Synthesis Paper 5
The 'double aid to halve poverty' agenda: concerns from the UK

Debbie Warrener, Emily Perkin and Julius Court

February 2005

Overseas Development Institute
111 Westminster Bridge Road
London
SE1 7JD
UK

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'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'etre* 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.

1. Introduction

‘Double aid to halve poverty’ is currently the catchphrase of UK Chancellor of the Exchequer, Gordon Brown. The idea lies behind his ‘brainchild’ in the run-up to the UK-hosted G8 summit in July, the International Financing Facility (IFF). The same phrase can also be viewed as a summary of the arguments of the report out this month by the Millennium Project, led by Jeffrey Sachs. The issue was high on the agenda in Davos in January 2005.

The arguments have not come out of the blue, however, with moves to increase aid levels having a long history; the 0.7% of GNP target was first agreed upon in 1970. What is new, however, is the high-level political momentum around the need to increase aid, particularly in the UK. Africa is one of the two key priorities of the 2005 UK Presidencies of both the G8 and EU, with climate change being the other. Both Prime Minister Tony Blair and Chancellor Gordon Brown are both committed to using these platforms to address the need to reduce poverty, specifically in Africa. To this end, the Commission for Africa will report in March 2005 to feed recommendations into the G8 summit process.

High-level political commitment to ‘double’ or at least dramatically increase aid is therefore combined with a strong desire to bring about a ‘step-change’ in African development. While the development community in the UK and globally, including Africa, welcome the degree of attention poverty reduction is therefore currently receiving, concerns are visible concerning the case being put forward. This paper is an attempt to outline some of the main concerns that are being aired. The issues involved are necessarily varied and wide-ranging and a paper of this size and scope cannot hope to cover all ‘bases’. However, it is hoped that, while welcoming the current high-level attention to aid and development, there is a need to try to think through how this will work best, the potential implications and any unintended negative consequences.

This paper takes as its starting point the recent report by the Millennium Project led by Jeffrey Sachs and the closely allied IFF proposal and related statements by Gordon Brown. While it cannot address the arguments there in much depth, it is hoped that an outline of some of the concerns around the ‘double aid to halve poverty’ agenda will serve to stimulate both debate and thinking in Japan and other countries. Even if aid budgets are not likely to rise, many of the same issues are also relevant to current levels of aid.

The structure of the paper is as follows: (i) a brief overview of the history of the current agenda to increase aid; (ii) a simple outline of the Sachs report as one of the strongest proponents of this agenda; (iii) the key debates – absorptive capacity; aid effectiveness; accountability, ownership and dependence; the aid-growth link; and aid and governance. The report will be drawn together in a short conclusion.

2. A short history of moves to increase aid

Why increase aid? Traditionally, aid is said to be given for a variety of reasons, some overt but also covert. The three most-cited reasons are: as a tool of foreign policy; from altruism and a 'moral' sense that something should be done; and out of 'enlightened self-interest' in that it is in the interests of global security and stability for poverty to be reduced.[1] Within the current political climate the latter two reasons are being emphasized as incentives for the international community to increase aid with the 'enlightened self interest' receiving particular emphasis post 9/11.

Moves to increase aid are not new, however. For over thirty years the international community has subscribed to a series of resolutions that rich countries should be aiming to increase their levels of aid expenditure. The UN General Assembly first introduced an aid target of 0.7% of donor GNP in 1970. Rich country leaders have since reaffirmed this commitment on numerous occasions. However, it is only recently that the argument for increasing aid has started to receive high-level attention.

The UN Millennium Declaration, announced at the UN Millennium Summit in September 2000, unveiled a powerful new commitment by the international community to address the challenges of international development. Paragraph 11 of the Declaration states: 'We will spare no effort to free our fellow men, women and children from the abject and dehumanizing conditions of extreme poverty, to which more than a billion of them are currently subjected. We are committed to making the right to development a reality for everyone and to freeing the entire human race from want.' The accompanying eight Millennium Development Goals (MDGs) include an explicit commitment to substantially increasing aid: Millennium Development Goal no. 8 – 'building a global partnership for development' – calls for 'an open, rule-based trading and financial system, more generous aid to countries committed to poverty reduction, and relief for the debt problems of developing countries'.

In March 2002, increasingly incentivised by the security threat of the September 11th terrorist attacks, international leaders met at the International Conference on Financing for Development (the Monterrey Conference) in order to follow up the financing aspects of their commitments from the Millennium Summit. Clause 42 of the resulting Monterrey Consensus focused on the longstanding 0.7% GNP target, urging all developed countries who had not yet met the target to take measures to ensure that they do so. It is important to note that this point was emphasised alongside a strong focus on aid effectiveness: Clause 42 urged developing countries to make every effort to ensure the effectiveness of increased aid. Clause 43 then stressed a number of ways in which donors should seek to improve aid effectiveness, including: harmonization; untying aid; working to improve the absorptive capacity of recipient countries; improving ownership; using ODA to leverage private investment; triangular cooperation; and thorough monitoring and evaluation.

[1] See Gunning (2004) and Foster (2003)

The Monterrey conference enshrined a series of high level commitments to increasing ODA from a number of bilaterals, marking a significant step up in the momentum of the argument for increasing aid. During the discussions that took place prior to the conference, the US is said to have opposed there being mention of the 0.7% target in the Consensus. However, at the conference itself, President Bush announced a new vision and commitment for expanded US aid. Other countries, including Norway and Canada and the EU, also indicated at the conference that they planned to increase their ODA target. In the end, donors at the conference pledged an overall increase of $16 billion a year from 2006.

But exactly how much would aid have to increase in order to meet the new commitments of the international community that are embodied in the MDGs? Devarajan, Miller and Swanson (2002) tentatively estimated the figure at an increase of $40-70 billion per year, which would represent roughly a doubling of 2000 levels of aid, a figure which they note agrees with other estimates from international organizations. However, the methods of calculation are subject to debate: for example, a key question relates to whether the poverty reduction goal should be measured in terms of numbers of people or numbers of countries where poverty is halved.

3. The Millennium Project and Report

In 2002, Kofi Annan commissioned the UN Millennium Project to investigate the costs of meeting the MDGs and to lay out a detailed action plan to this end. The project published its final report[2] – widely referred to as the 'Sachs report' after its chief author – in January 2005, in which it called for huge increases in aid in order to help developing countries to meet the MDGs in accordance with the 2015 target deadline. A key starting point for the report is the long-standing series of pledges from the international aid community to raise levels of aid to 0.7% of donor GNP – a commitment that was most recently reasserted at the Monterrey Financing for Development Conference in 2002. The Sachs report stresses the 'confluence between the 0.7% target and the MDGs', noting that there are now so many international donors that this is the first time in which the goals laid out in the Millennium Declaration can in fact be achieved within the '0.7% envelope'.

Box 1: The Millennium Project structure

The Millennium Project is an independent advisory body to the UN Secretary-General Kofi Annan. Its aim is to recommend the best strategies for meeting the MDGs.

It is supported by the UN Development Programme (UNDP) Administrator Mark Malloch Brown in his capacity as chair of the UN Development Group (UNDG).

