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ANALYSIS

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# Reviving Dead Aid: Making International Development Assistance Work


## Executive summary

*While official aid accounts for a relatively small portion of the Australian Commonwealth budget, the official aid budget has doubled over the past decade and is likely to double again over the next five years. Aid also plays a major role in determining how our neighbours and other developing countries view us. Yet the public often has only a limited understanding of current issues and debates in the aid arena.*

*This Analysis provides an overview of global and Australian aid trends. It highlights why and to whom Australia gives aid and assesses what works and what doesn't work in international development assistance.*

*Unfortunately, significant amounts of Australian and global overseas aid have been delivered in ways inconsistent with the stated goal of reducing poverty and encouraging economic growth in developing countries. The result has been justifiable criticism of foreign aid. But there are good news stories to tell, as well. The current focus on greater developing country government ownership and accountability of aid programs, and greater involvement by the private sector, are all positive trends. Indeed, given recent progress in a number of countries around the world, there is reason to be optimistic that developing country governments and their people can successfully reduce poverty when supported by appropriately targeted aid.*


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- promote discussion of Australia's role in the world by providing an accessible and high-quality forum for discussion of Australian international relations through debates, seminars, lectures, dialogues and conferences.

## Introduction

This paper provides an introduction to the contemporary debate on international development assistance – or 'aid' – globally and in Australia. There are at least six good reasons for the Australian public and for policymakers to care about development aid and its current debates:

1. Over the past few years, there has been increasing global popular interest in the aid debate as represented by the 2005 Live 8 concerts, the campaign to end extreme poverty and in the light of the high-profile contributions made by Australia in response to the 2004 Boxing Day tsunami.

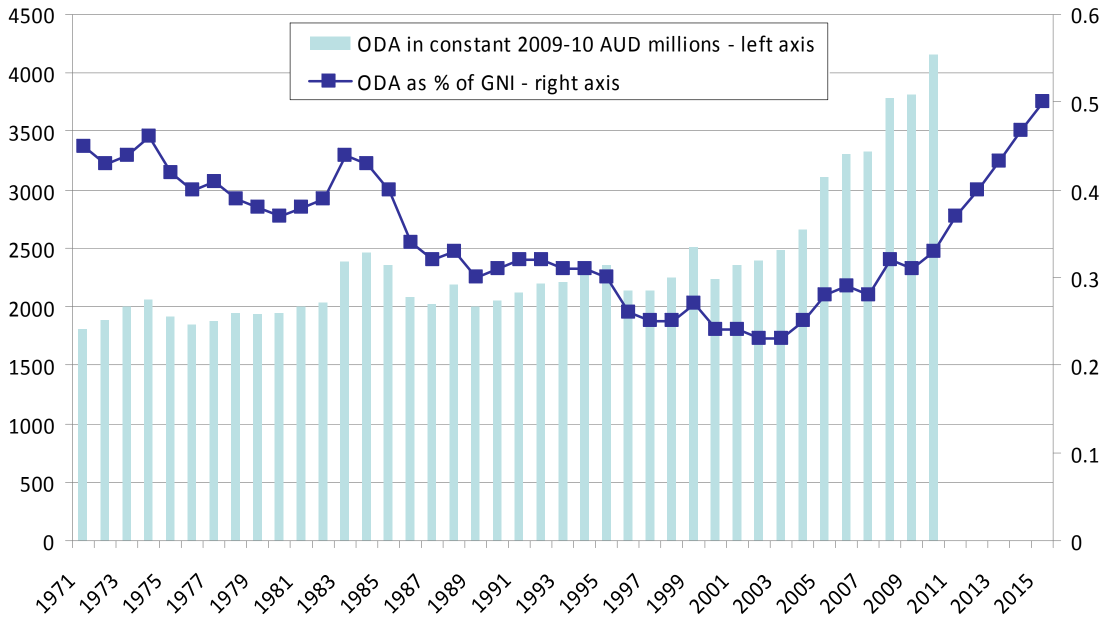
2. There has been a substantial increase in funding for official development assistance (ODA) from countries around the world. Between 2000 and 2008, ODA from rich OECD countries rose from US$53.7 billion to US$121.5 billion[1] with the US, France and Germany leading the way (table 1).

*Table 1. Contributors to Official Development Assistance and as a percentage of Gross National Income*[2]

| *Rank* | *Country* | *ODA in 2009 (USD millions)* | *ODA / GNI* |
|---|---|---|---|
| 1 | USA | 28 665 | 0.20 |
| 2 | France | 12 431 | 0.46 |
| 3 | Germany | 11 982 | 0.35 |
| 4 | United Kingdom | 11 505 | 0.52 |
| 5 | Japan | 9 480 | 0.18 |
| 7 | Netherlands | 6 425 | 0.82 |
| 9 | Norway | 4 086 | 1.06 |
| 12 | Denmark | 2 810 | 0.88 |
| 13 | Australia | 2 761 | 0.29 |

3. Australia is no exception to this trend of increased spending on aid. Australia's ODA budget has expanded from just over A$2 billion in 1997 to more than A$4.3 billion today (in constant 2009/10 dollars) (figure 1).[3] And the government has committed to increasing aid spending over the next five years to approximately $8 billion – a commitment that the opposition has supported.[4] Still, even with these increases, Australian government spending on aid is less than one-third of one per cent of total gross national income – considerably less than it was in the mid 70s (figure 1) – and pales in comparison to the A$45 billion spent on education or A$21 billion spent on defence.

