trends, donors will not hit 0.7 per cent until 2050.
- Without vast increases in the aid being provided currently, Germany will not reach 0.7 per cent before 2027, and the USA until around 2055.

Meeting the MDGs is still possible, but it will need concerted effort and political will on the part of donors – and that means both more aid and better aid. Aid alone – even 21st century aid – is not enough to ensure that all people living in poverty can lead full and decent lives. But together with the right systemic reforms, aid can and will extricate millions of people from poverty and deprivation.

Oxfam calls for donors to:

- Ensure aid is channelled to help support active citizens, build effective states as a pathway to reducing poverty and inequality, and support diverse forms of financing to contribute to development.
- Deliver aid through a mix of models, including increasing budget support wherever possible, and ensure that a percentage of aid flows are channelled to civil society organisations, to enable people to better hold their governments to account.
- Dramatically improve the predictability of aid, by increasing the proportion of aid that is general budget support where possible and by sector support where general budget support is not an option, and limit conditions attached to aid to mutually agreed poverty indicators.
- Give at least 0.7 per cent of their national income in aid, and set out how this target will be reached, with legally binding timetables.

Developing country governments are urged to:

- Reject a culture of corruption, uphold human rights standards, and act in ways which are transparent and open to scrutiny.
- Provide legal environments in which civil society organisations monitoring government activities can flourish and respect the independence of non-government bodies like audit offices and the judiciary.

# 1

## A vision for 21st century aid

*'The best test of a civilised society is the way in which it treats its most vulnerable and weakest members.'*

Mahatma Gandhi

In Mozambique, the government has a national plan to tackle poverty and inequality, but it cannot finance this plan from national resources alone. Despite this, Mozambique – just 20 years ago the poorest country in the world – has increased its spending on health care by over half.<sup>1</sup> Through using this money to train and pay for more health workers, and building health centres across the country that give people direct access to medicines, in the past decade the number of children who die before their fifth birthday has come down by almost 20 per cent.<sup>2</sup>

Aid has played an important role in many stories like this one. And yet despite these achievements, poverty continues to cast a shadow over the lives of some 1.4 billion people worldwide. In Burundi, for example, 88 per cent of people live on just \$2 a day. A Burundian woman faces a 1-in-16 chance of dying in childbirth; those who manage to make it to motherhood face a 50 per cent chance that their children will suffer moderate or severe stunting before the age of five.<sup>3</sup> The persistence of poverty like this has cast doubt over the effectiveness of aid.

This report examines the evidence on aid, and finds that aid alone cannot cure the deprivation experienced by people living in poverty or redress the extreme imbalances of wealth that characterise our global community. What is more, not all aid works to alleviate poverty and inequality. Aid that is driven by geopolitical interests, which is too often squandered on expensive consultants or which spawns parallel government structures accountable to donors and not citizens is unlikely to succeed. The same is true of aid conceived by 'experts' in Washington, Geneva, or London and imposed without meaningful consultation with, or participation by those that it intends to help.

Good aid, however, not only saves lives but can be indispensable in unlocking poor people's ability to work their own way out of poverty. Aid fit for the 21st century is aid liberated from rich country political incentives and targeted at delivering outcomes in poverty reduction. Good aid innovates, catalyses developing country economies, and supports the provision of essential public services for all, such as health care and education. Good aid is transparent and predictable. It also empowers citizens to hold governments to account, and helps them to take part in decisions that affect their lives.

The first section of this report sets out a vision for 21<sup>st</sup> century aid, tackling the issues of what aid is for, how it can contribute to development, and why ending it now is not an option. It also looks at what aid shouldn't be, and argues that whilst donor governments need to ensure that all of their policies are working for development, this cannot be an excuse to count as development other activities which are concerned with meeting the geopolitical or economic needs of the donor government over and above reducing poverty and inequality. This debate is particularly prescient now, where faced with increasing pressures on the public purse which has been raided to pay for

collapsing banks and the growing need to finance the costs of climate change, governments are increasingly turning to aid budgets, either to slash them, or to load them up with other government spending commitments not primarily targeted at reducing poverty or inequality.

The second section of this report looks in more detail at what good quality 21<sup>st</sup> century aid should look like and how it can work for poverty reduction. In the third section, the report explores the arguments against aid, and separates the genuine critiques from the 'myths': that aid is wasted, fuels corruption, and deters growth and encourages dependency. This section also looks at the arguments for alternative sources of financing to aid, and examines which are necessary or desirable, and which have the best potential to help developing countries reduce poverty and inequality.

Section four of the report reviews the current state of play, looking at progress on the MDGs and how far away we are from meeting them, just five years ahead of their deadline. It also looks at the gaps in donor financial promises, and how much further they have to go to hit promised targets and ensure there are enough resources for delivering 21<sup>st</sup> century aid.

The vast majority of aid is given either from one government to another, or from a multilateral institution such as the UN, the World Bank or the European Commission (see Box 1). Aid channelled through Non-Governmental Organisations (NGOs) also warrants examination but is a small proportion of overall aid levels. Although this report does feature examples of aid channelled through NGOs to support people in holding their governments to account and through this, build more effective and participatory state institutions, the bulk of the report will focus on aid which is given by governments and multilateral organisations, and which comprises the majority of Official Development Assistance (ODA).<sup>4</sup>

#### **Box 1. What is aid?**

The broadest definition of aid is a transfer of resources from donors to less well-off recipients.<sup>5</sup> In the context of international development, this aid goes from more prosperous rich countries, to those that are poorer, and unable to meet all of the needs of their populations. There are three main types of aid:

Bilateral aid – this is government-to-government aid or Official Development Assistance (ODA), and constitutes the vast majority of aid given - just under \$102 billion in 2009.<sup>6</sup>

Multilateral aid – this is also money given by governments, but to multilateral organisations such as the UN, the World Bank, and the European Commission. This is also classified as ODA. This constituted around \$38 billion in 2009.<sup>7</sup>



### **Box 1. What is aid?** *continued*

NGO aid – this is the transfer of resources from rich to poor countries through non-governmental organisations (NGOs), not-for profit bodies which undertake relief work, and provide support to those in need of assistance. When rich country governments give resources for NGOs to spend on development activities in developing countries, this is also considered to be ODA. The Organisation for Economic Cooperation and Development (OECD) Development Assistance Committee reports that around \$2.4 billion of aid money was given in this way in 2009.<sup>8</sup> Donations by individuals mean that in reality this figure will be somewhat higher than what is given through the official channels of ODA.

Source: <http://stats.oecd.org/Index.aspx?DatasetCode=TABLE1>

## Why we need 21st century aid

The need for good quality 21<sup>st</sup> century aid is more pressing now than ever. Last year, the global economic crisis crashed across poor country borders, exacting heavy economic damage and blowing a fiscal hole in the finances of developing countries.<sup>9</sup> Low-income countries – already hit by the prolonged impact of the food and fuel crises – have now seen severe falls in Gross Domestic Product (GDP) growth, resulting in losses equivalent to 2-3 years of recent GDP gains.<sup>10</sup> The lack of social protection systems in some developing countries means those affected by the crisis have no safety net to keep them afloat when jobs are lost, or when food and fuel prices have rocketed. The result has been millions more pushed over the edge and into poverty.<sup>11</sup> This is layered on top of the increasing vulnerability of many communities to the growing threats of climate change.

Sustainable, long-term growth is at the heart of tackling the impact of these crises and increasing wealth in poor countries, but it must be accompanied by measures to achieve greater equity. Aid can help governments realise poverty reduction and equity by providing finance that supports small-scale farmers to increase their yields and access markets, or by investing in much needed research that improves agricultural development in rural and marginalised areas. Twenty-first century aid can also build on the impact of other sources of financing for development, helping poor countries to develop their own sustainable sources of revenue. By building public services, for example, aid supports healthy, educated people who can participate in a productive economy.<sup>12</sup> The multiplier effect on productivity and growth includes an increased tax base and improved conditions for investment – crucial elements for ensuring that, in the long run, countries can become free of the need for aid.

In 2006 in Zambia, with the support of international aid, health care was made free for all in rural areas. Today 200,000 people in Zambia living with HIV are receiving lifesaving antiretroviral treatment (ART) – more than 60 times the number being treated in 2003.<sup>13</sup> The impact of such investment is far-reaching: estimates put the annual loss of GDP in sub-

Saharan Africa due to HIV at one per cent,<sup>14</sup> meaning that not only does treatment save lives, it also works to ensure substantial economic gains.



A rural health clinic in Zambia

Twenty-first century aid that supports essential public services such as health care and education helps to ensure that society benefits from the talents of its female members, since it is women who are less likely to have access to resources,<sup>15</sup> less likely to be educated,<sup>16</sup> and less likely to be able to pay user fees for health care. Free public hospital care helps keep mothers alive, and free schooling helps their daughters get an education. Aid can also address gender inequalities more directly by supporting organisations that champion women's rights, foster social and political empowerment of young women, and tackle domestic violence. New ways of delivering 21st century aid can help parliaments carry out gendered budget analysis and ensure that the needs of women are reflected in government planning.<sup>17</sup>

At present, an estimated 75 per cent of the world's poorest people live in rural areas.<sup>18</sup> Because of this dependence, investment in agriculture can provide the 'spark' that ignites growth.<sup>19</sup> Aid can play a vital role in building infrastructure, supporting small-scale farmers, providing inputs, and helping governments to catalyse agricultural growth in line with their own national policies. This can be done through helping develop the capacity of farmers to set up supply chains and access markets, particularly for women who rely heavily on agriculture for their livelihoods. Interventions targeted at female farmers and labourers are not only important for upholding women's rights, but have important benefits, in terms of reducing household poverty and raising agricultural productivity.<sup>20</sup> Aid can also help support the state to deliver better on agricultural development. Following the policies of structural adjustment, the state in many places had its functions reduced and capacity weakened. The role of the state remains feeble in many developing country contexts and yet a key actor in ensuring a successful agricultural economy is the state.<sup>21</sup> Aid can help to bolster the capacity of weak ministries of agriculture and provide sector-based support to develop agricultural services and encourage investment.<sup>22</sup>

## **Box 2. Malawi subsidy secures food for all**

For many years agriculture in Malawi has been neglected. The World Bank and other donors have pushed for greater liberalisation and stimulation of the private sector. This strategy, however, has failed, and subsistence farmers have ended up with the worst of both worlds – the government no longer helping and the private sector failing to develop. This policy failure was a key factor in the food crisis of 2002, when millions of Malawians came close to famine and expensive food had to be imported.

Over the past few years the Malawian government has introduced a subsidy on fertiliser, distributing 3m coupons to enable farmers to buy fertiliser at about a quarter of the market value. The World Bank and some other donors were against this market intervention from the outset. The subsidy has been largely funded by the Malawian government, but some donor countries have also contributed through aid channelled through the government.

Experts calculate that harvests have been 20 per cent bigger than they would have been without the subsidy. Maize production has tripled, and whilst this has not been completely due to the subsidy, it is clear that it has played a strong role. Poor households reporting a major shock from high food prices in the past three years fell from 79 per cent in 2004 to 20 per cent in May/June 2007. Malawi has subsequently become a donor of food aid to Lesotho and has also started exporting to other countries in the region. The World Bank has belatedly recognised the contribution of the subsidy, but has yet to explore whether similar schemes would contribute to food security in other poor countries.

Sources: Dorward et al.; New York Times; AllAfrica.com<sup>23</sup>

Poverty and vulnerability are inextricably linked. Living in vulnerability means that any small, unexpected event, from family illness to an unusually poor harvest, can tip people over into abject poverty. Providing some form of social protection, to help people deal more effectively with risk and vulnerability is key to tackling extreme and chronic poverty.<sup>24</sup> Aid can play a vital role in supporting poor countries to build sustainable and effective social protection systems. The Hunger Safety Net Program, sponsored by the UK's Department for International Development and the Government of Kenya, offers monthly cash transfers of \$15 to households in extreme poverty in Kenya.<sup>25</sup> Aid funded cash transfers like this, can mean the difference between getting by, and total destitution.

## **Box 3. Aid funded cash transfers to stem the flow of extreme poverty**

Cash transfers provided to poor rural families through the PROGRESA programme in Mexico are made conditional on their participation in health and nutritional programmes, and the attendance of their children at school. Started in 1997, by 2004, the programme was reaching nearly 5 million families, leading to a substantial reduction in poverty levels in the poorest families who were unable to access work.

Source: <http://www.egovmonitor.com/node/34340>

The increasing impact of climate change is also forcing vulnerable communities to adapt to unprecedented levels of stress on their environments, making them more exposed to potential deprivation.<sup>26</sup> Desertification, decreasing access to water sources, or at the other end of the scale increased flooding of low-lying land, all contribute to increasing people's chances of falling into destitution. Climate change poses a threat to each and every one of the MDGs.<sup>27</sup> People in developing countries need opportunities to break out of the cycle of poverty and inequality that traps them. This means access to decent work, essential services like water and sanitation and social protection systems to lessen the vulnerability that feeds off poverty; but it also means active citizens, paying taxes, obeying laws, and exercising their political, economic and civil rights. The other side to this coin is the need for effective, robust states, accountable to those citizens and fulfilling their side of the bargain. Aid can help to bolster the capacity of governments to deliver core state functions to their citizens, but the examples in this report show that aid can also develop the capacity of communities and active citizens to participate in decision-making, helping them to hold their own governments to account. It is only through this mix of active citizenship and effective states that development has been achieved in the past, and there is a role for aid in helping people living in poverty to get there.<sup>28</sup>

#### **Box 4. Holding the government to account over social protection in Georgia**

In Georgia, the government's social protection system is targeted at providing a basic survival income for the poorest people who cannot find work. Although minimal, this vital support aims to keep people's heads above water. But an aid-funded project carried out by Oxfam and its local partner, the Association of the Young Economists of Georgia, found that thousands of families were falling through gaps in the system, despite living well below the poverty line. Civil society activists successfully used the research to highlight shortfalls in the government's performance and hold it to account over its commitments on social protection. The government accepted the recommendations of the research and has subsequently changed the way it measures poverty, with the result that an additional 34,000 poor families are now receiving social assistance from the government.