Professor Jeffrey Sachs is directing the Project, which brings together more than 250 world-class scholars and practitioners in both developed and developing countries, UN agencies, and public, non-governmental, and private-sector institutions.

The Ten Task Forces listed below are supported by a small secretariat based at UNDP headquarters in New York.

- Poverty and Economic Development
- Hunger
- Education and Gender Equality
- Child Health and Maternal Health
- HIV/AIDS, Malaria, TB, Other Major Diseases and Access to Essential Medicines
- Environmental Sustainability
- Water and Sanitation
- Improving the Lives of Slum Dwellers
- Open, Rule-Based Trading System
- Science, Technology and Innovation

Note: It is noteworthy that governance was not chosen as a specific area for consideration by a Taskforce

[2] UN Millenium Project (2005) *Investing in Development: A Practical Plan to Achieve the Millennium Development Goals*

The key recommendation

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. MDG-based poverty reduction strategies should be the base for the scaling up of public investments, capacity building, domestic resource mobilization, and official development assistance. They should also provide a framework for strengthening governance, promoting human rights, engaging civil society, and promoting the private sector.

A 'Big Push'

Of particular relevance for this paper, the report covers both *how much* aid will be required to meet the MDGs and also recommends strategies as to *how* this aid might be delivered most effectively. The overall argument is bold and simple: a 'Big Push' is needed by both donor and recipient countries in order to address the practical challenge of achieving the MDGs by 2015. The key argument is that although this 'push' would be big, it would certainly be achievable and therefore the MDGs are within our reach.

The report adopts the view that a massive investment of resources (primarily in infrastructure and human capital) is needed in order to bring countries up to a level where their economies can start to operate by themselves on a virtuous spiral of growth:

> *'The key to escaping the poverty trap is to raise the economy's capital stock to the point where the downward spiral ends and self-sustaining growth takes over. This requires a big push of basic investments between now and 2015 in public administration, human capital (nutrition, health, education), and key infrastructure (roads, electricity, ports, water and sanitation, accessible land for affordable housing, environmental management).' (p.19)*

The funds necessary for this 'Big Push' would be provided first by the countries themselves, whom the report urges to increase budget allocation towards achieving the MDGs. For many middle-income countries, the report argues that it is possible for the countries themselves to fund all initiatives aimed at closing 'pockets of poverty'. However, there are also very many countries – especially in Africa – which will not be able to provide all of the funds necessary, and for whom there will be a significant 'MDG funding gap' which will need to be filled by aid from international donors.

The size of the 'Big Push' needed

Sachs sets out the size of the necessary 'Big Push' in stark terms, issuing a bold call to the international community to vastly increase levels of aid. The report calculates that aid from international donors should increase to $121 billion in 2006 and then to $189 billion by 2015. This would mean that rich countries must dedicate about 0.5% of their combined GDP to aid (0.44% in 2006, rising to 0.54% in 2015) - this is about twice what they currently offer.

The Sachs report quantifies the amount of additional development assistance required to meet the MDGs on the basis of five country case studies where MDG needs assessments were carried out. Their results 'suggest that in a typical low-income country with an average per capita income of $300 in 2005, external financing of public interventions will be required on the order of 10-20 percent of GNP' (55). Indicative figures put the projected ODA needs at $135 billions in 2006, growing to $195 billions in 2015, which represents 0.54 percent of DAC countries' GNI. Donors with the largest gap between ODA already committed and ODA needed to reach such levels are the US, Japan, Germany and Italy. These approximate estimates should be verified and confirmed through country-level assessments.

The calculations clearly depend on numerous variables and both the method of calculation and the final figures are open to considerable debate. Nevertheless, the significance of this report is as much in the message itself as it is in the very top level authority that this report has received. Momentum for a substantial upgrade in international cooperation for development has been gathering noticeably over the past few years; now a radical call for vast increases in ODA has been issued from the highest level – a diverse panel of eminent experts, charged by the UN Secretary General himself.

Other key recommendations

Some of the other key recommendations of the Sachs report include:[3]

- 'Quick Wins' - the report calls for a scaling-up of current initiatives that are known to be effective, such as the simple provision of mosquito nets to combat malaria, giving poor farmers soil nutrients to increase yields and eliminating school fees and providing free schools lunches.
- Donors should identify at least a dozen 'fast-track' countries, which are able to handle assistance well for a rapid increase of development aid.
- Rich nations should open their markets to developing country exports through the Doha round of global trade talks which should be completed no later than 2006.
- PRSPs – the report calls for existing PRSPs to be revised so that they are 'ambitious' enough to plan for the MDGs as practical and realistic outcomes.
- International donors should mobilise support for global scientific research and development to address the special needs of the poor in the areas of health, agriculture, natural resource and environmental management, energy and climate. Total needs are estimated to rise to approximately $7 billion a year by 2015.
- It calls for new measures to relieve the debt burden not only on HIPC countries, but also on low-income countries such as Nigeria that will struggle to meet the MDGs without debt relief.
- It also calls for an increased role for the UN in coordinating international donors.

[3] Source: www.eldis.org/

Approach to governance

The Millennium Report very much puts pivotal emphasis on governance issues – rightly in our view. Governance issues are the first of the four reasons why the MDGs are not being met (p15). The report highlights the importance of: the rule of law; political and social rights; providing a sound economic policy framework for the private sector; making key public investments; accountable and efficient public administration; and civil society engagement and participation. It concludes '*there is no excuse for any country, no matter how poor, to abuse its citizens, deny them equal protection of the law or leave them victims of corruption, mismanagement or economic irrationality*.'

A key aspect in the approach to governance is regarding the causes of poor governance: the report distinguishes two main causes of poor governance. First it between 'corrupt' countries that are led by 'larcenous or brutal' leaders who used the public resources for private gain. Such countries would include, for example, Belarus, DPRK, Myanmar and Zimbabwe. In such cases, there is little hope for major reductions in poverty and 'there is little case of large scale aid'.

However, for many poor countries, the report argues that governance is weak not through lack of volition, but through lack of resources and lack of technical capacity. It argues that poor governance is often a consequence of poverty as much as it is a cause, and hence better funded governments are likely to deliver better governance. Investments in improving governance should focus on the key issues mentioned above – i.e. rule of law, political and social rights, etc.

In terms of governance issues, the report distinguishes between 3 kinds of countries and the appropriate response (see Box 9 of the Millennium Report, page 43):

- Well governed poverty trap countries –the report calls for countries which exhibit the best governance and absorptive capacity to be 'fast-tracked' for quick impact projects leading to 'Fast-track MDG status'.
- Poorly governed poverty trap countries: lack of volition – Where the problems is the lack of political will, 'there is little case of large scale aid'. Aid should be for humanitarian response of directed through NGOs. Such cases would include Belarus, DPRK, Myanmar and Zimbabwe.
- Poorly governed poverty trap countries: weak public administration – Where volition exists but public administration is weak, the focus should be investments in capacity of public management – focusing on analytical and administrative capacity at all levels

In terms of how countries would be classified for 'Fast-track MDG status', the report focuses on a number of existing options. These include:

- HIPC completion point countries – a process underway for a number of years, the World Bank and IMF have made judgements on the economic policy and governance issues in order to trigger debt relief.
- US Millennium Challenge Corporation – a new process whereby the MCC only disburses funds if countries meet a threshold of economic policy and governance issues.
- NEPAD's African Peer Review Mechanism – As part of African Union processes, African states submit to peer reviews that focus on their economic, political and corporate values and standards.
- IMF-World Bank joint staff assessment s of the PRSPs – in this process, there is a joint assessment of the policy framework in PRSP countries (countries with favourable reviews would be eligible for fast track status).

