17

Oxfam Briefing Paper

Last Chance in Monterrey

Meeting the Challenge of Poverty Reduction

On present trends, all the Millennium Development Goals will be missed by a wide margin. As a result, there will be 56 million additional child deaths and 75 million children out of primary school by 2015. But trend is not destiny. An extra $100bn a year in aid would be enough to realise the MDGs and honour our commitments to the world's poor.

13 March 2002

Oxfam International

Summary

The International Conference on Financing for Development, to be held in Monterrey, Mexico, from 18-22 March, provides a last opportunity to mobilise the financial resources needed to achieve the internationally agreed Millennium Development Goals (MDGs). Failure to grasp that opportunity will result in millions of avoidable child deaths, act as a brake on poverty reduction, and reinforce already obscene inequalities between rich and poor.

The Millennium Development Goals call for universal primary education, the halving of world poverty, and a two-thirds reduction in child deaths, with the targets to be achieved by 2015. Each of the MDGs is achievable – but only with political resolve in poor countries, backed by an adequate flow of resources from rich countries.

On present trends, all the MDGs will be missed by a wide margin. Dozens of countries are off-track. If present trends continue, there will be 10 million child deaths in 2015, compared with a target of 4.6 million. The cumulative gap between MDG target rates for reducing child mortality and present trends amounts to 56 million additional deaths between 2000-15.

Trend is not destiny. All of these outcomes, and the vast loss of potential and suffering associated with them, are avoidable. But without a renewed aid effort, it will be too late to achieve the MDGs.

Various estimates have been made of the costs of achieving the MDGs. The World Bank suggests an indicative range of $40-60bn in additional aid per annum. While difficult to calculate exactly how much money is needed, the estimates made are in Oxfam's view significant understatements of the resources needed. The real cost of achieving the MDGs by 2015 will be approximately $100bn in extra aid per annum.

The headline figure is large, but affordable. Ten years ago, donors pledged to spend 0.7 per cent of their GNP on aid. Had they met this target, they would now be spending an extra $114bn. Instead, they have cut their aid budgets, to 0.22 per cent of GNP. Per capita aid to sub-Saharan Africa, the region that is furthest off track for the 2015 goals, fell from $34 to $20 in the second half of the 1990s.

The financing requirements for achieving the 0.7 per cent target are modest in relation to government expenditure. The average increase in government spending required for the G7 countries would be around 1.4 per cent.

Northern governments should set a five-year time frame for achieving the 0.7 per cent aid target. This would generate $130bn a year in additional financing by 2007 – sufficient not just to achieve the MDGs, but to sustain a broader campaign against poverty. The costs of that campaign would amount to an annual increase in government expenditure of 0.2 per cent over five years for countries such as Britain and Germany, and 0.3 per cent a year for the US.

The costs of success in the war against poverty are modest compared with other priorities adopted by governments:

- The $11bn annual increase in spending required for the US represents around one-quarter of the increase in military spending scheduled for 2003, and one-seventh of the tax cuts for the period 2002-14.

- The EU could reach the 0.7 per cent target if it were to increase its aid by an amount equivalent to the subsidies provided under the Common Agricultural Policy ($35bn).

The current political background gives little cause for optimism. Several major donors – including Italy, France, Germany, and Japan – have been cutting aid. Others, notably the US, are allowing aid programmes to stagnate at exceptionally low levels. Britain has set an encouraging trend by increasing aid. However, its performance falls far short of the standards required for a country seeking to provide leadership. Even the lamentably weak proposals tabled for Monterrey by the Commission of the European Union, which called for a target of 0.33 per cent by 2006, have been rejected by Member States.

Some Northern governments have stressed that 'trade not aid' should be the dominant theme at the conference. That approach is disingenuous on two counts. First, rich countries have failed to open their markets to poor countries. Second, increased aid is vital for the world's poorest countries if they are to grasp the opportunities provided through trade.

Oxfam is calling on each OECD government to agree to the following:

- The international donor community should establish a five-year timeframe for reaching the 0.7 per cent of GNP aid target.

- Each low-income and middle-income country should develop clear plans to realise the MDGs and work with donors in estimating the financing required.

- The donor community should fully finance the $10bn Global Fund to Fight AIDS, tuberculosis, and malaria, and the wider programme advocated by the Commission on Macroeconomics and Health.

- Donors should act on their commitment to ensure that no national strategy for achieving universal access to good quality education fails for want of finance by developing a global initiative on education. This would cost an extra $13bn per year.

Two years ago, rich-country governments joined their counterparts in the developing world in making a solemn pledge to win the war against poverty. It is time to redeem that pledge. Since the terrorist attacks of 11 September 2001, Northern governments have embarked on a war against the evils of terrorism. But they have yet to commit themselves seriously to the war against the evils of mass poverty, disease, and illiteracy.

The Monterrey conference provides an opportunity to make that commitment. Northern governments have a choice. They can continue the current practice of using UN summits to deliver large volumes of rhetoric on poverty reduction, devoid of any financing commitments. Or they can commit themselves to the investments in poverty reduction, health, and education that could transform the lives of poor people, creating the foundations for shared prosperity. At a time when globalisation is on trial as never before, they cannot afford to fail.

Background

'Aside from the demoralising effect on the world at large and the possibilities of disturbances arising as a result of the desperation of the people concerned, the consequences to the economy of the United States should be apparent to all… Our policy is directed not against any country or doctrine but against hunger, poverty, desperation and chaos.'

US Secretary of State, George Marshall, Harvard University, 1947

'We will spare no effort to free our fellow men, women and children from the abject and dehumanising conditions of extreme poverty, to which more than one billion of them are currently subjected.'

United Nations Millennium Declaration, 2000

Sixty years ago, the Marshall Plan laid the foundations for the social and economic recovery of Europe after the Second World War. Its architect warned that shared prosperity and collective security in one part of the world could not be protected if mass poverty and hunger reigned elsewhere. Political leaders of the day also had the vision to act.

Contrasts with today are striking. While governments in the rich world seldom miss an opportunity to offer rhetorical commitments on poverty reduction, they have collectively cut aid budgets to their lowest-ever levels in real terms. Today, they are spending 0.22 per cent of their GNP on development assistance, one-fifth of the level provided to Europe under the Marshall Plan. While the world's poor may figure prominently in the pre-Monterrey rhetoric of Northern governments, they are conspicuous by their absence from the priorities that guide budget allocations.

Starved of financial resources, strategies to close the huge gaps in health, education, and living standards between rich and poor are failing. The prosperity generated by globalisation in one part of the world has gone hand in hand with mass poverty elsewhere.

At the UN General Assembly in 2000, the world's governments pledged to eradicate extreme poverty, reduce child deaths, and extend educational opportunity. Ambitious human development targets for 2015 – the Millennium Development Goals (MDGs) – were adopted. **The International Conference on Financing for Development, to be held in Monterrey, Mexico, from 18-22 March, provides a last chance to mobilise the financial resources needed to meet these targets.**

Failure to act will reinforce inequalities between rich and poor countries, and call into question the willingness of Northern governments to support more inclusive forms of globalisation. While private capital flows to poor countries are increasing, those countries with the most entrenched poverty are being bypassed. Without increased aid, they face an increasingly marginalised future.

As we show in this paper, none of the 2015 targets will be achieved on current trends. Large numbers of countries are off-track for achieving the targets in areas such as poverty reduction, child and maternal deaths, and education – and the gap between the required rate of social progress and actual outcomes is widening. Sub-Saharan Africa faces particularly acute problems. Data can express in statistical terms the gap between MDG targets and current trends. But behind the numbers are millions of preventable child deaths, tens of millions of children denied an opportunity for education, and a vast loss of potential associated with poverty.