Source: Oxfam GB study visit to Georgia (2009)

Besides long-term development, good aid helps deal with the ongoing consequences of shocks and disasters. Evidence shows that the future need for humanitarian aid is likely to increase substantially, much of it due to the impact of climate-related catastrophes. In 2009, research by Oxfam projected that, by 2015, the numbers of people affected by such disasters could grow by more than 50 per cent to over 375 million each year.<sup>29</sup> Some disasters may act as pressure cookers, increasing the risk of new conflicts, displacing affected people, and further ratcheting up the need for humanitarian assistance.

Haiti's experience has demonstrated just how much effort and how many resources must be mobilised quickly when disaster strikes. And

though disasters on Haiti's scale are thankfully rare, the total impact from the combination of lesser catastrophes is increasing significantly. The bulk of this report deals with aid for sustainable, long-term development. However, it also argues for increases in overall aid levels, including for humanitarian assistance, because one thing is clear: more, not less, money will be needed to tackle the ever more complex causes and effects of such disasters.

## Ending aid – not a solution

Lately, a barrage of criticism has been unleashed on aid.<sup>30</sup> Critics use examples of where aid is not working to argue that all aid is bad, and that it should be reduced or phased out altogether – though this is disproved, for instance, by evidence of the 60-fold increase in treatment for people suffering from HIV in Zambia, made possible in large part by good aid.<sup>31</sup> Of course not all aid works and a lot of it could work better, but this is an argument for aid to be fixed – not abandoned. Public opinion in the rich world knows this. In 2009, nine out of ten Europeans still believed strongly that development aid should be given, despite the economic downturn;<sup>32</sup> in the same year, more than half of Canadians, when asked, believed that their government should honour its aid commitments.<sup>33</sup>

## What aid should not be

Good, quality 21st century aid is delivered properly and targeted at poverty reduction and inequality. Poor delivery, however, is not the only factor that makes aid ineffective (well-delivered aid is explored further in section 2). The effectiveness of aid is tied closely to why it is given and how it interacts with other policies, which may reduce or even reverse its positive impact.

Historically, aid wasn't always given with the intention of development in mind.<sup>34</sup> For decades, it was a weapon on the ideological battleground of Cold War politics, used to buy influence and ensure loyalty,<sup>35</sup> and many donors still attempt to use aid to further their own foreign policy priorities.

For example, in fragile or conflict situations, there has been a growing move towards 'comprehensive' approaches,<sup>36</sup> which combine development with wider foreign policy and military activities.<sup>37</sup> Canada funnels a disproportionate amount of its development assistance to Kandahar province in Afghanistan, where its troops are battling insurgency.<sup>38</sup> As recently as 2009, CICID, the inter-ministerial body on development in France stated that countries with which France has agreements on regulating migration flows, will benefit from preferential treatment with regards to aid policies.<sup>39</sup>

### **Box 5. Politically driven tied aid – a British example**

In the 1990s, the UK government was involved in the construction of the Pergau Dam on the Malaysian–Thai border. The £234m project has become a synonym for aid used in political sponsorship of business and self-interest. A contract for building the dam was awarded to Balfour Beatty, a company with close ties to the British government then in power, without competitive bidding and despite resistance from the then UK development agency which opposed the plan. The British defence procurement minister argued that pulling out would compromise British interests and defence sales in Malaysia, so the project continued. Evidence produced later showed that the aid package was linked to the Malaysian government purchasing British military equipment in exchange for funding the dam.

Source: <http://www.parliament.co.uk>

Some aid is also given for national economic interests, either in the form of overtly tied aid – which is given on the condition that some or all of it is spent on goods and services from the donor country – or through backdoor deals such as the 1990s British aid donation to Malaysia in exchange for the government purchasing British military equipment (see Box 5).<sup>40</sup> Growing awareness on the part of the public has placed some limits on using aid for blatant self-interest, but such practices still persist and aid continues to be tied, despite evidence to suggest that this is deeply inefficient. For example, as recently as 2008, 19 per cent of aid from the Netherlands had to be spent in that country, while 40 per cent of Italian aid was found to be tied. In 2006 the Government of Italy even sent 80 tonnes of Parmesan cheese worth €700,000 to Armenia and Georgia,<sup>41</sup> a classic example of ‘food dumping’, where donor governments offload their (often subsidised) excess produce, and write it off as aid.<sup>42</sup>

Aid that works has clear aims: to reduce poverty and inequality in developing countries, to promote human rights, and to forge the way towards a more equal and stable global system. Governments need to recognise that attempting to use aid for their own political and economic means not only detracts from its potential impact on reducing poverty and inequality, but also compromises the balance of trust in the international community. In a multi-polar world, the international standing of rich countries, and the multilateral trust and cooperation they depend upon is in part defined by their approach to international development. Breaking international commitments on aid, or abusing them to meet geopolitical ends undermines that cooperation, and as was so clearly demonstrated through the failed climate negotiations in Copenhagen, mistrust about financial flows and political control of them, can lead to communication break-downs, and ultimately deadlock over agreements that will leave lives hanging in the balance.

## Make all policies work for development; don't dilute the poverty focus of aid

Aid financing alone however, will not be enough to end global poverty and inequality. Reform of the global economy is needed to promote long-term sustainable investment in developing countries to lift the poorest people out of poverty. Reforms could include fairer trade rules to permit greater access to life-saving medicines or to stabilise the price of food. Reining in tax havens would permit developing countries to manage their domestic finances and oblige businesses to pay their fair contribution. Upholding global standards for decent working conditions could help poor people to raise themselves and their families out of poverty.

Aid can play a vital role in contributing to systemic reforms, but only if it is given for the right reasons, and does not have its goals sabotaged by other, non-development policies. All too often, donor government policies in one area can reduce the impact of development activities in others.<sup>43</sup>

### **Box 6. Whole of system approaches versus diluting the poverty focus of aid**

'Whole of system' approaches to development,<sup>44</sup> which aim to ensure coherence of all policies for reducing poverty and inequality, are crucial. However, as with the temptation to give aid for political reasons, some governments want to add up everything they are doing in developing countries, regardless of whether or not it is directed at poverty reduction, and call it 'aid'.

Against the backdrop of the global economic crisis, this temptation has grown, as governments – cash-strapped after mopping up the costs of paying for the collapse of the financial sector – have begun in earnest to look for where they can make cuts, or water down ring-fenced aid budgets with other government spending commitments that are not primarily targeted at reducing poverty and inequality.

Certain European donors have been pushing for a 'Whole of Union' approach to development that would see member governments counting as aid a host of other financial flows such as private investment, technology transfer, and research.

Other donors are pressing to open up the already loose definitions of aid. According to the OECD, which sets the rules for what should count as official development assistance, governments are already permitted to spend some aid money on military activities in developing country contexts.<sup>45</sup> Sweden has requested the further widening of ODA to include more military activities in aid spending.<sup>46</sup> Germany, on the other hand, gets away with spending over 50 per cent of its aid to education on teaching foreign students within its own borders, which the OECD Development Assistance Committee itself acknowledges does not contribute to strengthening education systems in developing countries.<sup>47</sup>

**Box 6. Whole of system approaches versus diluting the poverty focus of aid** *continued*

Meanwhile, the threat of raiding meagre aid budgets to pay for vital climate-related adaptation and mitigation work also continues to hang over future aid volumes. Oxfam estimates that the costs of adapting to climate change will be at least \$50bn each year, and will rise to \$100bn or more by 2020.<sup>48</sup> While funding to help vulnerable communities adapt to climate change is essential if we are to achieve the MDGs, it will require additional financing, not a diversion of current aid budgets.<sup>49</sup> Climate change has made fighting poverty more expensive.

## Where we are now: at a crossroads

Aid is improving. Today the majority of aid is given much more transparently, and comes with conditions to ensure that it is spent accountably, on what it was intended for. Increasingly, aid is given directly to governments in developing countries so that they can pay for public services such as education, health care, policing, and the judiciary, and invest in under-funded sectors such as agriculture.

But not enough aid is given in this way. Too much is spent on international consultants, is not transparent enough, or continues to be tied to purchasing goods and services from the donor country.<sup>50</sup> Governments in the rich world continue to seek to influence developing country choices with the aid they provide, imposing conditions that require poor countries to follow specific economic reforms or open weak economies unready for competition up to the global market.

At the start of a new decade, we are at a crossroads. Old-style aid, given to support foreign policy goals, to dispose of surplus domestic production, or to help companies get a foothold in poor countries, is clearly on the wane. Twenty-first century aid, targeted at reducing poverty and inequality, promoting rights for women, and funding schools, hospitals, police forces, and democratic institutions, is on the rise. Section 2 examines in greater detail what makes that good aid work.



## 2

# What does 21st century aid look like, and how can it work for poverty reduction?

Twenty-first century aid is a transfer of resources from rich governments to developing countries, for the purpose of reducing poverty and inequality and promoting human rights. *How* aid is delivered to developing countries is just as important as *why* it is given, and the experience of well-delivered aid is crucial for understanding why the critics who say that aid fosters dependency and undermines development are ultimately wrong. Twenty-first century aid is aid delivered in a way that empowers developing country governments and citizens to fight poverty and inequality themselves. This is aid that will work itself out of a job.

## Make it predictable, put it in the budget

### **Box 7. Successful budget support in Rwanda**

In Rwanda, the past 15 years have been dominated by economic recovery and the rebuilding of national institutions following the 1994 genocide. Budget support, totalling 26 per cent of aid flows between 2004 and 2006, allowed the government to eliminate user fees for primary and lower secondary school education,<sup>51</sup> increase spending on treatment for people living with HIV and AIDS, and provide agricultural loan guarantees to farmers. Through providing a steady inflow of financing, the government was able to undertake long-term investments in social infrastructure. Capacity development to improve the government's public financial management systems that came along with the budget support has led to strengthened policy, planning, and budgeting systems.

Sources: OECD; AIAfrica.com<sup>52</sup>

When it comes to development, long-term planning is key. The governments of Britain, Canada, or Japan would hardly be expected to plan their social infrastructure a year or 18 months at a time. If they did, the education ministry wouldn't be able to invest in more teachers, universities wouldn't be able to train them, and schools wouldn't be able to hire them. Yet year on year, this is the scenario that developing countries face: in 2008, the OECD found that only 46 per cent of aid was disbursed according to the planned schedule outlined in country budget systems.<sup>53</sup> Just as it would be unreasonable to expect our governments to make up their national plans on the hoof, it is wrong to expect developing countries to hedge their bets on the unclear decisions of external actors in their countries.

Research shows that volatile ODA can negatively affect growth by undermining fiscal planning and levels of investment.<sup>54</sup> Shockingly, the losses from aid volatility are estimated to be as much as \$16bn per year, which is between 15 and 20 per cent of the total value of aid in recent years (or 2 per cent of GDP, the average amount of foreign investment flowing into a developing country in Africa).<sup>55</sup> Even more deplorable, aid volatility in some developing countries has caused per capita income to dip as much as it did in some European countries during the Great Depression and the Spanish Civil War.<sup>56</sup>

The dramatic steps needed to improve aid predictability include reducing administrative delays and minimising the difference between what is committed and what is disbursed. Donor governments should cut the number of inappropriate conditions attached to aid which unnecessarily hold back its delivery, and ensure that aid agreements are clear about the criteria that would cause a reduction or phase-out of aid flows. Making sure that governments and citizens understand exactly what actions would lead to the aid tap being turned off is another way of increasing accountability: when governments don't meet the conditions necessary for aid, the public needs to know about it.

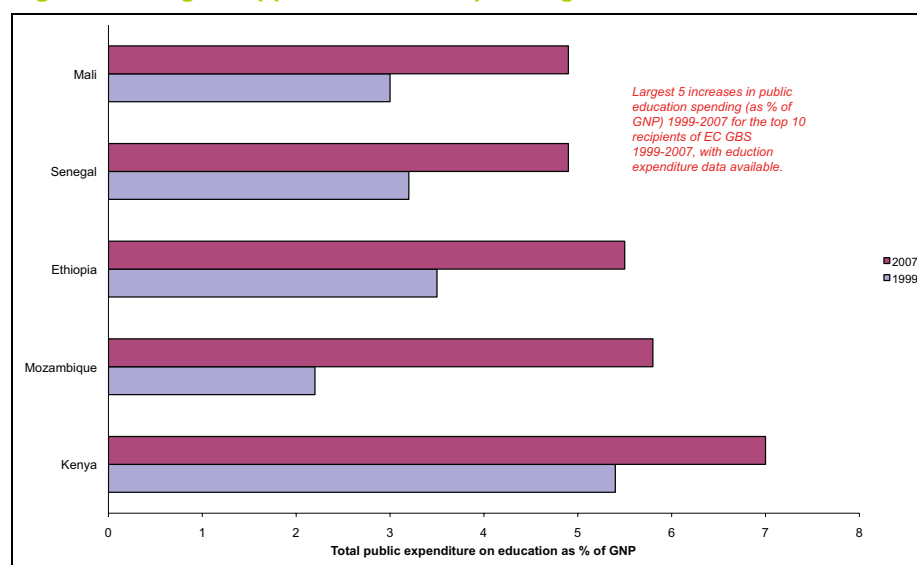
One sure-fire way of ensuring that aid is less volatile is to provide assistance direct to government budgets, in rolling three- to five-year instalments.

Aid money given to government budgets and aligned with recipient government plans has a good track record of success.<sup>57</sup> Research by Oxfam shows that the countries receiving the most budget support from the European Commission, for example, have significantly scaled up spending on health care, education, and access to basic social services.<sup>58</sup> This is because budget support has allowed the government to finance its own plans for increasing access to public services, for example paying the salaries of teachers and doctors.<sup>59</sup>

*'Budget support is the best way to reduce poverty. Providing aid through budget support increases accountability because it is discussed as part of the government budget, which means that the government is accountable for that money to the parliament and the public.'*

Director, State Social Service Agency, Ministry for Health, Georgia Source: Oxfam GB study visit, 2010

**Figure 1: Budget support increases spending on education**





Education paid for with budget support

Project work, on the other hand, can be fragmented and piecemeal, can impose huge transaction costs on developing country governments, and undermine national systems. Other forms of aid, such as technical assistance, whilst useful when targeted and driven by bottom-up demands, comprise a high proportion of global aid and have often been shown to be ineffective, costly, and donor-driven.<sup>60</sup> Despite the good rationale for providing aid direct to recipient government budgets, currently less than half of all aid is even recorded in national budgets, and less than 10 per cent actually gets delivered as budget support.<sup>61</sup>

The resources provided through budget support can be safeguarded with conditions that require governments to meet their citizens' rights, agree punitive actions if they are not met, and provide capacity development support to improve public financial management.