The report argues that using these would provide a list of at least 24 low-income countries for fast track status.

4. Doubling Aid: The Concerns

Many welcome and share the political commitment to international development behind Sachs report and the idea of 'doubling aid to halve poverty'. There are however concerns within the UK development community regarding whether doubling aid is in fact a good idea. In the following section, we attempt to provide some insight into the debates currently taking place in the UK with regard to several key issues within the doubling aid proposals – and the specific focus of doubling aid to Africa.

The concerns are closely inter-connected and there is some overlap, but we divide the discussion into the following sections:

- Absorptive capacity
- Aid effectiveness
- Accountability, ownership and dependence
- The connection between aid and growth
- Governance issues

Absorptive capacity[4]

The capacity of recipient countries to absorptive greatly increased levels of aid is understandably one of the key concerns. De Renzio (2004) distinguishes five different ways in which absorptive capacity issues could confound the benefits of increasing aid. Four of these are set out below; the fifth, concerning donor practices, is covered in the following section on aid effectiveness.

Macroeconomic capacity issue – declining marginal returns

Declining marginal returns concerns the 'size of external resource transfers relative to the size of the recipient economy' (H&G). This concerns the fact that it is widely accepted that there is an 'upper limit for the ODA/GNP ratio' (de Renzio). The point at which national economies are unable to absorb more funds and benefits turn negative, however, is not clear. In a review of a number of econometric studies of this issue, Foster (2003) concludes that 'most negative returns do not set in before aid reaches 25-50% of GDP'. This is clearly a major concern as many countries, particularly in Africa, already have high levels of aid relative to national income. De Renzio (2005), for example, quotes current levels of 22% in Ethiopia and 47% in Sierra Leone. There is evidence, however, that the degree to which such diminishing returns set in is context-dependent with policy improvements potentially able to off-set declining returns and increase absorptive capacity.

Macroeconomic capacity issue – macroeconomic imbalances

Depending on how aid resources are utilized, there is also a danger of severe macroeconomic imbalances and distortions rising from large aid inflows. So-called 'Dutch disease' is the main concern whereby 'increased foreign exchange flows cause an appreciation of the exchange rate and harm the export sector' (de Renzio, 2005). Aid can also cause inflation and rising interest rates which are also potentially harmful to private sector investment.

However, there is no consensus on this issue. Heller and Gupta (2002), in a survey of studies of many countries, find evidence of Dutch disease in Burkina Faso, Cote d'Ivoire, Ghana, Malawi, Senegal, Sri Lanka, Togo and Uganda. They therefore conclude that 'the greater the share of aid allocated to the least developed countries (those with annual per capita income of less than $500), the greater the likelihood of macroeconomic problems related to these countries' limited absorptive capacity. Similarly, the larger the share of ODA allocated to the next tier or tiers in the per capita income scale – 'other low-income countries' (annual per capita income of $500 - $800) and 'lower-middle-income countries' (annual per capita income above $800) – the smaller the scale of the macroeconomic absorption problem because of the greater absolute size of these economies' (H&G, 2002).

In a key intellectual contribution to the IFF proposal 'The Case for Increased Aid', however, Foster (2003) does not necessarily find Dutch disease effects

[4] The section draws extensively from de Renzio (2004)

to be a strong-enough argument for 'refusing aid'. He in fact finds evidence that these negative macroeconomic capacity issues can be off-set if 'aid is productive in overcoming domestic supply bottlenecks, or if the aid is used directly to finance additional imported goods and services'. Mozambique would appear to be an example of a case where, despite high levels of aid at over 50% of GDP during much of the 1990s, 'the positive impact on competitiveness of aid-financed improvements in transport and other infrastructure appears to have outweighed any potential Dutch disease effects' (ibid).

Micro-level capacity issue – quality of institutions and policy

As has been seen in the paragraphs above, institutional capacity and policies in recipient countries can off-set concerns about negative macroeconomic effects of aid by pursuing sound economic policies and effectively managing inflows to overcome supply constraints. This closely connects with the fact that it is now widely accepted, following the influential work by Collier and Dollar (2001) that aid is more effective in 'good policy' environments. This covers both formal and informal structures and processes related to institutions, incentive systems and policy processes. Of particular importance are transparent and efficient budget systems, a certain degree of decentralization of resources and responsibilities and functioning accountability mechanisms (de Renzio, 2005).

Micro-level capacity issue – administrative capacity

Finally at a lower level of the country structure, ability to effectively absorb aid can be severely hindered by poor infrastructure and administrative capacities. This covers both human resources and infrastructure and equipment shortages that may limit country capacities to implement programmes even if policies and institutions are relatively sound. In sub-Saharan Africa, an initially poor situation is being further exacerbated by the impact of Aids. For example, in Malawi, more teachers are currently dying of Aids per year than can be trained to replace them (de Renzio, 2005).

Issues of absorptive capacity lead therefore to questions regarding the most effective geographical distribution of aid. Although the greatest problems are in Africa and therefore the current political attention is focused here, overall aid levels are already highest in sub-Saharan Africa. Consideration of absorptive capacity issues therefore leads most commentators to urge caution against increasing aid here. In fact, many argue that in order to achieve the MDGs, the greatest increases in aid should go to South Asia or even China, where the greatest numbers of poor people are. As Foster (2003) mentions, 'India alone has more poor people than Africa, and this will still be the case in 2015 even if the MDG target is met'. Furthermore, India and other South Asian countries currently have low levels of aid and generally better governance than many sub-Saharan African countries indicating that a substantial increase in aid revenue could be easier absorbed than in Africa. Looking at these issues more closely on a country by country basis, Foster (2003) analysed the benefits of increased aid in four Asian and ten African countries. A summary of his country-specific conclusions are set out in

Annexes 1 and 2. Country contexts and therefore past and potential benefits of aid differ widely. The degree to which this is taken into account by current high-level proponents of increased aid, is unclear.

Aid effectiveness

Although absorptive capacity issues are viewed as the main concern by many commentators, further concerns arise from the wider debate about aid effectiveness. The PRSP initiative and related changes in aid modalities such as the shift to budget support have been connected with growing evidence over the past few decades on how aid in the past was ineffective and consequent lessons on how to increase the effectiveness of aid.

One of the main concerns, in addition to the issues of absorptive capacity, outlined above, therefore, is the fact that massive increases in aid and calls to 'double aid to halve poverty' are bringing the focus onto aid *quantity* rather than aid *quality*. In fact, due to only slow progress on aid effectiveness so far, there is possibly an argument to be made for scaling-up aid effectiveness before increasing aid volumes. This sentiment is echoed by Naschold (2002) who states that 'increasing external finance need to considered *alongside* making better use of *existing* finance' (emphasis added). A number of commentators doubt whether this is possible, however, and fear that even if aid effectiveness lessons are acknowledged in passing by Sachs and the IFF proposal, in reality the pressure to spend large amounts of money will undermine progress that has been made in this area.