Considerations of social justice, moral imperatives, and self-interest combine to make an overwhelming case for decisive action at Monterrey. Unfortunately, none of the proposals so far tabled by Northern governments are even remotely commensurate with the scale of the challenge.

Part 1 of this paper documents the slow pace of progress towards the MDGs and sets out estimates of the costs for reaching the targets. Part 2 assesses the affordability of these costs. Part 3 shows that, contrary to some widespread misperceptions, development assistance is a powerful instrument for poverty reduction – and that increased aid could bring the MDGs within reach. The paper concludes by setting out an agenda for reform.

1 Missing the targets

The Millennium Development Goals (MDGs) were a concrete expression of what governments described as their 'collective responsibility to uphold the principles of human development'. They endorsed a broad set of targets for 2015, including the halving of extreme poverty (using 1990 as a base year), a two-thirds reduction in child mortality (again with 1990 as a base year), and universal primary education. If actual outcomes are used as a measure of performance, governments are demonstrably failing to discharge their collective responsibility. While human welfare has continued to improve, it has done so at rates falling far short of those required.

Child mortality and health

Nowhere is this more apparent than in relation to child mortality. Using UNICEF data, Oxfam has charted trends in child mortality against the rate of improvement required to achieve the 2015 goal. The picture that emerges is a disturbing one.

In the year 2000, there were 10.9 million deaths among children below the age of five. If the world were on track for achieving the MDGs, that figure would have been 8.9 million. In other words, the gap between the 2015 target rate and the actual child death rate was equivalent to around 2 million child deaths. That gap will have doubled by 2015. On current trends there will be 9.6 million child deaths in that year, compared with an MDG target of 4.2 million (Figure 1). The cumulative total of additional child deaths between 2000-2015 resulting from the widening gap between the MDG target rate and current trends will amount to 56 million – a massive loss of life.

There are striking regional variations in these trends. The gap between trend and target rates is widest in sub-Saharan Africa. In 1990, the region accounted for just under one-third of child deaths worldwide. By 2015 that share will have climbed to 55 per cent. While South Asia is reducing child mortality more rapidly than Africa, it too is off-track for the 2015 goal. If present trends continue there will be 2.5 million child deaths in 2015, compared with a target of 1 million under the 2015 scenario.

The bleak prospects for child mortality reflect a failure to address both old challenges and new threats. Acute respiratory tract infection and diarrhoea both continue to kill more than two million people a year. Most of the victims are children – almost all of them are poor. Among the new threats, the magnitude of the HIV/AIDS epidemic far exceeds the worst expectations of a decade ago. It is estimated that 40 million people are infected. Over 16 million of the victims are women and another 1.4 million are children under the age of fifteen. HIV/AIDS is one of the most powerful barriers to achieving the 2015 targets in Africa, where it is now the leading cause of death. An estimated 25 million people in the region are living with the disease.

Poverty-related malnutrition is at the heart of the failure to accelerate progress in child mortality. There have been advances. UNICEF estimates suggest that the prevalence of malnutrition fell from 32 per cent to 28 per cent in the 1990s. However, progress has been uneven and inadequate. In sub-Saharan Africa, almost one-third of children suffer from malnutrition, which is the same proportion as ten years ago (with the actual number of cases increasing). In South Asia malnutrition rates have been falling, but even so, the 1990s ended with almost half of all children suffering malnutrition.

Women continue to face disproportionate health risks. Over half a million die each year from problems related to pregnancy and childbirth. For every death, 30 more women are estimated to suffer serious injury and infection. Almost half of these deaths occur in sub-Saharan Africa, and another one-third in South Asia. In sub-Saharan Africa, women face a 1 in 13 chance of dying in childbirth, compared with a risk of 1 in 4,085 in industrialised countries. While there are serious problems in measuring maternal mortality trends, evidence suggests that there has been little change since the early 1990s.

Progress in child and maternal mortality is intimately linked to improved access to water. Around one-half of the developing world's population – some 2.5 billion people – lack access to basic medical goods and services, or to safe water and sanitation. Lack of access to water contributes directly to death and illness. It is implicated in the deaths of the 2.2 million people from diarrhoea, the vast majority of them children. Poor sanitation is also linked to the problem of intestinal worms. These afflict an estimated 400 million school-age children, contributing to malnutrition, anaemia, and an impaired ability to learn.

Education for some

Trends in education mirror the scenario unfolding in health. There are currently 125 million children not in school. The MDG target is to achieve universal primary education by 2015, and gender equity by 2005. Both targets are on the brink of becoming unattainable.

The numbers of those out of school – currently around 125 million primary school-age children – are declining. But there will still be 75 million children denied an education in 2015. As in health, sub-Saharan Africa faces particularly bleak prospects. At present, the region accounts for about 40 per cent of children not in school. Projecting enrolment and population trends into the future suggests that this figure could rise to over 70 per cent by 2015. Enrolment rates fell in 17 African countries during the 1990s.

Gender inequities are among the most powerful obstacles to progress in education. Women account for two-thirds of global illiteracy, and young girls for a similar proportion of children out of school. The system of gender apartheid at the heart of the education crisis shows no sign of crumbling. In South Asia, girls spend on average about half as many years in school (2.6 years) as boys (5 years). Wealth gaps reinforce gender gaps. In India, the children of the richest 20 per cent have already achieved universal primary education. Meanwhile, fewer than half of those from the poorest 20 per cent complete primary school.

Enrolment in school is only one dimension of the education crisis. Many countries in Latin America, including Brazil, Peru and Bolivia, have achieved near universal enrolment, but one-third of children do not complete school. In South Asia, 40 per cent of the children that start primary school drop out before completing five years of education. Fully one-third of those that do complete emerge lacking basic literacy skills. According to the World Bank, up to 100 countries will fail to achieve universal primary education, defined as completion of a basic education sufficient to acquire literacy skills.

Income poverty

Despite the continued expansion of the global economy, extreme poverty remains a chronic problem. While the proportion of people living on less than $1 a day has been falling, most of the decline has been in East Asia. In sub-Saharan Africa, South Asia, and Latin America, progress has been too slow to achieve the MDG target of halving extreme poverty by 2015.

Recent World Bank estimates suggest that at least 65 developing countries are now off-track for the 2015 target, the majority of them in sub-Saharan Africa. Using the simple method of projecting current regional trends towards 2015 suggests that around one billion people will still be living on less than $1 a day – roughly the same as today.

The regional profile of poverty is changing, with South Asia and sub-Saharan Africa accounting for a rising share of the total. In South Asia the incidence of poverty is falling too slowly to prevent an increase in absolute numbers of poor people. In sub-Saharan Africa almost half of the population were in poverty at the start of the 1990s and at the end of the decade. If current trends continue, the number of Africans living below the poverty line will rise by 219 million between 2000-15. In Latin America, the incidence of poverty is falling at less than half of the target rate. As in sub-Saharan Africa, this reflects the interaction of slow growth with highly unequal patterns of income distribution.

An estimated three-quarters of the $1 a day poor live in rural areas. Women are disproportionately represented as a result of their unequal access to markets, assets, and income. Success in global poverty reduction therefore has to be built on rural development strategies that enable the poor in general and women in particular, to capture a bigger share of the benefits from economic growth.

