Title:	Have we failed badly in fighting against global poverty in terms of how we deliver aid?

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Major	Public Policy
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Course Title	
Type of Document	Essay
Year	2014

Have we failed badly in fighting against global poverty in terms of how we deliver aid?

The United Nation's 2014 report shows that the number of poor people living on less than USD 1.25/day has been reduced from 1.9 billion in 1990 to 1.2 billion people in 2010. This makes the Millennium Development Goal 1 (MDG) reached the target before the 2015 deadline (UN 2014). Since poverty reduction is the core objective often cited to support foreign aid (Collier & Dollar 2002, p. 1475), the role of foreign aid is also perceived to contribute to this achievement. If this were the case, it would be a strong justification that the amount of aid should be increased to accelerate poverty reduction in developing countries. Currently, the official development assistance (ODA) to recipient countries has been increased from USD 133.5 billion in 2011 to USD 134.8 billion in 2014 (OECD 2012 & OECD 2014).

Although a huge amount of foreign aid has been allocated to developing countries to alleviate poverty, it does not seem to reap its full benefits, measuring either in terms of multi-dimensional or monetary approach to poverty. William Easterly critically interrogates on how aid would help to accomplish the former. He indicates that donors had spent almost USD 2.3 trillion to the world's poor over the last few decades but could not get a 12-cent medicine to prevent half of children deaths from preventable disease such as malaria (Easterly 2006a, p. 4). For the latter, in 2010, G-8 countries have doubled aid to Africa, accounted for USD 50 billion with a debt write-off of USD 40 billion (Glennie 2010, p. 207). But the share of global poverty in the African continent is doubled in which one out of two African lives below extreme poverty (World Bank 2013).

Moreover, among 700 million poor people who are currently lifting out of the poverty as documented in the UN's 2014 report above, Acemoglue& Robinson (2014) highlight that China alone is accounted for 627 million people of this number. China's contribution to this reduction, as argued by Joseph Stiglitz (2007, p. 11), is not mainly due to the foreign assistance but due to its export-oriented policy. When excluding China, the world's poverty reduction is highly questionable. Therefore, this paper would argue that the world has not obviously succeeded in the fight against global poverty in terms of how aid is delivered.

The term ‘aid’ in this paper refers to the ODA’s definition. It is a financial flow to both recipient countries and multilateral development institutions in terms of concessional and grants with the objectives to promote economic development and welfare of recipients. It is neither humanitarian nor military aid (OECD n.d).

This paper will start by providing a critical view of how aid fails to reduce poverty in Africa in section 2 by comparing it with East Asian countries. Section 3 will show how aid serves the interests of the donors rather than the poor. Section 4 will highlight how aid is spent unnecessarily and it will be followed by recommendations in the last section.

Section 2: Aid and poverty reduction paradox

During the 1960s, one notable thing that East Asian and African countries commonly share was that they are both low-income countries (Roemer 1996, p. 1). However, poverty rate in East Asia was higher than in Africa, which was45 per cent (exclude China) and 40.2 per cent respectively (Go et al. 2007, p. 261). Up to present, the story between the two is reversed.

For the past 30 years, East Asian countries such as South Korea,Japan, China,Taiwan and Singapore had achieved an average economic growth rate of 6 per cent (Stiglitz 2007, p. 30). As a result, poverty rate has been enormously reduced to 8 per cent whereas in Africa, it has been increased to 46.8 per cent as the population increases (World Bank 2014a & 2014b). Despite receiving a large amount of foreign aid, Africa’s average growth rate stays rather low with only 0.2 per cent in Sub-Saharan Africa over the same period andit has just rebound to 5 per cent after 2010 (Stiglitz 2007, p. 30; IMF 2013, p.3). The triumph of East Asian countries and the failure of Africa show contradicting views of how the former reduce poverty with very little or no aid (Easterly 2006a, p. 345) and how the latter fails to do it even with a huge amount of foreign assistance.

To make one policy a success, it is primarily dependent on government’s commitment. East Asia countries have built strong economic institutions to sustain the process of growth and equity. For instance, the establishment of secure property rights, as mentioned by Acemoglue and Robinson (2012, p. 68) and Dani Rodrik (2011, p. 140), have accelerated countries growth such as South Korea and Taiwanvery rapidly.

Furthermore, Joseph Stiglitz highlights that each of this country expands primary and secondary education simultaneously, recognizing that success requires individual with highly skilled and capable of absorbing advance technology. They also invest on physical infrastructure such as roads, ports and bridges to bring down the costs of business while select sectors that should be developed (1996, p. 170).

But one crucial underlying factor that makes the entire policies above materialized is the governments' commitment in combating corruption. East Asian countries see corruption as an impediment for development because it crowds out investment. Government would allocate market to the one who offers bribe and this characteristic would discourage innovation and competition (Shen &Willimson 2005, p. 327). Corruption also corrodes governments' quality of service provision provided to the poor. With these drawbacks, countries such as Singapore and Hong Kong have invested heavily in the fight against corruption (Quah 1995, p. 404). Accordingly, the economy is taking off and poverty is reduced.

