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More Aid Vital to Eradicating Extreme Poverty, Says UNDP Report

New aid pledges welcomed, but more resources and deep reform of international aid are needed to meet poverty goals, contends 2005 Human Development Report

United Nations, 7 September 2005—Newly promised increases in aid for the world's poorest countries are significant and will help the fight against poverty, says the 2005 *Human Development Report*. But the Report warns that still more, and better, assistance to the poor is needed to meet the Millennium Development Goals (MDGs).

“Fixing the international aid system is one of the most urgent priorities facing governments at the start of the 10-year countdown to meeting the Millennium Development Goals in 2015,” said Kevin Watkins, its lead author.

Charting developments since the Millennium Declaration was signed in 2000, the *Human Development Report* says that the aid glass is now half-full, when before it was three-quarters empty. At the G-8 Gleneagles Summit in July, donors made commitments to provide an additional US\$50 billion in aid over the next decade.

The increases, the Report says, have come within the framework of the 2002 UN Conference on Financing for Development in Monterrey, Mexico, where developing countries committed to sound policies, good governance and the rule of law and donors pledged in return to provide more—and better—aid. According to the Report, the increases come at a time of acute fiscal pressure in many donor countries and demonstrate that donors are making real efforts to accelerate progress toward the MDGs.

However, the *Human Development Report* research team points out that some of the world's richest countries are still among its least generous donors, and that a combination of vigilance, public campaigning, and political resolve will be needed to ensure that wealthy countries deliver on the pledges made at Gleneagles.

In an assessment of the challenge facing the G-8 countries, the Report highlights some pressing concerns. It says that Germany and Italy will have to substantially revise current aid spending plans if they are to meet the European Union target of an aid-to-GNI (Gross National Income) ratio of 0.51 percent by 2010. While Japan and the United States have both pledged increased aid, without further increases they will still be spending only 0.18 percent of GNI on aid in 2010, lower than any other aid donors. As the only G-8 country with a fiscal surplus, the report argues that Canada is uniquely well-placed to set an early target date for raising aid to 0.7 percent of GNI.

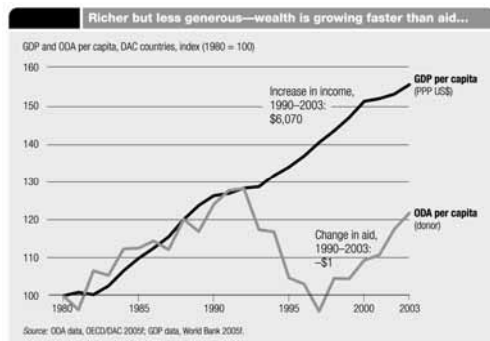
Aid needed to fill resource gap

The 2005 *Human Development Report* argues that the case for aid is based on social justice and enlightened self-interest in shared prosperity and collective security. Supporting the findings of the UN Millennium Project report and the UK-sponsored Africa Commission report, the research team concludes that in the absence of increased aid, many countries will lack the financial resources to develop the social and economic infrastructure required to meet the Millennium Development Goals.

While acknowledging the mixed record of aid in the past and the dangers associated with high levels of aid dependency, the Report decisively rejects the arguments of aid pessimists. It points to countries such as Bangladesh, Ethiopia and Mozambique as examples of new aid partnerships delivering real results, and rebuts the argument that a major increase in aid will lead to damaging local economic distortions.

Properly targeted aid, the Report states, advances human development. In Zambia, it found that health sector spending would fall from \$8 per capita to \$3 without aid, with devastating implications for the fight against HIV/AIDS and other public health problems. In Egypt, the Report cites a national diarrhoea control programme supported by the US Agency for International Development and World Health Organization that helped reduce infant deaths by 82 percent in five years, saving the lives of 300,000 children; and in Tanzania, an additional 1.6 million children were enrolled into school after foreign aid funded the elimination of user fees in 2003.

Wealthiest countries must keep their part of the bargain



Challenging the perception that rich country aid generosity has kept pace with rising living standards, the Report points to a ‘generosity gap.’ Since 1990, per capita income in rich countries increased by \$6,070 in constant prices, while aid from the rich countries to the poor actually *fell* by \$1 per capita.