Budget support builds the citizen-state relationship by giving the citizen resources like schools and hospitals for which they can hold the state accountable. It helps this relationship to function by improving transparency. Because it pays for vital human capital such as teachers, health workers, and police employed by the state, it has the added value of putting taxes back into the system. This gives budget support a double predictability value: it is a source of predictable financing because of the way it is agreed with developing country governments, and it is a source of predictable taxes during the time it goes towards paying civil servants.



Healthworkers paid for with budget support

### **Box 8. Aid fosters budget accountability in Malawi**

In Malawi, Oxfam has worked with the Malawi Economic Justice Network (MEJN) to increase transparency in the national budget through enhancing the ability of Civil Society Organisations (CSOs) to hold their government to account. MEJN, is a coalition of CSOs and campaigns for pro-poor policies that focuses on four social sectors: health, education, agriculture, and water and sanitation. It carries out budget analysis and expenditure tracking, and uses these to lobby Members of Parliament to scrutinise specific commitments. MEJN also trains local CSOs to understand the budget process and track whether national budget allocations have reached the intended beneficiaries at community level. It organises annual opinion polls in these districts to assess and publicise the quality of service delivery.

The Executive Director of MEJN, Andrew Kumbatira, says: 'We believe the national budget should reflect the aspirations of the poor majority in Malawi... Over the years, I've seen real progress in the ability of civil society to keep politicians on their toes. CSOs now understand the budget cycle, and we work together to make sure that the government's financial promises on public services are really reaching those who need them the most.'

Source: Oxfam GB study visit (2010)

Conditions on budget support that require better transparency and accountability of the central government create 'supply-side accountability'. To be effective, there needs to be demand-side accountability too, and a portion of aid should be dedicated to strengthening parliaments and independent bodies, or helping citizens' groups to hold their governments to account. In the UK, the government has committed to setting aside up to five per cent of budget support to fund accountability work in countries receiving aid to build the demand side for accountability.<sup>62</sup>

### **Box 9. The impact of budget support**

- UK budget support to Rwanda has helped the government to increase recurrent expenditures in health, recruitment, training, and salary costs of health workers. A report by the audit office also showed that defence spending in Rwanda fell between 2003 and 2007, illustrating that budget support does not necessarily lend itself to spending on non-development objectives
- In Uganda, budget support allowed a 30 per cent increase in public expenditures between 1998 and 2006, including PRSP priorities.
- In 2005, an independent review of general budget support in Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda, and Viet Nam revealed that those countries had stepped up pro-poor spending and had scaled up social service delivery.
- In Mozambique, a leading recipient of EC budget support, the government more than doubled its public expenditure on education, increasing it by 56 per cent (as a percentage of GDP) between 1999 and 2004.

The EC has also demonstrated impressive leadership in the area of providing aid direct to governments by going one step further with its 'MDG contracts'. These promise to deliver aid on the basis of six-year rather than three-year agreements, with 80 per cent of the promised funding guaranteed to be released, provided certain negotiated criteria are met. These contracts are now being provided in Burkina Faso, Ghana, Mali, Mozambique, Rwanda, Uganda, and Zambia.<sup>63</sup> MDG contracts are a major step forward in making aid long-term, predictable, and more able to result in strong outcomes in education and health.

*'Budget support enables funding to be provided for all government budgets, including its operating budget. So it can be used to pay the salaries of teachers, medical staff, judges.'*

Louis Michel, former Commissioner for Development, European Commission<sup>64</sup>

### **Box 10. Sector Budget Support for local government in Tanzania**

For over ten years now, the Government of Tanzania has been receiving aid funding from a range of donors to resource its Local Government Reform Programme. The money provided by donors through the programme has funded over 4600 locally implemented projects including the construction of classrooms, roads, and clinics between 2004 and 2007, at the same time as building the capacity of the local government authorities involved, improving councillor and citizen involvement in planning and budget processes, and reducing transaction costs for service delivery.

Source: P. Tidemand (2009), Sector Government Support in Practice: Local Government Sector in Tanzania, ODI

Donors, governments, and NGOs alike recognise that there are limits to how and where general budget support (GBS) can be used. Oxfam believes that it should only be given to governments that can demonstrate a strong commitment to fighting poverty and upholding human rights. Where states are extremely weak, other forms of budget support can be explored. Giving sector budget support to individual ministries like health or education can be a first step to bolstering developing country governments by using their central management systems – but only in specific sectors and line ministries that can demonstrate overall good performance. This provides other sectors

with incentives to improve their transparency, accountability, and performance. Making sure that aid can be seen and tracked in the central government budget is a clear route to developing systems of accountability, and it can encourage greater scrutiny by citizens.<sup>65</sup>

### **Box 11. 21st century aid to fragile states**

Working in fragile states warrants further in-depth analysis than can be provided in this report. However the principles of providing good quality 21st century aid can be applied to a spectrum of fragile state situations. State fragility is manifested in a range of forms, and there is no official internationally accepted definition of what a fragile state is. But there is agreement that fragile states are essentially lacking in capacity to perform the very core functions necessary to protect the security and well-being of their citizens.<sup>66</sup> No matter how fragile the country, the goal of building effective state institutions and active citizens has to remain at the heart of its development goals,<sup>67</sup> and in situations where this is difficult in the short term, it still needs to be the long-term goal.<sup>68</sup> This means finding innovative ways to strengthen the state for taking up its responsibilities to deliver services and uphold the rights of its citizens, coupled with an approach that supports those citizens to hold their government to account. History shows that no country has been able to move far forward without having a state that can effectively manage the development process.<sup>69</sup> And no state can develop the capacity to manage such a process unless it is equipped with responsibility and the capacity to do so.

Twenty-first century aid looks to different ways to fortify state capacity in complex situations. Budget support is already being delivered in a number of weak states such as Rwanda and Sierra Leone. In Somaliland, aid has gone to supporting an extremely weak government to deliver school provisions, textbooks, teacher training, and infrastructure development. Any increase in responsibility of the state over aid budgets must come with comprehensive capacity development linked to tight criteria for improvements in transparency, accountability, public financial management and control of corruption, and with performance objectives linked to achieving outcomes for poverty reduction. It also has to come with greater resources for watchdog institutions and civil society to monitor the government's activities.

## **Aid without onerous conditions, aid that is transparent**

The legitimate desire of donors to ensure that aid money is used effectively by developing country governments has led to a mushrooming of conditions being placed on aid. The use of 'conditionality' – linking aid disbursements to conditions to induce policy change, particularly on economic policies such as trade liberalisation, elimination of subsidies or privatisation – has been the subject of intense debate. Much evidence indicates that donors often attach far too many conditions to their aid, and frequently the wrong type of conditions, obliging developing countries to follow identical policies of economic reform that may not address their particular situations.<sup>70</sup>

Publicly, donors have agreed that economic policy conditions are not an effective way of making aid work. But, behind closed doors, economic conditionality persists. The EC reported in 2009 that, despite international commitments to the contrary, only five European governments out of 27 had bothered to reduce the number of their policy conditions. Most failed even to report on their use of conditionality, which undermines progress towards transparency at the same time.<sup>71</sup>

The World Bank and IMF now attach far fewer economic policy conditions to their loans than previously, and this is largely due to pressure from NGOs and progressive shareholders. However, both still continue to make aid conditional on some specific inappropriate economic policies being adopted by developing country governments. In Pakistan for example, both organisations made their budget aid conditional on the imposition of a value added sales tax – a regressive rather than a progressive tax – and increases in electricity tariffs.<sup>72</sup>

Transparency is another crucial aspect of good aid. To help citizens pressure their governments to be open and transparent, donors need to be clear about what they provide, and when. Aid transparency is particularly important for budget transparency in countries which receive high levels of aid: a study in Uganda in 2007 found that double the project aid previously accounted for was actually being spent in the country, skewing the government's reporting of national spending to the public.<sup>73</sup> Transparency also goes hand in hand with predictability in that it enables governments to plan, prioritise, and communicate their spending decisions to the public. Despite the causal links between good transparency and better aid, progress on international commitments to increase aid accountability has been slow and donors have not been quick to implement their commitments on aid transparency.<sup>74</sup>

## Making sure aid is fully untied and uses local systems more

In addition to providing inadequate information about their aid and persisting with ineffective conditionality, donors continue to tie aid to the use of goods and services in their own countries. Tied aid costs between 15 per cent and 30 per cent more than untied aid, and is money that is literally pumped back into rich countries. This is despite the fact that most of these services are little or no better than those that developing countries would find on their own doorsteps. The practice of tying aid also restricts the employment of local contractors, whose activities could contribute to the national economy.<sup>75</sup>



Food aid is often tied, which can detract from the use of local economic produce

Despite commitments to the contrary, as recently as 2006 only the UK, Sweden, Ireland, Luxembourg, and the Netherlands were abiding by an OECD agreement on untying aid, with all other donors falling far short, and even these were often doing so on paper only. In 2007 the UK, although legally untying its aid, was in practice still handing out over 80 per cent of its contracts to UK companies.<sup>76</sup> The USA has increased the percentage of untied aid over the past few years however, 70 per cent of its bilateral aid to least developed countries (LDCs) remains tied.<sup>77</sup> Canada set a good example by moving to untie all its aid by 2012.

### **Box 12. The responsibilities of national governments**

Developing country governments also have a part to play in making aid work. They are responsible for making sure that it is spent in the interests of poverty reduction and through accountable channels, with the onus on upholding transparent, open, and democratic practices.

Governments have a responsibility for drawing up and taking forward national plans that will support the provision of public services for all of their citizens. In many developing countries, governments with few resources at their disposal manage to have a huge impact by ensuring that some of those resources are targeted at providing services for poor citizens. In 2006, when the Government of Burundi announced free health care for maternal deliveries and children under five, births in hospitals rose by 61 per cent, making childbirth safer for countless thousands of women. Other developing country governments are sadly less willing to use their resources in this way. Aid needs to be conditional upon governments committing to national plans which aim to reduce the poverty, suffering and inequality of their populations.

Encouragingly, proof of just how seriously developing countries take these commitments was evident in September 2009, when Presidents and Ministers from Ghana, Burundi, Malawi, Nepal, Sierra Leone and Liberia all made strong commitments to make health care free for a growing number of their citizens. More actions like this, teamed up with more money on the table from donors are needed to make aid work the best it can.



**Box 12. The responsibilities of national governments** *continued*

In addition, developing countries must reject a culture of corruption and respect rights. Oxfam believes that aid will only achieve sustainable long-term development outcomes if governments make a political commitment to uphold human rights standards that allow free speech, freedom of expression and democratic freedoms.

Respecting democratic rights means developing country governments must act in ways that are transparent and open to scrutiny. Parliaments must be given access and capacity to scrutinize decisions of the executive. Governments must provide legal environments within which civil society organisations that monitor government activities can flourish. Developing country governments also need to demonstrate that they are respecting the independence of non-government bodies like audit offices and the judiciary that have jurisdiction to comment on their activities. This also means supporting an independent and free press that is at liberty to report without censorship.



Active civil society: women in india demanding to be recognised for the work they do

## Understanding the aid criticisms and countering the arguments

*Critics say that African economies are shrinking, that poverty is rising and that failing aid is the culprit. But this argument is at least a decade out of date. Africa's turnaround is real, the evidence indisputable. Africans themselves have been the key to this reversal, but more effective aid has played an important role. Reducing aid would slow private sector growth, stall poverty reduction and undermine peace and stability in countries that are struggling to become part of the global economy.'* – Ellen Johnson-Sirleaf, President of Liberia<sup>78</sup>

Criticisms of aid have received a lot of attention lately. It has been argued that aid fails to work for development, and that it is even responsible for making poor countries dependent on hand-outs. Some critics have concluded that aid does more harm than good, and should be stopped altogether. Huge government debts in the wake of the financial crisis, leading to budget cuts in rich countries, have helped these criticisms to obtain airtime, and sadly they have been used to justify cuts to aid budgets.<sup>79</sup>

Many of these criticisms are built on popular myths about waste, corruption, and dependency, and fail to consider the successes that aid contributes to daily. They zero in on the worst aspects of aid – aid that has been politically driven and poorly targeted. Other recent criticisms point to flaws that must be addressed and make useful suggestions for aid reform. This chapter examines the core critiques of aid.

### Understanding the arguments against aid

International aid has long had its critics. As early as 1958, aid was criticised both for its inability to create growth<sup>80</sup> and its capacity for inducing 'Dutch Disease', where large inflows of money push up a country's exchange rate and decrease the competitiveness of its exports.<sup>81</sup> In the 1960s, critics such as Bauer argued the development of poor countries was not best served by providing aid, and that aid given was wasted because it helped to prop up corrupt regimes and ended up in the pockets of elites.<sup>82</sup> More recently, challenges to aid have been made by a range of commentators setting out a spectrum of arguments and making the case for change, reform or abolition of aid.