*Figure 1. Australian Official Development Assistance disbursed in AUD millions per year in constant 2009-10 dollars and as percentage of Gross National Income, 1971 to 2015*[5]




4. There are currently intense global debates concerning how and indeed *if* aid actually works. High-profile contributions to these debates include Jeffrey Sachs' *End of Poverty*[6] and Dambisa Moyo's recent *Dead Aid*[7] which captured much attention. Moreover, these debates are moving to Australia as there has been increased discussion of the real impact of aid in the Australian media[8 9 10](and Barnaby Joyce, when shadow finance minister, intimated that he would be inclined to cut Australia's aid budget). The global financial crisis has justifiably crystallised scrutiny of Australian budget expenditures, making a deeper discussion of Australia's aid program timely.

5. The past decade has also seen significant structural shifts in the aid landscape with the emergence of new donors and new ways of delivering aid. China, Brazil and Middle Eastern countries have all emerged as prominent actors in the aid arena along with non-governmental organisations such as the Bill & Melinda Gates Foundation. At the same time, there has been a push towards higher levels of developing country-driven ownership of aid through mechanisms such as the Global Fund for AIDS, Tuberculosis and Malaria.

6. Finally, despite the increase in overall interest in aid, the general level of understanding of the Australian populace regarding aid remains limited. For example, take the central role in the aid debate played by the Millennium Development Goals (MDGs) (box 1). In 2000, 190 countries and all the world's leading development institutions agreed to eight MDGs that would serve as a blueprint to

reduce extreme poverty, provide universal primary education and improve the health of millions of people around the world. These goals since have become the lingua franca of international development. Yet two recent surveys reveal that Australians' awareness of the goals is poor. In one survey among staff and students of James Cook University in North Queensland, 73% of respondents had not heard of the MDGs[11]; a similar study among medical students revealed that 68% had either not heard of the MDGs or knew nothing about them.[12] Though not representative of the wider Australian population, these surveys suggest that there is much to be done to improve Australian understanding of the aid arena.[13]

*Box 1. The Millennium Development Goals*

Goal 1: Eradicate extreme poverty and hunger

Goal 2: Achieve universal primary education

Goal 3: Promote gender equality and empower women

Goal 4: Reduce child mortality

Goal 5: Improve maternal health

Goal 6: Combat HIV/AIDS, malaria and other diseases

Goal 7: Ensure environmental sustainability

Goal 8: Develop a Global Partnership for Development

The aim of this paper is to contribute to the development of deeper understanding by the Australian public of the challenges and benefits of aid. Despite public interest about aid, the public is largely under-informed and the aid conversation has remained mainly among practitioners. The paper will outline the major issues and trends in the development arena over the past few years and will examine aid successes and failures to address what is likely to work and what is less likely to work. In particular, it will argue that some of the more simplistic messages that have come out of the recent aid debate – to the effect that aid does not work – are mistaken. The global community including donors and developing country governments has examples of aid that has worked and also knows that the way aid is allocated and delivered can be improved. Finally, the paper will begin to explore the specific challenges that Australia faces in this field.

Importantly, this paper is not designed to provide a thorough review for the small group of aid specialists in Australia. Rather, it is intended for those interested in aid who want to know more about this important representation of Australian values and identity and what is, in many cases, Australia's face to the world.

## What is aid?

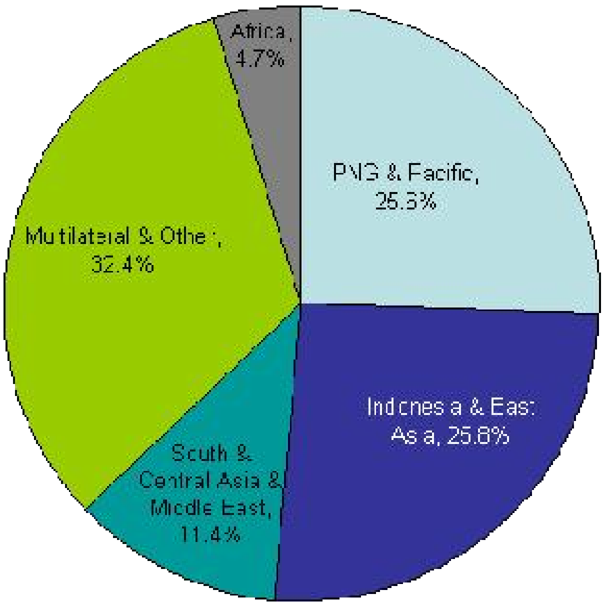
This paper focuses mainly on aid provided by governments to developing countries. The OECD defines ODA as "flows to developing countries and multilateral institutions provided by official agencies… each transaction of which meets the following test: a) it is administered with the promotion of the economic development and welfare of developing countries as its main objective, and b) it is concessional in character."[14] AusAID's website defines international development assistance as the "efforts of developed countries to reduce poverty in developing countries."[15]

Despite the emphasis on government aid, the total development arena globally goes well beyond official funding flows (as will be outlined in more detail below). In Australia in particular, non-governmental organisations (NGOs) play a very large role in how the Australian people interact with and understand the aid arena. The 72 members of the Australian Council for International Development – the field's peak body – together contribute approximately A$1 billion per year of which A$800m comes from public donations.

