

A Case For

AID



Catalyst
UNITED FOR JUSTICE

The 2007 Catalyst Campaign

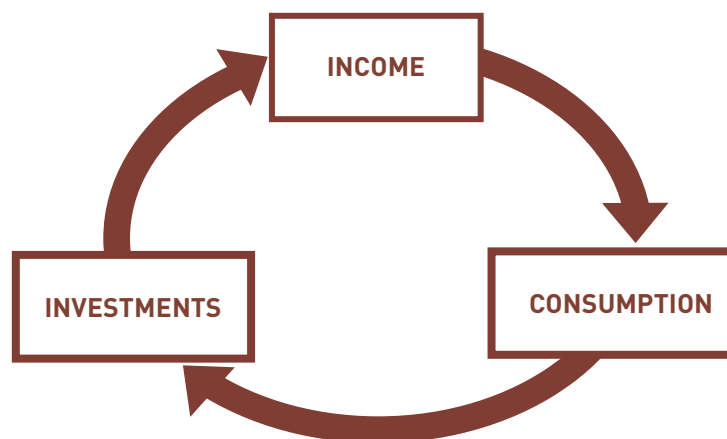
Australia's aid budget currently amounts to 0.3% of national income, or \$2.96 billion. In 2007 Catalyst groups are asking the Australian Government to commit to an aid budget of 0.5% of national income by 2010 and 0.7% by 2015. This represents an amount of around \$4.9 billion (current values) by 2010 and \$6.9 billion (current values) by 2015.

If this commitment was reached it could mean all of the following:

- 40,000 fewer child deaths per year, rising to 80,000 by 2015
- 1200 fewer maternal deaths each year, rising to 2500 by 2015
- At least 9,000 fewer HIV and AIDS related deaths each year
- 11,000,000 more people with access to safe drinking water
- 60,000 more children receiving basic education¹

The Poverty/Prosperity Cycles

Wealth creation is a relatively simple process. A person (or household or community) earns income. Part of the income they earn is consumed on things such as food, health care, and clothing and part is invested on items that increase earning capacity. For example, a farmer might invest in fertilisers that enable her to increase her crop yields, or a Government might invest in a road that enables the farmer to get her additional produce to market. These investments enable people to generate even more income, which in turn means more can be consumed and/or invested, which again increases income, and so on. An upward spiral is created in which wealth grows.



The poverty cycle occurs when income is insufficient to enable investment. In these circumstances the individual's capital is run-down. For example, the farmer cannot afford fertilisers and so has a lower crop yield. This results in declining income, which lowers the wealth available for consumption and investment, which in turn lowers income once more. A vicious downward poverty spiral is created.²

¹ See "Expanding Australia's Aid Program Within Our Region (2005)" at http://www.makepovertyhistory.com.au/downloads/Bringing_Aust%20Aid_to_0.5percent_of_GNI.pdf

² For more on wealth creation and the poverty trap see Jeff Sachs, *The End of Poverty* (Penguin Books, 2006)

Escaping the Poverty Trap

To lift themselves out of poverty poor individuals, households and communities need to build their 'capital' (or resource base). This includes:

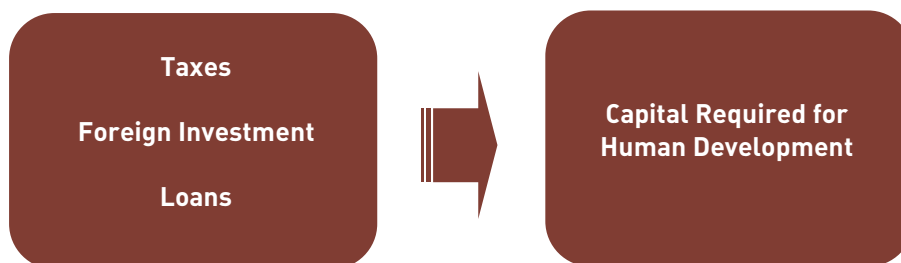
1. Human capital - health and education;
2. Social capital - societal trust and cohesion;
3. Institutional capital - competent and honest societal institutions (eg police, military, government, health system, etc);
4. Financial capital - access to credit, banking, etc;
5. Technological capital - access to various technologies that enable businesses and communities to flourish;
6. Business capital - equipment, buildings, etc required to maintain businesses;
7. Infrastructural capital - roads, energy sources, communications, etc;

Access to these forms of capital enables poor individuals, households and communities to increase their well-being and lift themselves out of poverty.