Over the years, critics have argued against top-down blueprint approaches to development – most often imposed by donors.<sup>83</sup> These criticisms have a particular resonance with development actors like

Oxfam who believe that people living in poverty must be empowered to make their own decisions. Recently, economist William Easterly has argued that aid does not work because it is imposed by development 'planners', who make top-down, uninformed decisions.<sup>84</sup> This creates perverse incentives for delivering aid which are not necessarily in line with the development objectives of people living in poverty.<sup>85</sup> This is made worse by the lack of accountability and effective mechanisms for aid recipients – those whom aid ultimately seeks to benefit – to feedback to aid agencies and governments on what works and what does not.<sup>86</sup> Easterly contrasts top-down 'planners' with bottom-up 'searchers', who are more innovative about finding what people need and how to give it to them – for example, through using the market to deliver.<sup>87</sup>

*'The right response is to get tough on foreign aid, not to eliminate it.'*

William Easterly<sup>88</sup>

In another systemic analysis, Roger Riddell has argued that the international aid system is characterised by politics and unequal relations of power. He stresses that, without reform, the imbalance of power in these relationships means that aid will continue to be driven by donors' political interests rather than by the desire to reduce poverty and inequality, subsequently constraining and undermining the potential benefits of aid.<sup>89</sup> Riddell suggests reforms to take the politics out of aid, including stronger monitoring of donor behaviour and institutions that can hold donors to account.<sup>90</sup> In official recognition of the fact that donors are behind many of the problems plaguing ineffective aid, governments have signed up to the 'Paris Declaration on Aid Effectiveness'<sup>91</sup> requiring them to reach a number of targets on providing more effective aid. Some progress has come out of this agreement but there is a long way yet to go.<sup>92</sup>

In another attempt to understand the shortcomings of conventional aid, Paul Collier suggests that aid is just one answer amongst several needed to extricate the 'bottom billion' of the world's people from the 'traps' of conflict, over-abundance of natural resources, the knock-on effects of being geographically close to similarly weak states, and poor governance.<sup>93</sup> He argues for a concentration of aid agencies in the most difficult environments, and a higher public acceptance of aid failure combined with reform to international laws and trade policy to help them break out of the natural resource trap.<sup>94</sup>

Most recently, the aid critic Dambisa Moyo has argued that aid is the key cause of economic dependency, lack of growth, corruption, and even laziness amongst people living in poverty. Moyo presents foreign direct investment, borrowing from the private sector, selling bonds on the international market, or relying more on mobilisation of domestic resources as preferred alternatives, and argues that aid itself should be reduced, then phased out altogether.<sup>95</sup>

Along with many others, Oxfam agrees with the need to reform the aid system to overcome the donor-driven aid agenda and to improve the way that aid works. Reducing aid dependence is essential, but even with the alternatives suggested, pulling the plug on aid now, or even in five or ten years' time, would almost certainly result in vast increases in poverty, the collapse of burgeoning health and education systems, and major reverses in the progress that has been made.

### **Box 13. Pulling the aid plug on Zambia and Ethiopia**

In Zambia, recruiting and training large numbers of community-based health workers to distribute bed nets and safely diagnose and treat patients free of charge, in addition to indoor spraying, has reduced malaria deaths by a staggering 66 per cent over the last six years. The same approach has halved malaria deaths in Ethiopia in just three years. If aid for healthcare were pulled from countries like these, the results would be devastating.<sup>96</sup>

## Countering the arguments

The pushback against aid has been fuelled by a set of arguments which, when examined, are less robust than they initially appear. The rest of this section explores some of the main arguments against aid.

### **The argument that aid is wasted**

Critics argue that aid does not reach its intended recipients because it is wasted for a variety of reasons: siphoned off through corruption, spent on failed projects, or squandered through unnecessary bureaucracy. Certainly some aid is wasted in this manner, though hardly to the degree that critics assert.<sup>97</sup> Aid is also wasted when it is poorly provided, making it difficult for developing country governments to absorb or manage (see box 14); when it comes with imposed conditions which force developing countries to adopt inappropriate policies in return for its receipt; when it is unpredictable and volatile, and is not spent on its intended purpose because of its delay in arrival.<sup>98</sup> Some of the responsibility for aid waste lies with developing countries, but much is to do with donor behaviour. Tackling aid waste means commitment from both donors and developing country governments to ensure it is accountable, transparent and genuinely spent on meeting the needs of the poorest.

Clearly, it is impossible to argue that no aid is wasted, but the successes seen over the past decade stand testament to the fact that not all of it is. Four million more people receiving treatment for HIV and AIDS,<sup>99</sup> more than four million children who survive past the age of five,<sup>100</sup> and the enormous rise in the number of children going to school are all signs of aid that works.

Despite the persistence of poor aid delivery by donors and the continuing need for improvement on their part, rich country governments have also learned *how* to better ensure that aid is not wasted. Governments receiving aid must now meet outcomes linked to poverty reduction previously agreed with donors. They are also required to open channels of accountability and improve public financial management for government spending – all of which makes it significantly harder for aid money to go missing. An evaluation for the OECD of budget support provided to Burkina Faso found that, although corruption remains a problem in the country, the budget support provided by a group of donors – because it came with

conditions and resources for improving the government's public finance management systems – had seen the accountability of public expenditure begin to improve.<sup>101</sup>

It will never be possible to guarantee that every single penny of development aid can be accounted for, not least because some of the things that it is trying to do are not easily translated into neat statistical outputs, but conditions of this kind attached to quality aid offer guarantees against outright waste. And the more that donor governments focus their aid programmes on the objectives of reducing poverty and inequality, and promoting human rights over their own interests, the more likely it is that aid will not be wasted in this way.

Aid is an investment in some of the riskiest environments in the world and, like any venture, it is difficult to ensure that every single penny will result in profit. Whilst growth alone is not the key to poverty, research has shown that aid often gives a 25 per cent rate of return on investment – sizeable by any investor's standards.<sup>102</sup> A crucial difference between aid and other investments is the nature of the return: the priceless gifts of life, health, and hope. More than an economic transaction, aid is a small step towards addressing some of the inequities inherent in our global economic system. Suspending aid because we know that not all of it works 100 per cent of the time would be to throw out the good with the bad – when the good just happens to be the lives of some of the planet's most vulnerable people.

#### **Box 14: Developing countries' absorptive capacity for aid**

There are some concerns that poor countries cannot absorb the aid that donors have committed to give them, because their institutions lack the capacity to absorb and disburse that aid money. In fact, not only is aid currently much less than what donors have promised to give (section four explores donor commitments in more detail), but studies<sup>103</sup> have shown that significantly higher amounts of aid could be absorbed by poor countries,<sup>104</sup> and the experience of debt relief shows that countries are able to spend increased amounts of resources effectively if they are given the opportunity to do so. When Uganda's debt was cancelled for example, the government of Uganda removed primary school fees and was able to more than double the number of children in primary school.<sup>105</sup>

Aid is, however, more difficult to absorb when it is delivered by donors in an uncoordinated and unpredictable manner, through multiple and cumbersome procedures – often different procedures for each donor, and channelled through parallel implementation units set up by donors which duplicate the core functions of government departments. As section two demonstrates, practices like this can exact heavy administrative burdens, throwing sand in the wheels of government. Improved aid quality and absorptive capacity are therefore two sides of the same coin: building effective government institutions to handle resources in accountable and efficient ways, and reducing donor fragmentation will allow developing countries to absorb more aid, and long-term, help to reduce overall dependence on aid as a source of income.

## The argument that aid fuels corruption

Corruption – the misuse of funds for personal gain – is a serious obstacle to development, not least because poor people are usually the first to pay its costs, by being denied essential public services. People living in poverty consistently pay more in bribes as a proportion of their incomes than richer people. Corruption is deeply disempowering for most of the poor people who experience it,<sup>106</sup> and reducing its hold over societies is a crucial step on the path to reducing poverty and inequality.

Aid critics have argued that aid both leads to and fuels corruption, because it allows government officials access to money they cannot be trusted with, and can be spent on things that will not be in the interests of the public. In this light, aid is viewed as a core ‘facilitator’ of corruption – leading to the argument that it should be withdrawn.<sup>107</sup>

In fact, although perceptions of corruption tend to be powerful and simplistic, its causes are complex. It is important to recognise that corruption affects all countries, not just those receiving aid, and all sectors, not just governments. Corrupt actors in developing countries reap the benefits of corruption, but this does not mean that they alone are culpable, or that dealing with them alone will fix the problem. Neither is reducing aid a miracle solution. In fact, far from encouraging corruption, aid can play a key part in helping poor people to tackle it.

The examples in this section are a good illustration of how aid can do just that. In Zambia, for instance, budget support provided together with conditions for improving government transparency and public financial management helped reveal instances of corruption. In Mozambique, the national audit office, which receives aid funding, has increased scrutiny of government spending. And in Azerbaijan aid-funded work to enhance capacities in local government has led to improvements in accountability to citizens and subsequently to increases in tax payments made by local populations.

Part of the myth that aid is a core catalyst of corruption is the perception that corruption is exclusively a problem of governments in developing countries. In fact, corruption often occurs at the interface between the public and private sectors, where companies are competing for public sector contracts or to buy government assets that are being privatised.<sup>108</sup> Corruption is a function of society, private or public.

Corruption persists because there is both supply and demand for it, but donors can do much to address the supply side. In 2004 the World Bank estimated that over 60 per cent of multinational corporations paid undocumented bribes in non-OECD countries to procure contracts – and this has nothing to do with aid.<sup>109</sup> Regulating international tax practices to reduce the availability of hideaways for stolen assets is an integral part of tackling corruption. Donor governments could fully implement the UN Convention Against Corruption and the OECD Anti-Bribery Convention. They could also step up domestic prosecution of their own private sector actors accused of bribery overseas.<sup>110</sup>

### **Box 15. Aid uncovering corruption in Zambia**

In Zambia, a corruption case in the Ministry of Health came to light, partly through national government systems which had been opened up to scrutiny in line with an agreement by donors to provide budget support to the government. Though there is no easy fix to the complex problem of corruption in this case or others, the budget support arrangements between donors and the government have led to new conditions, anti-corruption measures and an action plan to set it on track to improvements.

Source: Oxfam Germany, study visit to Zambia (2009)

Of course, challenging corruption also means tackling demand for it. There are numerous ways to do this, and aid has an important and catalytic role to play in many of them. Independent audit institutions, parliaments, and an independent press are essential for creating accountable, participative societies, where it is much harder for corruption to flourish. Bodies like these need resourcing, and quality 21st century aid can contribute to supporting them.

### **Box 16. Aid support to independent auditing in Mozambique**

In Mozambique, the Administrative Tribunal, the public auditing agency responsible for overseeing and monitoring the country's public funds, has been supported by aid from Sweden, Germany, Norway, Finland, and other donors to enhance scrutiny of government actions and reduce corruption. By 2008, the tribunal was conducting 350 audits, covering about 35 per cent of the government budget. Both the media and the national parliament have acted on information generated by these audits. Following the release of the tribunal's latest annual report, the government's performance made headlines in both state-owned and opposition newspapers. This is promising, because public scrutiny across party lines is a good sign of increasing accountability.

Source: Oxfam America<sup>111</sup>

### **Box 17. Aid support to free and independent media in Kenya**

The media can play a vital role in increasing scrutiny of government and holding politicians to account. The greatest challenges to reporting occur where issues are complex and information is difficult to access. Effective communication of information to the public by the media is dependent on the openness of government, the availability of good research sources, and also on the skills and confidence of the media. Panos London and Panos East Africa, sister NGOs that work on empowering people through the media, are carrying out aid-funded work with Kenyan journalists to increase media coverage of tax and governance issues, with the goal of improving public awareness and generating greater civic demand for government accountability. Joel Okao, a radio journalist and co-ordinator for Panos, says: 'Through the media and collaboration with researchers, informed debate can be generated. Debate based on facts and in the public domain. Debate and information policy-makers and leaders cannot easily refute or ignore.'

Source: Panos (2009) Relay project workshop



Radio journalist presenting the morning news broadcast live on air to Kathmandu city, Nepal

*'Aid helps to improve accountability of government. Implementing decentralised governance requires strengthening local capacities. Aid contributes to the development of such capacities by working with local communities on increasing their participation in decision-making. India today has a large base of women decision makers at the village level.'*

Sandhya Venkateswaran, Wada Na Todo Abhiyan (Don't Break Your Promises) coalition, and W8 member, India<sup>12</sup>

The presence of incentives for improved transparency and accountability, is crucial for independent audit offices and for a relatively free press like those in Mozambique and Kenya to function. Aid provided direct to government budgets that comes with criteria of this kind can itself have an impact on corrupt practices, as the Zambia example shows.

Organised grassroots demand for greater democratic accountability and less corruption is a powerful force that aid can help foster. In Armenia, for example, Oxfam and its partners successfully convinced the national government to adopt a simplified budget that everybody could understand and scrutinise.

Tackling corruption effectively is also about building greater accountability. The work carried out by Oxfam's local partners in a rural district of Azerbaijan demonstrates how real progress towards accountable government comes about when the benefits of accountability can be demonstrated through improved service delivery. This sort of aid can help lever democratic change.



### **Box 18. Aid strengthens democratic processes in Azerbaijan**

In Khanarab in the southwest of Azerbaijan, where scarce resources, lack of capacity, and severe underfunding compromise the ability of local government to deliver even the most basic of services, Oxfam funds a local NGO to work with the municipal authority in improving delivery and accountability to local citizens.

Vagif, a local farmer, says: 'Productivity in the area used to be very low because there was no water to irrigate the crops. We could only water the fields manually, which took a lot of time and limited our yields. Because of this lack of resources and opportunities, young people were migrating away from the community.'

Oxfam and its local partner ARAN worked with the community and the local government to set up a new mechanised water irrigation system. 'Now the water is flowing and productivity has doubled. We can take our goods to market and we have a chance to make money for our families,' Vagif said.

ARAN has also trained local government officials to be more accountable and transparent to citizens. Government officials in Khanarab now hold regular public budget hearings so that the villages can help decide on allocations. Because of this stronger public engagement, and the new water infrastructure, people have begun to see the advantage of financing local government and there has been a huge increase in the payment of local taxes. Aid-funded work in Khanarab has created a virtuous circle of good delivery of essential services, leading to better democratic accountability.

Source: Oxfam GB study visit to Azerbaijan (2009)



Vagif, local farmer and chair of the water users union, Khanarab, Azerbaijan'

### **Box 19. Corruption in Afghanistan**

Corruption is a major factor driving Afghanistan's conflict, according to nearly all of Afghans interviewed by Oxfam. Corruption can be countered but only through intensified efforts to reform state institutions and build their capacity. Failing to do this would undermine the effective elements of the state, opening them up to further abuse by corrupt actors. Crucially, there must be rigorous implementation of the government's anti-corruption strategy, and that means some heads must roll at the top, to show everyone that they are serious. Even though obviously a last resort because of its potential impact on Afghans, donors must be prepared to withdraw their aid if minimum standards are not met.