## To whom does Australia give aid?

In the 2010-11 budget, Australia committed A$4.349 billion for aid to developing countries. Almost equal amounts – just under A$1.1 billion – were directed to two regions: Papua New Guinea (PNG) and the Pacific; and Indonesia and East Asia (figure 2). Indonesia is the largest country recipient (A$459m) followed by PNG (A$457m), Solomon Islands (A$226m) and Afghanistan (A$123m). While both Solomon Islands and PNG have GDPs per capita around US$1270, Indonesia's GDP per capita is almost exactly double that. But since Indonesia has a much larger population than the other two countries, Australia's aid to Indonesia equates to approximately A$2 per Indonesian while aid to PNG is A$68 per person and to Solomon Islands A$431 for each of the 523,000 residents. The sector on which the greatest amount of aid is spent is governance, followed by education and health.

*Figure 2. Australian Overseas Development Assistance by region*[16]



*Box 2. The Bottom Billion versus the Next Billion*

Much of the global effort to reduce poverty focuses on those experiencing "extreme" poverty – defined as those who earn less than US$1.25 per day income. This represents one billion people globally – the Bottom Billion. Their "extreme" poverty is characterised by chronic hunger, mass premature mortality due to preventable and treatable diseases like diarrhoea and malaria, by a complete lack of access to education, and generally having no voice and very limited opportunity. The Bottom Billion includes people in sub-Saharan Africa, parts of South Asia and marginalised groups in various parts of the world.

Approximately another one billion people globally can be said to be living under conditions of poverty but the poverty they experience is somewhat different from the Bottom Billion.

Much of the poverty experienced by poor people in places such as Tonga, Vietnam or South America is not characterised to the same degree by the challenges faced by the Bottom Billion. In general, people who are poor, but not extremely poor, experience less chronic hunger (though acute episodes of hunger exist), they have some limited income, they have some education but very limited. Their challenges are more about economic and social opportunity, including access to capital, markets, ports and roads, and about intra-household distribution of income. We often talk about poverty as if it is monolithic but often we mean different things when we talk about poverty. This lack of consistency in definitions has affected development programs. Globally, funding priority and attention have been given to extreme poverty. The challenges of other poor countries, especially with regard to economic opportunity, have sometimes not received the same levels of attention.

## Why does Australia give Aid?

One reason Australia aims to be a leading player in global aid and development is the moral imperative. Foreign Minister Stephen Smith has stated that "our commitment to development assistance is fundamentally based on our desire and responsibility to help those in poverty."[17] This has the support of the Australian people – 58% of whom believe that reducing poverty should be the top priority for Australia's aid endeavours.[18] Australia is often described as 'the lucky country'. Indeed, our economic development, climate and abundant natural resources have allowed us to become a country with one of the highest living standards in the world. By contrast, many of the world's poorest nations face a combination of geographic and ecological circumstances which have resulted in their inhabitants scraping for survival.[19] Climate, for example, significantly determines a nation's ability to prosper. Tropical nations are afflicted by year-round warm weather which allows many diseases to continue unabated, such as malaria – which has been estimated to cost Africa A$12billion every year in lost productivity, even though it could be controlled for a fraction of that sum. The persistence of malaria in Africa partly reflects the existence of more challenging ecological realities. Similarly, many of the poorest countries in the world – Burundi, Afghanistan, Bolivia – are landlocked and therefore trapped by the difficulty of accessing global markets or relying on the stability of their neighbours.[20]

In 2009, Australia was ranked second in the world in the United Nations' Human Development Index – a rank which acknowledges our phenomenal standards of living, educational attainment and health care which enable us to live long lives[21]. By contrast, more than 2 billion people survive on less than US$2.50 per day.[22] Inequalities in income, life expectancy and development between nations have grown at an increasing rate over the past century and such discrepancies are a challenge to our expressed moral values. Australians as individuals recognise these disparities and have responded by being among the world's most generous donors to charities in the world.[23] [24]

A second reason that Australia might choose to give aid relates to concerns about international security. Poor economic conditions have been shown to make a country prone to civil war, often forcing nations into 'conflict traps' where the rule of law is diminished and extremism and terrorism can incubate. In the twenty-first century, our world is one of globalisation and economic interdependence, and our own security depends on the security of our globe. Consider, for example, the impact of conflict in the Niger Delta region on diminishing the global oil supply – a resource on which the entire developed world is now significantly dependent – and hence driving up the world price of oil. Former Prime Minster Rudd explicitly cited prevention of military interventions and regional instability as a reason for development engagement in the Pacific region.[25]

A third reason is that Australia benefits if our aid can improve the economic conditions of our neighbours, much as a rising tide lifts all boats. Improved economic development of the world's poorest nations would increase our trade and boost our national income. In turn, this could provide scope to diminish the Government resources allocated to military spending, allowing them to be redirected to strengthening sectors such as health and education.