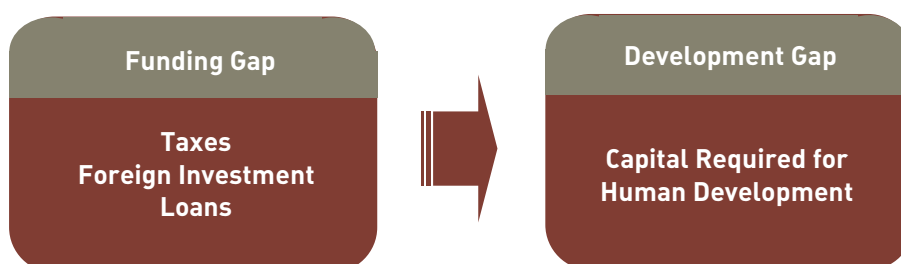
The Funding Gap

Due to their impoverished situation, poor individuals, households and communities are usually unable to fund the capital investments they require to put themselves onto the 'prosperity cycle'.

Governments, for example, are able to earn income from three main areas - taxation, loans and investment from outside the country. From this they seek to make the necessary investments in human development.



The problem for the governments of poor countries is that the income they earn from taxes, foreign investment and loans is not enough to fund the human development needs of their people



Foreign Aid

Poor countries can overcome the funding gap through an additional form of income – aid from rich nations. The UN Millennium Project has provided the most rigorous analysis of the amount rich countries would need to devote to see extreme poverty ended by 2030. It estimates rich countries will need to be devoting just 0.5% of their national income in foreign aid by 2010 and 0.7% by 2015³.

The International Aid Target

Over the years the world's wealthier countries have made a number of aid commitments. In 1970 the world's governments, including Australia, agreed to a developed country aid target of 0.7% of national income. This was based on the assumption that, to accelerate their economic growth to the point poverty could be reduced, poorer countries needed to receive foreign investment of an amount equal to about 1% of 1970 rich world income. It was further assumed that 0.3% would be provided through private investment, leaving a figure equalling 0.7% to be provided in foreign aid.⁴

The economic analysis on which the 0.7% aid target was based has been largely discredited, but the figure has remained the widely accepted international aid target. More recently, the Millennium Development Project has shown that the foreign aid investments required to end extreme poverty by 2030 are close to the original 0.7% target. The UN Millennium Campaign recommends that rich countries reach an aid figure of 0.5% of their national income by 2010 and 0.7% by 2015.⁵

Making Aid Effective

Money alone will not ensure the investments necessary to ending poverty are made. Aid needs to be used wisely. This has implications for both donor and recipient countries.

Donor countries must ensure aid is sufficient in quantity and quality.

In the past aid has been offered for a range of reasons other than poverty relief. For example, aid often flows to countries that the donor sees as important to its military, political or economic interests.

Even where aid is offered with poverty reduction in mind, donor countries often demand that it be spent in ways that benefit both the recipient *and* the donor. For example, 'tied aid' requires recipient countries to spend the aid dollars they receive on products manufactured by the donor country or on skills offered by the donor country. Fortunately, Australia has committed to eliminating tied aid. Yet it is arguable that much of the aid budget is driven by a desire to benefit Australian interests. For example, a massive increase in scholarships that enable people from our region to study in Australian universities will benefit both those who are offered a scholarship and Australian universities. Similarly, in recent years Australia has made large increases in the amounts of aid it devotes to law and order in our regional neighbours. Again,

³ See "Investing in Development. A Practical Plan to Achieving the Millennium Development Goals" (2005, UN Millennium Project) Available at www.unmilleniumproject.org

⁴ See Clemens and Moss, "Ghost of 0.7%: Origins and Relevance of the International Aid Target" (Centre for Global Development Working Paper No 68. September 2005)

⁵ See "Investing in Development. A Practical Plan to Achieving the Millennium Development Goals" (2005, UN Millennium Project) Available at www.unmilleniumproject.org

this should be of benefit to our neighbours, but some question why spending on other forms of capital such as health and education have not received a similar increase. Could it be that the desire of Australia for border security is being given priority? As long as donor governments offer aid with one eye on their own interests as well as an eye on the interests of the poor country there will be important questions to ask about the way it is spent.