None of these arguments or examples suggests that corruption is not a problem for aid. Like other sectors, aid is touched by corruption, but aid does not lie at the root of corruption, and phasing out aid will not end the problem. Moreover, evidence of corruption in one African country is not an argument for ending aid to the entire continent, as one critic suggests.<sup>113</sup> When the European Community was expanding, many of the member states within that political union displayed more evidence of corruption than others, but no attempt was made to stall the entire project of European development. Deciding that, because of corruption in Hungary, for example, aid to Spain should be ended was a fallacy, and once again, tantamount to throwing the baby out with the bathwater.<sup>114</sup>

### **The argument that aid undermines accountability and tax collection**

The ability of individuals to hold their governments to account on public spending decisions is the cornerstone of the citizen-state relationship. Critics argue that aid can get in the way of this relationship by making governments more accountable to donors than to their citizens, because in some countries aid monies are a more significant source of revenue than taxes.<sup>115</sup> A history of donors intruding on government policy in developing countries to promote their own political interests or to impose particular development models has shown this to be a worry that should be taken seriously.<sup>116</sup> However, as the examples in this chapter show, good aid strengthens rather than undermines government accountability to citizens, and evidence shows that even when countries are big recipients of budget support, tax revenue has not been affected as long as revenue-strengthening measures have been employed in parallel with the aid.<sup>117</sup>

A number of countries receiving long-term, high levels of aid have successfully managed to increase tax collection, and therefore enhance incentives for their governments to respond to citizens. Rwanda, for example, was able to quadruple its levels of tax collection between 1998 and 2006. Uganda also nearly doubled its tax-to-GDP ratio between 1993 and 2003.<sup>118</sup> Recent research on Africa overall shows that tax incomes have doubled in absolute terms in the past six years.<sup>119</sup> Reducing aid is unlikely to help a country make progress on tax collection and may even aggravate the problem. Making domestic taxes

a stronger and more reliable source for financing development should however, be a key feature of 21st century aid.

## The argument that aid stifles growth, deters investment, and creates dependency

Aid critics argue that aid hampers growth. They assert that where aid is found, growth is usually absent, because aid acts as a deterrent to investment. According to the critics, aid 'crowds out' investment by both acting as subsidised credit and by tarnishing the state and economy as ineffective. In addition, they say aid creates economic dependency by encouraging governments and people to rely on a steady stream of charity from rich donors, rather than courting investment or working their way out of poverty.

The idea that because aid is found in countries that are poor it must be the cause of low growth is like arguing that fire engines cause fires because they can be found at the scene of burning houses.<sup>120</sup> Aid is found in the very places where these problems are worst precisely because it is designed to help tackle them. Lumping together all types of aid, and trying to assess aid's impact on growth, is not a good way of measuring whether or not it is reducing poverty.<sup>121</sup>

*'Good quality aid, of adequate quantity, is a catalyst for growth. Countries that are poor cannot compete. How can people with no education, who are sick, compete?'*

Dorothy Ngoma, Executive Director of the National Organisation of Nurses and Midwives of Malawi, W8 member<sup>122</sup>

Factors that do keep people economically inactive are poor health and lack of access to education, training, and jobs in the formal economy. Research shows that malaria alone costs Africa \$12bn each year in lost revenue due to the millions of days and lives lost to sickness. Eliminating malaria could add 1.3 per cent to GDP growth.<sup>123</sup> The aid provided to social sectors in developing countries plays a vital role in building the systems that keep people well enough to provide for themselves and their families. Ironically, removing that aid would only serve to make people totally dependent on whatever hand-outs they could find.

Nonetheless, aid dependency is an issue that needs attention.<sup>124</sup> Many governments are currently dependent on donors to finance the core functioning of the state; withdrawing that money now will end that dependence, but by the same token, put millions of lives in jeopardy by compromising vital public services. At the same time, dependence can mean that donors, not developing country governments are at the helm, steering national development. Without confident, effective and accountable state institutions, able to take forward plans to reduce poverty and stimulate sustainable growth, dependency on aid will continue to be a problem – and building those institutions requires aid to be delivered in the right way.

There is no magic fix to aid dependency, but the best available route for warding off dependency is to ensure that aid builds up the human capital of developing country populations, acts as a catalyst for poverty reduction, supports effective state institutions and provides resources to better help an active population hold their governments to account.<sup>125</sup> More predictable and less volatile aid also allows governments to plan more effectively for national development, which

over time, will help to reduce their dependency on aid. Longer-term solutions for reducing aid should also form part of the discussions between donor and recipient governments. Together, these approaches will help aid work itself out of a job.

### **The argument that aid is not needed because we got here without it**

Implied in many of the criticisms of aid is the argument that not only is aid unnecessary today, but it has never been needed. Of course, many countries that are rich today built up their economies with the help of cheap resources siphoned off from colonies they had conquered – the very developing countries that need help now. And today's wealthy also built their industries in an age when protectionist economic policies were not prohibited by trade agreements, as they are today.<sup>126</sup> Aid could be viewed as partial compensation for the disadvantages faced by former colonies in a globalised world.

Furthermore, a variety of successful countries today did receive direct aid transfers in the past, and have since progressed to being aid graduates. The Marshall Plan aided reconstruction and development in 16 European countries after World War II.<sup>127</sup> South Korea, Taiwan, and others received sizeable aid over decades, which they successfully invested in national systems and human capital to better manage economic development themselves.<sup>128</sup> More recently still, European Union Structural Funds have supported growth in countries as diverse as Spain and Ireland.

### **The argument that there are better, alternative sources to finance development**

Aid critics argue that instead of accepting aid, developing countries should do more to open up their markets to foreign investment, borrow more, or collect more taxes. These are all ways of raising money, but do they present alternatives to aid?

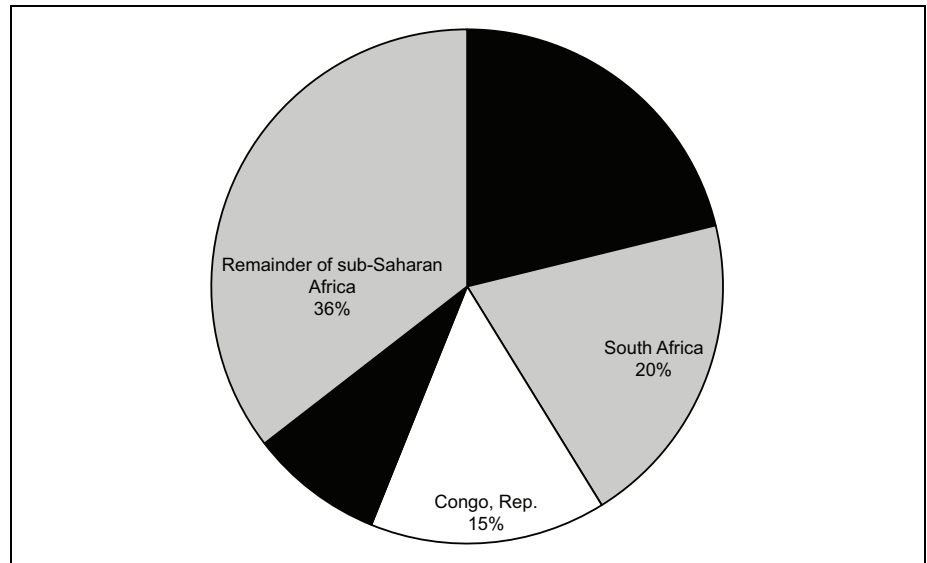
#### *Foreign direct investment*

Foreign direct investment (FDI) is one source for development finance which aid critics suggest has greater potential than aid.<sup>129</sup> While FDI should and does play an increasingly important role in generating growth in developing countries, in few poor countries has the growth it generates been high enough to support the provision of essential services to the population.

Currently, FDI contributes only 2 per cent to the GDP of African countries.<sup>130</sup> In the poorest countries, it is little more than a footnote to the overall economy. Neither does FDI flow to all poor countries in equal measure: of all FDI flowing into developing countries, 27 per cent goes to China. In Africa, the biggest recipients are either resource-rich countries like Nigeria (with 21 per cent of all African FDI), the Republic of Congo (15 per cent), and Sudan (8 per cent), or South Africa, which is more developed and receives 20 per cent.<sup>131</sup> These four countries

together account for just under two-thirds of all FDI flowing into Africa. The rest of the continent gains in FDI only a quarter of what it receives in aid.<sup>132</sup> The crisis has also played a strong hand in reducing FDI flows to Low-Income Countries, hurting their growth prospects.<sup>133</sup>

**Figure 2: Where the investment goes**



The reasons for under-investment in poor countries are diverse, but they include market size, geographical location, cost and availability of skilled labour, infrastructure, and political stability.<sup>134</sup> There is plenty of potential for FDI to finance development, and there is a strong role for aid to play in helping countries to harness economic opportunities for pro-poor development, including building human capital and rural infrastructure such as roads and electricity. But for the foreseeable future, there simply is not enough of FDI to fund development on its own.

### *Taking out new loans to finance development*

Some aid critics argue that poor countries ought to borrow more to finance development. This is not a new suggestion, but past results are not encouraging. In the 1970s, countries borrowed prodigiously, and when interest rates rose they were faced with repaying hundreds or even thousands of times the original value of the loan. Governments even took out new loans in fruitless attempts to pay back existing debts.

The debt crisis led to serious setbacks in human development as governments slashed investments in order to service their debts. After decades of negotiations, debt cancellation worth over \$88bn was delivered for 23 of the world's poorest countries,<sup>135</sup> and the evidence shows that the resources freed up have gone to funding public services.<sup>136</sup> However, not all debts were cancelled, and billions of dollars of debt repayments still hang over developing countries. Nor is there any system of arbitration in sight to help countries in difficulty resolve their debts.

Despite this sorry history, aid critics argue that developing country governments would do better to bear the cost upfront of borrowing money on the open market.

Many governments need external financing to fund the most basic of services. When that money comes in the form of aid grants, rather than loans, they can avoid digging themselves into a financial hole. If governments are to use borrowing to finance development, then the international community has a responsibility to find ways to ensure that the cycle of irresponsible lending that so hampered progress in the 1970s and 1980s does not occur again.<sup>137</sup>

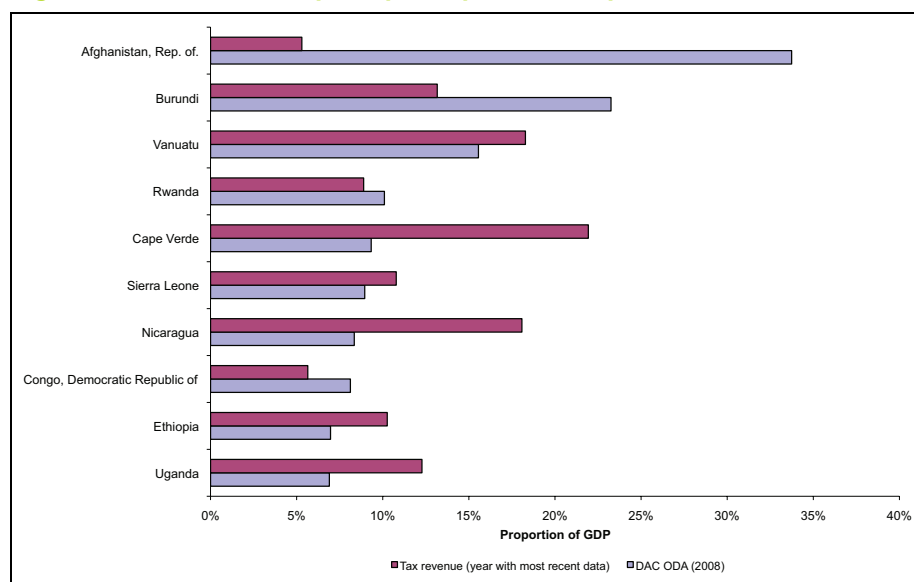
Aid critics also argue that sales of government bonds are not used enough to raise money in developing countries, and as an alternative to aid, developing country governments should acquire credit ratings which will help them to issue bonds to international investors.<sup>138</sup> But not only does raising money through sale of government bonds come with a higher level of interest than many other forms of financing therefore costing more to the country's taxpayer, they also usually have to be repaid in one payment, which can leave holes in developing country government budgets if they haven't accrued reserves in the meantime to pay off the interest. At this point in time, bonds issued by developing country governments are also selling a lot slower than before the crisis. Moreover, many poor countries have already acquired ratings with the intention of selling their bonds, and the promised tide of money from international investors has yet to flow in.<sup>139</sup>

### *Mobilisation of domestic resources*

Aid critics are absolutely correct that effective tax collection is central to reducing poverty and strengthening the effective working of government. In the long run, improved revenue collection is the best course of action for aid-dependent countries. Making taxes work to pay for national development is about more than financing, however: it is about building the contract between the citizen and the state. As Oxfam's research in Azerbaijan shows, when people see their money going into a system they trust and being translated into services they need, public demand for accountability flourishes and taxes are more likely to be paid (see Box 18). Not only is taxation part of the virtuous cycle of good development, progressive taxation can also help fight inequality by redistributing resources within a country.

However, few if any low-income countries can finance essential services and state functioning without additional support from outside. Currently, as Figure 3 demonstrates all too clearly, there are vast differences amongst tax levels in developing countries – even amongst those countries receiving the largest amounts of aid as a proportion of their GDP. This means that some developing country governments are in a much stronger position to finance their development with domestic resources than others.

**Figure 3: Tax levels in top ten per capita aid recipients**



Aid has a key role to play in supporting domestic taxation systems. Revenue collection needs long-term investment, sufficient political will, trust in the government, and crucially, a tax base worth taxing. Urgent steps to improve taxation should include finding ways to integrate the informal economy into the tax system. Because so much economic activity in developing countries takes place outside the formal economy, the burden of income tax often lies with a small number of people. In Zambia, where the formal sector employs just 500,000 out of 11 million inhabitants, the tax gap is huge.<sup>140</sup> As a block, the informal sector in developing countries contributes between 20 per cent and 65 per cent of employment, although some estimates for its contribution to the overall economy are much higher. This constitutes a significant barrier to raising taxes.<sup>141</sup> A good use of aid monies is to help developing country governments redesign incentive mechanisms that create legitimacy for the informal sector and allow its participants to benefit from public services in exchange for tax.<sup>142</sup> Making the most of domestic resources also means building the capacity of the civil service to manage expansion. Moreover, developing country governments have a responsibility to ensure they are supporting the development of progressive taxation that sufficiently taxes wealthy elites as well as poorer citizens. But ultimately, all of these approaches require support to build more effective taxation systems that can carry out their core responsibilities.