Fourth, and some would say most importantly, a robust aid programme can provide benefits to Australia's international position and relationship with other countries and thus further foreign policy aims. Stephen Smith has clearly stated that "our commitment to development assistance is not separate from our foreign policy, it is a critical element of our foreign policy."[26] The Rudd government strove to present to the world an image of Australia as a principled 'middle power'[27] engaged in the major issues of the day such as climate change, the global financial crisis and G20 summits. Constructive engagement on addressing poverty and development can, if done properly, benefit Australia's international reputation both among other developed countries as well as in developing countries. Some have characterised Australia's promise to increase funding as being motivated by the desire to be elected to the UN Security Council.[28] While securing UN votes is a common driver for decisions of many countries to give aid, the suggestion that it is the only reason for aid ignores the very real and compelling economic, political and social rationales for development assistance.

These four major reasons for Australia – and all countries – to support an international aid program are, at times, in tension with one another and their relative priorities can shift over time. AusAID's stated aim highlights both the moral imperative as well as the domestic political and economic realities: "the aim of the program is to assist developing countries reduce poverty and achieve sustainable development, in line with Australia's national interest."[29] As will be addressed below, this tension has led to situations where Australia (like many other countries) has provided disproportionately large amounts of aid to middle-income countries which did not need the support as much as other countries (see US support to Colombia and Egypt). The term 'national interest' troubles those for whom the moral imperative of aid is primary but is seen by others as fundamental to the use of Australian taxpayer dollars. While the Jackson Report of 1984[30] identified the need for a strategically focused aid program concentrated on the developing region of greatest interest to Australia (the Asia-Pacific), the Rudd government took a more global perspective on the definition of Australia's national interest to encompass Africa in particular.[31] This scale-up of aid to Africa is appropriate as Africa continues to have the highest levels of poverty in the world, Australian expertise in niche areas – such as food security – matches African needs and the increased engagement will support the increasing business, cultural and political partnerships that have taken shape over the past decade.[32] In this way, the Australian government is following the Australian community which has already re-engaged with Africa.

## Recent developments in the aid industry: what you need to know

Over the past few years, with the increase in funding and attention being paid to development assistance, there have been some important movements in the aid arena that have significant implications for the future of the field. One recent writer credited this "revolution" with "reshuffling the cards [and] dynamiting old practices and habits."[33] Some of the most prominent of these trends and their possible implications are outlined below.

The list is not intended to be comprehensive. This is because one of the defining features of the aid universe has been its preference for 'fads'. The trends outlined below are more than fads and represent significant changes to the development arena over the past few years that will continue to have significant relevance into the future.

***a) The Millennium Development Goals***

As noted above, in 2000 at the Millennium Summit in New York, the countries of the world committed themselves to addressing extreme poverty wherever it is found. The eight agreed goals became a fundamental organising principle of development assistance for the years that followed and remain so.

Annual reports and strategies of the majority of development agencies, NGOs and multilateral institutions all cite the MDGs on the first page as being core to the way they view development.

While the MDGs have now become the common language of development, it is important to remember that, in 2000, they represented a step-change in the way extreme poverty was to be tackled. Rather than having each country and each organisation dictating their own priorities, the MDGs represented international consensus and commitment. It is rare that 190 countries at the UN agree on anything, let alone on striving for gender equality, achieving environmental sustainability and focusing on the health of women. Importantly, the MDGs were not just an ambitious vision but are time-bound, with targets and indicators.

The MDGs created an international will and pressure to improve the quality and quantity of aid and to make real progress in efforts to reduce extreme poverty. Many regard the MDGs as the spearhead for the substantial increase in the international focus on aid – particularly for Africa. The MDG movement set the platform for the public push for greater engagement by governments and the G8 promises of 2005.

Though the MDGs have their detractors (too ambitious[34], unmeasurable[35], ignore human rights[36], a distraction from the real tasks at hand[37]), the world has made significant progress against the MDGs. Child malnutrition in South East Asia has been reduced from 37% to 25% from 1990 to 2006; hundreds of millions of people have been pulled out of extreme poverty (though largely driven by economic growth in China and India); great progress has been seen in primary education; and child mortality has been reduced significantly. Progress in the Pacific region where much of Australian aid is directed has, however, been insufficient.[38]

***b) More money available and emergence of new players***

As stated above, ODA from OECD countries more than doubled in the decade to 2008. Similarly, development assistance for health doubled from 2000 to 2007 from US$10.7 billion to US$21.8 billion.[39] This health figure reveals an interesting and important development assistance trend. Whereas in 1990, the majority of spending on global health came from government, by 2007, contributions by organisations such as the Bill & Melinda Gates Foundation (BMGF) and various NGOs and private foundations contributed approximately one-quarter of all health aid.