Aid must also be spent in ways that benefit the poor in recipient countries. A significant debate exists as to how this can best be accomplished. Some favour “top down” approaches, where aid is spent on programs that build the competence of poor country governments to grow their economies and provide services effectively, transparently and accountably. This “top down” approach assumes that once countries grow economically and are able to competently deliver services the benefits will flow to the poor. Others argue that the “top down” model doesn’t necessarily see any short term or medium term benefit for the poor. They favour a “bottom up” approach, which sees emphasis on grassroots community development – for example ensuring poor communities have access to clean drinking water, providing credit to the poor to start small businesses, helping poor farmers apply new technologies that increase their crop yield, or ensuring children stay in school. Advocates for this approach suggest that bottom up approaches directly benefit the poor and because driven by the poor themselves have greater possibility of success. Many development practitioners believe we need both top down and bottom up approaches functioning together, but debate the weight that should be given to each⁶.

Another important issue is aid consistency. Donor countries are not obligated to give the aid they promise, meaning recipient countries are often unsure whether the funding will continue in the medium to long term. This makes it very difficult for them to make the longer term plans that are necessary to deal with a problem as entrenched as poverty.

To be effective aid must not only get to 0.7% of national income, but Australia must ensure it is aimed at tackling poverty.

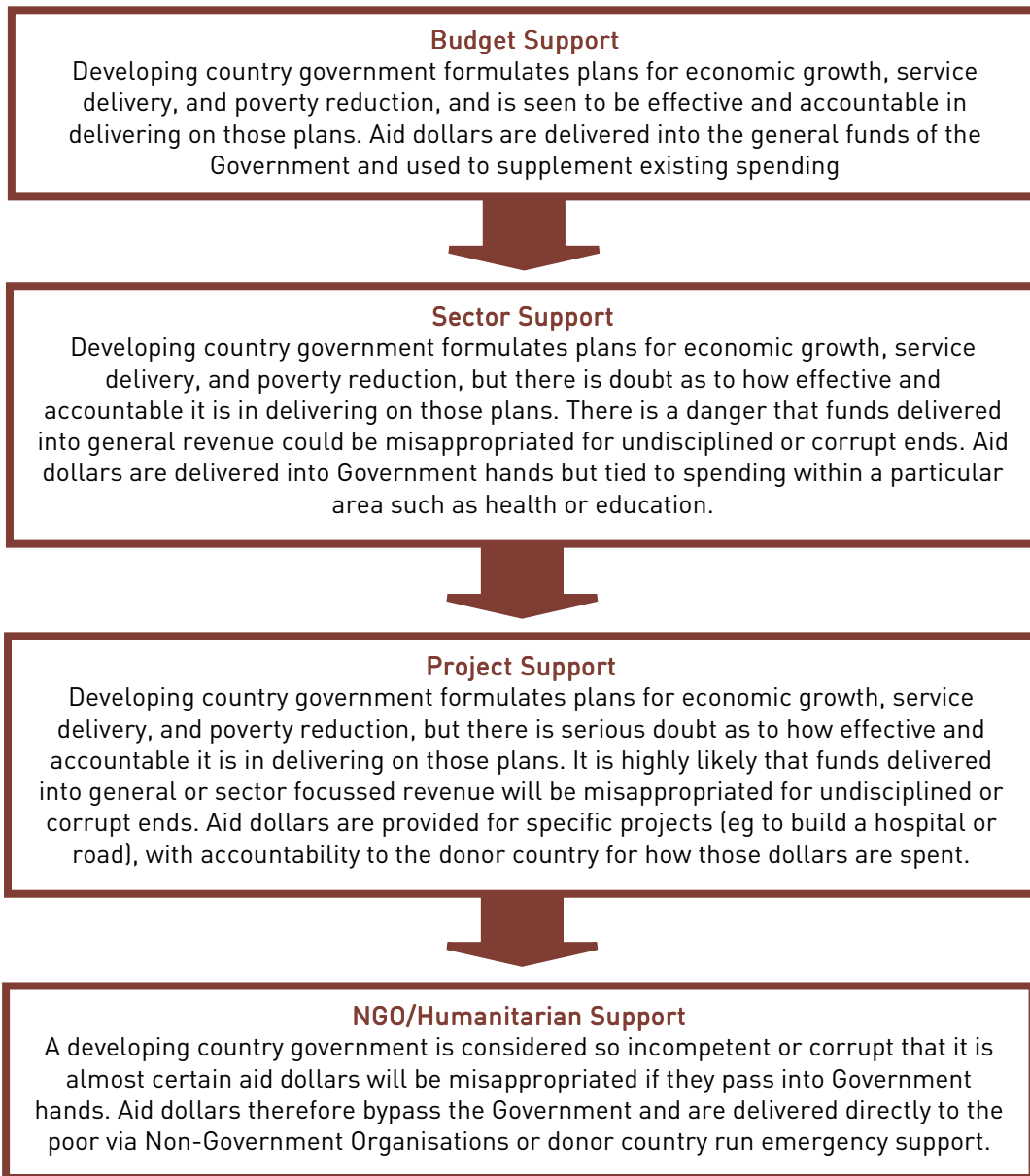
Recipient countries must develop policies that promote human development and ensure aid is devoted to these ends.