Encouragement to put local taxes to work, Malawi

Aid channelled via budget support can play a key role in supporting domestic resource mobilisation to finance development. Not only does giving finance direct into a government's budget pay for vital public services, by paying for the salaries of public servants, it also creates thousands of new tax payers who want to see their taxes spent well.

#### **Box 20. Aid funds improvements in tax collection in Mali**

In Mali, the Canadian International Development Agency (CIDA) works with the tax administration authority to improve the functioning of the country's tax system. From 1997 to 2005, work funded by Canadian aid included training and capacity development of staff. Partly due to this aid-funded programme, levels of tax collection rose from USD \$368.15m to \$851.04m, more than doubling the amount of tax collected over the eight-year period. This tax now flows back into central budgets, helping the government to pay for vital public services.

Sources: G. Gagnon (2006) 'Le projet d'appui à la mobilisation des recettes intérieures, PAMORI (1997–2005)', CIDA

Donors can help make the most of mobilising domestic sources of revenue for financing development, by tackling unfair or illegal corporate practices on tax evasion and avoidance that so many rich countries are complicit in upholding. Some practical steps at the international level could include improving information exchange through tax agreements with secrecy jurisdictions and putting in place country by country financial reporting standards to increase corporate transparency where evasive or illegal tax practices are found.



### **Box 21. Innovative financing**

Many advocates for ending global poverty suggest going beyond aid to leverage additional sources of finance, over and above aid commitments. These sources could be anything from levies on airline tickets to taxes on carbon consumption. Diverse methods of raising money can channel desperately needed resources to developing countries, and some innovative sources of financing such as airline ticket revenues that go to fund UNITAID are already playing a key role in addressing the poverty gap.

A financial transaction tax – a tax on transactions carried out in the financial sector such as bonds, derivatives and currency exchanges – of just 0.05 per cent could deliver as much as \$400bn annually to spend on tackling the impacts of the financial crisis and the problems of poverty at home and abroad. This would cost the financial sector just \$5 in every \$10,000. Given that aid budgets are barely sufficient for meeting the MDGs, additional money is needed and welcome, but it must be just that: additional.

Alternative sources of financing are both necessary and desirable. Some of these will result in growth, and some will even result in reducing poverty and inequality. The added value of giving effective aid now is that it can be targeted directly at reducing poverty and inequality within and not just between countries. Building societies where increases in income are spread across the population lies at the core of sustainable, long-term development. Good, quality 21st century aid can deliver that, and by supporting the development of other sources of financing for development, it can also work itself out of a job.

# 4

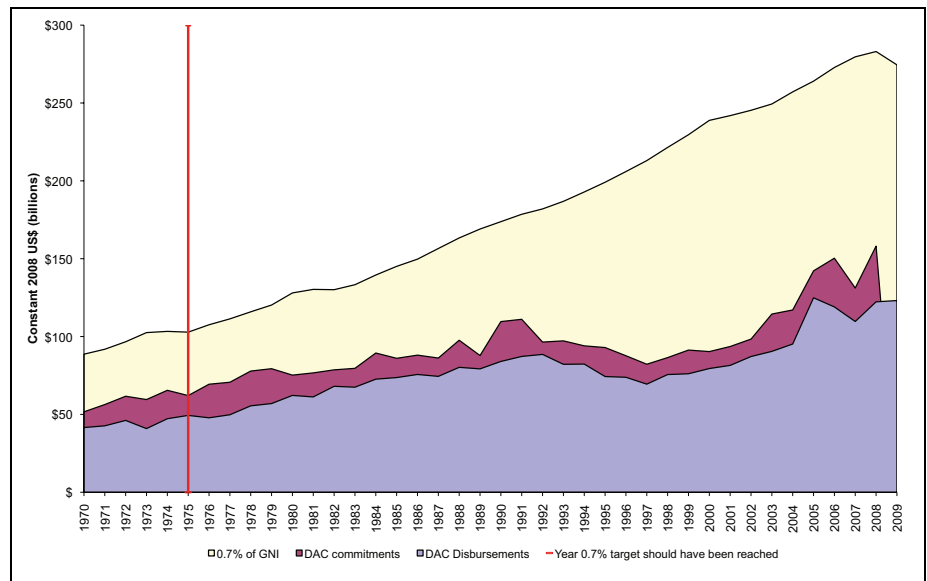
## Making the case for more resources

The quality of aid clearly requires improvement, and this must be combined with systemic reforms aimed at tackling the underlying structural causes of poverty and inequality. But the quantity of aid also needs to be addressed. It is now 40 years since governments first committed to provide 0.7 per cent of their GNI in aid, ten years since they agreed the MDGs, and five years since G8 leaders promised increased assistance to help lever developing countries out of poverty. Despite the distance travelled in the years since these commitments were made, the amount of aid still needed is substantial: the shortfall of aid that has not been provided since 1970 when donors first made the promise to give 0.7 per cent of GNI in aid now amounts to over \$3 trillion.<sup>143</sup> As this report has shown, aid alone will not end poverty, but ensuring that sufficient resources are provided in effective ways will move developing countries closer to the goal of halving those living in extreme poverty.<sup>144</sup>

*'Malawi can only come out of poverty and, therefore, achieve the Millennium Development Goals, if there is a deliberate commitment on the part of the developed countries to help my country.'*

Dr. Bingu wa Mutharika, President of Malawi<sup>145</sup>

**Figure 4: The donor aid shortfall since 1970**



Just five years away from the deadline set for meeting the MDGs, this section poses the questions: how far are we from meeting them, what gaps are there in donors' financial promises, and what must be done to bridge them?

## Aid has worked to deliver the MDGs

Where financing has been galvanised, and aid delivered effectively, it has resulted in some breathtaking successes. On education, increased resources to developing country governments from aid and debt

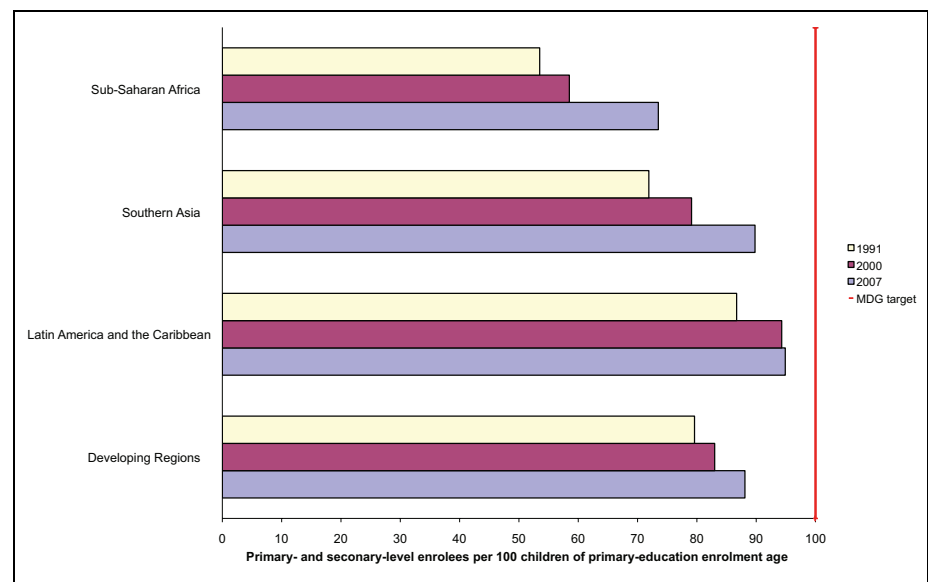
cancellation over the past decade have moved 33 million children from the field or the factory to the classroom.<sup>146</sup> This incredible progress has been strongly associated with increases in national spending on education, combined with developing country leadership and prioritisation of education. Government policies on abolishing school fees, constructing new schools, and investing in recruitment of teachers have translated into millions more children being in school. The removal of school fees has relieved financial pressures and has acted as a key incentive for families to make the leap of sending girls to school. On the supply side, funding the recruitment and training of local teachers has helped to narrow the hard-to-close gap.<sup>147</sup>

### The Millennium Development Goals

MDG 1	Eradicate extreme poverty and hunger
MDG 2	Achieve universal primary education
MDG 3	Promote gender equality and empower women
MDG 4	Reduce child mortality
MDG 5	Improve maternal health
MDG 6	Combat HIV and AIDS, malaria, and other diseases
MDG 7	Ensure environmental sustainability
MDG 8	Develop a global partnership for development

MDG 2 is only a first step to providing good quality universal primary education (UPE) for all, but the success to date is a clear example of what can be achieved when both international and domestic resources are put to use in building up public services.<sup>148</sup>

**Figure 5: Increases in primary and secondary net enrolment rate**





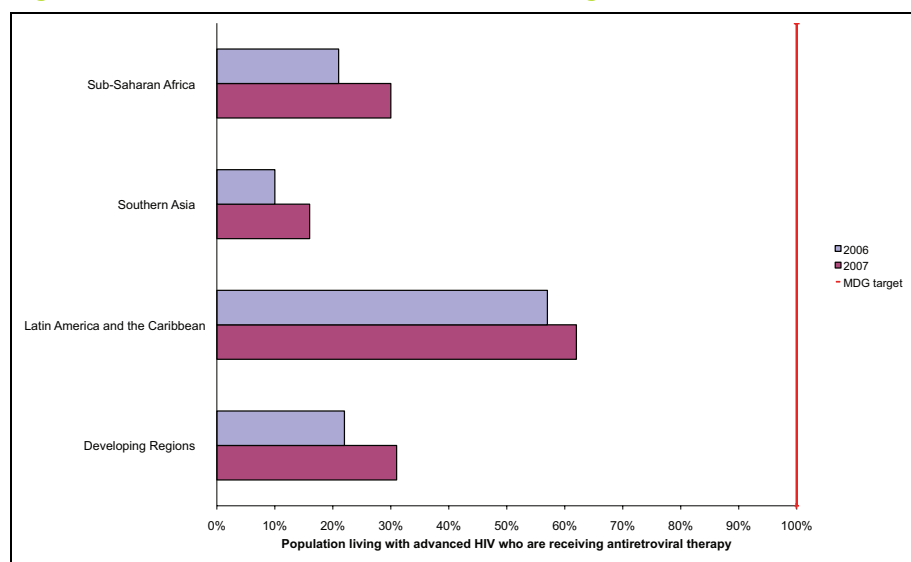
Increased funding has meant more girls in school



Malee is arranging antiretroviral (ARV) pills into colourful pill boxes for her 10-year-old nephew. Discipline in taking ARV drugs is a must in order to help HIV-positive children improve their health and remain healthy.

Although the size of the challenge remains considerable, the goal to halt and reverse the spread of HIV and AIDS by 2015 is also on the way to success. Through targeted funding, the coverage of antiretroviral treatment (ART) for HIV and AIDS has increased ten-fold over a five-year time span. Over three million people now have access to antiretroviral drugs, representing a 47 per cent increase from 2006–07 alone.<sup>149</sup>

Figure 6: Increases in treatment for those living with HIV



## Remaining distance from the goals

Despite these successes, on current projections many of the MDGs will not be met for decades to come. Although deaths of children under five years old have declined steadily worldwide, they remain devastatingly high in the poorest regions: in sub-Saharan Africa, research shows that almost one in seven children die before their fifth birthday.<sup>150</sup> As recently as 2007, nine million children under the age of five died from largely preventable diseases. If MDG 4, which aims to reduce deaths of children under the age of five by two-thirds, continues to receive its current and projected levels of funding, it will not be met until 2045.<sup>151</sup> And yet many of these deaths could be prevented through simple, affordable measures such as vaccines or oral rehydration therapy for treating diarrhoea.

Insufficient progress has been made on bringing down the number of women dying in childbirth. Worldwide 350,000 women and girls die each year as a result of complications of child bearing – the vast majority of them in a developing country.<sup>152</sup> Recent figures suggest some significant progress in some countries<sup>153</sup> but sadly the story is even worse for some countries in sub-Saharan Africa where rates are actually increasing. Time is running out to meet the target of reducing maternal mortality by 75 per cent by 2015. Urgent action is needed to address the yawning funding gap<sup>154</sup> for this MDG and ensure every mother has access to the health care she needs to stay alive free of charge.



Healthcare services for treating women in pregnancy are still underfunded, at Bwalia 'Bottom' hospital in Lilongwe, Malawi, conditions are crowded. With over 40 'difficult' labours to attend to every day, patients awaiting treatment wait in the pre-labour ward.

