

# 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.

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