2 The costs of reaching the Millennium Development Goals

More than additional financing will be required if the MDGs are to be met. Improvements in the delivery and quality of services in health and education are a precondition for progress. Money is not the only input that matters – or even the most important one. However, many of the world's poorest countries lack the domestic financial resources needed to achieve the 2015 targets. That is why the Monterrey conference is so important.

The financing gap

Various attempts have been made to estimate the additional aid costs of achieving the MDGs. According to the World Bank an extra $40-60bn in additional aid will be required for the next 15 years. This is broadly consistent with the estimate of the Zedillo report, which was prepared in advance of the Financing for Development conference at the request of the UN Secretary General.

Any attempt to estimate costs for achieving the MDGs includes an element of speculation. However, both of the above exercises err on the side of understatement, almost certainly by a very wide margin. The World Bank's estimates understate the cost of achieving the MDG health goals, and associated investments in water and sanitation.

Drawing on the World Bank's own data, supplemented by estimates carried out for the Commission on Macroeconomics and Health, Oxfam estimates the real costs to be closer to $100bn (see table 1).

Table 1

	Additional aid financing requirements ($bn)
Halving income poverty[1]	46
Reaching MDGs for public health[2]	32
Universal primary education [3]	
(including incentives for girls education)	13
Access to water [4]	9
Total	**100**

The costs of this investment in human development have to be assessed against the potential benefits, both human and economic. According to the Commission on Macroeconomics and Health, aid investments equivalent to 0.1 per cent of the GNP of industrialised countries could avert eight million deaths a year by 2015. Using what it acknowledges as extremely conservative estimates, the Commission suggests that the increased wealth generated by improved health would represent three times the costs of increased health spending by rich and poor countries.

Just as the different aspects of deprivation are mutually reinforcing, so are the benefits of human development. For instance, each additional year of education is associated with an increase in output of around nine per cent among smallholder farmers, with the adoption of new technologies. Improvements in girls' education are intimately related to better health, especially for children. Comparative research across countries has found that each additional year of maternal education reduces child mortality by around eight per cent. Improved health is also one of the requirements for improved learning.

The uncertainty that continues to surround debates on financing for the MDGs highlights the need for all developing countries to work with donors in developing reliable national estimates. This exercise should be a central part of the process for preparing Poverty Reduction Strategy Papers (see page 18). The financing requirements should be reflected both in government financial frameworks and in IMF/World Bank programmes. More immediately, and notwithstanding current donor reluctance to increase aid, it is important that the UN and the World Bank avoid tailoring figures to suit rich-country preferences.

Whatever the precise costs of achieving the MDGs, two things are clear. First, while there is scope for additional financing through resource mobilisation in poor countries, through improved efficiency, greater equity, and enhanced revenue collection, poverty imposes a major financial constraint. The MDGs will not be achieved without a major and sustained increase in aid spending. Second, increased aid will not be enough. Past experience shows that political commitment on the part of aid recipients is vital. Building health and education systems that are responsive to the needs of the poor, and reprioritising public spending to prioritise poverty reduction, are the keys to success.

Closing the financing gap: a five-year schedule for achieving the 0.7 per cent target

An important question for the Monterrey conference is whether or not the financing requirements for achieving the MDGs are affordable. The answer is an unequivocal 'yes'. While all rich-country governments face budget constraints, none would be unable to meet the UN target of spending 0.7 per cent of GNP on aid if this were a political priority.

When the world's governments met at the Earth Summit in Rio de Janeiro in 1992, they adopted a programme for action – *Agenda 21* – setting out policies for combating poverty and improving living standards. Northern governments agreed to finance their share of the costs of these policies, partly by raising aid to 0.7 per cent of their GNP.

In the decade since the Earth Summit, aid spending has declined substantially. According to the Organisation for Economic Co-operation and Development (OECD), official development assistance has fallen by one-third as a share of donor GNP, to 0.22 per cent (Figure 2). Only five donors – the Netherlands, Denmark, Norway, Sweden, and Luxembourg – have achieved the 0.7 per cent target.

How big is the shortfall against the promise made at the Earth Summit? **If all OECD governments were spending 0.7 per cent of their GNP on development assistance, aid flows would be $114bn higher.**

The world's largest economies – the Group of Seven – have led by bad example. In terms of per capita spending, only Japan was spending more on aid at the end of the 1990s than at the start of the decade. Countries such as the United States, Canada, Italy, and Germany have cut per capita aid by one third or more (Figure 3). The United States, the world's wealthiest economy, allocates only 0.1 per cent of GNP to aid, which is less than half of the OECD average.

In aggregate terms, net official development assistance fell from $67.5bn in 1994 to $59.1bn in 1999. Although it coincided with a surge in private capital flows to developing countries, very little of that capital was directed to the poorest countries. Just 15 countries receive over 80 per cent of private capital flows. Thus the countries most dependent on aid have suffered major losses. Aid per capita fell from $34 to $20 in sub-Saharan Africa in the second half of the 1990s, and halved in South Asia over the same period.

Some of the deepest cuts have fallen in areas that have the most potential to reduce poverty. For instance, at the end of the 1990s aid flows directed towards agriculture were running at one-third of their level in the late 1980s. This is despite the fact that rural communities account for the overwhelming bulk of global poverty, and despite the pressing need for public investments in infrastructure, marketing, and extension services.

Two questions loom large for the Monterrey conference. First, are the MDGs affordable? And second, what would the implications be for government expenditure in industrialised countries?

The first question can be answered by reference to the 0.7 per cent aid target. If all OECD donors were to commit themselves to achieving that target within five years, and assuming a linear increase in aid/GNP ratios, development assistance levels in 2007 would be $131bn higher than today (Figure 4). [5] Around two-thirds of this increase would have to be allocated to the achievement of the MDGs.

Measured against the performance of the past ten years and, more immediately, against the proposals tabled by the Financing for Development conference, the five-year time frame may seem an ambitious goal. In the most far-reaching proposal under consideration in the run-up to Monterrey, **the Commission of the European Union called on its members to undertake a commitment to raise aid/GNP ratios to 0.33 per cent of GNP by 2006. However, even if adopted by all OECD members, the EU proposal would generate only $12bn in additional aid each year – far short of the requirements for achieving the MDGs.**

Turning to the implications for Northern government expenditure, the required increases in aid spending are relatively modest. Excluding the United States, the current gap between aid spending and the spending that would be required to reach the 0.7 per cent target is equivalent to around one per cent of government expenditure. For the United States, the figure is just under two per cent.

Using a five-year timeframe, the costs of closing the gap between current aid spending levels and those required to reach 0.7 per cent of GNP would translate into annual increases of around 0.20 per cent for Britain and Germany, rising to 0.23 for Japan, Canada, and Italy, and 0.38 for the United States (Figure 5). The higher figure for the United States is a reflection of two factors: the small current share of GNP allocated to aid, and a smaller than (G7 average) budget in relation to national income. For the United States, budget allocations to aid would have to rise by almost two per cent over five years, or 0.38 per cent a year.[6]

At one level, prospects for the type of ambitious commitments needed at Monterrey are bleak. European Union governments claim that they are constrained by their stability pact, which sets a limit on government budget deficits. Countries such as Germany, France, Italy, and Britain have all come under pressure to curtail government spending and borrowing. For different reasons, Japan, the world's second largest donor, is even less likely to take a benign view of the case for more aid. The economy is in recession, and the country has by far the largest budget deficit in the G7 (and a huge impending bill for covering bad debts in the banking system).