Two elements of aid effectiveness that are in danger of being undermined or distorted are covered here. These both concern donor approaches to aid – specifically aid modality issues and other donor responsibilities. The related area of recipient government responsibilities for effective aid is covered in the next section.

Aid modality issues

Debate on aid effectiveness grew from realization that project-approaches often undermine government capacities and that policy conditionality did not work.[5] As a result of this, it has been widely acknowledged that for aid to be effective, donors must work to support country-led processes. The main focus has been on donor harmonization and alignment around PRSP processes. The key complementary aid modality is seen to be budget support. Sachs also agrees with this stating that 'aid should be oriented to support the MDG-based poverty reduction strategy, rather than to support donor-driven projects' (p.xvi).

However, although general budget support is now the preferred aid modality of donors such as DFID, experience remains in early stages and evidence on its effectiveness remains limited. Without concurrent capacity building in public finance management and budget processes, there is a real danger that GBS aid may be squandered and lost, having even less positive impact than projects which at least saw some small-scale benefits.

The danger with 'doubling' aid is that despite the fact that DFID, and others, currently err more on the side of caution when switching their aid modalities to

[5] See Warrener (2004c) for more on this.

budget support, an increase in aid coupled with reduced staff numbers means donors are likely to face pressures to spend in the 'easiest' possible way – this is highly likely to mean that GBS is more likely to be introduced even where risks may seem to be high. Fiduciary risk is a serious concern if checks and balances for the introduction of GBS become distorted due to pressures to spend and staff skill shortages for background analyses. The jury is still out on GBS and DFID clearly states that it wishes to only change to this modality after careful analysis of country circumstances. To be effective, GBS needs to be introduced gradually, accompanied by technical assistance and capacity building.

A large-scale shift to GBS is also likely to reveal serious capacity issues within donor agencies who will be unable to administer and to carry out the analyses that effective aid is to be based on. For example, there is growing awareness of the importance of political economy analyses and need for better understanding of national budget processes by agency staff. In order to fully align with the changes aimed at by the PRSP approach, donor staff skills need to change from project management to political analysis and PEM management training. This clearly cannot happen overnight and is only in its initial stages now. If IFF funds, or a large increase in funds from another source are to be channeled through existing bilateral and multilateral aid agencies much-needed reforms are likely to be pushed aside, as staff struggle to distribute the enormous influx of funds.

Other donor responsibilities

Aside from explicit questions of exact aid modalities, there is a growing body of knowledge that recognizes that for aid to be maximally effective it must be predictable and not volatile. Foster, for example, states that, 'there is strong evidence that interruptions to aid flows have been very damaging to economic performance'. The negative impact of aid volatility is further exacerbated in the case of budget support aid which is likely to have a greater negative impact if it is volatile due to the fact that larger volumes are involved and they directly feed into government processes. Although the aim is to boost government capacity by switching to GBS, there is therefore a danger that if donors do not follow-through on their commitments to making aid long-term and predictable, budget support will serve to undermine government capacity in an even more direct manner than project aid served to do.

Aid effectiveness has also been concerned with selecting countries based on the quality of their aid policies. This realization stemmed from work by Collier and Dollar based on original analysis by Burnside and Dollar on the interaction of aid policy with growth. Tony Killick has strongly argued in recent debates on the moves to increase aid that there is a strong possibility that moves to rapidly increase aid are likely to undermine aid effectiveness criteria such as the focus on good policy environments or careful approaches to poorer environments. Killick argues that donor competition for 'good' projects or programmes will surge; harmonisation will become even less attainable; pressures to spend will dominate; and country selectivity will disappear.

Poor donor coordination and limited harmonisation and alignment so far with PRSP processes is widely acknowledged as counter-productive to effective use of aid. De Renzio (2005), for example, states that 'in most African countries, there is a plethora of donor agencies, often pursuing incoherent strategies and overlapping activities. On average, a country receiving aid has to deal with no fewer than 26 donor agencies and with hundreds of project, each with their own specific procedures and reporting requirements.' Although the Rome process is encouraging moves towards donor harmonisation, alignment and coordination, progress so far has been slow. The need for donors to keep their commitments to the harmonisation and alignment agenda and to commit to long-term predictable funding is widely acknowledged but progress so far has been limited.[6]

[6] Maxwell has argued that multilateral aid would seem to offer a solution to many of the disadvantages of the plethora of bilateral aid agencies, through having: 'less political interference, greater credibility in developing countries, economies of scale, cost-effective procurement, democratic governance' (Maxwell, 2004).

Accountability, ownership and dependence

> *'Large-scale aid dependence fatally undermines ownership. It swamps local administrations. It gets in the way of the indigenous strengthening of local institutions and organisations, including the development of democratic accountability (because it's to the donors that the real accountability is directed).'*
> - Tony Killick, Private Communication

As has been alluded to in the section above, large increases in aid may also potentially undermine progress that is being made on the recipient side concerning recent moves to increase aid effectiveness. The main issues are the danger of distorted accountability, decreased ownership and increased aid dependence. These three are all closely interconnected.

The shift since 2000 towards an aid framework based on PRSP processes stemmed from the realisation that national ownership and leadership were key elements of successfully eliminating poverty. Wholesale adoption of the PRSP principles and pro-poor policy are far from simple, automatic processes, however, and experience so far shows that although progress so far has been made in increasing civil society participation in the policy-making process, for example, much still remains to be done.[7] In particular, there is growing realisation that the aims of the PRSP process are essentially political in nature and that donors must therefore increase their understanding of the political economy of the countries within which they are active, in order to maximally support the process.

Accountability

An important element of PRS processes is the development of national accountability mechanisms. This involves governments shifting their locus of accountability from donors to national stakeholders such as Parliament, civil society and ultimately the poor themselves. The problem with the argument to 'double aid', particularly in countries where aid levels are already high, is that increases in aid are likely to severely undermine delicate shifts to national accountability back to accountability to those with the funds – the donors.

Ownership of MDGs

Sachs acknowledges the importance of the PRS process, claiming that what is needed to achieve the MDGs is for countries to adopt 'MDG-based poverty reduction strategies' or, where PRSPs already exist, 'those should be aligned with the MDGs' (p.xiv). Such advice unfortunately contradicts experience so far and seems to in fact be contrary to the aim for increased national ownership. The reason for this is that many countries do not feel they 'own' the MDGs; for PRSPs to be truly national, it may therefore be better for countries to develop their own country-specific goals – what has in fact been the case so far. The doubt concerning national ownership of the MDGs is

[7] See Warrener (2004)

illustrated by the fact that NEPAD (the New Partnership for Africa's Development) has been very reluctant to adopt the MDG language.

