

The King's Lecture in Ethics

**Aiding the World's Poor: New
Challenges for Donor States**

By

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INTRODUCTION

The subject of tonight's talk is aid, foreign aid - assistance provided predominantly *by* the rich *for* the poor. As many of you know, this is a subject that moral philosophers have discussed for many decades. In an early, influential and still widely quoted article first published in 1972, Peter Singer argued forcefully that the rich not only have an obligation to assist the distant stranger, but ought, as a consequence, to provide a significant amount of aid to help the world's poor: "if it is in our power to prevent something bad from happening without thereby sacrificing anything of comparable moral importance, we ought, morally to do it." Not everyone agreed.

Subsequent debate focused initially on whether and why the rich have an obligation to assist "the distant needy" and how this obligation, if it exists, might trump other obligations, particularly those closer to home. The widely-held assumption - that if there was an obligation to help, then this could best be fulfilled by providing aid to the poor - has subsequently been challenged, for instance by Thomas Pogge. While agreeing that there is an obligation for the rich to be involved in addressing world poverty, Pogge argues that what is needed above all else is for the rich countries to alter their policies and the way they interact with poor countries. In his view, "We must stop thinking about world poverty in terms of helping the poor".

Within this wider debate, attention has also been focused on the narrower question of whether wealthier nation-states and their governments (as opposed to individuals), elected to serve and promote the interests of their own citizens, have a moral obligation to provide aid to the citizens of other states - on account of their extreme poverty, their inability to meet their basic needs, or because their basic human rights are denied - rather than because it might be in their own self-interest to do so.

This evening, I will spend very little time discussing whether the rich - be they individuals or states - have a moral obligation to engage in the problems of world poverty and contribute to the ending of extreme poverty. I will take this largely as given. Instead I will focus my remarks largely on some of the key practical dilemmas faced and questions raised once the decision has been made to provide foreign aid. I will also discuss, albeit all too briefly, the views of those who, like Thomas Pogge, have suggested that the best way to help is not to provide aid but to focus on other, in their view, more important ways of ending extreme poverty. My view on this point, in

brief, is that though I agree that structural problems and policies beyond the aid relationship are extremely important, I also believe this does not mean that aid has no value: I adopt a “both/and” not an “either/or” position.

I believe that the issues raised in trying to answer these practical questions are highly relevant to the wider debates about the ethics of providing aid. If the intention is not merely to keep the poor alive but to enable them to escape permanently from poverty, then we need to understand how this might be done as efficiently and effectively as possible. As an aid practitioner, it is my hope that moral philosophers will increasingly focus their attention well beyond discussion of whether there is an obligation to assist, and play a more active part than they have done in reflecting on the ethical issues and dilemmas faced in assessing how best to provide aid to poor countries.

THE BASIC DILEMMA IN PROVIDING AID

Providing aid is a complex issue. In Peter Singer’s view, “we have no obligation to assist countries whose governments have policies that make our aid ineffective” (p. 241).

But, what is “ineffective aid”, and how much aid might one allow to be ineffective to remove - from Singer’s perspective - our obligation to provide it? Ninety percent, half of it, or less? If only 10% of aid really helps those who receive it - providing hundreds if not thousands of people with the resources and opportunities to be productively employed to enable them to earn sufficient adequately to feed, clothe and house their families - then should we stop providing this aid because other aid to the country fails to achieve its purpose? Or again, if we “give” aid, to what degree can we continue to claim rights over it, what makes us so certain that we know how best it might be used?

The core challenge and basic dilemma in aiding the poor is that most of the poorest people live in the poorest countries. And the poorest countries are those in which the prospects for aid to work well are often far from good. In broad terms, the evidence suggests that aid will work well when provided to countries committed to, and capable of using aid funds efficiently and effectively, with transparent systems, and where those making decisions and spending the money are accountable to their own citizens. Yet, the countries that need aid tend to be characterised by a combination of severe skills shortages, fragile state and parliamentary institutions, inadequate legal systems, weak regulatory systems, underdeveloped and weak markets vulnerable to manipulation by

powerful interest groups, operating without the benefits of a free press, and a strong civil society able to monitor public spending. Additionally, a significant and growing proportion of the poorest countries suffer from conflict and civil unrest, providing a turbulent, unpredictable and even more difficult environment in which to try to make aid work effectively. These are precisely the factors which are likely to undermine and reduce the impact of aid. If the basis for providing aid is an assurance that the funds will be used to maximum effect, then give aid to Britain, Norway or Sweden.

It is against the backdrop of this core dilemma of aid-giving that I want to consider some key challenges, including key *new* challenges that face donor states when providing foreign aid.

AID AND EMERGENCIES

One new challenge facing donors is the rising number of disasters affecting the world. This is a central issue for the world's poor as it is judged that around 90% of those affected by disasters are among the world's poorest and most marginalised people. The continued effects of climate change are likely to reinforce this upward trend.

What has this rise in emergencies meant for aid flows?