When it comes to water, the targets are on track for being met at the global level by 2015, but this is largely due to rapid progress in East Asia, particularly China. Sub-Saharan Africa is still very far off track, and on current trends will not meet its water and sanitation targets until 2035. Many of the poorest countries will not meet these targets until 2050 unless progress is scaled up. In addition, there are huge disparities within countries between urban and rural areas, with the poorest 20 per cent of people in many countries being several times less likely to have access to water than the richest 20 per cent.<sup>155</sup>

*'The economic crisis cannot become an excuse to abandon commitments. It is even more reason to make them concrete.'*

Ban Ki-moon<sup>156</sup>

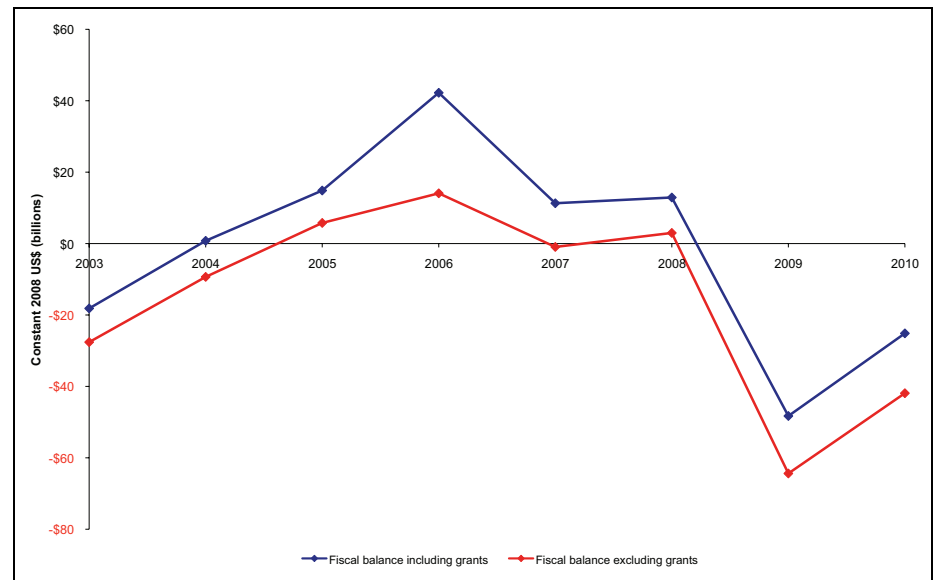
Progress on these critical goals will be improved only through a massive expansion of service provision in poor countries, yet progress has been most modest exactly where structural investment and sustained funding over longer periods of time has been required. With just five years to go until the deadline for meeting the MDGs, the heat is on for donors to step up and make sure that well targeted investments like this are happening.

Even hitting the 2015 education target is not a given. Despite great progress, UNESCO estimates that on current trends 56 million children of primary school age will still be out of school in 2015.<sup>157</sup> Girls in particular still face enormous hurdles in accessing education, especially as they grow older. New factors are also coming into play: the impact of the financial and economic crisis on attendance rates is significant in those countries that have not abolished school fees.

The economic meltdown that began in 2008 may have started with the world's richest financial actors, but it has ended up affecting the poorest.<sup>158</sup> Sub-Saharan Africa's fiscal balance, excluding grants,<sup>159</sup> plunged from a surplus of 0.3 per cent of GDP in 2008 to a projected deficit of 6.4 per cent in 2009. This means that governments in the region will go from having a surplus of \$3bn to a deficit of \$64.4bn.<sup>160</sup> As a result, investments in health and education are likely to slow considerably. UNESCO has recently calculated that, due to the fiscal

crisis, resources available for education in sub-Saharan Africa could drop by an average of \$4.6bn a year in 2009 and 2010. This would add up to more than double the amount currently provided in aid to basic education in Africa.<sup>161</sup>

**Figure 7: Impact of the financial and economic crisis on sub-Saharan Africa fiscal balance**



These impacts of the financial and economic crisis put the progress of development on a knife's edge. In 2008, the combination of previously high food prices and the financial crisis began to erode the steady trend towards the eradication of hunger. In 2009, the total number of hungry people worldwide was projected to reach a historic high of 1,020 million. The most recent spike in hunger is the consequence not of poor global harvests but of lower incomes and increased unemployment.<sup>162</sup>

### **Box 22. The impact of food, fuel and economic crises on Burkina Faso**

Salifou is an unemployed 42-year-old father of three. Until recently, he worked for a soap company based in Bobo Dioulasso. He was employed there for eight years, and earned enough to support his family, send his children to school, and even send money back to his parents, who live in a poor village. When the food, fuel and financial crises hit Burkina Faso, Salifou and his colleagues lost their jobs because the company could no longer pay their salaries or its basic overheads.

Salifou is now looking for a new job, but it has not been easy. He explains: 'Since that day, my life has become a nightmare. I had to borrow money to treat my son for malaria. I had to sell my two motorcycles and my bicycle, and we had to move to the outskirts of the city. We were forced to take my second son out of school. I do not know anymore if my daughter will go to school, as we cannot afford it. Not long after taking my son from school, my youngest daughter had malaria and I had to borrow money to treat it. We are trying to make ends meet through my wife's petty trade but it is not easy. I am trying to find a new job but without success yet. Of the workers who have been made unemployed, it is their children who will suffer most.'

Source: Oxfam Quebec/Oxfam Burkina Faso



Salifou, father of three, unemployed as a result of the food, fuel, and financial crises that have hit Burkino Faso.

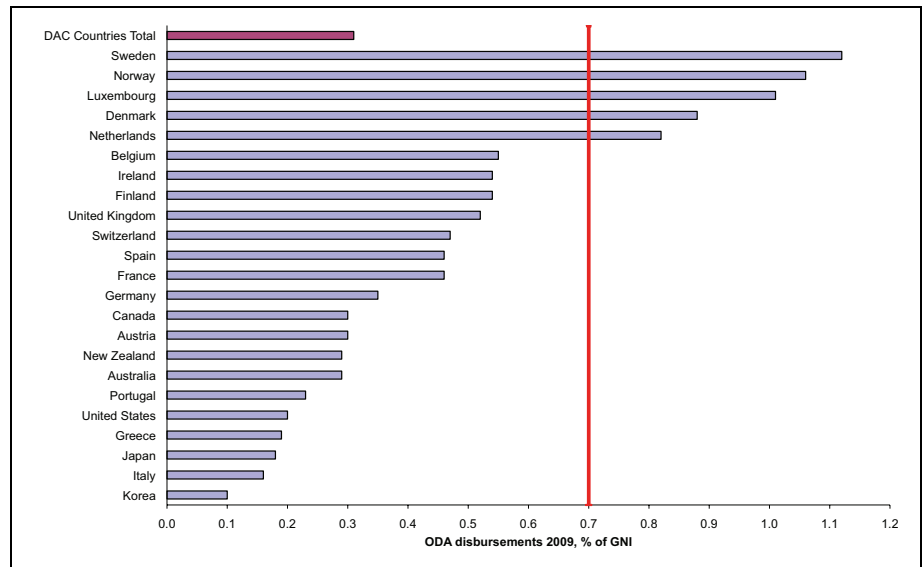
## Trends in aid flows and broken donor promises

Despite the increasing need, the missed targets, and the existence of a number of very good developing country plans on the table, total aid remains well below the United Nations target of 0.7 per cent of GNI. In 2009, the only countries to reach or exceed this target were Denmark, Luxembourg, the Netherlands, Norway, and Sweden.<sup>163</sup> If governments had provided what they committed to in 1970, extreme poverty at 2005 levels could now have been ended 22 times over.<sup>164</sup> This has to be the greatest missed opportunity in history.

Just five years away from the MDG deadline, the difference between 0.7 per cent of rich countries' GNI and actual disbursement is \$151bn.<sup>165</sup> If donors continue along a linear trajectory based on their past ten years of aid disbursements, the target of 0.7 per cent – well under 100th of their overall national income – may not be reached until 2050.<sup>166</sup> On the same basis, Germany may not reach 0.7 per cent before 2027. The USA is likely to follow even later, with recent increases in aid levels indicating that it may not reach the 0.7 per cent target until around 2055, 85 years after the initial promise was made by the US government.

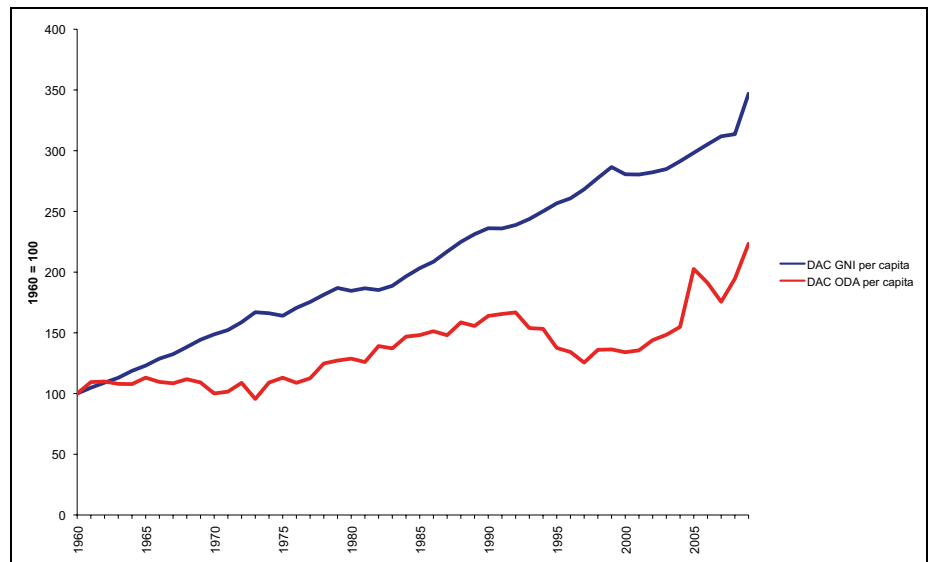


**Figure 8: Donor distance from 0.7 per cent aid targets**



This slow progress is not a reflection of donors’ economic woes. The amount of ODA from OECD Development Assistance Committee (DAC) countries has gone up since 1960, but as a percentage of rich country GNI, it has declined by almost 40 per cent.<sup>167</sup> In 1967, donors were giving over 30 per cent more in aid as a proportion of their GNI than they are now.<sup>168</sup> More recently, by contrast, in 2007 governments spent almost ten times as much on military expenses as they did on development.<sup>169</sup>

**Figure 9: Donor aid spending as a percentage of national income 1960 – now**



Meeting the MDGs is still possible, but it will need concerted effort and political will on the part of donors – and that means both more and better aid. Aid alone – even 21st century aid – is not likely to be enough to ensure that all people living in poverty can lead full and decent lives. But along with the right reforms to make the system work better, aid can and will extricate millions of people from poverty and deprivation.

# Conclusion and recommendations

Against the backdrop of the global economic crisis, the falling finances available to developing countries and the increasing vulnerabilities of poor communities caused by climate change, the need for good quality, 21<sup>st</sup> century aid is more pressing now than ever. Aid that supports agricultural development, helps to develop domestic sources of revenue, and bolsters the state to deliver services that allow people living in poverty access to healthcare and education, has a clear role in contributing to development.

Of the criticisms levelled against aid, some are valid, but many are unfounded or overstated. Aid is an investment in some of the riskiest environments, and whilst it is impossible to guarantee that no aid is wasted, the past successes and improved accountability requirements mean it is significantly harder for aid money to go missing. Corruption – a problem that affects all countries and sectors, not just those receiving aid, is serious obstacle to development. But ending aid will not mean that corruption goes away: the best approach to tackling corruption is to empower active citizens to hold their own states to account, and aid has a vital role to play in providing the resources to help people do this. Whilst the alternative sources of finance proposed by aid critics are crucial for development, they are not enough on their own now to raise people out of poverty, and ensure long-term sustainable development. Good quality, 21<sup>st</sup> century aid builds on, not undermines these sources of finance, helping developing countries to harness them for growth with equity.

Aid on its own will not be enough to achieve the change that is needed. But already, aid provided direct to governments to support the effective building of state institutions, deliver essential services, catalyse crucial agricultural development and empower people to demand more from their governments, is working to reduce poverty and inequality. Aid in the right way has resulted in huge successes and this kind of aid – 21<sup>st</sup> century aid – is the kind that will work itself out of a job.

Taking the path to 21<sup>st</sup> century aid means that donor governments must improve the way they deliver aid by ensuring that the incentives for and methods of giving aid are right. Donor governments need to steer away from investing in development for their own political or economic interests, and make sure all of their policies work for development, and do not dilute the poverty focus of aid.

Crucially, the path to 21<sup>st</sup> century aid also needs financing, and donor governments must step up their efforts to provide at least 0.7 per cent of gross national income in aid, and ensure that it is given in effective and accountable ways.

To make this happen, all donors are urged to adopt the following recommendations:

- Ensure aid is channelled to help support active citizens and build effective states as a pathway to reducing poverty and inequality.
- Ensure that all aid is aimed at meeting poverty reduction goals, including supporting developing country governments to deliver strong, effective public services.
- Ensure that aid supports diverse forms of financing to contribute to development.
- Dramatically improve the predictability of aid, by providing it on a three-year rolling basis or longer; by increasing the proportion of aid that is general budget support where possible and by sector support where general budget support is not an option.
- Reduce administrative delays and minimise the difference between what is committed and what is disbursed.
- Limit conditions attached to aid to mutually agreed poverty indicators.
- Deliver aid through a mix of models, including increasing budget support wherever possible, and ensure that a percentage of aid flows are channelled to civil society organisations, to enable people to better hold their governments to account.
- Make aid transparent by ensuring timely and accurate disclosure and dissemination of information on financial decisions, conditions, negotiations, and procedures.
- Untie all aid, including food aid and technical assistance, and give preference to local procurement in developing countries when they are purchasing services and goods.
- Give at least 0.7 per cent of GNI in aid by 2015 and set out how this target will be reached, with legally binding timetables.

Developing country governments are urged to:

- Reject a culture of corruption and uphold human rights standards which allow free speech, freedom of expression and democratic freedoms.
- Act in ways which are transparent and open to scrutiny, and ensure parliaments are given access and capacity to scrutinize decisions of the executive.
- Provide legal environments within which civil society organisations that monitor government activities can flourish and respect the independence of non-government bodies like audit offices and the judiciary.
- Support an independent and free press that is at liberty to report without censorship.