The Millennium Project as already potentially negative

In fact anecdotal evidence is available that the Millennium Project itself may already have served to undermine recently-strengthened processes of planning and improved public financial management. This is due to the fact that in case study countries such as Cambodia and the Yemen, the team took valuable time and resources away from national planning processes by coming in and requesting civil servants to imagine how they would spend vastly increased incoming resources. Aside from the disruption to national processes, this also brings the danger of increasing expectations. Although the Sachs-IFF drive is for massively increased resources, there is of course a possibility that these will not materialise in the amounts hoped for. Overall the consultants' actions and attitude simply did not seem to be respecting the difficult long-term but vitally important issues of capacity building and shifting the political will of the government to focus on poverty reduction.

Dependence

A closely related concern is that mentioned in section x above – that large increases of funds, particularly in Africa, will lead to massively increased levels of aid dependence. Foster, for example, notes that doubling aid to many African countries would mean that governments become reliant on aid for the majority of public expenditure, causing them not only to become yet more vulnerable, but also to lose ownership of domestic policy. Current high levels of aid in Africa can be seen in Table X below. There is considerable doubt as to whether much higher aid levels than this can really make much difference.

Table 1: Aid dependence in Africa: country examples

	Population Mil.	GNI per capita US$	Aid/GNI %	Aid per capita US$
Congo DRC	51.9	100	15	16
Ethiopia	67.2	100	22	19
Malawi	10.7	160	20	35
Mali	11.4	240	15	42
Rwanda	8.2	230	21	44
Sierra Leone	5.2	140	47	67
Tanzania	35.2	290	13	35
Sub-Saharan Africa	**688.9**	**450**	**6**	**28**

Source: World Development Indicators (2002 data) cited in Renzio (2005)

Developing countries want more aid?

Finally, despite the lip-service that is paid to the need for 'ownership' even under greatly increased levels of aid, Foster, and others, acknowledge that actually developing countries *themselves* have not been asked whether this is really what they want. This is a serious omission. Foster for example, at the end of his paper raises this as an area that most certainly warrants more attention, particularly as, 'several of the major aid recipients are concerned about the risks of current levels of aid dependence, partly because of the unpredictability of aid flows (Mozambique, Uganda). Others have resisted aid that carries any policy strings – notably India. And other countries are worried that increases on the scale proposed would carry serious risks to the sustainability of the budget and the macro economy (e.g. Ethiopia)'. Despite rhetoric on the importance of ownership, this omission reveals the rather hollow nature of what is meant.

Aid and growth

> *'The key to escaping the poverty trap is to raise the economy's capital stock to the point where the downward spiral ends and self-sustaining growth takes over. administration, human capital (nutrition, health, education), and key infrastructure (roads, electricity, ports, water and sanitation, accessible land for affordable housing, environmental management).' (UN 'Sachs Report' 2005 p.19)*

The underlying thesis of both the Sachs report and the UK government's IFF proposal is that by massively boosting aid levels in the short-term, countries will receive the necessary impetus to launch themselves onto a virtuous spiral of sustainable economic growth. Not only would this benefit the countries themselves in that development would accelerate, but donors would also benefit by reducing their aid burden in the long-term. However, this thinking rests upon certain assumptions that are open to question: the link between aid and growth; the MDGs as a means to achieve growth; the heavy reliance upon aid above other approaches to achieve growth; the link between growth and poverty reduction.

The link between aid and growth

The Sachs report and the IFF proposal both strongly emphasise that 'aid works'. For example, six boxes in section 2 of the DFID 2004 IFF explanatory leaflet provide 'aid works' examples; and on page 41 of the Sachs report summary a box entitled 'Large-scale aid works – when done properly' provides arguments against the critics. However, debate amongst the wider community of development academics is not so clear-cut. On the one hand, there is some consensus as to the overall observation that aid can have a beneficial impact: for example, Foster's authoritative review concludes that 'the balance of evidence strongly suggests that aid has been a good investment', and furthermore, 'recent econometric research suggests that performance would have been worse without aid, while the example of Uganda and Mozambique shows that aid can help reasonably well-managed African countries to achieve rapid poverty reduction' (Foster with Keith 2003). However, on the other hand, there are many specific details relating to the definitions of aid and growth that complicate this overall argument and raise questions about the simple assumption of a link between aid and growth.

- Different types of aid and the specific benefits of certain 'short-impact' aid initiatives: Clemens et al. (2004) disaggregated the impact of different types of aid on growth and found a 'positive, causal relationship between … 'short-impact' aid and economic growth'. This 'short-impact' aid included budget and balance of payments support, investments in infrastructure, and aid for productive sectors such as agriculture and industry.
- The impact of aid on growth will depend on numerous factors relevant to the specific context. A key issue is governance, which – as noted below – is a highly complex issue that requires detailed consideration.

The link between the MDGs and growth

Aside from the link between aid and growth, Sachs goes further to hypothesise a clear link between the *achievement of the MDGs and growth*. However, various commentators have identified a lack of clarity on this issue. The Sachs report argues that the best way of achieving the first MDG – to halve poverty – is to encourage growth through achieving the other MDGs. However, as some commentators emphasise, the MDGs 'were adopted as ends not means, and are rooted in notions of human development, not economic development'.

In fact, there needs to be a clear distinction between social service provision and the promotion of sustainable economic growth. A relevant example[8] for the current drive to achieve the MDGs is Mongolia which used to receive around 30% GDP in aid from the USSR and its cold war allies. During that time it achieved high levels of education and health care. However, after aid collapsed in the 90s, poverty surged. In other words, high levels of aid during the Soviet era had 'achieved many MDGs' but as sustainable economic growth had not been achieved, such progress soon collapsed.

Sachs links this vision of the MDGs being a key factor in the production of growth to a vision of a resultant virtuous spiral of development. This vision ignores the very real possibility that countries will, and do, *regress*. Examples of countries that have regressed are Sudan, the DRC, and maybe also Nigeria. These cases help to disprove the assumption that a massive input of aid now will serve to place countries on a sustainable forward trajectory.

Aid is not enough

Although it is widely acknowledged that any increase in aid would have to be accompanied by concurrent measures to boost trade and tackle the debt burden, many critics feel that the balance of the argument is skewed too strongly towards aid. For example, this is illustrated by the fact that the role of developed countries is almost overwhelmingly seen to be aid donors. This ignores the role of international economic relations as an 'integral part of the poverty trap' as well as seeing trade as only complementary to aid. Likewise, many feel that resources are not enough for meeting the MDGs. Unwin (2004) proposes that donors should shift their attention to activities such as 'changing the rules of the global economy through their participation in the World Trade Organisation (WTO), the international arms trade, or the European Union's Common Agricultural Policy'.

Gunning (2004) goes beyond this to argue that recent efforts to increase aid effectiveness have taken attention away from the fact that 'effectiveness is necessary but not sufficient as a case for aid'. He argues that a shift in focus from *whether* aid is effective to *why* it is effective in any given situation may reveal roles that donors and developing countries can play which do not involve resource transfers. Amongst the examples he cites is the need to address the fact that ratings agencies often do not have the incentives to

[8] Comment by Verena Fritz, Research Fellow, ODI

obtain up-to-date information on the latest policy changes in developing countries. As a result ratings are based on out-of-date information, hindering access to credit and investment, despite the reforms underway. In this case, Gunning argues, a more fruitful role for donors would be to adopt a 'signaling' function to the credit rating agencies so that their ratings reflect the latest changes. He also highlights two other growing areas: the need for risk management or insurance for the poor and the need for resources to be directed to global public goods such as the environment, research and peace and security.