Historically, a clear distinction has been made between humanitarian or emergency aid, on the one hand, and development aid, on the other. The general public's engagement with the world of aid is predominantly through the media whose focus has overwhelmingly and increasingly been focused on emergencies and disasters. Consistently and repeatedly over recent decades, the public response to a growing number of national appeals for emergency aid (not only in the UK but worldwide) has been one of rising donations, with the 2004 Boxing Day Tsunami appeals breaking all previous records. This public response has been mirrored in the rising contribution that official aid donors - governments - have made to the growing number of emergencies. For instance in the 30 years to 2004, globally, total (official) aid rose (in real terms) two and a half times, but the amount of that aid provided for emergencies rose seventeen-fold.

However, in spite of this response, there still remains a large gap between the amount of money needed to respond adequately to all emergencies and the amount of emergency aid actually provided. This fact is not widely known because the media focus on a small number of "high

profile” emergencies, a number of which tend not merely to be well-funded, but sometimes “over-funded”.

Most people believe that if ever there is an obligation to assist the distant needy, then it applies with most force when disasters strike, and when external assistance is urgently and clearly needed. However, as I will suggest in a moment, the moral issues are more complex.

THE RELATIVE IMPORTANCE OF EMERGENCY VERSUS DEVELOPMENT AID

Against the background of blanket media coverage of “high profile” emergencies, it is not surprising that it is widely believed that emergency or humanitarian aid is the most important type of aid provided and that the work of non-governmental aid agencies - Oxfam, Save the Children, Christian Aid, ActionAid, Cafod, Muslim Aid, WaterAid, and many others - comprises the major part of the global aid effort.

In sharp contrast, humanitarian aid comprises less than 15% of total global aid, and most of this is provided by governments and not by private donations. Indeed, today, as in the past, the vast majority of foreign aid is raised by funds provided by rich country governments, funding aid activities of governmental agencies, such as Britain’s Department for International Development (DFID) and inter-governmental agencies, and the World Bank’s main aid arm, the International Development Association (IDA). A best guess is that only around 12% of all aid is used by NGOs for both their emergency and development work, which is why I am focussing this evening on donor government, official or state aid and not on aid delivered by NGOs.

A linked and probably far stronger belief among the public is that emergency aid is most urgently needed because it is this type of aid which is used to save lives. The figures, again, tell a different and more nuanced story.

It is certainly true that many people die, directly or indirectly, as a result of emergencies and the numbers have been rising in recent times. According to Red Cross figures (*World Disasters Report*, 2007), in the decade to 1996, emergencies were responsible for about 610,000 deaths worldwide; about 60,000 a year, yet in the following decade - to the year 2006 - the number of such deaths doubled to 1.2 mn, 120,000 a year. Even without the 2005 Boxing Day Tsunami which is

estimated to have caused the death of 230,000 people, the decade to decade rise in deaths would have been over 50%.

However, when these figures are placed alongside the number of deaths occurring each year as a result of poverty - hunger, malnutrition, lack of shelter, poor or inadequate water and sanitation, lack of basic medicines or bed-nets for those living in malarial areas, lack of access to primary health and low levels of immunisation against killer diseases such as measles - they look very different. Each year, it is estimated that perhaps 18 mn people die from diseases of poverty. That means that for every one person who dies in an emergency, between 150 and 200 people die from diseases of poverty.

On the basis of such figures, it would seem that an even higher share of total aid should be directed to reducing poverty than the current 85%/15% split, even the 93%/7% split of 30 years ago. In a very real sense, poverty ought to be perceived as an emergency - indeed over the past 18 months, Gordon Brown has referred to poverty as a “development emergency”. What is more - though I have no time to discuss the issue in any depth tonight - most lives in disasters and emergencies are saved not by foreign aid and foreign aid workers, but by local people: aid is used in the first instance predominantly to prevent further deaths from occurring, for keeping people alive, but most is actually used for rehabilitation, rebuilding lives and restoring livelihoods.

WHAT’S THE DIFFERENCE BETWEEN A LIFE LOST FROM POVERTY AND FROM A DISASTER?

What is the moral difference between a life needlessly lost, or easily saved, in an emergency and a life needlessly lost as a result of vulnerability to disease and death from extreme poverty or one saved by addressing the main factors which cause most extremely poor people to die prematurely? The question is important to the aid debate because of the way that the public perceives the obligation to assist, and the sorts of aid needed.

When an emergency strikes, and especially when it receives high media profile, the public response - across all donor countries - is to donate to appeals. This positive response occurs with little to no reference to concerns raised (in the media) about problems with emergency aid funds used in previous emergencies - successive evaluations commonly report, for example, a mis-match between those who needed the aid and where it was allocated; aid wastage caused by the

duplication of agencies' efforts, or poor quality goods provided; "technical assistance" provided by those lacking the basic skills needed; aid never reaching those for whom it was intended; and aid arriving too late.