Large amounts of money are easily misspent by recipient countries. This may be the result of corruption, as leaders allocate money to themselves rather than to the poor, or it may result from incompetence. Countries such as Australia have very well developed practises and institutions that enable us to spend large sums of money relatively well. Poor countries often lack these, meaning that aid dollars may not be misappropriated through corruption but spent in ineffective ways.

To overcome this it is important for recipient countries to address corruption and competence through the development and transparent implementation of poverty reduction plans. Fortunately more and more countries are doing this.

Where corruption or incompetence is extreme, donor countries can still ensure aid flows to those who need it. We can think in terms of a hierarchy of aid delivery methods, diagrammed below.

⁶ The World Bank is a good example of a “top down” approach. Former Bank President James Wolfensohn and Chief economist Francois Bourgoignon provide a good overview of current thinking in “Development and Poverty Reduction. Looking back, Looking Ahead” (World Bank, 2004). Development economist William Easterly, *The White Man’s Burden: Why the West’s Efforts to Aid the Rest Have Done So Much Ill and So Little Good* (Penguin Books, 2006), is a good example of a practitioner who is sceptical of “top down” approaches and favours a “bottom up” focus.



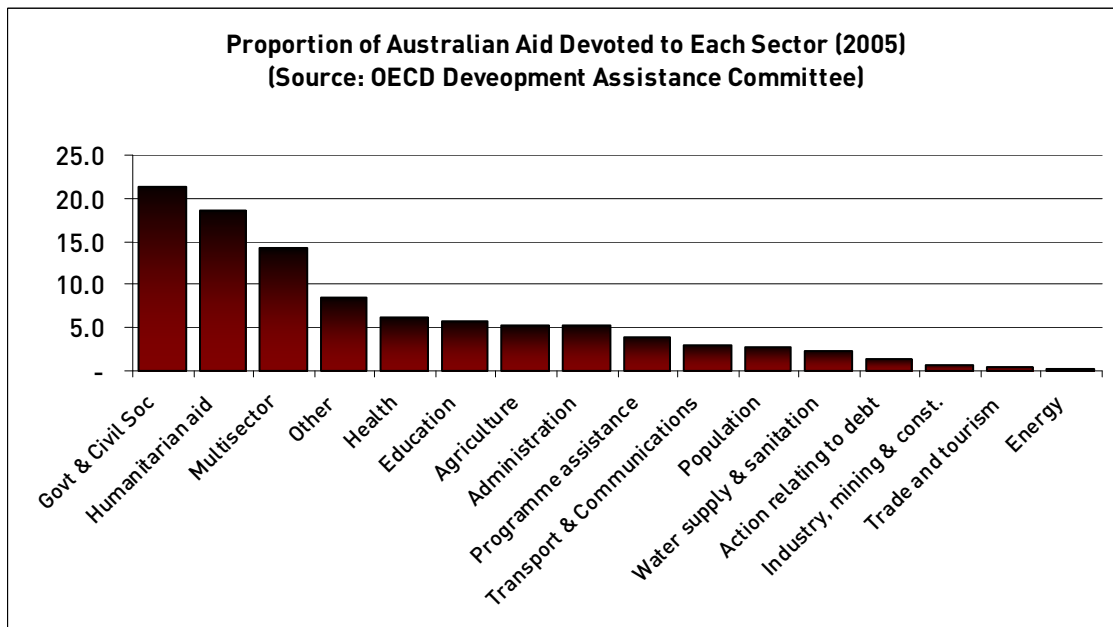
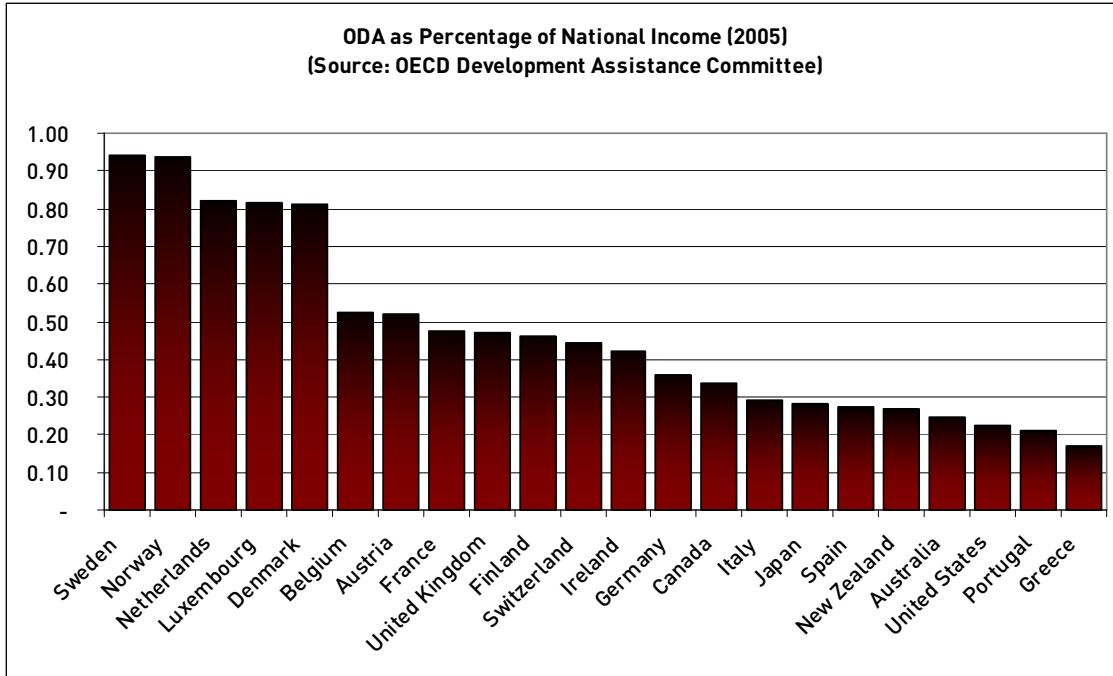
The ideal form of government-to-government aid delivery is direct budget support for poor countries. This enables poor country governments to own their problems and develop and enact their own solutions. In the longer term, this builds the capacity of a country and its government to overcome poverty. Where corruption makes such aid delivery difficult, other methods can be used. The higher the level of corruption, the further down the hierarchy of delivery methods we go.⁷

How Australia Gives At Present

Australia's aid budget stands at 0.3% of national income (2006-7 budget). This is an amount of \$2.94 billion and is well below the target of 0.5% by 2010 and 0.7% by 2015. For the last thirty