Notwithstanding these pressures, rich countries clearly have the financing capacity to support achievement of the MDGs. **Whatever the rigours of the stability pact, the EU spends 25 per cent more subsidising farmers through the Common Agricultural Policy (CAP) than it spends on development assistance.** Most of the $35bn allocated to the CAP provides subsidies to large commercial farms and corporations. If the same amount were allocated to development assistance, it would be possible to more than double the aid effort of EU member states and reach the 0.7 per cent target.

For the OECD as a whole, the $1bn a day currently spent subsidising relatively high-income farmers and agri-business corporations represents three times the additional aid required to meet that target (Figure 6).

The United States would face a bigger challenge than Europe in financing its commitment to the MDGs. Our estimates suggest that the US would need to mobilise an additional $11bn a year in order to reach the 0.7 per cent goal within five years. However, to put this figure in context, it is equivalent to:

- One-quarter of the increase in defence spending announced for 2003
- One-seventh of the annualised tax cuts announced under the 2001 reform package (Figure 7)

As in Europe, the US budget commitment to big farmers and powerful agricultural interests is in stark contrast to the lack of commitment to the world's poor. The USAID programme for global public health provides vital support to developing countries and poor communities in the fight against infectious diseases and preventable child deaths. **Yet the $1.3bn allocated to this programme is equivalent in financial terms to the agricultural subsidies transferred in 2000 to the state of Texas. In the same year, the state of California received more in farm subsidies than combined USAID spending on child survival, maternal health, and basic education.** Over half of the $21bn in US agricultural subsidies is directed towards the wealthiest eight per cent of farms.

On a positive note, some governments have started to reverse the deep cuts in aid budgets that occurred during the 1990s. The British Government has been in the forefront of international efforts to prioritise international poverty reduction in its domestic budget. In 2000 it increased the national ratio of aid to GNP from 0.27 to 0.31 per cent, and it is committed to reaching 0.33 per cent by 2003-05. Impressive as this turn-around has been in terms of restoring past cuts, it falls far short of the standards set by Scandinavian donors.

The same is true for Canada. Having halved the share of GNP allocated to aid in the 1990s, the government has now set a target for raising development assistance. The world's largest donor, the Japanese government, has also maintained an underlying increase in aid, even with a reduction in flows associated with the East Asian financial crisis.

Set against these broadly positive trends, major donors such as Germany and France have reduced their aid/GNP ratios over the past year, and the US aid budget is stagnating at historically low levels. More generally, the record of even some of the strongest performers, including Britain, falls far short of what is required to achieve the MDGs.

3 Aid works for the poor

Over the past decade, international aid has generated a bad press. Some Northern governments have justified their lamentable record on development assistance by claiming that aid has a bad record in terms of reducing poverty. Others argue that debates on aid divert attention from other, more pressing concerns – such as improving market access. These assessments are exaggerated. Some aid has been misused by donors and corrupt governments. But aid targeted at the poor has achieved major results. Similarly, increased aid is not a substitute for more trade (see Box 1), but it can help create the conditions which allow poor people to benefit from trade. More aid and more fair trade are both needed in order to realise the 2015 MDGs.

Box 1

'Aid versus trade'

International trade figures prominently on the agenda of the International Conference on Financing for Development, partly at the behest of Northern governments. These governments frequently declare that trade is more important than aid as a vehicle for poverty reduction, partly in order to divert attention from their record on aid. Unfortunately, their record on trade is as bad, or worse.

Improved export performance by poor countries would generate far more resources than any conceivable increase in aid. For example, if sub-Saharan Africa increased its share of world exports by just one per cent, the resulting foreign-exchange gains would amount to $70bn – some five times what the region receives in aid and debt relief combined.

Trade barriers in rich countries inflict huge costs on poor people in poor countries. These costs amount to around $100bn a year. Moreover, the industrialised world's most restrictive trade barriers are targeted at goods produced by poor people, such as labour-intensive manufactures and agricultural commodities.

While Northern governments have unilaterally declared the Doha round of World Trade Organisation talks a 'development round', they have so far avoided any concrete commitments either to improve market access for poor countries, or to reduce agricultural subsidies. The Monterrey conference provides an opportunity to make those commitments.

Therefore, although action is needed on trade – and trade could generate substantial benefits for the poor – it is not a substitute for aid. Aid will be key to making trade work for the poor and reducing inequality and poverty.

Aid in practice, from local to global

As a development agency working in over 80 countries, Oxfam has direct experience of working in aid partnerships. That experience reflects a broader consensus that, despite its many problems, aid works.

In the Wajir district of Kenya, Oxfam is administering a nine-year programme with pastoralist communities. Funded by the UK Department for International Development, and based on priorities developed by local communities, the Wajir programme aims to reduce poverty and vulnerability by strengthening local livelihoods. It has provided support for restocking programmes with sheep and goats, financed the rehabilitation and construction of boreholes, provided credit to women's groups, trained women health workers, provided teaching materials, and funded training in basic veterinary skills. By the end of the first phase of the programme in 1997, over 40,000 beneficiaries had been reached.

An independent review of the Wajir programme carried out in 1997 found that health and nutritional standards had improved, and that dependence on food aid had diminished. Livestock mortality rates were far lower than in non-project areas, reducing the level of vulnerability. Improved survival rates for livestock, increased milk production, and high returns to the credit made available to women's groups generated a rate of return on project funding of over 50 per cent. Apart from the immediate benefits in terms of welfare, the Wajir programme has been increasing self-reliance in economic terms. It has also actively supported the development of community structures and enhanced the voice of women in community decisions.

Good aid is not about short-term transfers, but about building long-term capacity. In Vietnam, Oxfam is working with donors and local communities to extend health and education opportunities to communities left behind in the country's economic growth, such as indigenous people living in the mountainous areas. In East Timor, Oxfam is working with support from the donor community to assist community-based organisations working to develop the skills of primary school teachers. In all of these cases, aid provides an investment in the future.

For all its negative press, official development assistance has played a critical role in supporting human development. Some of that support is channelled through projects and programmes that make available services that would otherwise be beyond the reach of the poor. In the Indian states of Tamil Nadu and Maharashtra, USAID provides grants to local non-governmental organisations for training health workers in the treatment and prevention of killer diseases such as HIV/AIDS and tuberculosis. Such support is vital in a country with an estimated 3.5 million HIV cases, and an already over-stretched health system.

International aid plays a vital role in financing access to basic services. In countries such as Malawi and Uganda, governments were able rapidly to increase enrolments in primary education by phasing out education charges, increasing investment in teacher training, and embarking on major programmes to extend access to schools and teaching materials. In the case of Uganda, enrolment rates increased from 54 per cent to 80 per cent between 1996-1998, with some two million additional children entering the school system.

Without donor support, neither country could have sustained the reform process. Donors account for over one-quarter of education financing in Uganda. In Malawi, grants from USAID financed the withdrawal of fees and provision of new teaching materials. However, in contrast to Uganda, aid donors have failed to maintain financial support for the reform process, forcing government to consider restoring fees.

About one-third of official development assistance is channelled through multilateral facilities, such as the International Development Association (IDA) – the World Bank's concessional arm. IDA plays a critical role in many of the poorest countries. It provides long-term loans at zero interest rates (but with a 0.75 per cent service charge), with repayments over 35-40 years and a ten-year grace period. Annual IDA commitments amount to around $5-6bn a year, and the facility is the largest source of aid for sub-Saharan Africa.

Transfers from IDA play a critical role in social-sector financing. In the Pakistan province of Balochistan, they have been used to finance the construction of schools for girls and to train female teachers, facilitating an increase in the enrolment of girls in a country with one of the world's largest gender gaps in education. In Haiti, an Economic and Social Fund supported by IDA has funded over 600 projects in health, sanitation, and education. In Honduras, IDA loans have been used to rebuild and repair rural roads, schools, and health facilities.

