

Introductory Brief

'ODI *Opinions* on Effective Expansion of Aid'

Oliver Morrissey

On 16 November 2001, Gordon Brown supported the proposal (set out in the Zedillo Report on Financing for Development for the UN) that donors should double the volume of aid to developing countries. This proposal is to be welcomed, but requires active support to ensure that Mr Brown follows through on his commitment and brings other leading donors with him. There is mounting evidence that aid plays a positive role in contributing to growth, development and the reduction of poverty in developing countries, in addition to the role in providing humanitarian relief.

An increase in aid could contribute to meeting emerging demands for new finance for the poorest countries and for addressing global problems (e.g. AIDS, global warming). Rich countries have the financial resources: the issue is how these can be channelled to benefit people in need and to tackle problems of global concern. This brief introduces a set of opinions by ODI staff (see Box 1) on how increased aid can be used effectively to promote the related objectives of growth, development and reducing poverty.

Donors will face political difficulties in expanding their aid budgets, especially during an economic downturn. It is not, however, acceptable to argue that doubling the volume of aid is unattainable. Only four major donors currently reach the UN target of allocating 0.7% of GNP to aid; Mr Brown's commitment could be met if the other donors reached the target (see Box 2). Furthermore, as Oliver Morrissey argues, aid has been quite effective in the past, more so than is perhaps commonly believed. Mobilising public support for increasing aid requires a demonstration that the aid can be used effectively and that there are benefits to donor countries from doing so. The ODI *Opinions* consider how increased aid could be used effectively, rather than how the additional aid could be raised.

There is no strong reason to believe that a large increase in aid should be allocated in the same way, or even by

Box 1 Effective use of increased aid: ODI *Opinions*

1. **Introductory Brief 'ODI *Opinions* on effective expansion of aid'** Oliver Morrissey
2. **Aid effectiveness for growth and development** Oliver Morrissey
3. **More aid? Yes - and use it to reshape aid architecture** Simon Maxwell
4. **Aid and the Millennium Development Goals** Felix Naschold
5. **Aid financing for International Public Goods** Dirk Willem te Velde
6. **Aid in chronic political emergencies** Joanna Macrae

the same institutions, as is currently the case. Bilateral aid, from donor direct to recipient, accounts for about two-thirds of the total, the remainder is allocated by multilateral agencies (including EuropeAid), especially the World Bank. Simon Maxwell argues against increasing the amount of aid allocated bilaterally. Additional aid could be channelled through multilateral institutions, in particular a revitalised UN system. This would require organisational change, especially in the UN, and reviving the notion of development partnerships. It will take time to mobilise increased aid flows, and now is the time to begin work in earnest to establish multilateral institutions that can deliver effective aid, or where appropriate, reform existing multilateral institutions.

Aid for what purposes?

Just as there is a case to debate institutional structures and changes for aid delivery, there is reason to consider using increased aid for new purposes. Aid should continue to be used to finance investment in infrastructure and physical capital, to support rural development, and to finance the provision of social services, especially health and education. Increasingly, the latter is in the context of poverty-reduction strategies and there is scope for expanding such spending into countries currently excluded

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Box 2 Donors can increase aid

- Denmark, Norway, Sweden and the Netherlands are the only donors that give more than 0.7% of their GNP in aid.
- If the other DAC donors reached the 0.7% target, the volume of aid would more than double.
- In volume terms, the largest increases in aid would be from the US and Japan, followed by Germany, the UK, France and Italy.

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(or under-funded). Increased aid is also a means of expanding debt relief.

Recent years have seen a growing awareness of the need to address global problems to increase funding for the provision of international public goods. For example, funds to reduce pollution or eliminate contagious disease in one country confer cross-border benefits. A reduction in global warming or disease benefits all countries, even if the money is spent in particular countries. Kofi Annan's global fund for HIV/AIDS, TB and Malaria had a target of raising US\$10 billion per year, but only US\$1.5 billion has been raised as the first year nears its end. Dirk Willem te Velde considers how increased aid could be allocated to finance International Public Goods. He demonstrates that US\$50 billion is not actually a lot of money given the demands for funding, and important choices need to be made.

Altruism and generosity towards those who are disadvantaged is a strong motive for aid, but this complements self-interested motives. Trading nations benefit from growth in other countries and from economic and political stability. Poverty is one factor contributing to political instability in many countries of the world, in turn contributing to global instability and terrorism. Reducing poverty, promoting human development and supporting independent development serve the interests of the global public, and rich countries are in the position to facilitate this. The contributions by Felix Naschold and Joanna Macrae consider aspects of this, in the context of development targets and humanitarian aid respectively.

Aid to which countries?

In recent years donors have become more selective about the countries with which they maintain significant aid programmes, concentrating aid in those countries with a demonstrated ability to monitor and use the aid. One consequence is that such countries may be receiving as

much aid as they can absorb. Most aid is spent through the public sector, and there is a limit to governments' ability to effectively disburse aid. If aid inflows are large relative to GDP, such as in Ghana, Mozambique and Uganda, the associated foreign exchange inflow will affect the real exchange rate and monetary policy. Aid in large magnitudes poses problems of macroeconomic management. It is worth noting that accelerated debt relief (a form of aid) can benefit an economy while circumventing these macroeconomic problems. The savings to government of reduced external debt servicing can be channelled into investment, spending on social sectors (as is done through Poverty Action Funds) or reducing domestic debt.

Another consequence of selectivity is that many of the countries presently receiving relatively low amounts of aid are in that position because they are deemed to be 'poor performers' by donors. Such countries have not made good use of aid in the past, and one would worry about their ability to usefully absorb an increase in aid. Proponents of increasing aid to poor performers do not advocate writing blank cheques for unmonitored spending. Countries are not equally well placed to absorb aid, and there are certainly countries to which one would not want to give aid unless domestic politics changed (e.g. Myanmar or Zimbabwe). This still leaves many countries in need of assistance. More importantly, there are regions and peoples that deserve assistance, an issue addressed by Joanna Macrae.

Should aid flows be increased?

The authors of these ODI *Opinions* argue that Mr Brown is right and aid should be increased. There are many ways in which aid can be used beneficially. There may be too many demands – humanitarian relief, development targets, and international public goods could easily absorb more than the proposed annual US\$50 billion increase. The opinions collected here are that there are many ways that increased aid can be allocated.

This is not to claim that donors should write blank cheques. Now is the time to begin discussions of how to use additional aid – which recipients, which donor agencies and what uses. These opinions review a range of uses; the next stage is to begin the dialogue that gets down to specifics. Effective use of increased aid must learn from the lessons of past experience. What we need is more and better aid. Mr Brown has expressed a commitment to more aid. The research community, donors and recipients must ensure that it is better aid.

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