The past decade has been characterised by the increased power of significant individual donors. The BMGF was founded in 2000 in the wake of the momentum that established the MDGs, a movement that realised that the agencies traditionally tasked with improving the state of people around the world – such as the World Health Organization, the World Bank and aid agencies – were not achieving their stated goals. The BMGF has now become the largest charity in the world, with an endowment of US$29bn and annual spending of US$3bn[40]. While such philanthropy is laudable, concern has been raised regarding the lack of publicly available information as to how the disbursements of such private organisations are allocated, and the impact such key players can have on shaping entire nations' health systems which are increasingly donor dependent.[41]

As well as new individual donors, a number of new country donors have emerged to challenge the established aid community. China in particular has established itself as an influential donor in some parts of the world including Africa and the Pacific (see box 3). In addition, India, Korea and Saudi Arabia have all started to become more engaged in various ways in the aid enterprise. The multitude of perspectives, approaches and the increase in funding have led to increased resources and opportunity but also increased complexity for developing countries and for aid agencies, increasing aid fragmentation.

*Box 3. China's emergence as a provider of aid*

Over the last few years, China has emerged as a significant new player in the aid arena. Despite still having hundreds of millions of people living in poverty, China has started to provide substantial amounts of money to development projects in the Pacific, Asia and in Africa. The majority of China's projects have focused on infrastructure development. For example, since 2004, China has concluded deals with seven African states for large-scale development loans backed by resource agreements for a total of nearly US$14 billion. (Brautigam D. Africa's Eastern Promise. *Foreign Affairs*. 5 January 2010). China has also improved roads in Fiji and built a number of health facilities in Tonga (as well as a US$12.9 million swimming complex in Samoa). As China is not a member of the OECD, its aid flows are not captured in many aid databases and the figures remain somewhat murky.

For recipients, the appeal of Chinese aid is that it does not come with the same governance requirements and conditions as traditional OECD aid. But Chinese aid does impose other requirements – economic ones that insist on access to natural resources and preferential trade agreements. A number of commentators have noted that China has, for example, provided substantial support to Sudan which has allowed Sudan to continue to arm militias and avoid UN Security Council censure (Rotberg RI. *China into Africa: trade, aid, and influence*. Baltimore, Brookings Institution Press, 2008).

A further significant critique of China's aid approach is the lack of capacity building. Many of the Chinese-funded infrastructure projects are conducted by Chinese managers, with Chinese equipment and Chinese labourers. Locals are generally not hired and skills are not systematically transferred. While the infrastructure itself is beneficial to the country receiving it, the potential for greater long-term development through skill building and ownership has been lost in the China model. Fergus Hanson cites a Tongan report lamenting of a Chinese-funded infrastructure project that "the real beneficiaries are actually the Chinese" (Hanson F. *China: stumbling through the Pacific*. Lowy Institute for International Policy. Policy Brief. July 2009).

Finally, there are concerns that with these new agreements with China, Africa is simply entering into a new phase of indebtedness – this time to a new partner.

***c) Developing countries driving their own development agenda***

The 2005 Paris Declaration on Aid Effectiveness represented the most significant and widespread attempt to place the ownership for development into the hands of developing countries themselves. In the years previous, donors such as Australia had imposed priorities and projects that suited domestic donor country audiences rather than suiting the needs of developing countries. Eventually, most donors around the world came to the conclusion that such an approach was ineffective and took the responsibility for progress out of the hands of developing country governments. As a result, over 100 Ministers and international agencies committed their countries and organisations to increase efforts to improve the way aid is allocated and delivered – promoting greater dialogue between donors to reduce duplication of activities and listening more to developing countries' needs and priorities[42]. The language of aid has been shifting from recipient to partner government, from conditionality to mutual responsibility.[43]

In reality, the implementation of these principles is lacking, with many countries remaining at the will of large donor organisations. This difficulty is exacerbated by the absence of transparency among donors. But efforts are being made in this direction by many actors around the world. Australia for example has shifted from delivering its aid largely through specific time-bound projects run by Australian managing contractors to efforts to support partner governments to achieve their sectoral goals, sometimes through budget support. Relying more on partner governments is inherently riskier than closely-managed Australian-based contracts. However, if the development community is serious about building the capacity of partner governments to drive their own development, this new approach is widely seen as the best way forward.

Instead of short two- or three-year projects, multi-year, consistent and reliable commitments of funds are needed for partner governments to make budgetary and planning decisions, especially for endeavours that may take years to bear results. Many donors seem reluctant to invest in long-term support that will only bear fruit perhaps ten years down the road, and it has traditionally been this type of short-term thinking that has hampered development outcomes. Over the past couple of years, Australian aid commitments have increasingly been set for five-year periods, which is an important change from previous projects.

***d) Demand-driven foreign assistance***

One of the most important emerging trends in global development is the transition towards the development of pooled funding aid mechanisms driven by the needs of developing countries. In a number of ways, this ties in with the central tenets of the Paris Declaration which put developing countries in the driver's seat of their own development trajectory. The traditional aid architecture was centred on aid agencies in the capital cities of developed donor countries where decisions were made on which countries to support, which priority sectors to fund and how the money would be spent.