The link between growth and poverty reduction

A final set of questions relates to the assumption that economic growth will in fact lead to poverty reduction. As economic growth occurs, there is a significant risk that without careful management, 'the rich will simply get richer and the poor will simply get poorer'. Furthermore, as Unwin (2004) argues, targets such as the MDGs help to compound this phenomenon. MDG target one concerns halving poverty – poverty is measured by *absolute* levels, described by the oft-quoted figure of those 'living on less than $1 a day'. However, this is only one way of looking at poverty: Unwin argues that a more just perspective may be to consider *relative* poverty – that is, the gap between the richest and poorest in society. Considering the recent increased emphasis on the connection between security and the need for poverty reduction, it is suggested that this is an area requiring more detailed consideration.

Governance concerns

The discussion above has repeatedly returned to the importance of governance issues. The Millennium Project report – rightly in our view – highlights the importance of governance issues towards achieving the MDGs and for aid effectiveness. The report also highlights many of the key issues where progress is needed (rule of law, etc). This section, however, focuses on the more problematic elements regarding how the Millennium Project report deals with governance issues.

Analytical limits

The first point is that many in the UK believe the way the report basically distinguishes between countries according to 'resources/capacity' and 'volition' to be rather naïve. Assessing governance seriously involves much more than this. For example, a recent book entitled *Making Sense of Governance* (Hyden et al, 2004) highlights six arenas of governance which have analytical and operational relevance – civil society; political society; executive; bureaucracy; economic society and judiciary. It also identifies six 'principles' of good governance: participation, fairness, decency, accountability, transparency and efficiency. These principles were accepted in the 16 developing and transitional societies – covering 51% of the world's population.

A particular gap in the Millennium Project report is regarding political society – this is the part of the political system which deals with how ideas and interests are aggregated into specific policy proposals and refers to institutions such as political parties and legislative bodies. Amazingly, the report mentions political parties only once and elections only twice in 353 pages. Thus, while the report mentions some of the key issues it does not mention some of the foundational issues for 'good enough governance' such as free and fair elections and military subordinate to civil government. This is taken up later since these issues are also not adequately addressed in the approaches outlined for identifying fast track countries.

Box 2: Governance & Development: Instrumental and Constitutive Relations

In recent years, there has been increasing evidence from cross-country analysis that governance matters instrumentally for development performance. Kaufmann et al (1999) and 2002 found that six dimensions of governance were positively associated with per capita incomes and adult literacy and negatively associated with infant mortality. Knack and Keefer (1995) found that better governance was positively associated with improved investment and growth rates. Mauro (1995) found that the efficiency of the bureaucracy (among other issues) was associated with better rates of investment and growth whereas corruption was negatively related to these. This approach is captured well in the report.

On the other hand, governance issues are also seen as constitutive of development. As outlined by Amartya Sen, poverty is not just a matter of being economically deprived. It is defined and sustained by a sense on the part of the poor of helplessness, dependence, lack of opportunities, and lack of self-confidence and self-respect. And these are not just academic discussions. The *Voices of the Poor* study, carried out under World Bank auspices, highlights powerlessness and lack of voice as crucial components of poverty as stated by the poor themselves. The Gallup Millennium Survey – the largest ever public opinion survey – highlighted the importance of human rights to ordinary people in both developed and developing countries (Sprogard and James, 2000). On paper at least, there is also overwhelming international agreement about the intrinsic value of democracy, human rights and good governance (see UN Millennium Declaration). These issues are, however, not addressed much in the Millennium Project report. For the doubling aid debate, the key question is: Do we really want to increase aid to countries where the civil and political rights of citizens are not respected?

Governance and aid

The Millennium project basically makes two arguments about governance and aid. First, as argued above, it divides poor countries into 3 main categories:

- well governed;
- Poorly governed poverty trap countries: lack of volition;
- Poorly governed poverty trap countries: weak public administration;

and that the response should fit the categorization. As highlighted above, this simplistic governance classification can be challenged.

The Report also makes the case that governance in Africa is also no worse that other regions, once controlled for income. The operational recommendation that follows – that there are a large number of countries that could be eligible for fast track status – does not follow. It is not governance relative to income that should determine rapid aid inflows; it is the actual governance situation that matters and affects whether aid will be used effectively.

More generally, the report does not seem to draw sufficiently from the growing body of knowledge on the impact of the political economy and governance criteria on successful aid interventions. For example, despite the likelihood that increasing volumes of aid are likely to go directly to government budgets through budget support type assistance, the budget as a key governance process is not acknowledged. There is also insufficient analysis of how public sector management is to be improved – an issue emerging as crucial for the long-term success of the PRSP approach. Implementation is also not analyzed in any detail. As the Economist notes, 'the underlying institutions of a prosperous economy evolve only gradually. You cannot buy them off-the-shelf.' (18 Jan 2005) Despite widespread acknowledgement of the importance of long-term institutional reform, the 'doubling aid' debate does not seem to

wish to acknowledge this fact and the limited knowledge available on how donors can best assist this process – in the political minefield that it is.

Following from this, the Millennium project report and arguments to dramatically increase aid seem to assume that governance can be increased *quickly* enabling aid revenues to then be dramatically boosted. This is a highly contentious issue, however, and many researchers fear that in fact the exact opposite is the case – huge increases of aid are likely to undermine government capacities and thereby further weaken government structures. Institutional and human resources capacity development can occur alongside aid inputs but are necessarily long-term processes. However, as research related to PRSP processes indicates, public expenditure management (PEM) reform is far from simple to implement and depends on the political will of certain key groups in the government, for change. Sachs' divide of countries into those with volition and those who simply lack resources further fails to acknowledge the reality of a wide variety of groups within recipient countries, who are likely to be both for and against reform, depending on the degree of benefit they are reaping from the current set-up.

Foster (like others) argues taking account of institutional effectiveness as a constraint on the quantity of aid that countries can make good use of. Where key institutions are missing or weak, capacity building support may need to precede expansion of aid transfers'. But there are quite clear sequencing issues here. The Report is quite glib about the (lengthy) time that it takes for such capacity restraints to be overcome – if history teaches us anything it is that there is no shortcut to progress in the poorest countries.

Country selection for fast tracking: the problem of weak indicators

If governance matters, so does the need for reliable and valid data. There have been major advances in governance indicators in recent years and the Millennium Report draws attention to some of the options. In its operational recommendations, the report identifies four main mechanisms that could be used to classify countries and identify fast track MDG countries. These are the HIPC process, the Africa Peer Review Process, the MCC and the World-Bank IMG Joint staff assessments of PRSPs. This section highlights some general and specific points about each of these. It then suggests some alternatives.

Assessing governance poses challenges that are very different from other socio-economic issues (Hyden et al 2004). First, there are few objective or 'hard' indicators, therefore indicators tend to be based on subjective criteria. This is not a fatal drawback – perceptions of efficiency and legitimacy do matter – but such data should be treated with care. Second, none of the proposed approaches draw systematically on the viewpoints of local stakeholders – arguable the most important group when it comes to assessing governance (see Hyden at al, 2004 for more on how such approaches work).