The sense that "something should be done" - the perceived moral imperative to help and provide aid - always appears to "trump", or over-shadow, concerns about the impact of previous emergency aid interventions. What this suggests is not that impact "doesn't matter", but rather that aid failures and inefficiencies are generally NOT perceived as providing the basis upon which the decision to give emergency aid rests. My guess is that if there was greater public awareness of the scale and number of preventable deaths occurring as a consequence of extreme poverty (in "non-emergency situations"), the sort of reactions and responses to the place that impact plays in debating emergency aid would be mirrored in discussions of the place that impact plays in debating the merits of providing development aid.

DOES THE OBLIGATION TO HELP MEAN THAT THERE IS ALSO AN OBLIGATION TO PROVIDE AID?

However, we are moving a little too fast and need to step back, and, for a moment, consider the link between helping and providing aid, especially development aid. The moral obligation, if there is one, is an obligation to assist, to act, or "do something" - but what?

We need to be particularly careful in leaping to the conclusion that it is aid which is the main factor which will bring about the change that is (so urgently) desired, especially as this link is all too frequently implied, if not actually made, not least by donors and supporters of aid. Indeed, the discourse about aid, its importance and its impact, has tended not only to be extremely polarised, but it has been driven by claims and counter-claims based, at best, on partial truths.

Most aid donors believe most, or at least a significant share of the aid they provide "works"; and they place in the public domain examples of such successes to support this assertion. If most aid works and extreme poverty persists, then more aid should help lift more people out of poverty, hence the appeal by aid donors and supporters of aid for more aid to be provided. For their part, rich states agree that not enough aid is given, and almost all have said they need to give more. Against this backdrop, it is easy to understand why the public is led to believe not only that aid is needed in order for extreme poverty to be reduced, but that aid is necessary for development.

Indeed, there is a widely shared view that aid is necessary for development - that it is the motor which drives development and poverty reduction - and that without aid, extreme poverty will not be eliminated.

Aid's most vehement critics muster three sorts of arguments to counter these views.

- One group argues that aid doesn't work, producing evidence to prove this, going on to suggest that, because aid has not (ever) worked in the past, it never will.
- A second group argues that the process of giving aid either directly or indirectly produces significant perverse effects which eclipse any good that aid might achieve - for instance by fuelling corruption, distorting markets or reducing the incentive of recipients to use their own resources to fund expenditure, notably by raising taxes. The leading scholar associated with this view is the late Professor Peter Bauer who, interestingly, was (strongly) in favour of rich states providing humanitarian aid.
- A third group argues not merely that a discussion of aid, its needs and its impact, is largely irrelevant because extreme poverty and underdevelopment are either caused or perpetuated by an array of other far more important factors and influences. Consequently, these critics suggest, if you want to help the poor then "look elsewhere".

One prominent writer from this school of thought is John Rawls, who, in his book *The Law of Peoples*, argues that well ordered people have a duty to assist what he terms "burdened societies". But this duty only extends to the requirement of assistance to help the societies to become "well ordered" (p. 37). He conjectures that "there is no society anywhere in the world, except for marginal cases" - he cites the case of Arctic Eskimos - "with resources so scarce that it could not, were it reasonably and rationally organised and governed, become well-ordered" (p. 108).

Another is Thomas Pogge, whose view was quoted earlier: "we must stop thinking about world poverty in terms of helping the poor" Unlike Rawls, Pogge does not believe the focus of attention should be on how poor societies are organised. Rather, he argues, we should instead

focus on “the ways in which the affluent and their governments impose an international economic order that deprives the poor of their livelihood” (p. 23).

Where does the truth lie to support these claims and counter-claims? This is clearly a huge and central topic deserving a complete lecture all to itself. But let me quickly make five points.

- Firstly, there is a wealth of evidence to show that countries have developed and reduced if not eliminated extreme poverty without, or with very little, development aid and that countries in receipt of significant amounts of aid over prolonged periods have experienced no marked improvement in the incidence of poverty. Thus, in many ways, we can assert that aid is not necessary for development and poverty reduction to occur. Indeed, it is often factors other than aid which can and have made a crucial difference to their development paths. This is not surprising when one realises that the share of aid in aid-recipient economies is really quite low. Official aid, or “ODA” as it is called, accounts for less than 1% of the Gross Domestic Product (GDP) of all developing countries, only 5% of the GDP of Sub-Saharan African countries, and less than 10% of the GDP of the world’s 50 poorest countries.
- Secondly, however, there is both strong and consistent evidence of discrete aid projects achieving their immediate objectives. I spent more than a year sifting through the evidence of aid impact and came to the conclusion that, notwithstanding a range of biases in the studies conducted, upwards of 75% of official aid projects did what was “written on the tin”: schools were built, teachers were trained, and bed nets and anti-retroviral drugs were delivered to those for whom they were intended. The good news is that over time, project success rates have been rising, the bad (though unsurprising) news is that success rates are low in many of the poorest and conflict-ridden countries, and project sustainability remains a problem.
- Thirdly, there is also evidence to show that aid has often and increasingly has made a difference at the sectoral level, notably when provided in significant amounts and when focused on particular targets, such as providing resources for an expansion in school places, or training teachers, for funding immunisation programmes, or for expanding water and sanitation programmes at the regional or national level.