The first, and to this day most prominent, manifestation of the movement towards demand-driven foreign assistance is the Global Fund for AIDS, Tuberculosis and Malaria (hereafter referred to as the

Global Fund). The manner in which the Global Fund distributes its funds represents a significant departure from traditional aid delivery. Countries determine national priorities based on their own assessment of needs and funding gaps and prepare an application that is then submitted to the Global Fund for consideration. The Global Fund reviews the application with regard to how technically sound as well as how financially thorough it is, but does not, at least in theory, bring its own ideology or pre-determined priorities to bear on the decision. Proponents are quick to note that the Global Fund insists on zero tolerance of corruption and insists on measured outcomes.

The money available to the Global Fund is provided by traditional donors (as well as other actors including the Gates Foundation) but is then pooled centrally. The Global Fund has therefore been able to commit US$18.7 billion to programs in 140 countries with US$10 billion already disbursed. The pooled funding reduces risks for any individual donor. The Fund is managed by a Geneva Secretariat and a Board but each grant is managed by an in-country principal recipient.

This model is seen by some as a panacea but of course it does have its difficulties. The Global Fund's insistence on certain reporting requirements adds extra burdens to countries receiving funds and the Fund's timetables and schedules do not necessarily match with national systems being strengthened through Paris Declaration efforts. Furthermore, some countries have failed to secure ongoing funding because of poor applications, putting long-term needs of patients at risk.

Professor Sir Richard Feachem, the first executive director of the Fund, acknowledged that the Global Fund was not perfect but argued that it did represent the beginning of a new aid paradigm. Since the Global Fund's emergence, there have been calls for new global pooled funds for the health MDGs, for non-communicable diseases, for smallholder agriculture and for education, demonstrating the wider appeal of the model. It is very likely that more global funds or other models of demand-driven aid will be established over the coming years.

***e) Sectoral focus***

Much of the increase in funding and attention over the past decade has justifiably been on the health sector: millions of children die each year from preventable and treatable diseases and 500,000 women die in childbirth. But more recently, there has been greater emphasis on other sectors – especially those with a more business-minded focus. Despite being the source of livelihood of about 75% of people in Africa and in South Asia, agriculture has been ignored by the development community, with agricultural aid dropping by 75% from the 1980s to the 1990s. The global food crisis of 2008 put agriculture and hunger back on the global agenda, culminating in a commitment by the G8 of US$20 billion to promote food security. The commitment is to move away from food aid to a model that seeks to increase agricultural productivity through improved seed varieties and access to water and inputs.

Micro-finance and small business development have also received increased attention, partly as a result of the work of the Grameen Bank whose founder, Mohammed Yunus, won the Nobel Peace Prize in 2006. While basic health and education and access to food are needed to get individuals out of extreme poverty, micro-finance allows families to start to climb the development ladder. Small business development is not an explicit part of the MDGs but can be seen as a critical next step in alleviating poverty.

***f) Private sector engagement***

Along with the increases in aid and emergence of new players such as the BMGF, the private sector has become more and more engaged in international development. From a low point in the late 1990s and early 2000s when pharmaceutical companies were seen as obstacles to wide-scale treatment for HIV in particular, businesses have taken on a more active role. Opinions vary on the principles behind this greater engagement and on the impacts, but the trend cannot be ignored.

Traditionally, few businesses engaged in any kind of activity in developing countries and most of that was seen as corporate social responsibility (CSR),often housed in the marketing or public relations wing of the relevant company. CSR came to be seen by many as a way to build internal employee morale and to provide a picture of a company as a good global citizen – mainly to a domestic audience. One of the best examples of this type of philanthropy is Merck Pharmaceutical's long-standing branded Ivermectin donation program for onchocerciasis or river blindness. Merck's commitment is to provide the drug to all who need it for as long as it needed. Other examples of CSR are much more short-term and lower impact but make their way into prominent positions in internal and external company newsletters.

Increasingly however, a number of businesses are moving away from CSR as the sole basis of their engagement in developing countries. They are recognising ways that the core business of companies can be leveraged in a manner that can make money and can also support the development of communities in poor countries.

For example, the Australian-based Business for Millennium Development has managed to bring on board some of Australia's largest and most prominent businesses and works with them to identify opportunities to reduce poverty while developing business within the Asia-Pacific region. For example, the organisation and its partners are working with agriculturalists in Papua New Guinea to assist them in accessing domestic and international markets through cooperatives, identifying opportunities and improving supply chains. Similar ventures are underway in Rwanda, where an organisation called Rwanda Works is helping farmers export pomegranates to the European market.

While there remains a general disdain for the private sector among many development actors (exacerbated by the rapacity that contributed to the global financial crisis), most aid agencies and NGOs see businesses as a potentially important partner. People in developing countries represent a vast market that has been largely untapped. Sub-Saharan Africa, normally seen as an economic basketcase, has experienced strong economic growth over the past five years – lower only than India and China. The most recent International Monetary Fund World Economic Outlook predicted strong economic growth for sub-Saharan Africa in 2010 – higher than in advanced economies, Latin America and the

Middle East. Mobile technology serves as an example of Africa's potential: Africa saw a 550% increase in mobile phone subscribers from 54 million five years ago to 350 million today, outperforming all other regions of the world. Similarly, the Pacific Island countries grew 5.1% in 2008 and mobile subscribers have grown rapidly from 100 000 in 2006 to an estimated one million in 2008.[44]

The role of business in bringing people out of poverty has often been ignored by the aid industry, but there will need to be increased interaction between business and aid agencies to leverage the strengths of both sets of organisations.

