

Executive Summary

'Double Aid to Halve Poverty' and the Millennium Project Report

'Double aid to halve poverty' is currently the catchphrase of UK Chancellor of the Exchequer, Gordon Brown. What is in essence the same idea has also recently been strongly put forward by Jeffrey Sachs in the final report of the Millennium Project. The driving force behind this high-level political attention to international development and, specifically, the need to increase aid comes from the Millennium Development Goals (MDGs), agreed at the UN Millennium Summit in September 2000. As the first stock-take of progress towards these goals is due in September this year, Sachs and others are driven by a motivation to bring about the achievement of the MDGs in the time left – the period up to 2015.

The key recommendation of the Sachs report is that developing country governments should adopt development strategies bold enough to meet the MDG targets for 2015. These 'MDG-based poverty reduction strategies' would then serve as the basis for scaling up public investments, capacity building, domestic resource mobilisation, and official development assistance. Although many middle-income countries are likely to be able to fund initiatives to close their domestic 'pockets of poverty', many countries, especially in Africa, will have what the Millennium Project report terms a significant 'MDG funding gap'. In order to fill this, a doubling of present levels of aid is calculated as necessary.

The Millennium Project report puts pivotal emphasis on governance as a necessary factor to achieve the MDGs. In its analysis it distinguishes between poorly governed countries where there is a lack of political will for pro-poor policy and those where volition for poverty reduction exists but where capacity is limited. Although in the latter case investment can be made by donors to improve public administration and public financial management, it is argued that a large increase in funds should be focused on well-governed poor countries. These are termed 'fast-track MDG status' countries.

The Concerns About Doubling Aid

While high-level political attention to international development and the need for poverty reduction is certainly welcomed by the UK development community, a number of concerns are visible in relation to what seems to be a rather simplistic argument and the view that increased aid may be wasted or indeed may have negative unintended consequences. Five of the key concerns are set out here.

1. Absorptive capacity

Many countries, particularly in Africa, already have very high levels of aid. This seems particularly to be the case for those that are likely to fall into the 'fast-track MDG status' category – as these are the countries that, in general, donors currently favour. There are therefore a number of dimensions of concern over the degree of capacity these countries have to absorb even more aid. On the macroeconomic level there is clear evidence of diminishing marginal returns to aid as aid levels increase in proportion of national GNP. Although evidence remains mixed on how far macroeconomic imbalances such as 'Dutch disease' are likely to result from increased aid (increased foreign exchange reserves increase the exchange rate, resulting in harm to the export sector) these remains a real risk.

There are two more absorptive capacity dimensions that are relevant – the quality of institutions and policy-making, and at a lower ‘micro’ level, the administrative capacity present to enable pro-poor policy to be effectively carried out. Consideration of absorptive capacity issues leads to caution concerning the current high-level focus on African countries as the main recipients of greatly increased levels of aid. Although Africa is certainly where the most intractable development problems are, to achieve the MDGs it is arguably necessary to focus the majority of funds on India and China, where the majority of the world’s poor live and where government capacity already exists to absorb increased levels of assistance.

2. Aid effectiveness

Recent years have seen great emphasis on the need for aid effectiveness. Stemming from increased awareness of the problems with project-based aid and the failure of policy conditionality, the focus is currently on the framework of Poverty Reduction Strategy Papers (PRSPs). There is concern, therefore, that the current focus on aid *quantity* will detract from arguably more important issues of aid *quality* where some progress, albeit slow, is being made.

There is particular concern regarding aid modalities. Although DFID and likeminded donors are keen to employ general budget support ‘where circumstances are appropriate’, a dramatically increased aid budget will increase pressure to spend and is likely to lead to poorer decisions by donors on appropriate balances of aid modalities. Furthermore there is still limited experience and evidence concerning how effective these new types of aid are.

On the other hand, another aid effectiveness issue where there is little doubt also runs the risk of being undermined by large surges of aid and pressure to spend. Evidence is clear that increased donor harmonisation, alignment with PRSPs and coordination reduce transaction costs for recipient governments. The lack of incentives for donors to change their procedures are hindering real progress in this area, however. Predictable long-term commitments of aid are also widely acknowledged as necessary to support long-term sustainable growth and poverty reduction. Long-term coordinated commitments of current levels of aid are therefore arguably more important than increasing aid.