- Fourthly, and more crucially, we still have very little robust evidence to show the causal relationship between aggregate aid flows at the national level and their effect on the numbers of people living in poverty. The evidence we have is scanty and partial, and tends to show mixed results - sometimes aid seems to have had an impact on poverty reduction (Uganda and Vietnam are good recent examples), sometimes it hasn't (Zimbabwe), but often there times when we don't know. However, we should not be particularly surprised by this lack of evidence. As I have already indicated, we know that aid is only one factor among many influencing employment levels, growth rates, living standards and poverty levels.
- Fifthly, we know increasingly more about the different factors which influence - help to accelerate and constrain - growth, development and poverty reduction within different countries, and hence know more about the way that resources, including aid resources, can be used to help address constraints, plug gaps and provide assistance to those who need it.

What then does all this tell us about the need for aid and the ways that help ought to be provided?
My own view is this.

While aid is certainly not necessary for development and poverty reduction to occur at all, it has helped and can help to reduce poverty faster than if aid had not been provided, both by helping to fill crucial resource gaps and by helping to address key systemic problems within poor countries - and there are many - which hold back pro-poor growth and development. However, aid is unlikely to have a tangible and long-lasting effect unless provided in conjunction with efforts to address a range of systemic and structural problems and impediments outside the aid-recipient country and external to the "aid relationship". But is aid *needed*? The answer is "yes" if it is provided in sufficient amounts to "make a difference", and if used in ways which address the major factors which impede the process of poverty reduction, both those directly affecting poor people and wider systemic constraints. Thus, there is a need for development aid if there is a need to prevent and to reduce faster the number of deaths caused by extreme poverty.

This conclusion provides the context for what I see as an important new challenge for donor states - the need to be more honest in explaining what aid can do, and might do, in ridding the world of extreme poverty.

OTHER NEW CHALLENGES FOR DONOR STATES

What other new challenges do donor states face in providing development aid that is targeted at the eradication of world poverty? There are a number, but I only have time to touch on some. Among these, I think these four clusters of challenges are the most important. They are:

- The moral obligation to help the poor versus donor self-interest in the allocation of aid
- Aid, poverty reduction and the Millennium Development Goals (MDGs).
- The multiplicity of official aid donors and requirements when giving aid, and
- Systemic problems arising from the voluntary nature of aid-giving.

I shall briefly discuss each of these in turn.

The moral obligation to help the poor versus donor interests in the allocation of aid

Historically, states have given aid to recipient countries for a variety of different motives. As already noted, moral philosophers have debated whether more rich individuals and more affluent states have a moral obligation to give aid. Perhaps unsurprisingly, most major donors have decided that they do, indeed, provide aid for moral reasons - though they have tended to make stronger assertions in relation to humanitarian rather than development aid. However, the force of these assertions is diluted when set alongside other motives that influence the decisions of governments to give aid and how to allocate it. For most donor states, national security, the promotion of commercial interests and short-term political objectives have all shaped the decisions by governments about how much aid to give, whom to give it to, and for how long.

More than 40 years ago, Sweden's parliament authorised the state to provide aid for "no other motivation than moral duty and international solidarity". Other Scandinavian and Nordic countries made similar statements, the Finns and Norwegians going on to claim that their moral responsibility involved combating injustice and promoting development "wherever we can". More recently, both the United Kingdom and the European Union have stated that world poverty is

“one of the greatest moral challenges we face”, and “combating global poverty is ... a moral obligation”, and provides the grounding upon which their official aid programmes are based.

While the United States has historically given greater prominence to national security concerns in articulating why it provides aid, it has also deployed the language of moral obligation to assist the world’s poor. This view has been articulated most explicitly in relation to humanitarian aid: the United States Government provides humanitarian assistance “solely on the basis of urgent need, reflecting the concern for saving lives and alleviating suffering, regardless of the character of their governments”.

However, it has also been a justification for official development assistance provided by the United States. Indeed, President Kennedy’s view that the United States’ aid programme is based on moral obligation is still prominently displayed on the web-site of the main government aid agency of the current Bush Administration:

“Why then should the United States continue a foreign assistance program? The answer is that there is no escaping our obligation: our moral obligations as a wise leader and good neighbor in the interdependent community of free nations; our economic obligations as the wealthiest people in a world of largely poor people... To fail to meet these obligations now would be disastrous” President J. F. Kennedy.

Over time, the main donor states have narrowed down the purpose for which they say they are providing aid, with poverty eradication becoming a more central purpose, and the commercial interest of the donors, in particular, becoming of far less importance.

As the Cold War ended, there were great hopes that the national self-interest and short-term political motives for giving aid would become far less influential in the decisions states made about the allocation of their aid funds. However, these high expectations have not been met. To this day, national self interest continues markedly to influence donor decisions of *whom* to aid. Two examples illustrate this.

- Today only just over 40% of all official aid is channelled to the 63 poorest countries of the world in which well over 90% of the world’s poorest people live.