## Does aid work?

Hand-in-hand with the increase in development assistance over the past decade has come a proliferation of commentary on aid. The public commentary has been dominated by a small number of public intellectuals whose opinions have been characterised as being diametrically opposed to one another.

Some of the most prominent writers have included Jeffrey Sachs, whose 2005 book *End of Poverty* made the case for increased foreign aid and was seen by many as a companion piece to the 2005 Live 8 concerts and the G8 meeting in Gleneagles, Scotland.[45] He suggests that aid has not yet achieved its desired goals because too little aid has been provided to support the greatest development needs. That the foreword to Sachs' book was by Bono (frontman of the band U2) reveals the intent of the author and publisher for this book to expand the audience for thinking on development and aid.

Sachs' most vociferous global critic was to be found at the other end of Manhattan in the form of William Easterly, who castigated the ineffectiveness and inefficiency of aid, asking why "the West spent [US] $2.3 trillion on foreign aid over the last five decades and still had not managed to get 12-cent medicines to children to prevent half of all malaria deaths."[46] Easterly's critique has more recently been taken up by Dambisa Moyo, who has called for an end to aid altogether, stating that it is not only ineffective but has compounded Africa's problems.[47] She sees aid as easy money for which developing country governments are not accountable and are therefore prone to misuse.

So an educated layperson who has just finished reading Sachs, for example, will perhaps think that aid can provide an important solution to the world's problems. One who has just completed a book by Easterly or Moyo, on the other hand, is likely to have quite different views on the utility of their country's aid program.

Paul Collier's work has generally been placed between the loud voices of Sachs and Easterly as someone who sees both the good and bad of aid. He looks more carefully at the countries that have been left behind by the last 20 or 30 years of economic growth, suggesting that a number of factors predict such enduring poverty: ongoing conflict; poor geography that limits the ability to trade with neighbours; a reliance on natural resources that stifles other economic activity; and weak governance systems.

## Reviving Dead Aid

The most prominent public commentators on development assistance are all economists. The current aid debate has been centred on what is essentially an economic argument. Perhaps not surprisingly, both Moyo and the authors (also economists) of another recent book on aid – *The Aid Trap: Hard Truths About Ending Poverty*[48] – call for less aid and more business investment. Moyo in particular suggests that the poorest countries of the world seek funding through financial markets – such as through the issuance of bonds.

While the global financial crisis has perhaps dented the world's faith in the benevolence of the market, the issue of aid versus business development continues. Some, including Sachs, see this as a false dichotomy – acknowledging the power of business and the market but noting that those who do not have enough to eat or whose children die of malaria for want of $1 medication are unlikely to be the rational *homo economicus* found in economics textbooks.

Despite the characterisation – promoted to sell books – that these various economists disagree on absolutely everything with regard to aid, most of them in fact agree by and large on some fundamental points. They all – even Moyo – see the value of aid in a significant number of situations and do not want to see aid abolished for those most in need.[49] They all see economic growth and business development as critical. They all emphasise that developing country governments need to take on greater responsibility for the achievement of development goals. They all acknowledge that aid could be and must be delivered better. Beyond these agreements, they each emphasise different components of aid: some suggesting that bilateral aid is the answer while others suggest that micro-finance and small business development is needed. But fundamentally, they agree on a lot more than they (or their publishers) would probably like to admit.

What is perhaps missing from the current aid debates is the humanity of the individuals who endure extreme poverty. Cultural and social contexts, power imbalances and household-level struggles are often lost in the discussions in capital cities or UN headquarters. The 1999 book *Development as Freedom* by Amartya Sen – though another economist – was a seminal work which situated development less as a technical issue and more as a moral question of supporting individuals – wherever they lived – to live their lives to the fullest.[50] The Australian philosopher Peter Singer has also recently become engaged in the aid debate, highlighting the moral perspective of doing more to help our fellow man whether they are sitting next to us or across an ocean.[51]

Perhaps greater involvement in the public debate on aid by human rights practitioners, anthropologists and those speaking for farmers, labourers and women might balance the economist-heavy public discourse. If the public debate remains heavily economist-dependent, the risk is that the moral, rights-based, community-based voices of developing country communities will be lost. Furthermore, for an economist, successful development equates to economic growth. This might ignore economic externalities such as pollution and environmental degradation but also progress that does not immediately appear on GDP measures such as community cohesion, solidarity, lives saved, increases in political and social voice, and solidification of rights. For some communities in Melanesia, for example, Western notions of development such as viewing land as a commodity are not culturally acceptable. Where development measures such as GDP are dependent on elements such as land ownership, we might ask if we are even measuring the right things. The focus on GDP growth and engagement with global financial and trade markets in the development discourse might be over-emphasised but an alternative paradigm has not been widely accepted and has not entered into the general public debate on development.

## Assessing aid

Over the past decades, the aid that has been delivered has been channelled in myriad different ways to many different countries and projects. The next two sections provide examples of where aid has failed to achieve goals and examples of successful aid. The objective is to examine a range of scenarios and extract lessons that might apply more generally. Of course every situation is context-specific, but some lessons can be drawn.

