

Increasing the Effectiveness of Aid to Achieve MDGs by 2015

Saman Kelegama

International aid is one of the most powerful weapons in the war against poverty. The latest Human Development Report: 2005 of the UNDP says that today that weapon is under-used and badly targeted. It argues that aid can spread the benefits of global integration by enabling poor countries and poor people to come out of poverty thereby reduce mass poverty that threaten international security. But for this to happen the thinking of rich countries have to change. Aid policies basically reflect how rich countries think about globalization – about their responsibilities and obligations for the world's most vulnerable.

The report says: “If they [aid donors] continue as business as usual, 2005 will be the year in which the pledge of the Millennium Declaration is broken. If they act now and deliver on their pledges to the world's poorest people, they can make 2005 the start of a decade of development, helping countries to get back on track for achieving the Millennium Development Goals (MDGs) by 2015 and forging a new, more equitable pattern of globalization”.

The report attempts to look at the aid flows from the human development and poverty perspective and for this purpose it takes the MDGs as the terms of reference. How can aid contribute to the achievement of MDGs? The report says that declaration of commitment to MDGs by 2015 is of little use to the world's poor people unless backed by real financial commitments and real improvement in aid quality by the donor countries.

There are three conditions for effective aid: (1) it has to be delivered in sufficient quantity; (2) it has to be delivered in predictable, low transaction cost, and value for money basis; and (3) effective aid requires country ownership. While there has been improvement in increasing the quantity and quality of aid, the report argues that none of these conditions have been fully met.

Aid Quantity

In 2000, when MDGs were signed the report says that the aid glass was three quarter empty, now it is half full and rising. Rich countries collectively now spend 0.25 per cent of gross national income (GNI) on aid – lower than 1990 but an upward trend since the late 1990s. Since the Monterrey meeting on “Financing for Development” in 2002, aid has been increasing by 4 per cent a year in real terms, however, the increase is inadequate and the report says that the donors have failed to align their development assistance programmes with the requirements of achieving the targets. There yet remains a large financing gap. If projected increase is delivered in full, the shortfall by 2006 will be US \$ 46 billion and US \$ 52 billion in 2010.

According to the report, several donors have not put into place their spending plans calling into question their commitment to MDGs. If donors are serious they should sight firmly on the targets of delivering 0.5 per cent of GNI in 2010 and 0.7 per cent of GNI in 2015. While cogently presenting the case for increased aid, the report says that more aid is no guarantee for development, but increased aid is a necessary condition for accelerated progress towards MDGs -- most countries can absorb much more aid than they are receiving.

Aid Quality

The report argues that poor countries need aid that is delivered in predictable fashion without many strings attached, and in ways that minimize transaction costs and maximize value for money. Often recipient countries find unpredictable aid (gap between what is pledged and what is delivered) hedged with conditions, coordinated and tied to purchase from donor countries.

The report shows that more aid through the current structure would lead to sub-optimal results. Without compromising fiduciary responsibilities of the taxpayers, developed countries should reduce the transaction costs that lower the effectiveness of aid – rethinking the scope of conditionality, reducing volatility and unpredictability of aid and ending tied aid.

Partnership for Ownership and Shared Responsibility

In March 2005 the OECD Development Assistance Committee signed the Paris Declaration of aid effectiveness. Donors agreed for a framework for enhancing the effectiveness of aid --- emphasis on harmonization, coordination, and country ownership. The Paris Declaration of Aid Ownership incorporates some 50 commitments to improve aid quality – with progress to be monitored against 12 indicators. The report says that there should be more streamlined structures for aid flows that are more accountable for developing countries governments and citizens. The report says that a partnership can be sealed this year especially after the outcome of G8 Summit at Gleneagles and a 5 point programme is outlined to increase aid, improve the quality, and build a donor recipient partnership.

Analysis

In the context of the recommendations of this report, the UN World Summit 2005 in late September was a complete disappointment. Much was expected in regard to MDG funding and follow-up from G8 Summit at Gleneagles because the summit was supposed to take stock of the progress towards the MDGs and take speedy action towards their attainment by 2015. The developed countries, especially USA, objected to setting any targets (0.7 per cent of GNI for aid) or aid commitments for developed countries to support developing countries to achieve the MDG targets.

While the report gives adequate measures that could be taken by developed countries to increase the inflow of aid, its emphasis on what developing countries should do to increase aid absorption is weak. The report seems to play down the problems of aid absorption by developing countries. However, at least the Sri Lankan experience shows that the aid that is allocated to the government should be accompanied by strong capacity to implement projects, good technicians, and good government procurement procedures as well as monitoring the outcome of the project. Thus, the recipient countries too need to get their house in order if the desired results are to be achieved by increased aid flows.