3. Accountability, ownership and dependence

Increases in aid are likely to lead to dangerous levels of aid dependence, particularly if funds are mainly channelled to Africa. On the recipient side of the aid effectiveness agenda, national ownership of poverty reduction strategies and domestic accountability to hold policymakers in check, are acknowledged as important elements of achieving real pro-poor change. Increased aid dependence will severely undermine what fragile progress has been made in this area: accountability to donors will take precedent over accountability to national stakeholders; and if donors insist on ‘MDG-based poverty reduction strategies’ where recipient governments do not feel these are ‘their goals’, any burgeoning ownership will be severely undermined.

There is also a glaring omission in the ‘double aid to halve poverty’ agenda – whether the countries concerned have been actually consulted. There is evidence that many countries do not want increased aid. Insisting that increased aid is the solution in the face of moves by countries such as India, where the majority of the world’s poor live, to reduce the numbers of donors they work with, would certainly seem to indicate that this is a ‘donor-driven’ agenda rather than one stemming from partnership and ownership, as the rhetoric would suggest.

4. Aid and growth

A number of more econometric concerns stem from the fact that the link between aid and growth is certainly not clear-cut and simple. Although aid does seem to have had a positive impact in some cases, the link of aid to domestically-driven growth is still poorly understood. Sachs further muddies the waters by taking achievement of the MDGs to be a key factor in realising domestic growth. However, if the achievement of social sector MDGs is dependent on external aid resources, high levels of public spending will not be sustainable without domestic drivers of growth providing future government revenue. This argument points to the fact that growth promotion is arguably more important than aid-driven social sector spending for long-term poverty reduction.

A further argument is that other actions by donor countries could potentially be of greater benefit to developing countries. Although mentioned within the current agenda, changes to the global trade regime and the cancellation of debt may become sidelined if 'increased aid' is seen as the main, and 'easiest' solution. An important aside to arguments to focus on growth, however, is the fact that even where good levels of growth are achieved, relative poverty levels almost inevitably increase as inequality grows. Redistribution of current wealth in a sustainable manner may therefore ultimately be a better strategy than the promotion of growth for poverty reduction.

5. Aid and governance

The concerns above highlight the importance of governance issues for aid effectiveness and the achievement of the MDGs. Although governance is acknowledged as important by the Sachs report, it is widely felt that the simple categorisation of countries in the Sachs report is naïve and that the criteria put forward for assessing countries are likely to be inadequate. The report also seems to assume that governance can be increased *quickly* enabling aid revenues to be swiftly increased thereafter despite considerable evidence to the contrary.

Current approaches put forward provide poor measures of key governance processes with doubt remaining concerning both what and how to measure. This is a critical issue for increases of aid that are to be largely allocated according to 'governance' criteria. Alternative approaches to those proposed by the Sachs report are (i) more detailed governance assessment methods developed by the World Governance Assessment initiative; and (ii) the context-specific Drivers of Change approach.

The stakes are being raised as high level political attention is being paid to long-standing development problems, particularly those in Africa – but the risk is very high. If the current political momentum leads to increased aid resources that are not translated into clear results, failure on this scale is likely to provoke a strong backlash against initiatives for international development.

This debate and the issues it covers go to the heart of the *raison d'être* for development assistance. The arguments are therefore just as relevant to current levels of aid, and countries such as Japan who may not be in a position to quickly increase their aid budget. Donor nations have a responsibility to address issues of global inequality and the desperate need for poverty reduction. Current global focus and leadership on this issue is vitally important and is certainly not being criticised here. The important thing is the need to translate the current political will in many of the richer countries, into concrete results and long-term sustainable poverty reduction.

We hope this paper can stimulate debate in Japan, and other countries, on whether and how aid can make a difference and if aid alone is not the answer, what other actions are needed. If the current political momentum can move from the simple slogan to a more nuanced understanding of the political reality of the complexity of development, real lasting changes can be made.