Unlike East Asian countries, government's commitment in Africa is not materialized due to the increasing roles of aid. As ideally advocated by Jeffrey Sachs (2005a, p. 245) that without financial assistance, African countries find it very challenging to climb up the development's ladder because poor countries are characterized by low human capital and lack of financial resources. Thus, aid should beregarded as a crucial source of asset triggering development via government's investment. In the same manner, Paul Collier and David Dollar (2002, p. 1482) mention that aid can enhance growth and growth, in turn, would lead to poverty reduction. These make aid an important determinant in reducing poverty.

However, aid to Africa has done more harm than good. It distorts and erodes the quality of African government. Paul Collier reveals that under the policy conditionality, Kenya government promised the World Bank for reform in return of financial assistance for five times within 15 years. For five times, Kenya government just took the money and did nothing (2007, p. 109).The problem is clearly seen that government is initially not willing to interpret policies into action. But what is even more important is the way that aid is given. By knowing that the government has no commitment to change, the donors still wastefully keep on pouring aid without changing its approach.

Pro-aid commentators might argue that donor agencies would cut off aid if the recipient governments perform badly. This is not necessarily the case. As previously mentioned that the World Bank keeps giving aid to Kenya government for five times, knowing that aid would not have any positive effects. Two general implications can be derived from the donor's side. First, if donors enforce conditionality attached with aid, the relationship between the donors and the receiving governments might be highly jeopardized. This would essentially affect the aid industries because it is their jobs to disburse aid and that makes their industries keep on going (Moyo 2009, p. 100). Second, donor agencies might not have accountability in themselves. Easterly (2006b, p. 6) highlights that a lack of accountability is a serious shortcoming in delivering aid and that makes aid fail to meet its promise.

Moreover, foreign aid also installs Africa a culture of dependency. In 1960, ODA was accounted for 2.3 percent of Africa's GDP while it is currently increasing to 9 per cent (Glennie 2010, p. 209). With this huge inflow of aid, governments see it as permanent revenue. Moyo (2009, p. 116) argues that instead of looking for a better way to finance long-term growth such as policy reforms to attract investment, governments solely depend on the inflow of aid. Since the money governments uses is not hard-earned money from citizens, it might not provoke citizens into demanding government's accountability (Collier 2009, p. 181).

With this loophole, governments can either divert aid from pro-poor policies to fund other sectors such as military or embezzle that money for personal gains. It is estimated that African continent lost approximately USD 148 billion to corrupt practices each year, equivalent to 28 per cent of the continent's GDP (UNDP 2011). UNDP further claims that if 10 per cent (USD 74 billion) of this money could be recovered for poverty reduction projects, it would be adequate to support education, hunger, water sanitation and HIV/AIDSof MDGs combined within five years (UNDP 2011).

The comparison between East Asian countries and Africa on poverty reduction provides persuasive evidences that success depends on government's commitment to translate policies into actions and aid would be an effective catalyst to generate growth if it is to deliver with accountability. If the donor agencies keep using the current approach, the West's promises to double aid to Africa, as advocated by Jeffrey Sachs, would not make Africa any differences in terms of poverty reduction.

Section 3: Aid and the interests of the rich worlds

Another reason making aid ineffective to reduce poverty is that aid is channeling to the wrong development sectors. Despite poverty reduction, donor countries also give aid to recipient countries to reflect their political and economic interests (Sachs 2005b, p. 81). Two fundamental problems that make aid ineffective to reduce poverty from this perspective.

First, aid might go to countries where poverty might not be prevalent. A number of studies show that if aid allocation were to give to countries based on poverty criteria, aid would have the potential to reduce poverty because it would either directly increase income of the poor or indirectly provide the provision of public services to the poor (Riddell 2014, p. 13; Boone 1996, p. 317; Bahmani-Oskooee&Oyolola 2009, p. 270). A study on ODA's aid in 2003 and 2004 also reveals that if ODA's aid during this period went to the poorest 65 countries, it would almost double the current number of the world poor lifted out of poverty (Riddell 2014, p. 23).

In contrast, those development aids are used for political interests rather than poverty reduction. Ngaire Wood (2005, p. 407) illustrates that the US, UK, France and Japan are increasingly using aids to serve their security purpose. Excluding military assistance,the US's aid to Afghanistan and Pakistan was USD 4.6 billion and USD 2.4 billion in 2012respectively (Department of State 2012). The rationale behind this might be because the donor countries want to forge a political coalition with the recipient's so as to protect their own security interests, which might be galvanized by the 9/11events. Thus, whatever the recipients do with aid is not the concerns of the donors as long as it can serve the donors' political interests.

Second, the donors also use aid to bargain for markets accessin the recipient countries. A study of bilateral aid from 22 DAC countries given to 78 recipient countries by Younas (2008, p. 668) shows that donor countries allocate a large amount of aid to the recipients where they import goods from the donor countries. For example, African countries spent USD 18.7 billion to import food from the donor countries while received only USD 18.6 billion in foreign assistance (Sachs &Ayittey 2009, p. 92). This type of aid undermines the recipients' growth because aid cannot alternatively be used to invest in rural development and infrastructure that offer the poor an opportunity to sustain their productions and livelihoods. Instead of lifting the poor, this type of aid would chronically tame the persisting conditionsof poverty in the recipient countries.