- In 1999, between them, Afghanistan, Iraq and Pakistan received less than 2% of total official aid (ODA). In 2005, five years later, these three countries accounted for 26% of all ODA, nearly a thirty-fold increase. In that year, Iraq and Afghanistan were amongst the top 15 largest recipients for 17 of the largest 19 bilateral aid donors; ten years earlier neither of these countries had been in the top fifteen of any major donor country.

Afghanistan and Pakistan are, of course, among the poorest countries of the world, and child mortality rates in Iraq are amongst the highest in the world, so there can be overlap between poverty-reducing and strategic goals and objectives in providing aid. . The core problems that arise when short-term political interests enter the decision of which poor people and poor countries to assist, are - first - the increased likelihood of a continued and major mismatch between aid needs and the allocation of official aid funds, and - second - unpredictability and high levels of volatility in the flows of aid which are provided. The unpredictability and volatility of aid reduces even further aid's potential impact as recipients are understandably reluctant to allocate aid to recurrent expenditures this year - such as to pay teachers' or nurses' salaries - when, next year, there is no knowing if aid will again be provided. I have recently been involved in a study of aid in Uganda where aid levels fluctuated (rose or fell) by 20% or more annually for the past five years.

Aid and poverty reduction

Challenges in deciding how to provide aid for faster poverty reduction

Once rich states have decided who to give aid to, the next question is to determine precisely *how* that aid should be provided. Donors have - understandably - been concerned that the aid provided be used for the purpose intended and that it should be effective, and they have usually sought to achieve these aims in two ways.

Predominantly, aid has been "parcelled up" into a series of discrete stand-alone projects which they either manage themselves, or, over which they exert considerable power and influence. However, some aid has also been given to the recipient's finance ministry to boost total spending, or channelled to government ministries, departments and institutions to boost specific areas of spending, such as health or education, or to help address skills gaps, strengthen institutions or

help enhance capacities. In providing aid in this way, most donors have applied an array of different specific conditions to the aid as a *quid pro quo* for the funds provided.

The balance between direct project aid and aid given to recipient government departments or institutions - known as “programme aid” - has oscillated as fashions in aid-giving have changed. Recent years have seen an increase in rhetoric about the merits of programme aid, though in practice most aid is still given in project form, the projects usually being designed by the donors and under their watchful eye. Public discourse talks of aid being “given by the rich to the poor”. In contrast, to this day, most official aid is not actually given to recipients in the form of free cash that they can choose how to deploy. Almost all official aid is “tied”, either formally and explicitly, or more loosely, to priorities established by the donors, and most is still provided as discrete stand-alone projects.

Four problems have arisen with this way of giving aid - providing new challenges to the way aid-giving has traditionally been cast.

- The first is that providing aid in the form of stand alone projects risks isolating these from the wider world, so creating “islands of development”. Indeed, as donor projects often suck in expertise and resources from the wider economy, they can have a perverse systemic effect on broader development efforts, as higher salaries paid by donors draw scarce skills away from key government posts.
- The second problem - seemingly obvious and, indeed, increasingly recognised - is that development is far more likely to occur if poverty-reduction plans and policies are drawn up and implemented - i.e. “owned” by - the recipient country. The more donors push their ideas, the less likely it is that policies are recipient-owned, so that commitment to pursue such policies will be reduced.
- Thirdly, and relatedly, the presumption that donors know how best to promote development has been frequently proved to be wrong: the conditions donors have attached to their aid have often turned out to have led to outcomes which have undermined, rather than furthered, poverty reduction.

- Fourthly, however, recipients have in practice often ignored some of the key conditions that donors have attached to their aid. In the majority of cases, this has not led to donors cutting off their aid, or even reducing it, confirming the view that conditionality is not a very effective way of influencing the way aid funds are spent.

All this reinforces the notion that “giving” aid turns out to be a complex affair. It also suggests that effective aid-giving requires an in-depth understanding of the aid relationship: the interaction between donors and recipients.

Another key issue concerns the link between the aid given and those living in extreme poverty.

There is a long-standing and widely-held view that if aid is to make a difference to poor people, then it needs either to be given to poor people (perhaps as cash hand-outs) , or, at least be used for projects whose purpose is directly to benefit particular groups of poor people. More recently, as what is termed the “rights-based approach” to development has moved more to centre-stage, there has additionally been growing support for the view that poor people themselves ought to be involved in decisions about how they might be helped - and aided - making them more the subjects of decisions about their own development rather than merely passive receivers of actions and activities decided by benevolent outsiders.

These perceptions need to be placed alongside analyses of the different factors found to make an impact on poverty reduction. There is extensive evidence which shows that a major way of reducing poverty is to pursue a range of initiatives that are not targeted specifically at poor people. Using aid to ensure particular (poor) people have access to education and health care, clean water and sanitation will certainly enhance their well-being, expand their choices and equip them with opportunities for productive employment. Yet, equally, poor people will benefit from initiatives which result in more rapid and sustainable wealth creation and an increase in the number of productive jobs. These cover a wide range of activities, such as building an efficient road network, developing modern communication and tele-communications systems, expanding the rule of law, strengthening the regulatory framework, encouraging the development of a free press - and so on. All have been found to have a significant impact on poverty reduction, and hence need to be considered as part of a package of ways in which aid might assist to accelerate the reduction of those living in extreme poverty.