Regarding the MCC approach, which draws particularly on World Bank aggregate governance indicators, a major problem is that ratings are usually done by international panels comprising only a few individuals or that focus on

a narrow set of issues (usually relating to the private sector clients). These measurements leave out some important political indicators, but are often used as broader measures of governance. And, the limited survey data used in the aggregations often suffer from variations in sampling, questions, mode and study management, which make cross country comparisons problematic.

Regarding the other approaches taken, there are real concerns about who is doing the assessing. For many the fact that the IMF and World Bank might be making assessments (for the HIPC and PRSP approaches) will not be acceptable. Many see the Bank and IMF as assumeing a liberal economic system provides the strongest basis for 'good' governance. Commentators are already noting that the Africa Peer Review Mechanism as unlikely to be effective at all in terms of serious review (ODI Meeting Series) and in any case applies only to Africa.

What is unclear from the Millennium Report is which approach should actually be used. It is noticeable that the different approaches also give very different indications of which countries should actually be selected for Fast Track Status. For example, Ethiopia is a low income country that meets the criteria in terms of the HIPC, Peer Review and PRSP mechanisms but is not included by the MCC assessment mechanism (as ready now or even moving towards the threshold).

In sum, despite considerable efforts, many believe current indicators provide poor measures of key governance processes. In other words, doubts still exist concerning both what we measure and how we do it. These are critical issues. Without advance on such concerns, it is risky to make judgements about how governance varies across the developing world and whether and when aid should be provided in large quantities.

Alternative approaches to assessing governance

If aid is to be doubled and governance matters for aid effectiveness, it would seem that there is real need for more cohesive, comprehensive and rigorous ways of assessing governance as a first step prior to fast-tracking. Two recent approaches – both which emphasize detailed analytical assessments of country context – seem to us to provide an insight into one way forward.9 But, the key is that there is no single approach that works alone – triangulation is critical.

First, the approach to Governance Assessments developed by Hyden et al (2004) provides a way of getting to more reliable and independent assessments of governance.[10] The core elements are that it:

- uses theoretically driven definition of governance covering six governance arenas and six established principles of good governance.

[9] There are of course other frameworks and approaches that could be used, but these seem particularly relevant to the needs of assessing governance in countries that might qualify for additional aid resources.
[10] www.odi.org.uk/wga_governance/

- Uses a standardized and consistent to undertaking the assessments.
- draws on the perspectives of a balances and well-informed panel of persons within each country.
- is independently organized in order to avoid the problems associated with government agents or external agencies collecting data on government performance.
- provides a source of ideas for national and international policymakers and NGOs interested in improving governance as well as just doing the assessments.

Second, and with a slightly broader scope, is the Drivers of Change approach currently being developed by DFID.[11] This is an approach that advocates close examination and analysis of country contexts with a specific focus on *how change is occurring* within the country, in other words, 'what is *already* driving change'. With a wide and deep understanding of the local context and the trends of change that are already occurring, donors will be better able to choose interventions aiming to shift trends to bring about more pro-poor outcomes.

Situated as it is, very clearly in specific country contexts, DoC is a very positive albeit highly challenging innovation. It holds the potential for donors to develop political awareness in-country and on the impacts of their actions. This should lead to increased caution and realism in 'drives for development'. Drawing out the operational implications of a political economy approach and analysis is not easy, however. Furthermore such analysis takes time – something that is unlikely to be available if pressures to spend are high.

In summary

The Millennium Project report rightly identifies governance in developing countries as critical to achieving the MDGs. However, our view is that the existing analysis is simplistic and governance issues are much more complex. Operationally this means that it is much more than a case of just dividing countries into whether they are characterized by lack of volition or a lack of resources / capacity.

Governance does matter for aid effectiveness, but it is difficult to do rigorous political analysis and the approaches chosen in the report to try to identify fast track countries are inadequate. If donors are going to double aid, they really should err on the side of caution before providing large sums of additional finance. Rather, than rushing ahead rigorous and detailed analysis of governance issues and / or DoC analysis in individual countries prior to providing large sums of additional finance are likely to lead to greater success over the long-term.

[11] For more detailed information see Warrener (2004b)

5. Conclusion

This paper has looked at the Sachs Millennium report in the broader context of the 'double aid to halve poverty' agenda. While we welcome the political commitment to international development in 2005, we think it important to also highlight some of the concerns that are also currently being voiced in the UK. Although we all wish for poverty to be reduced and the MDGs achieved, there are serious questions about whether doubling aid is the answer.

The key issue turns on whether the problem is simply a lack of funds. Jeffrey Sachs clearly states that this is the case, setting out specific amounts calculated to be needed to achieve the MDGs. The solution therefore seems to be to double aid. However, Sachs also acknowledges that improved governance in developing countries is required. While recognising the importance of good governance for efficient and effective spending in order to reduce poverty, the Millennium Project analysis does not provide a convincing answer concerning how this important issue will be addressed.

A major concern is that a large influx of funds may undermine recently-achieved fragile progress in a number of areas. This issue is closely connected to both macro-level and micro-level absorptive capacity concerns; fears that focus on aid *quantity* will draw attention away from aid *quality* issues which have recently arguably achieved some progress as part of the moves to increase aid effectiveness; and fears of undermining ownership and accountability through increasing aid dependence in countries already receiving what are, in many cases, levels of aid that are very high as a proportion of GDP or government expenditure.

These issues appear to point to a need for clarity concerning the sequencing of aid influxes and work on building government capacities. Aid modalities such as General Budget Support, currently strongly advocated by agencies such as DFID, are being put forward as a way to increase levels of aid at the same time as capacities for public expenditure management and implementation are built up; however evidence for the feasibility of this in practice is not yet available.

The Millennium Project report rightly identifies good governance as critical to achieving the MDGs, but the issues are much more complex that outlined in the report. We also believe that the approach put forward for operationalizing selectivity, in particularly for fast-track countries, is flawed. There are many problems with the individual approaches recommended. If donors are going to double aid, they really proceed cautiously and put in place rigorous, independent governance assessment mechanisms prior to providing large sums of additional finance.

Policy is therefore proceeding without much evidence. The arguments raised in this paper consequently suggest that there is a need for caution in relation to the seductively simple solution of 'doubling aid to halve poverty'. Much further investigation of the ways in which both government capacities, and the

political will for sustainable, long-term poverty reduction in developing countries can be developed, is required.

Donor actions aside from simply giving aid are clearly necessary. The harmonisation agenda is very important but donors also need to proceed with caution and political awareness of the impact of their actions on country capacities to build domestic growth so that a sustainable 'exit strategy' for aid is in place. In addition, trade issues and debt cancellation are just as, if not more important than, the need for aid.

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'etre* of the 'development industry'. 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, on which all must agree, 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.