There is no question that aid has been more effective in some countries than others. Where governments have strong national poverty-reduction strategies, as in Uganda and Vietnam, aid generates very large returns for poverty reduction. But it is not just the strongest performing countries that benefit. In economic terms, aid is beneficial not just in providing basic services but also in supporting the investments that contribute to growth. Cross-country research consistently finds that more aid is associated with increased domestic investment, even though the ratio of aid to investment varies.

The strong record of aid as an instrument for improving access to basic services and economic growth challenges the assumptions underlying aid pessimism. It also graphically illustrates the human costs associated with the chronic under-financing of aid budgets. Nowhere are those costs more apparent than in relation to international initiatives, where under-financing is acting as a brake on effective delivery.

- **Public Health.** In 2000 the UN Secretary General called for a $7-10bn Global Fund to fight HIV/AIDS, tuberculosis, and malaria. These three diseases collectively claim 5.7 million lives a year. But at the end of the first year of the Global Fund's existence, only

$1.5bn had been committed, and far less disbursed. The potential benefits of aid far outweigh the costs.

- **Education.** At the World Education Forum in Dakar in 2000, Northern governments pledged that 'no countries seriously committed to education for all will be thwarted in their achievement of this goal by a lack of resources'. Two years on, no international financing framework has been put in place. Efforts to achieve universal education and improve quality remain constrained by chronic under-financing, even in countries with a strong commitment to reform.
- **Debt relief.** The Heavily Indebted Poor Countries (HIPC) Initiative marked a major step forward in terms of achieving debt sustainability. But under-financing has limited its effectiveness. The headline figures are misleading in this respect. Total debt service relief for the 23 countries covered by HIPC in mid-2001 amounted to a projected $34bn. However, 15 of these countries were still spending more than 10 per cent of government revenue on debt servicing. In more than half, repayments to creditors were larger than spending on primary education; two-thirds were spending more on debt than on health services. In the case of Zambia, a country with rising levels of child mortality and rising illiteracy, almost one-quarter of the government budget is still allocated to debt repayments after HIPC Initiative debt relief.

The changing aid environment: PRSPs and beyond

In the past, the effectiveness of aid has been compromised by bad policies. During the Cold War, donors saw aid as an instrument for developing geopolitical alliances rather than as a mechanism for poverty reduction. Aid programmes were often donor-driven, reflecting the priorities and concerns of rich countries. Developing countries have had limited ownership. Meanwhile, practices such as tying aid to goods and services provided by donors, or to policy reforms dictated by donors, have undermined the potential for poverty reduction. None of these problems have disappeared, but reforms by donors and aid recipients are creating an environment in which development assistance can have a more powerful impact on human development.

The changing environment is epitomised by the adoption of Poverty Reduction Strategy Papers (PRSPs) in low-income countries. Countries seeking support under the HIPC Initiative and, to an increasing extent, through other forms of aid, are required to have in place a national poverty-reduction strategy. Prepared by national authorities, PRSPs are a vehicle for developing such strategies. They are intended to strengthen country ownership, to broaden the representation of civil society – especially the poor – in the design of such strategies, and to set out the public-spending priorities and wider reforms aimed at reducing poverty. PRSPs also serve as a focal point for dialogue between government and the international community, with potential benefits for donor co-ordination.

There are serious problems with PRSPs. Consultation with civil society has been mixed. In some cases, governments and/or the IMF-World Bank have adopted schedules that preclude effective dialogue. Many PRSPs place a premium on free-market reforms that owe less to a considered strategy for reducing poverty than to the prevailing received wisdom of the IMF-World Bank. And for all their changed policy rhetoric, there is limited evidence of substantive policy change in the World Bank or, more especially, the IMF.

For all this, the PRSP framework marks an important step in the right direction. At their best, PRSPs have provided a powerful impetus to poverty-reduction efforts. Uganda was the first country to produce a full version, and it still represents best practice for integrating aid programmes into a coherent government-led poverty strategy. The Poverty Eradication Action Plan (PEAP) guides priorities in the medium-term budget framework, and ring-fences expenditure programmes that have a major bearing on the poor. Spending on basic health, education, and rural roads has been increased sharply, with donors increasingly abandoning a 'project-by-project' approach in favour of broad budget support. Responsibility for monitoring the PEAP resides with the Ministry of Finance, which puts poverty at the heart of government planning.

While performance elsewhere has been more patchy, important benefits are emerging. In Ghana, the influence of civil society through the PRSP process has helped to focus attention on the more deprived areas in the North of the country. The PRSP in Ethiopia has set out strategies for building on improvements in primary education, notably by reducing gender-based inequalities. In Mozambique there have been improvements in vaccination coverage and antenatal care, reflecting an increased budget commitment to basic health services. Most PRSPs set out strategies for increasing the share of government spending allocated to services utilised by the poor, while at the same time identifying specific problems that exclude poor people in general and women in particular from those services.

National ownership, accountability and the participation of civil society are the three key building blocks for successful poverty-reduction strategies. In this context, the New Partnership for Africa's Development (NEPAD) represents an important change. Developed and led by African governments themselves, NEPAD sets out a compelling framework for successful development assistance. It identifies the priority areas, such as rural infrastructure, health, and education, where increased donor support is needed, while at the same time seeking to build a new form of partnership between donor and aid recipient.

One of the most innovative of NEPAD's proposals is for the OECD and African governments to work together in developing a new charter to underpin a development partnership. That charter would include a framework for conducting independent assessments of donor performance, while at the same time setting out strategies to enhance the capacity of African governments to utilise aid effectively. The NEPAD governments also want to formalise the best practices that have emerged from the PRSP experience through dialogue with the IMF and the World Bank.

The type of approach to development co-operation that has started to emerge through PRSPs and from the governments behind the NEPAD initiative provides fertile soil for improving the efficiency of aid as a mechanism for poverty reduction. That is true both for bilateral aid programmes and for international aid initiatives, such as the UN Secretary General's Global Fund. More than at any time in recent history, increased aid has the potential to generate major advances in human development.

This is not to deny the scale of the problems that remain, both on the side of aid recipients and donors. Many developing-country governments are changing their budget priorities far too slowly, if at all. Deep-rooted problems of corruption, excessive military spending, and a bias towards services sparsely used by the poor, such as higher education and curative health care, remain. Despite their own rhetorical advances, many donors have failed to address serious problems in aid quality. Among the central concerns:

- **Under-financing of education.** Reducing inequalities in educational opportunity between rich and poor countries, and overcoming gender inequalities, are vital requirements for poverty reduction. Donors recognise this in their aid policy statements. Yet only around one per cent of OECD development assistance is directed towards basic education, compared with 17 per cent for economic infrastructure. Most donors spend far less on basic education for the poor than on higher levels of education.