Indeed, if a country fails to address the major structural, systemic and institutional impediments to development - and donors contribute to such failures by solely providing aid for projects directly aimed at helping particular groups of poor people meet specific short-term needs - more people will be likely to remain in poverty for far longer than if aid funds were used to address a fuller range of factors holding back the move to a more sustainable development path.

Aid and the Millennium Development Goals (MDGs)

This discussion provides the backdrop for discussing the way that the aid debate has recently been re-cast, namely by linking aid-giving to the Millennium Development Goals - or MDGs.

A major step-change in aid-giving was around the 2000 Millennium Summit Declaration, when all nations committed themselves to ridding the world of extreme poverty, formalised in the creation of eight linked Millennium Development Goals (MDGs) around which the efforts of aid donors were to be focused, the first and over-arching MDG being the “eradication of poverty and hunger”. Hence, aid was to be provided in the context of *externally*-created goals and objectives, and judged against these.

However, five years later, in 2005, the main state donors agreed (in what has become known as the Paris Declaration) and committed themselves to provide aid to recipients within the framework of development strategies and policies drawn up and implemented by the recipient countries themselves. Hence aid was also to be provided in the context of *internally*-created goals and objectives, and judged against these.

It could be argued that there is little or no conflict between these two approaches to giving aid as all countries have signed up to the Millennium Development Goals, so they provide the template against which all development strategies in aid-recipient countries from now on need to be based. The reality is both quite different, and, as you might expect, far more complex.

First, from the donor side, a major problem has been that the main donors as a whole have failed to provide the additional funding they pledged would be forthcoming to achieve the MDGs, an issue that I will discuss in more detail in a moment. Another problem is that the commitment to providing aid within the context of the MDGs has been decidedly mixed. While some state

donors, such as the United Kingdom, have used the MDGs to inform the allocation of their aid funds, others have not. Indeed, four out of the five main state donors - the United States, Japan, France and Germany - who between them account for more than half of all official aid, do not allocate aid according to MDG criteria.

Secondly, while most aid recipient countries signed the Millennium Summit Declaration, they did not play a prominent role in the creation of the MDGs, raising questions about their “ownership” of and commitment to the MDGs. It is not that poor countries do not want to rid their countries of poverty; the central issue is how best this might be done.

Most aid recipient countries have goals and objectives other than those contained within the MDG template - such as wanting to expand secondary and tertiary education in order to be better placed to benefit from globalisation, whereas the MDG education goals focus exclusively on primary/basic education. Not surprisingly, therefore, the majority of poor countries have not formally incorporated the MDGs into their development plans and planning frames. What is worrying is not so much that poor countries have not drawn up development plans which coincide with the MDGs, but that they haven’t drawn up any development plans for themselves. Most continue to be leaned on by donors to adopt policies and strategies either penned by or closely mirroring approaches developed by the main donors.

This has not stopped donors from allocating aid funds into initiatives which coincide with some MDG priorities. Although these have often led to immediate and tangible gains - such as more people in school, fewer children dying of malaria because of the distribution of more bed-nets - they have also led to some perverse systemic effects. Donors have tended to channel aid into more “popular” areas or sectors, such as HIV/AIDS, and this has led to both an under-funding of other areas or Goals and to systemic distortions. For example, donors have provided more money to health and education and less to water and sanitation. And in some countries, the popularity of HIV/AIDS has led to an under-funding of other health priorities. To illustrate this, a recent study by the International Monetary Fund (IMF) of the health sector in Rwanda concluded that donor funding of HIV/AIDS projects had resulting in a lack of funds for primary health care services, undermining the Rwandan government’s overall health strategies. More recently, donors have begun to switch their aid to areas and activities which they believe are under-resourced or not receiving sufficient attention. For instance, a number of donors, Britain among them, have, rather

belatedly, decided that the best way to reduce poverty is to focus on activities which promote “pro-poor” growth. This is leading to the switching of aid funds to wealth-creating and employment-enhancing activities, resulting in more volatility and uncertainty for recipient countries.

The multiplicity of official aid donors and requirements when giving aid

Over the six decades that the governments of rich countries have provided aid, the number of official donors has steadily grown, and now exceeds 200. At first sight, this appears to be beneficial for efforts to reduce world poverty, as more donors are likely to mean more aid extended to more (poor) recipients.

The reality is rather different: donor growth has become a significant and growing challenge to the efficiency of donor aid, particularly because it has been taking place in the continued absence of a robust overall structure within which official aid funds are channelled.

The consequence of providing aid by “growing” the number of donor agencies is that increasingly individual recipients have had to interact with an increasing number of official aid donors. Some figures illustrate what has been happening in recent years.