In absolute dollar terms, the Report found that the United States is the world’s largest provider of development assistance. Recent increases by the US account for \$8 billion of \$12 billion in overall increases by donors from 2002 to 2004, and represent the biggest increases in US national aid programmes since the 1960s. But the Report also concluded that the US ratio of aid to GNI has increased from a base of 0.10 percent in 2000 to only 0.16 percent in 2004,

placing it well behind other donors. And more than 40 percent of the \$3.8 billion increase in US development assistance in 2003, the Report says, was earmarked for Iraq.

Five countries—Denmark, Luxembourg, the Netherlands, Norway and Sweden—have consistently met or surpassed the 0.7 percent target, the Report said, and France and the United Kingdom plan to reach that goal by 2013.

Making aid more effective

But extra aid will not help achieve the MDG targets, the Report cautions, unless donor countries also reform the way they provide funds. The authors contend that poor countries need aid that is predictable, minimizes transaction costs and maximizes value for money; yet they often receive assistance that is unpredictable, uncoordinated, hedged with conditions that do not reflect internal reform dynamics, and tied to purchases in donor countries. So uncertain is foreign aid that the present allocations of assistance, the Report says, make it difficult for developing countries to plan ahead for such expenditures as teachers’ salaries and infrastructure building.

Weak donor coordination, a preference for operating outside of government systems, and excessive reporting requirements have the effect of driving up transaction costs and reducing aid effectiveness, the research team found. Former finance minister of Afghanistan, Ashraf Ghani, is quoted in the Report as spending 60 percent of his time reporting to donors. “This time could instead have been devoted to raising domestic revenue and managing internal reform,” he points out.

Donor countries, the Report contends, also undermine the effectiveness of their own development programmes by tying aid to the purchase of their own products. Such arrangements cost developing countries up to 20 percent more than buying the same goods on the open market, the equivalent of a tax on aid of between \$5-7 billion a year, according to new estimates in the *2005 Human Development Report*, with low income countries paying \$2.6 billion a year. “The tied aid tax costs Africa alone \$1.6 billion a year—a huge diversion of resources from investments in poverty reduction,” says the Report. The Report called for the elimination of all tied aid between 2006 and 2008.

International funds, such as the Global Fund to Fight AIDS, Tuberculosis and Malaria, and other multilateral initiatives, the Report said, are a valuable alternative as they demonstrate how multilateralism can “offer advantages for aid governance, reduce the risk of donor bias and align aid flow with national development priorities.”

Can donor countries afford to give more?

Recognizing that every donor country has its own financial constraints, the Report argues that, compared to other budget items, development assistance remains very small, and that an increase would have a minimal effect on donor-country finances while at the same time having a major impact on saving lives in the poorest countries.

Proposals to improve foreign aid

The *2005 Human Development Report* also outlined several proposals for improved aid programmes that are better linked to national human development priorities within each beneficiary country:

- **Set a schedule for an aid-to-GNI ratio of 0.7 percent by 2015.** Donors should set budget commitments at a minimum level of 0.5 percent for 2010 to bring the 2015 target in reach.
- **Provide predictable, multi-year financing through government programmes.** Donors should set more ambitious targets for providing stable aid flows, working through national systems, and building capacity. By 2010, at least 90 percent of aid should be disbursed according to agreed schedules.
- **Streamline Conditionality.** Conditionality should be focused on what is most essential and required policy measures should be firmly embedded in mutually agreed but domestically driven reform programmes.
- **End tied aid.** Onerous donor conditions too often mean that aid money is spent ineffectively and sometimes will not reach its intended beneficiaries at all. This practice should be stopped now.
- **Tackle unsustainable debt:** Debt servicing obligations should be brought into line with the ability of debtor countries to pay without compromising their progress towards the MDGs.

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ABOUT THIS REPORT: Every year since 1990, the UNDP has commissioned the *Human Development Report* by an independent team of experts to explore major issues of global concern. A worldwide advisory network of leaders in academia, government and civil society contribute data, ideas, and best practices to support the analysis and proposals published in the Report. The concept of Human Development looks beyond per capita income, human resource development, and basic needs as a measure of human progress and also assesses such factors as human freedom, dignity and human agency, that is, the role of people in development. The *Human Development Report 2005* argues that development is ultimately “a process of enlarging people’s choices,” not just raising national incomes.

The *Human Development Report 2005* is published in English by Oxford University Press.

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