In the same vein, some financial assistance given by the World Bank and the IMF is still attached with conditionality. In 2006, Oxfam conducted a study on 40 countries shows that 26 poor countries were required to make economic reforms such as liberalize market and open to trade if they want to receive financial assistance from the World Bank and the IMF(2006, p. 2). Open to trade means that the recipient has to reduce its tariffs and trade barriers (Odling-Smee 2006, p. 158). The problem is that poor countries do not have market foundations and that make the recipients encounter huge market risks. With an open market, there would be an inflow of foreign goods while the recipients would not sufficiently have capacity to produce either goods or services to compete with foreign goods due to the lack of capital, skilled labour and technology (Reinert 2007, p. 113). Tied with conditionality and simultaneously have a weak financial status, the recipients cannot offer firms any protections to offset these disadvantages. As a result, the domestic firms in the recipient countries might find themselves unfit to compete with foreign goods and then go bankrupt. Unemployment surges and hence poverty is spirally increased.

Section 4: Aid fragmentation

One more impediment that makes aid fail to effectively tackle poverty is aid fragmentation. Fragmentation is defined as a lack of concentration of donor’s aid in the recipient countries (Anderson 2012, p. 799). In other words, aid from one donor agency spread over many projects and sectors. Frot and Santiso (2010, p. 8) show that in 2007, 90,000 development aid projects in the developing world were run simultaneously. Among these numbers, some countries have more than 2,000 projects in a year. Vietnam, in particular, has 19 multilateral aid donors and 350 international non-governmental organizations implementing 8,000 projects altogether (Frot&Santiso2010, p. 11). This undermines the effectiveness of aid for a few reasons.

From the donors’ side, it incurs a high transaction cost. Anderson shows that in 2009 while the OECD countries gave a total of USD 78.5 billion to 144 recipient countries, it already lost between USD 1.4 billion and USD 2.5 billion on the administrative cost (2012, p. 801). Due to the proliferation of projects and agencies, the amount of aid has to be split. Thus the actual aid to each project is too little, which might not be enough fora project implementation. While the amount of money might be insufficient, it has to cover administrative cost. In essence, donor agencies have to use aid to keep track on projects' operation and on overhead costs such as employees' salary and travel expenses of each agency (Schulpen et al. 2011, p. 322).

It is obvious that the money has to spend on administrative cost. But the problem is that too much money spends on projects duplication in multiple aid agencies, which should effectively be done by a single agency. Easterly and Pfutze (2008, p. 42) assert that coordination problem and unnecessary overhead costs would be occurred in the recipient countries where there are many donor agencies and projects. In this regard, the donor countries should either reduce the number of aid agencies or overlapped projects to minimize the costs and to increase aid's efficiency.

From the recipients' side, it is a problem of mismatch between projects and recipients' capacity. Since government in poor countries often encounters with shortage of human capital, the recipient countries would find it difficult to keep up with large numbers of projects (Schulpen et al. 2011, p. 322). It also distracts the recipient governments from working on other important tasks such as economic and institutional reforms because government officials might be overwhelmed with projects coordination that might not be necessary. In Ghana, for instance, senior officials spend more than 40 weeks a year on facilitating and participating with the donor supervision at the expense of their own ministry's priorities (Conyers &Mellors 2005, p. 85). Additionally,some projects are not implemented through government's institutions, which are resulted in another coordination problem. Conyers and Mellors (2005, p. 86) further highlight that in Uganda, since donor agencies can set their own procedures, most projects are carried out through donor's units and many recipient governments' departments exist in name only.

Section 4: Conclusion and recommendation

There are three main reasons that make foreign aid not potentially and effectively reduce global poverty. First, donor countries deliver financial aid to recipient countries without embedding accountability mechanism. This allows loophole for the recipients to either steal it for personal interests or to use it in an unimportant development sector. Second, aid is targeted to countries that reflect the donor's interests rather than to the recipients' where the poverty is prevalent. As a result, donors use aid as a bargain for markets access at the expense of the poor. Third, a large amount of aid is spent on overhead cost and coordination due to the proliferation of aid agencies and projects that might not be necessary.

To improve the effectiveness of aid, this paper would like to recommend that donor countries should re-evaluate their approaches in aid delivery and management. There are a few simultaneous methods that the donors can apply. Fundamentally, donors should provide more aid to the recipient countries in accordance with their performance on poverty criteria. This is to reduce the leakage of aid to corruption and to assure the accountability process. On top of that, donor should prioritize of which agencies to coordinate aid so as to reduce the aid fragmentation. This would also discourage the mushrooming of aid agencies and projects that would ease the administrative burden of both government and aid agencies. At the same time, the donors should also allow some rooms for the recipients to coordinate and align some spending with their priorities.

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