- In the 1960s, each recipient had to deal with about 12 donors. By 2005, the number had tripled to about 33.
- In 1990, no single aid recipient country had to interact with more than 40 individual donors. Today, at least 30 recipient countries have to deal with more than 40 donors.
- In 1997, the number of official donor aid projects totalled around 20,000. Today, ten years later, the number has tripled to over 60,000.

Official donors are not only aware of the systemic problems of providing aid, but, in the 2005 Paris Declaration, they committed themselves to begin to address some of them. In particular, they agreed to work together more to harmonise their different (individual) aid efforts and align them more closely to the plans and programmes of aid recipient governments. Some donors are now pooling their aid together, and some have agreed to reduce the number of recipients to whom they give aid. However, recent progress reports conclude that the pace of reform remains slow. What is more, some of the targets they have set themselves are not very ambitious. For example,

in each aid recipient country, donors run, on average, 54 separately managed aid Project Implementation Units (or PIUs for short). If the Paris targets are met, by the year 2010, the numbers will be reduced but will still leave on average, 18 such units in every aid recipient country.

Aid volume, aid allocation and the voluntary nature of aid-giving

The final challenge I would like to discuss relates to the total amount of official aid provided. For many, this is considered to be *the central* aid issue, one that is likely to receive added poignancy given the current financial crisis and looming global recession.

The prospects for official aid flows

As many of you will be aware, at a succession of recent world summits, all leading donor-states pledged to provide rising amounts of official aid until the target ratio of ODA to Gross National Income (or GNI) reaches 0.7%, this level of aid being seen as critical to the achievement of the Millennium Development Goals by 2015. Based on prevailing aid volumes, reaching this target would involve a more than doubling of official aid from the levels reached in the year 2000.

What you may not know is that this process of aid pledging has a long history. Successively in the 1970s, 1980s and in the 1990s, donor states made almost identical pledges, aiming, for example in the 1970s, to double aid levels within five years. Perversely, the highest ODA/GNI ratios were achieved in the late 1960s, the years immediately prior to when the very first pledges to reach the 0.7% ratio were ever made. Thus, significantly increasing levels of official aid turns out to be a rather old, and not a particularly new challenge.

Before the global financial crisis, the recent sharp falls in growth rates of all the leading economies of the world and the now the widely expected contraction in the global economy, the near-term prospects for official aid levels were not particularly promising. The latest figure we have show that the ODA/GNI ratio stood at 0.32% last year, with simulated projections made prior to the current financial and economic crises, suggesting that, at best, the ratio might rise to 35% by the year 2010 - bringing it back to the levels of the early 1970s.

However, the likely recession across most, if not all, donor countries suggest that even these modest gains are unlikely to be achieved, as rising levels of unemployment in donor economies

and the need to focus government expenditure on maintaining levels of domestic demand put pressure on donor states to reign in what are widely perceived to be low-priority expenditures, including the official aid programme. The history of past problems provides some guidance to what might happen now. In particular, earlier economic crises in donor states resulted in significant contractions in aid programmes of both large donors (Japan and the United States) and smaller ones (such as Italy). The Nordic banking crisis of the early 1990s led to sharp short-term falls, in real terms, in official aid (ODA) provided by Norway (10%), Sweden (17%) and from Finland (62%) - some of the most generous providers of aid.

For their part, both the United Kingdom and the United States have appealed to other donors not to use the present crisis as grounds for not continuing to increase aid in line with recent pledges, though, in private, even Britain is conscious of the need to show that “aid works” if it is to succeed in maintaining political and public support for the country’s expanding aid programme. For its part, Italy has proposed cutting aid volumes in half in its latest budget.

What seems most likely is that the rise in the aggregate ODA/GNI ratios predicted before the current crisis will not now be achieved. Equally importantly, because aid levels are based on a share of the total amount of wealth created in donor countries, when their growth rates fall, the absolute amount of aid provided will be reduced, when growth rates turn negative, aid volumes will fall. The latest growth forecasts from the International Monetary Fund (made the week before last) suggest that the economies of the leading donor states will slow to 1.4% growth this year, and contract next year by 0.3%. This will mean that the total wealth created will be about \$1,600 bn lower than if the economic contraction had not occurred, reducing total aggregate aid by just over \$5 billion even if the ODA/GNI ratio were not to fall. This loss in aggregate ODA is equivalent to nearly a half of all the official aid provided by the United Kingdom last year.

Growth rates are also set to decline in the poorest countries. A study by the World Bank on the effect this will have on poverty was published last week. It suggested that next year, growth rates will now be only 4.5% compared to its forecast made only a few months earlier of 6.4%, a reduction of almost two percentage points. The study suggested that for every one percentage point decline in growth rate traps an additional 20 million people in poverty.

The implication is clear: if the driver for providing aid is to contribute to making substantial inroads into poverty reduction, then we are moving into an era when even more will be needed than has been promised and even those promises are not being met.