# Notes

- 1 Between 2001 and 2006 per capita government expenditure on health at an average exchange rate doubled. 11 March 2010, <http://www.who.int/whosis/en/>
- 2 Report on the Millennium Development Goals (2008); Republic of Mozambique, p30; DFID Press Release, 3 May 2006 <http://www.dfid.gov.uk/Media-Room/Press-releases/2006-completed/The-UK-announces-215-million-to-support-Mozambique-to-reduce-poverty-and-deliver-services-to-the-poorest/>
- 3 Oxfam (2009) 'Your Money or Your Life', p.4.
- 4 NGOs play a vital role in delivering services to developing countries. They are often the only actors along with multilateral emergency services in disaster- or conflict-stricken contexts. But they also work in many poor countries as long-term providers of essential services such as health care, clean water, and education. Local NGOs or civil society organisations (CSOs) in developing countries also have an important role to play in monitoring the activities of their governments, the international donor community which wields such power in developing countries, and big business. This watchdog role is performed by CSOs in countries across the world, and is a hugely important aspect of democratic societies. NGOs recognise the need to improve their aid, so that it is targeted at the poorest and most vulnerable people. NGOs like Oxfam do their best to ensure that every penny spent is accountable, and, equally important, that this aid is transparent and that people living in poverty exercise control over what it is used for.
- 5 R. Riddell (2007); p17
- 6 OECD DAC (2010) reporting for 2009 on gross ODA disbursements <http://stats.oecd.org/Index.aspx?DatasetCode=TABLE1>
- 7 Ibid
- 8 Ibid
- 9 This refers to the negative impact on the fiscal balance and ii) the negative impact on budget revenues. Cited in forthcoming Oxfam research on the fiscal impact of the global economic crisis in developing countries
- 10 Ibid
- 11 Ibid
- 12 Lall et al. (2003) cited in M. Karakaplan, B. Neyapti, and S. Sayek (2005) *Aid and Foreign Direct Investment*, p.8.
- 13 DFID (2010) Zambia Country Profile <http://www.dfid.gov.uk/Where-we-work/Africa-Eastern--Southern/Zambia/Major-challenges/>
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- 15 The Beijing Platform for Action affirms the need to recognise women's rights to inheritance and ownership of land and property, in recognition of the fact that women's property rights are often limited by cultural and social norms and legislation. <http://www.un.org/womenwatch/daw/beijing/platform/index.html>
- 16 K. Malouf (2010) 'Resourcing Global Education', Oxfam International Research Report, p.6.
- 17 UNIFEM (2004) *Parliament, Budget and Gender*, p.63.
- 18 Ibid p7
- 19 Ibid p4
- 20 Ibid p4
- 21 Ibid p6
- 22 L. Cabral (2010); 'Sector-based approaches in agriculture'; ODI Briefing Paper
- 23 *Dorward et al. (2008) 'Evaluation of the 2006/7 subsidy'; New York Times (2007) www.nytimes.com/2007/12/02/world/africa/02malawi.html; AllAfrica Global Media (2009) http://allafrica.com/stories/200901220830.html*
- 24 Social protection is also a *basic right for all people* and rooted in the *Universal Declaration of Human Rights* (articles 22 and 25) and the International Labour Organisation (ILO) *Convention 102 (1952) on Social Security (Minimum Standards)*.
- 25 Oxfam (2009) 'Investing in poor farmers pays', briefing paper
- 26 Oxfam (2007) 'Adapting to Climate Change: What's needed in poor countries and who should pay?', Briefing Paper.
- 27 Ibid.
- 28 D. Green (2008) 'From Poverty to Power' p12
- 29 Oxfam (2009) 'The Right to Survive: The Humanitarian Challenge for the Twenty-First Century', Briefing Paper.
- 30 A number of publications characterised by strong critiques of aid have recently emerged, including W. Easterly (2007) *The White Man's Burden*; D. Moyo (2009) *Dead Aid: Why Aid Is Not Working and How There Is a Better Way for Africa*; W. Duggan and R.G. Hubbard (2009) *The Aid Trap: Hard Truths About Ending Poverty*.
- 31 DFID (2010) Zambia Country Profile.
- 32 Eurobarometer No. 318 (2009) 'Development Aid in Times of Economic Turmoil', European Commission.

- 33 Oxfam/YouGov poll, March 2009.
- 34 D. Green (2008) *From Poverty to Power*, p.357.
- 35 R.C. Riddell (2007) *Does Foreign Aid Really Work?*, p.7
- 36 S. Cornish and M. Glad (2008) 'Civil Military Relations – No room for humanitarianism in comprehensive approaches', Norwegian Atlantic Committees.
- 37 Joint Agency Media Briefing (2010) 'Quick Impact, Quick Collapse: The dangers of militarized aid in Afghanistan'.
- 38 OECD DAC (2009) 'US Aid at a Glance'. One manifestation of this is the disproportionate focus of aid in countries, and in parts of countries, that are donors' security priorities. While no one would argue against the importance of effective aid in Afghanistan, Pakistan, and so on, other countries struggling to get enough aid to meet the MDGs should have an equal call on donors' resources. The same skewed priorities are often seen in Quick Impact Projects designed to win 'hearts and minds'; too often these have little long-term impact but are paid for, in effect, at the expense of activities such as immunisation schemes that have real potential to change lives. Approaches of this kind also pose risks both for the effectiveness of the aid and for the security of workers. In exceptional cases, governments may use military assets to provide relief, but in the vast majority of situations this will be wasteful and in many cases positively dangerous. When armed groups see military forces providing relief, they are not likely to distinguish between them and civilian aid workers, and so treat all as legitimate targets. As a result, the effectiveness of the aid, as well as the security of the aid workers, is put at risk. This is one reason why, in the past ten years, the numbers of aid workers killed has risen considerably.
- 39 Coordination Sud, 'L'aide publique au développement dans le projet de loi de finances pour 2010', p.18.
- 40 The experience of the Pergau Dam affair led the UK's Public Accounts Committee to review its procedures for investigating, particularly where the decision of the department concerned had been overruled. This demonstrated that, while there were mechanisms in place to ensure that aid was used for its intended purposes, there was still a clear need for parliamentary scrutiny and public pressure at both the donor and developing country ends. House of Commons (2007) 'Holding Government to Account', p.26.
- 41 CONCORD (2009) 'Lighten the Load: In a time of crisis, European aid has never been more important', p.28.
- 42 ActionAid (2005) 'Real Aid: An Agenda for Making Aid Work'.
- 43 EU trade objectives – for example, as espoused in the Global Europe Competing in the Global World strategy – fail to take into account the needs of developing countries, particularly as they face growing threats to food security from the impact of climate change. Instead EU trade goals focus on a desire to maintain Europe's own competitiveness, energy security, and consumption patterns. CONCORD (2009) 'Spotlight Report on Policy Coherence for Development', p.8.
- 44 'Whole of system' approaches to development commonly refer to approaches that seek to take into account and neutralise the negative and positive impacts of all policies on development. The EU's Policy Coherence for Development is one such approach. 'Whole of government' approaches usually refer to a donor government's attempts to harmonise the development, emergency, and military work being carried out in one country by its own agencies. There is broad concern that these approaches can often lead to the integration of humanitarian goals with broader foreign policy interests, thus subverting the primary goal of meeting the needs and rights of those affected by conflict and its ongoing effects (Active Learning Network for Accountability and Performance in Humanitarian Action (ALNAP) (2010) 'The State of the Humanitarian System: Assessing Performance and Progress', p.14). 'Whole of country' approaches are increasingly linked with the proposals put forward by Italy at the July 2009 G8 Summit held in L'Aquila, Italy, to create an overarching measure of the positive impact of all G8 member activities in developing countries. However, aid agencies are concerned that, by counting all activities, a 'whole of country' approach will not only include activities that have no proven development benefit, but will also neglect to examine the impact of policies pursued by donors that have negative implications for development (CONCORD (2009) 'Spotlight Report on Policy Coherence for Development').
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- 53 OECD Development Assistance Committee (DAC) (2008) Survey on Monitoring the Paris Declaration.
- 54 H. Kharas (2008) 'Measuring the Cost of Aid Volatility', p.29.
- 55 Ibid, p.29.
- 56 Ibid, p.8.
- 57 OECD (2006) 'Burkina Faso Country Report: Joint Evaluation of General Budget Support 1994–2004'; OECD (2006) 'Joint Evaluation of General Budget Support 1994–2004: Synthesis report'

- 58 Oxfam (2008) 'Fast Forward: How the European Commission can take the lead in providing high-quality budget support in education and health', pp.15-16.
- 59 Some argue that budget support is too risky an aid modality, because it involves handing over no-strings attached finance to developing country governments, and because of this and the fact that it is fungible, can be wasted through corruption. However, no method of giving aid is totally risk free, and general and sector budget support comes with conditions to ensure transparency and accountability of spending in line with agreed poverty reduction objectives, and support to develop the capacity of state institutions so that they can manage their budgets more effectively and accountably. Oxfam does not argue for all aid to be provided as budget support, just an increasing amount – currently, less than 10 per cent of aid is delivered through budget support. But continuing to provide such high amounts of aid through projects is not satisfactory. Project aid, often given through specific Project Implementation Units which run parallel to government departments, tends to be fragmented, duplicate activities of government and other projects, spends high amounts on often ineffective, and expensive foreign consultants, be donor-driven, and is no less prone to waste than budget support. Aid should be delivered through a mix of modalities which include increasing amounts of budget support, sector budget support, aid channelled through NGOs and project aid. It is also crucial that increases in budget support go hand in hand with increased resources to civil society organisations to help hold their governments to account, to strengthen parliaments, and to support independent institutions such as the judiciary and the free press.
- 60 Development Cooperation Report (2005); OECD DAC; The Paris Declaration on Aid Effectiveness and the Accra Agenda for Action (2008).
- 61 Cited in Oxfam America (2009) 'Ownership in Practice: The Key to Smart Development', p.21.
- 62 DFID White Paper (2009) 'Eliminating World Poverty: Building Our Common Future', p.126.
- 63 [http://ec.europa.eu/development/how/aid/mdg-contract\\_en.cfm](http://ec.europa.eu/development/how/aid/mdg-contract_en.cfm)
- 64 European Commission (2008) 'Budget Support: A Question of Mutual Trust'.
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- 66 D. Cammack, D. McLeod, A.R. Menocal with K. Christiansen (2006), 'Donors and the Fragile States Agenda: A survey of current thinking and practice', ODI, Report submitted to the Japan International Cooperation Agency
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- 70 Oxfam (2006) 'How the World Bank and the IMF Are Still Addicted to Attaching Economic Policy Conditions to Aid'.
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- 78 Ellen Johnson-Sirleaf (2009) 'Keep Africa's turnaround on track', *Washington Post*, 9 April 2009. <http://www.washingtonpost.com/wp-dyn/content/article/2009/04/08/AR2009040803599.html>
- 79 Irish Aid announcement: [http://www.irishaid.gov.ie/latest\\_news.asp?article=1432](http://www.irishaid.gov.ie/latest_news.asp?article=1432). See also AidWatch update: CONCORD (2009) 'EU Aid in Jeopardy'; and OECD DAC press release, 'Donors' Mixed Aid Performance for 2010 Sparks Concern', 17 February 2010.
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- 87 D. Green (2008), 'From Poverty to Power', p359
- 88 Council on Foreign Relations online debate on the effectiveness of aid, <http://www.cfr.org/publication/12077/>
- 89 R.C. Riddell (2007) *Does Foreign Aid Really Work?*; pp.389-413.
- 90 Ibid., p.392.
- 91 [http://www.oecd.org/document/18/0,3343,en\\_2649\\_3236398\\_35401554\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/18/0,3343,en_2649_3236398_35401554_1_1_1_1,00.html)
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- 135 'Unfinished Business: Ten years of dropping the debt' (2008); Jubilee Debt Campaign
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- 138 D. Moyo (2009), 'Dead Aid', p78
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- 158 The IMF reports that Low-Income Country financing needs 2009-10 will be \$25 billion more relative to pre-crisis levels. 'Coping with the Global Financial Crisis: Challenges Facing Low-Income Countries', (2010), International Monetary Fund
- 159 This is the balance of governments' revenues from tax and asset sales less their spending, before counting aid.
- 160 Oxfam calculation based on IMF REO and WEO reports, October 2009. Monetary values of GDP have been converted from nominal to real amounts (based on constant output rates) and are presented in constant 2008 US dollars.
- 161 UNESCO (2010) 'Reaching the Marginalized', *op. cit.*
- 162 [www.fao.org/news/story/en/item/20568/icode/](http://www.fao.org/news/story/en/item/20568/icode/)
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- 164 Oxfam calculation based on data from OECD (2009) and Chen and Ravallion (2008). The annual cost of ending 2005 levels of extreme poverty is calculated to be \$163 billion (see below for method). In 1970 DAC donors agreed that, from the middle of the decade, they would provide 0.7 per cent of their gross national income (GNI) as aid ([http://www.unmillenniumproject.org/reports/costs\\_benefits2.htm](http://www.unmillenniumproject.org/reports/costs_benefits2.htm)). The cumulative difference, from 1975 to 2009, between their actual aid disbursements and 0.7% of their GNI is \$3.8 trillion. That is 22 times the cost of ending 2005 levels of extreme poverty.
- The annual amount needed to raise everyone out of extreme poverty is calculated using data for 2005 on the number of people living in developing countries and from their poverty gap index (the mean distance below the poverty line as a proportion of the line, where the mean is taken over the whole population, counting the non-poor as having zero poverty gaps). All data are from S Chen and M Ravallion (2008) 'The Developing World Is Poorer Than We Thought, But No Less Successful in the Fight against Poverty', Policy Research Working Paper 4703. Washington DC: World Bank.
- $$365.Z.PG.D, \text{ where } Z \text{ is the daily poverty line, } PG \text{ is the mean poverty gap index for developing countries, and } D \text{ is the total population of developing countries.}$$
- $$= 365 \times \$1.25 \times 0.075 \times 5,453m$$
- $$= \$186,594m \text{ (constant 2005 values)}$$
- $$= \$172,933m \text{ (constant 2008 values)}$$
- This only describes a static transfer; achieving sustainable poverty reduction requires dynamic processes through which developing countries and people living in poverty can produce their way out of extreme deprivation.
- 165 Oxfam calculation based on data from OECD (2009). Data actually refer to 2009 due to the reporting delay.
- 166 Oxfam projection based on data from OECD (2009).
- 167 Oxfam calculation (2010). Although the total amount of ODA from DAC countries has increased since 1960 OECD DAC, 2009) the proportion of gross national income given as ODA decreased from 0.51 per cent in 1960 to 0.31 per cent in 2009 i.e. a decline of 0.2 percentage points or 39 per cent.
- 168 Oxfam calculation based on data from OECD (2009). The proportion of gross national income given as ODA decreased from 0.41 per cent in 1967 to 0.31 per cent in 2009, i.e. a decline of 0.1 percentage points or 24 per cent. 0.41 is 32 per cent greater than 0.31.
- 169 Oxfam calculation based on data from OECD (2009) and Stockholm International Peace Research Institute (SIPRI) (2010). <http://milexdata.sipri.org>

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