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Annex 1: Country level analyses of the benefits of increased aid - Asia

Country	Benefits of Aid in the past	Reforms necessary to maintain benefits with increased aid?	How much could aid be increased?	What could it achieve?
India	Insignificant in financial terms & limited impact on policy, but inter alia, aid had major impacts via green revolution & district primary education, now the model for national programme.	Poverty is falling & social indicators improving, but budget deficit needs to be reduced & reforms accelerated- including more & better spending on social sectors. For impact, focus a big increase on one or two targets, e.g. UPE.	No upper limit, but India has 36% of the global poor, over 20% of child deaths & out of school children.	An increase of $13 bn would finance the 2% of GDP increase in education spending GOI plans to allocate in order to achieve universal basic education by 2015**.**
Pakistan	Limited, appalling social indicators & poverty despite growth.	Address macro-debt problems & governance constraints on benefits reaching the poor- though solutions to elite domination at all levels are not obvious.	Aid has already increased following Gulf war, enabling unsustainable debt to be reduced. No case for further increase until evidence of improved delivery.	Fundamental improvements in institutions are required to ensure extra aid yields worthwhile benefits.
Bangladesh	Significant advances in poverty reduction & social indicators helped by support for irrigation, health & family planning, education, & support to strong service delivery NGOs.	GOB programme envisages higher revenue, reforms to improve infrastructure and banking, increased poverty spending, improved Governance and reduced corruption.	Restoring previous aid:GDP levels by 2007 implies $6.6bn, poverty efficient allocation merits $9.6bn if reform process continues. But, must be in programme form given project disbursement problems.	Potential to over-perform on MDGs, achieve sustained high growth.
Vietnam	Govt. has achieved high growth & startling improvements in	Govt reform has been cautious but continuous. Absorbing extra aid will require	PRS funding gap is $800mn p.a. to 2005, but assumes unrealistic	Though Vietnam is on track to reach the MDGs, the marginal cost of future progress

	poverty & good social indicators. Public spending (20% aid financed) has been effective in delivering improved infrastructure & services.	more flexible disbursement arrangements by donors. To reduce poverty & reach MDGs, increased aid should ensure larger share of public spending is focused on remote & poor provinces, help reduce contributions required of poor households.	contribution from poor communities. Increased spending should be in programmatic form to ease disbursement constraints. Continued fast growth would enable increased aid to be phased out over 5-10 years.	will be higher as resources must focus on poor & remote mountain communities. Increased aid investment will enable Vietnam to meet the MDGs, reduce growing regional inequality.

Source: Foster and Keith (2003)

Annex 2: Country level analyses of the benefits of increased aid - Africa

Country	Benefits of Aid in the past	Reforms necessary to maintain benefits with increased aid?	How much could aid be increased?	What could it achieve?
Burkina Faso	Negligible:- poverty high, health & education indicators appalling.	Weak institutions, urban bias in spending. At limit of absorptive capacity unless there is a distinct shift to programmatic aid forms.	Aid already 17% GNI, no case for major increase until stronger evidence of progress in improving allocation & management of public expenditure.	
DRC	Negligible under Mobutu, key role from 02 in stabilising economy, encouraging peace, and restoring economic growth.	Above all peace, but also sustain economic reforms & rebuild institutions.	From $250mn in 2001, IMF envisage $1.4bn by 2004, could push to $2.3bn by 07- or 30% of GDP- given 4 decades of neglect plus war damage.	Rapid poverty reduction & improvement in human indicators, based on experience of other post-conflict countries.
Ethiopia	Significant improvements in education & to some extent roads from very low basis attributable in large part to aid financed analysis, & investments.	More flexible program support needed, including recurrent cost budget finance. Capacity building needed in local Govt. Reduce defence spending.	Doubling to $1.7bn by 2007-8 but increase beyond that would make Ethiopia excessively dependent on aid to sustain services in long term.	A 60% increase by FY07 would enable public expenditure programs set out in PRS to be achieved even if optimistic GDP & revenue growth assumptions not met.
Ghana	Aid was a major factor in economic recovery & poverty reduction in the 1980s, & played a major role in health & education advances in the 1990s.	Address weak fiscal management that has limited growth, & undermined public expenditure management.	A 50% increase by 2006-7 would imply aid of 13.5% GNI, worthwhile if increase focused on programme forms & if sound budget management is maintained.	Improved public sector management, faster progress on education & health, faster economic growth by relieving burden of Govt fiscal deficits.
Kenya	Aid helped achieve rapid growth & improving social	New Govt must address corruption, maintain macro	Return to 1990 peak in real terms by 2007 implies $2bn	With better policies, rapid growth could enable poverty

	indicators in 1960s-early 1970s. Progress reversed under corrupt & vacillating Moi regime, reforms not sustained, poverty & social indicators worsened, poor project implementation & sustainability.	stability, smaller & more effective public sector more focused on poverty reduction.	increase to $2.5bn.	target to be met, & rapid improvement in social spending including reducing user costs should permit rapid advance towards MDGs, though 2015 target may be too optimistic.
Madagascar	Aid finances 70% Govt spending, but little achieved: poverty & health indicators worsening, some improvement in school enrolment. Political instability, ownership & accountability weak.	New Govt sustains macro-economic & political stability & implements promised reforms to reduce role of SOEs, address corruption, prioritise rural poverty, improve private sector environment.	Increases proposed reasonable if political & economic reforms hold.	Help restore growth, address problems of high mortality & low school enrolments, though achieving the MDGs looks beyond reach.
Mozambique	Major impact. Aid largely financed the physical reconstruction, underwrote the costs of the transition to peace, including the costs of the successful demobilisation of the armed forces.	Aid needs to be better planned & coordinated, preferably within the Government budget, with credible longer-term commitments and predictable disbursement schedules to ease macro & budget management.	A 50% increase by 2010 would enable Government to maintain a constant share of public expenditure in GDP, or avoid the need for distortionary tax increases, or some combination of the two.	Increased aid could accelerate the physical integration of the country and help to more rapidly address the low levels of human capital development.
Nigeria	Oil resources squandered, poverty increased, aid benefits not sustained.	Macro stability, poverty focus , expenditure management, corruption, privatisation.	Needs are great, but WB argue better use of own revenues, should precede big aid increase.	Depends on commitment to reform, finance is not the main issue in short-term.
Tanzania	Benefits of high aid in 1960s-70s not sustained in weak policy environment. Policy based	Avoiding again building spending to unsustainable levels requires better revenue	Doubling to 20% GDP by 2007 could be justified by poverty & to reverse previous decline. Would	Spending on infrastructure & improving human capital would boost growth, boost

	lending had little impact until 1995 Govt began to reform with more conviction.	performance & sharper focus of spending on needs of the poor.	need to be as budget or sector support. To maintain higher p.c spending level requires aid to be above starting level until 2022.	private investment, help improve revenue & sustainability in medium term- and directly contribute to improved progress on the MDGs.
Uganda	Major role in recovery from conflict, analysis and finance supported successful reform programme, sustained poverty reduction, improved education ennrolments (through quality poor).	Donors are concerned at increases in defence spending, key issue of political transition. Service delivery, capacity still weak.	There may be scope for absorbing a doubling of aid, though GOU may not want it given concern at unpredictability, consequences for macro-economic management, sovereignty and excessive dependence.	Faster progress on infrastructure & social services, good prospect of exit as continued growth generates higher revenues.

Source: Foster and Keith (2003)