The mis-match between aid needs, the way that aid is provided and the voluntary nature of aid-giving

At one level, it is understandable why, historically, the (small) amount of official aid provided by (rich) donors has been based on a share of the (large) amount of the total wealth created, namely, the ability to pay, though - as noted - the amount actually provided has been far lower than the fairly modest target set. It is also worth noting that over the past few decades, the “wealth gap” between rich and poor countries has widened markedly: in 1965, the average income per inhabitant in the main donor countries was 22 times greater than in the poorest countries, today it is 65 times greater.

The problem with linking the provision of aid solely with the wealth created in donor countries is that there is no necessary link between the amount of aid provided by the rich and the amount of aid required by the poor.

There is no time now to explore precisely how much aid is needed and how one might go about trying to calculate what that figure is, or might be. However, from the partial and often rather crude methods used, there is little doubt that the amount of official aid currently provided falls well short of the amount needed - both the amount required adequately to respond to emergencies (which I have already briefly discussed) and the amount of development aid needed by the poorest countries to help them sharply reduce the numbers of people living in extreme poverty.

The basic reason why this gap persists is that official aid funds are raised (and allocated) solely on the basis of the voluntary decisions made separately by each and every official donor country. Pledges are made by donor countries, often at international conferences, to provide a certain amount of aid, and sometimes to provide a share of official aid to the poorest countries. But there is no mechanism in place to ensure that these pledges result in the aid promised being given.

Similarly, the total amount of aid provided to a particular recipient comprises the cumulative total of aid funds that each donor individually chooses to provide to that country. No direct and formal link is made between the funds given and the amount required. To my knowledge, in no recipient

country do donors get together with individual recipient countries to determine how much aid a recipient is able efficiently to use and absorb, and commit themselves as a group to providing the overall aid needed - with each agency committing itself to provide a share of the total.

The looseness of these arrangements becomes apparent when, or if, individual donors fail to provide the aid they have already announced they will give to a particular recipient country in the coming year. No donor feels any obligation to help make up a shortfall in the total aid provided when one of their number fails to provide the amount of aid it has promised. Likewise, when donors as a whole fail to keep their promises to provide aid to the level promised, no donor feels obliged to make the shortfall when one or more donors provide less than they pledged, and no institutional mechanisms or processes exist to address this problem.

If the history of official aid-giving teaches us one lesson it is that the current “system” of raising aid funds and allocating aid on the basis of individual voluntary decisions doesn’t “work”: it provides a wholly inadequate basis for raising and allocating official aid funds. This is, I would argue, among the most critical challenges facing donor states today.

Surprisingly, it is not a new challenge. Almost from the time when the current aid system was being formed, a succession of prominent people has called for a more rational system of raising and allocating official aid funds. For instance, the first report of the Independent Commission on International Development published in 1980, more widely known as the Brandt Commission, as it was headed by the former German Chancellor Willy Brandt, judged, more than 25 years ago, that even then the time had already passed when the world ought to be raising aid funds through some sort of automatic mechanism, and disbursing aid without the repeated interventions of governments. Eleven years earlier in 1969, the very first international commission on aid, chaired by the former Prime Minister of Canada, Lester Pearson, argued that official aid should be separated from, and should have a separate identity from short-term political considerations, and that, though donors understandably had a keen interest in ensuring that the aid they provide was well spent, their interests should be “carefully limited and institutionalised”. A third prominent politician critical of the way the aid system subsequently evolved was none other than the person considered the founding father of the international aid system, US President Harry Truman. In his 1949 Presidential inaugural speech he outlined the basis of the system under which he thought official aid ought to be provided. In his view, donors should provide aid by pooling their resources

together, by co-ordinating their aid-giving efforts, rather than acting on their own, and by ensuring that the aid given would enable recipients to use it in the ways that *they* saw fit.

The current financial crisis and linked global recession have simulated our politicians to begin to focus seriously on the urgent need for countries and economies to change the way they have attempted to manage and regulate their economies and financial systems - individually - replacing it with an over-arching structure within which their individual actions are more closely co-ordinated, and countries will be required to take action to ensure systemic durability. This is clearly also an opportune moment for politicians in donor countries to re-engage in discussions which will lead to their taking similar sorts of action in relation to the way they provide aid to the poorest countries, for this has been “urgently needed” for at least the past 30 years.

CONCLUSION

It is time to conclude. If there is one message I hope to have conveyed to you this evening it is that aiding the world's poor is a complex issue.

What I have tried to do this evening is to suggest that if you do agree that we in the rich world *have* a moral obligation to assist in the reduction, and elimination of extreme poverty, and believe that aid can help to make a significant difference, this is merely the start of your ethical journey of analysis and assessment. This is because the beneficial effects of aid are by no means certain or automatic, and you are faced with an array of choices, questions and challenges to try to determine how those aid funds might best be used. Indeed, I have suggested that the gap between what aid achieves and what it might achieve remains wide. Those who believe there is an obligation to rid the world of extreme poverty need to be in the vanguard of those working to narrow that gap.

Thank you for coming this evening and I hope that even if I haven't managed to fully answer the questions you came with about how best to aid the world's poor you, too, might have a deeper understanding of the complexities involved in pondering the ethical issues involved in giving and receiving aid.