- **Weak co-ordination.** There is far too little co-ordination of aid effort between donors, resulting in an increased administrative and management burden on the limited resources of recipient governments. All too often these governments are faced with a multiplicity of aid agencies, each with their own reporting requirements, financing cycles, and priorities. While donors pay lip service to the need for improved co-ordination, recent research by the World Bank's Operations Evaluation Department shows that the problems posed by inadequate co-ordination may be worsening, especially in the social sectors.
- **Inappropriate policy conditions.** While there is a broad consensus that aid works best in countries that have succeeded in creating the conditions for high growth and poverty reduction, there is less of a consensus on the policies needed to create these conditions. Despite this, loan conditions associated with IMF and World bank programmes in particular continue to place a premium on one set of policies – including trade liberalisation, privatisation, and domestic market liberalisation – deemed good for the poor. The use of aid to leverage policy reforms in contentious areas remains a serious problem.
- **Tied aid.** Donors have been reducing the proportion of their aid budgets that is tied to the purchase of equipment in donor countries. However, the problem remains serious. Both Germany and France tie more than 10 per cent of non-technical aid. For countries such as Spain, Italy, and Canada the share rises to over 70 per cent. There is no reliable reporting on the overall share of technical aid that is tied, although it is far higher than for non-technical aid. Given that this category accounts for over half of bilateral aid, it is clear that the practice of tied aid remains extensive. On one estimate, tied aid reduces the value of aid transfers by around one-fifth.
- **Aid geopolitics and competing priorities.** While the excesses of the Cold War have gone, the aid priorities of some donors continue to reflect strategic self-interest rather than an interest in poverty reduction. The huge increase in aid and debt relief granted to Pakistan and other countries deemed to be allies in the war against terrorism is a recent example. In some cases, the policies of donor countries pull in different directions. In Britain the Department for International Development has played a leading role in supporting poverty-focused budgeting through PRSPs in developing countries. Meanwhile, the Department for

Trade and Industry has actively supported the efforts of British arms producers such as British Aerospace to cultivate new markets in poor countries. The recent sale of an advanced air-traffic control system to Tanzania, and efforts to cultivate a multi-billion dollar market for fighter aircraft in India, are recent examples of inconsistency in aid and trade policies.

Reforms are needed on the part of developing countries and aid donors if the full potential of aid is to be realised. However, none of the problems outlined above undermine the case for aid, or detract from the need for a commitment to increased aid financing.

Recommendations

Success at the International Conference on Financing for Development will require bold leadership. The economic slowdown has created new pressures on national budgets in the industrialised world. Meanwhile, many governments have responded to the terrorist attacks of 11 September 2001 by prioritising increased military spending over the war against poverty.

This approach is wrong-headed and counter-productive. In the last analysis, the mass poverty and deepening inequalities that are accompanying globalisation pose a real threat to our collective security. The problems associated with the social dislocation, disease, and conflicts fuelled by deprivation do not respect national borders. That is why the global war against poverty should be viewed not just as a moral imperative, but as a matter of self-interest.

The Monterrey conference cannot realistically be expected to erase the legacy of more than a decade of declining aid budgets and chronic under-financing in development assistance. Nor can it be expected to mark a major step-forward in other areas, such as trade. However, with strong political leadership, vision, and a commitment to build on the foundations that have already been laid, the Financing for Development Conference could mark the start of a new era in development co-operation.

To that end, Oxfam is proposing the following measures:

- The international donor community should establish a five-year timeframe for reaching the 0.7 per cent of GNP aid target.
- Each low-income and middle-income country should develop clear plans to realise the MDGs and work with donors in estimating the financing required.

- The donor community should fully finance the $10bn Global Fund to Fight AIDS, tuberculosis, and malaria, and the wider programme advocated by the Commission on Macroeconomics and Health.
- Donors should act on their commitment to ensure that no national strategy for achieving universal access to good quality education fails for want of finance by developing a global initiative on education. This would cost an extra $13bn per year.
- Debt relief under the HIPC Initiative should be extended to ensure that debt repayments do not undermine financing for the MDGs, and that no government allocates more than 10 per cent of revenue to debt servicing.
- The creation of an independent monitoring and appraisal body to monitor donor performance in Africa, as proposed by African governments under the NEPAD initiative.

Figures

Figure 1

Child death trends and the MDGs (1990-2015)

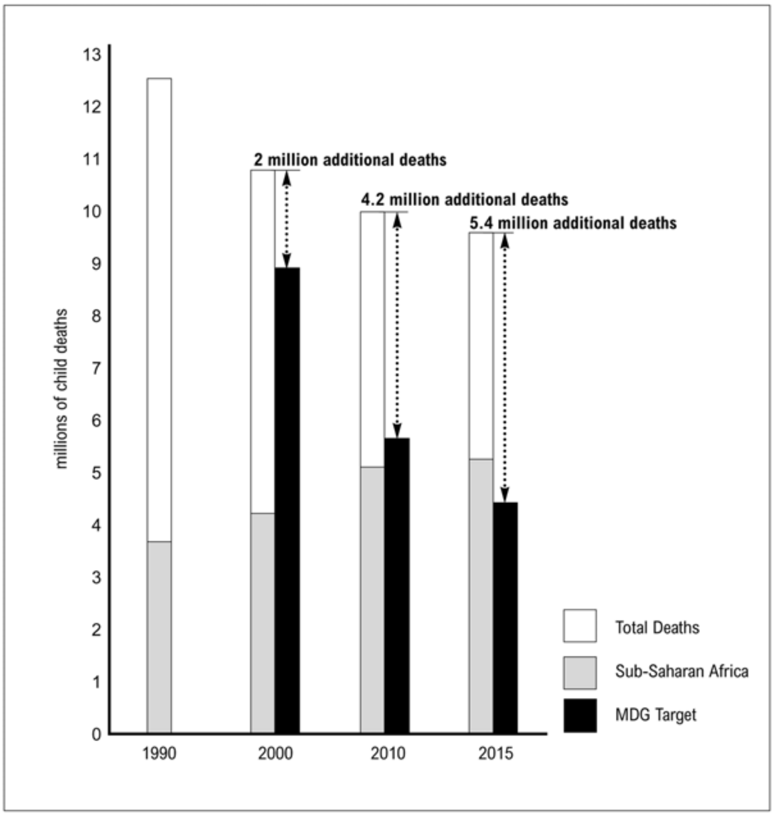

Figure 1
Child death trends and the MDGs (1990-2015)

Source: Oxfam calculations based on Unicef data.

Figure 2

Official development assistance as a percentage of GNP: selected OECD countries (1988/89 and 2000)

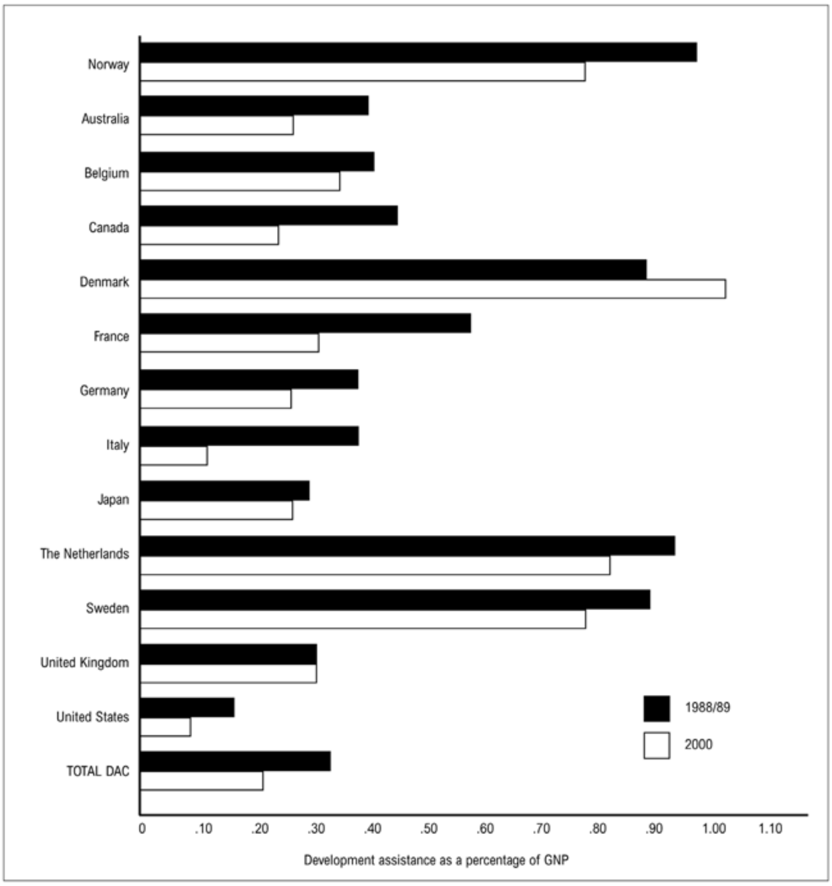

Figure 2
Official development assistance as a percentage of GNP: selected OECD countries (1988/89 and 2000)

Sources: OECD Development Cooperation: 2000 report, and Development Assistance Committee database.