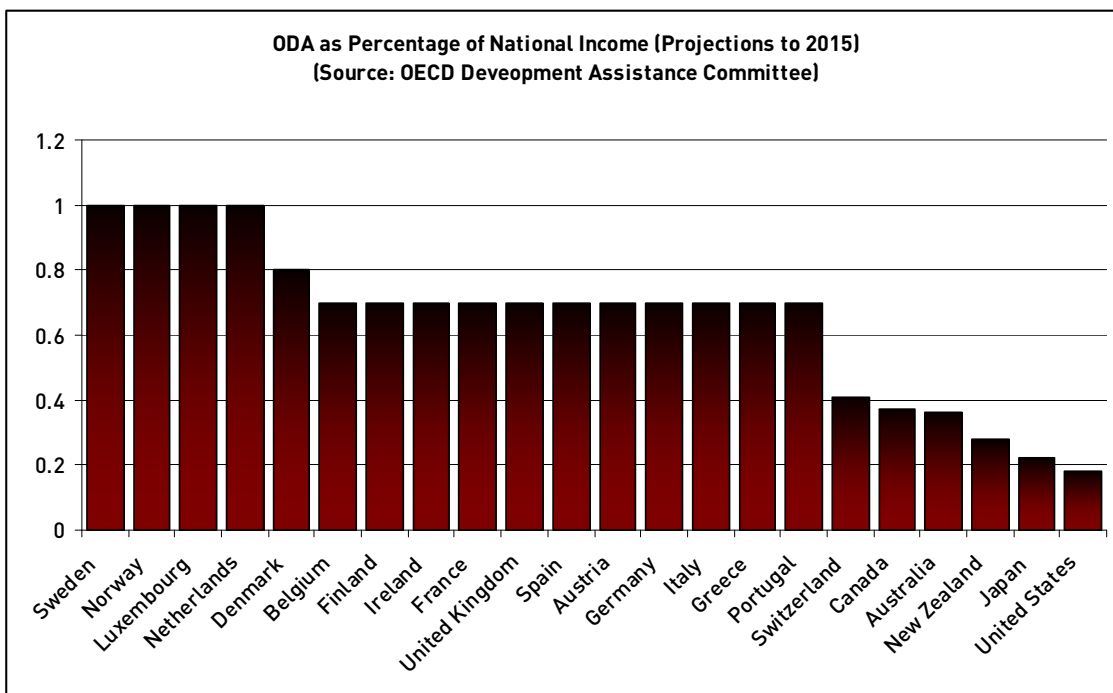
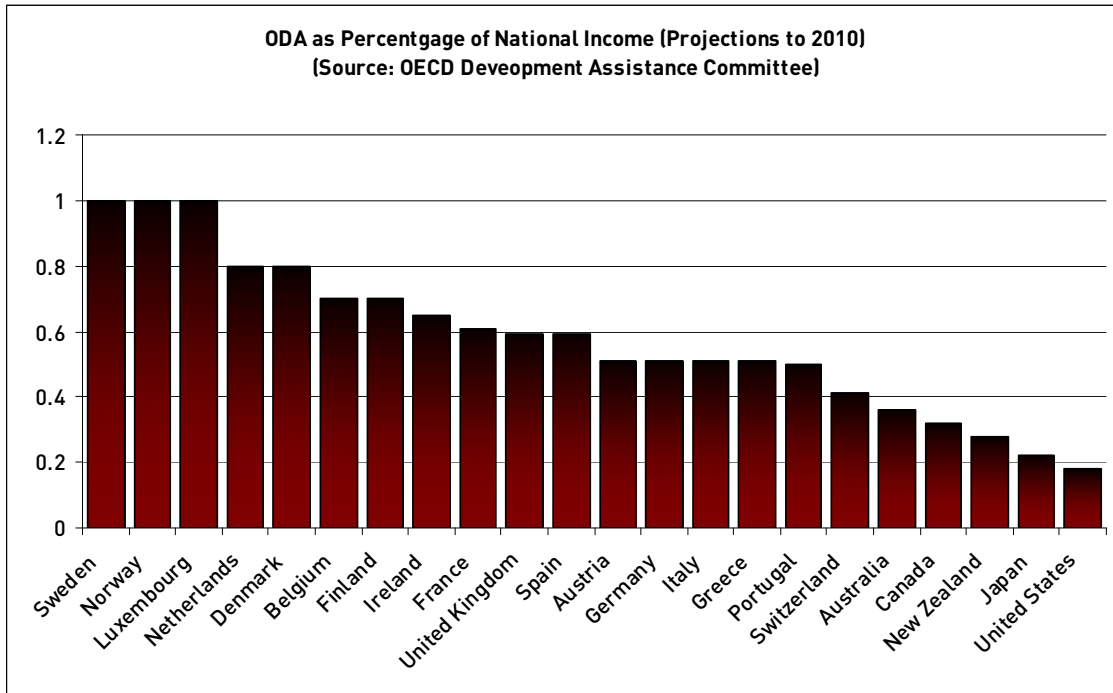
⁷ For more on this see "Can Aid Be Effective When Corruption Is Present?" (Make Poverty History/Micah Challenge, 2006). Available at http://www.makepovertyhistory.com.au/downloads/Can_aid_be_effective.pdf

years the dollar amount we give has been increasing due to our growing wealth, but the amount we give as a proportion of our income has been declining (see the first chart below). You can also see from the second chart where our spending is focussed.



Projected Australian Giving

How much has Australia committed to give in the future? In 2006 the Government announced it will increase aid to \$4 billion by 2010. Whether this increase will be delivered is conditional on recipient countries ensuring they address corruption. If delivered it will see our giving rise to around 0.36% of national income. Despite the increase we will still be one of the poorest givers in the rich world, for many of the world's richer nations have made a commitment to be giving at least 0.5% of their national income by 2010 and 0.7% by 2015 (see charts below).



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