Figure 3

Official development assistance per capita: G7 countries (1988/89 and 1998/99)

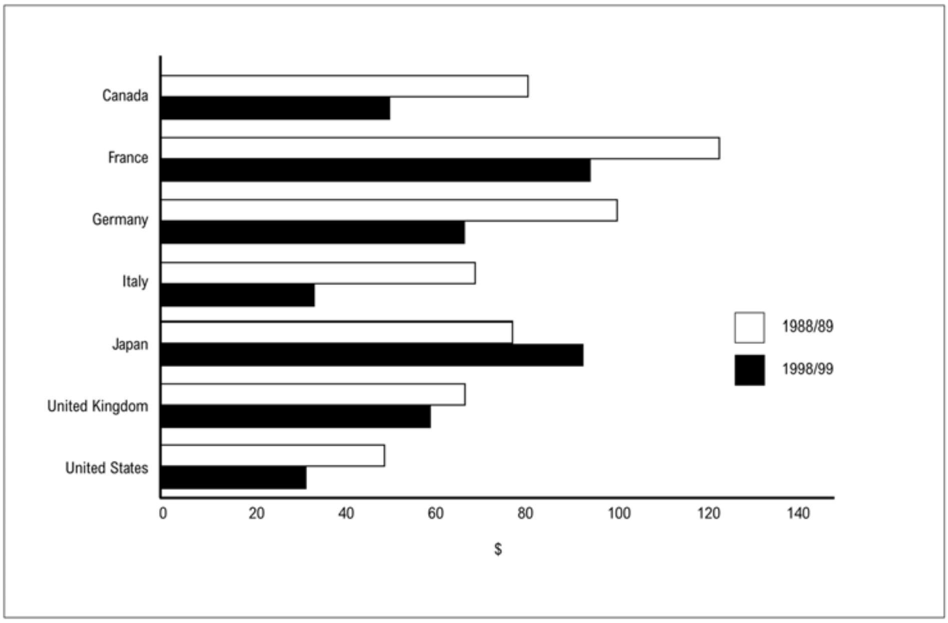

Figure 3
Official development assistance per capita: G7 countries (1988/89 and 1998/99)

Sources: OECD Development Cooperation: 2000 report.

Figure 4

Reaching the target: the five-year scenario for raising aid to 0.7 per cent/GNP

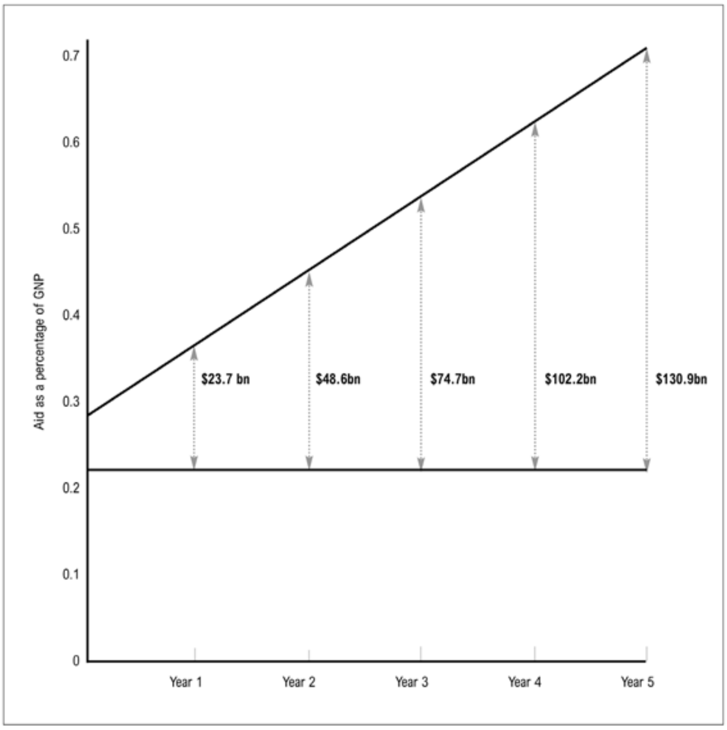

Figure 4
Reaching the target: the five year scenario for raising aid to 0.7 per cent/GNP.

Source: Derived fromOECD Database.

Figure 5

The costs of reaching the 0.7 per cent aid target as a percentage of government expenditure: selected countries

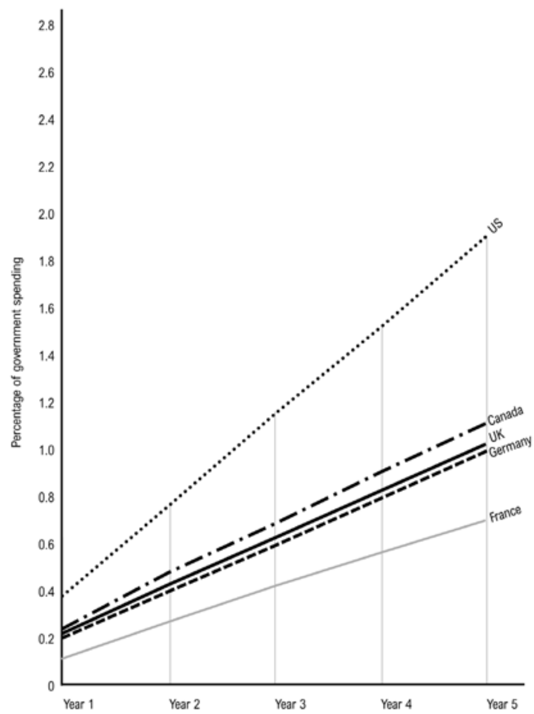

Figure 5
The costs of reaching the 0.7 per cent aid target as a percentage of government expenditure: selected countries.

Source: National budget authorities and IMF database.

Figure 6

The affordability of aid: total costs of reaching the 0.7 per cent target versus OECD farm subsidies

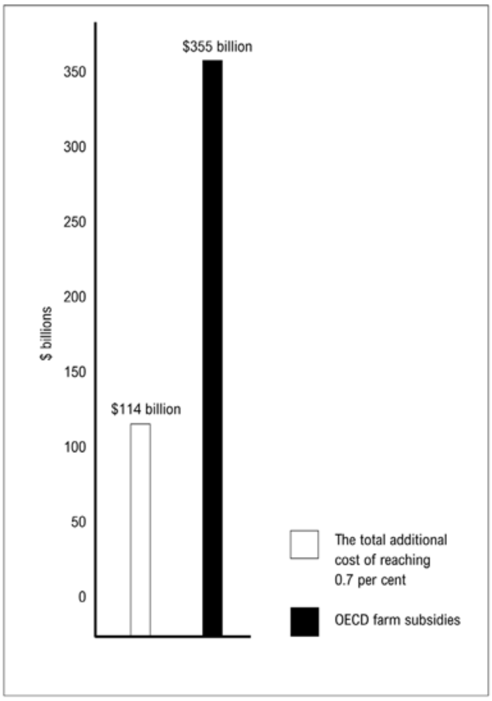

Figure 6
The affordability of aid: total costs of reaching the 0.7 per cent target versus OECD farm subsidies.

Figure 7

The affordability of aid: the costs of reaching the 0.7 per cent target versus tax cuts and military spending in the United States

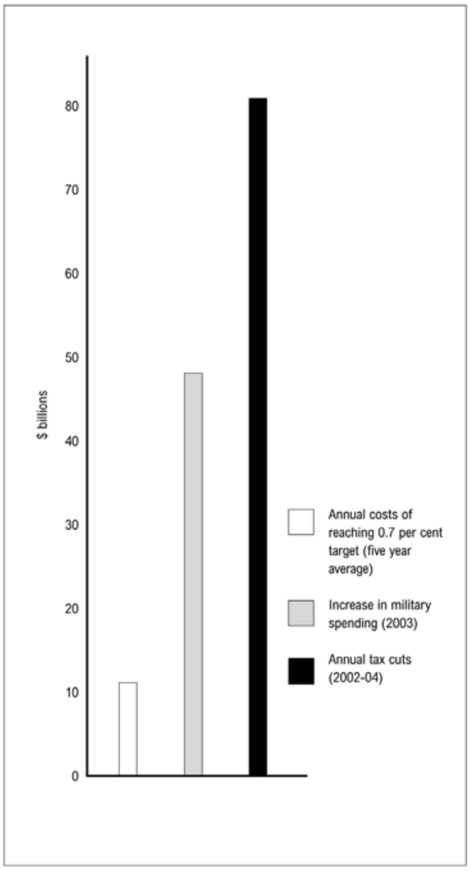

Figure 7
The affordability of aid: the costs of reaching the 0.7 per cent target versus tax cuts and military spending in the United States.

Source: International Monetary Fund, World Economic Outlook.
The Economist, February 16, 2002.

Notes

[1] This figure is within the World Bank's estimated range of $39-54bn. According to the World Bank, the lower end of the range represents the amount that could effectively be absorbed today in 43 countries that are off-track for halving income poverty. The upper threshold represents the amount that, in the World Bank's view, could be absorbed with improved policies in 22 countries. Our figure includes a Zedillo report proposal for $3.5bn spending on urban renewal.

[2] This figure is based on the recommendations of the Commission on Macroeconomics and Health, which convened under the auspices of the World Health Organisation. While the Commission's goals are not strictly comparable to those set out in the MDGs, they represent a close approximation. For example, its financing estimates target a two-thirds reduction in deaths from infectious diseases and maternal mortality. Under the financing strategy for achieving this target, the Commission proposes mobilising an additional (that is, over and above 2001 aid spending on health) $21bn in aid, rising to $32bn by 2017. We have used the latter figure.

[3] Estimates for achieving universal primary education typically range from $9bn by the United Nations to $10-15bn by the World Bank. Figures at the lower end of the range tend towards understatement because they fail to take into account two related problems. First, the cost of getting the most marginalised children into school tends to be higher than average current spending on children in school. Second, the need for incentive-based financing schemes is overlooked. Such schemes have been successfully used to increase female enrolment in Pakistan, and by the Brazilian government to target the parents of around two million working children.

[4] There is no consensus on the costings for achieving the MDGs for water and sanitation. The World Bank cites an indicative figure of $9bn for basic coverage in water, which we have used.

[5] This figure assumes a weighted OECD growth rate of 2.5 per cent.

[6] These figures are based on the assumption that the share of government expenditure in GNP remains constant over the five-year period.

For further information please email advocacy@oxfaminternational.org

Oxfam International is a confederation of twelve development agencies that work in 120 countries throughout the developing world: Oxfam America, Oxfam in Belgium, Oxfam Canada, Oxfam Community Aid Abroad (Australia), Oxfam Great Britain, Oxfam Hong Kong, Intermon Oxfam (Spain), Oxfam Ireland, Novib, Oxfam New Zealand, and Oxfam Quebec. Please call or write to any of the agencies for further information.

Oxfam International Advocacy Office, 1112 16th St., NW, Ste. 600, Washington, DC 20036 Phone 1.202.496.1170, Fax 1.202.496.0128, E-mail: advocacy@oxfaminternational.org, www.oxfam.org

Oxfam Germany
Greifswalder Str. 33a
10405 Berlin, Germany
+49 30 428 50621 (ph)
E-mail: info@oxfam.de
www.oxfam.de

Oxfam-in-Belgium
Rue des Quatre Vents 60
1080 Burxelles, Belgium
32.2.501.6700 (ph)
E-mail: oxfamsol@oxfamsol.be
www.oxfamsol.be

Oxfam Community Aid Abroad
National & Victorian Offices
156 George St. (Corner Webb Street)
Fitzroy, Victoria, Australia 3065
61.3.9289.9444 (ph)
E-mail: enquire@caa.org.au
www.caa.org.au

Oxfam GB
274 Banbury Road, Oxford
England OX2 7DZ
44.1865.311.311 (ph)
E-mail: oxfam@oxfam.org.uk
www.oxfam.org.uk

Oxfam New Zealand
Level 1, 62 Aitken Terrace
Kingsland, Auckland
New Zealand
PO Box for all Mail: PO Box 68 357
Auckland 1032
New Zealand
64.9.358.180 (ph)
E-mail: oxfam@oxfam.org.nz
www.oxfam.org.nz

Intermon Oxfam
Roger de Lluria 15
08010, Barcelona, Spain
34.93.482.0700 (ph)
E-mail: intermon@intermon.org
www.intermon.org

Oxfam America
26 West St.
Boston, MA 02111-1206
1.617.482.1211 (ph)
E-mail: info@oxfamamerica.org
www.oxfamamerica.org

Oxfam Canada
Suite 300-294 Albert St.
Ottawa, Ontario, Canada K1P 6E6
1.613.237.5236 (ph)
E-mail: enquire@oxfam.ca
www.oxfam.ca

Oxfam Hong Kong
17/F, China United Centre
28 Marble Road, North Point
Hong Kong
852.2520.2525 (ph)
E-Mail: info@oxfam.org.hk
www.oxfam.org.hk

Oxfam Quebec
2330 rue Notre-Dame Quest
Bureau 200, Montreal, Quebec
Canada H3J 2Y2
1.514.937.1614 (ph) www.oxfam.qc.ca
E-mail: info@oxfam.qc.ca

Oxfam Ireland
Dublin Office:
9 Burgh Quay, Dublin 2, Ireland
353.1.672.7662 (ph)
E-mail: oxireland@oxfam.ie
Belfast Office:
52-54 Dublin Road, Belfast BT2 7HN
44.289.0023.0220 (ph)
E-mail: oxfam@oxfamni.org.uk
www.oxfamireland.org

Novib
Mauritskade 9
2514 HD. The Hague, The Netherlands
31.70.342.1621 (ph)
E-mail: info@novib.nl
www.novib.nl

Published by Oxfam International March 2002
Published by Oxfam GB for Oxfam International under ISBN 978-1-84814-470-5