## When aid doesn't work

As noted above, there has justifiably been substantial criticism of international aid. An examination of some of these failures and what drives them is instructive[52].

**Aid that is not really aid:** official ODA figures are often misleading. ODA as recorded by the OECD includes debt relief, food aid, emergency relief and other items not explicitly focused on improving long-term development outcomes. For example, a significant portion of Australian aid is used to support our tertiary education sector (one of our largest export industries), through the provision of scholarships for students from the developing countries to study at Australian universities, which serves to support the education sector while superficially boosting our educational aid dollars[53]. This has substantial benefit to the scholarship holders and ultimately to those countries and is a useful expenditure – but it is a very different type of aid than direct support to developing countries.[54]

**The political and economic relationships surrounding aid partnerships:** Instead of allocating aid based on where it is most needed, rich countries will often favour recipients that are of direct political or economic interest to them, resulting in many middle-income countries (such as those in the Asian region) receiving more aid than the most impoverished nations (such as many countries in sub-Saharan Africa). For example, the Federated States of Micronesia, with a GDP per capita of US$2800, received US$157 per capita in development assistance for health in 2007 while Burundi, with a GDP per capita of US$401, received US$3.93 per capita.[55] These disparities highlight inefficiencies in aid allocations and how aid has been used as a tool of foreign policy rather than with a clear intent to improve development outcomes.[56]

**Aid conditionalities:** in the 1980s and 1990s in particular – but extending well into the 2000s – aid agencies and international financial institutions such as the International Monetary Fund and the World Bank imposed strict conditions on countries receiving aid. These included for example conditions that made sense from a narrow short-term economic perspective but which drove more people into poverty and had extremely damaging effects on the capacity of the public sector. Specifically, the World Bank capped public sector finances to ensure that budgets remained in balance (while deficits in rich countries soared) thus leading to shortages of teachers and nurses and administrators of public sector programs. Driven by rich-world ideologies, the World Bank also drove poor nations to privatise health care, water provision and other sectors with the view to securing greater efficiency and limiting public sector budgets. Due to poor implementation and inappropriate timing, reversals in health and education indicators ensued.[57] [58]

**Tied aid:** Many nations will 'tie' their aid back to their own nation, insisting that a major proportion of their donor dollars are actually used to buy products originating from their own countries. Most notably, US food aid was required to be purchased from American farmers, shipped on US carriers and distributed by US NGOs to ensure that as much of the value remained in the US. This practice was unethical and economically inefficient. Thanks in part to the Paris Declaration, this practice is less frequent; in 2006, Australia untied its aid program, thus reducing such inefficiencies.

**Donor-driven priorities:** Driven partly by particular constituencies, some development issues have received significant attention for a short period of time before falling off the agenda never to be seen again. These development 'fads' put additional strain on development agencies and developing countries. For example, in the Pacific, even though non-communicable disease accounts for 75% of deaths, external donors have provided considerably more funding to HIV and AIDS (which affects a very small percentage of the population).[59] While such funding could be justified in certain scenarios, Pacific governments have been calling for greater balance for years. Such situations have supported the call for greater implementation of country-driven aid as typified by the Paris Declaration.

Australia's aid programs have been criticised for similar inefficiencies. For example, significant amounts of the Australian aid budget during the Howard years comprised funding for 'governance' and 'security' issues, while allocations to health, education and agriculture remained relatively low. In 2005-06, governance programs comprised 36% of Australia's ODA while health, education and infrastructure made up 33% combined;[60] in the 2009-10 budget, governance represented 21% of expenditure with health, education and infrastructure making up 47%.[61] While improved security and governance are clearly critical to improved development, this approach was criticised by a number of stakeholders and was claimed to have harmed relationships between Australia and neighbours.[62] [63] [64]

Furthermore, much of Australia's donor contribution was described as 'boomerang aid' as one-third of the donated dollars never left the country, and up to 90% of overseas development contracts were won by Australian-based companies[65]. While these projects might have been successful against the narrow objectives, the incentives for contractors were all wrong. Successful capacity building would make the work of contractors largely obsolete so their incentive was to do enough to get another contract but not enough so that they were no longer needed. While Australia has untied its aid in 2006 and is making efforts to reduce its reliance on contractors, it still spends more (46%) on such external technical assistance than other OECD countries.[66] AusAID admits that the quality of the technical assistance needs to be improved and the skillset of the contractors needs to angle more towards capacity building.[67] Additionally, having AusAID contractors who make more than the Prime Minister was and is damaging for the public image of aid.

## When aid works

For all of these failures and inefficient practices, there are also many cases where aid has been successful. Some prominent examples from various parts of the world are outlined below.

*Ethiopia's malaria response*
Globally, malaria causes almost 250 million cases of illness and more than one million deaths each year. In Ethiopia, there is malaria in approximately 75% of the country covering 50 million people and malaria is the leading cause of morbidity nationally. Tens of thousands of children died each year from malaria. In 2005, 2% of households owned an insecticide-treated bed net but, in 2007, the government, supported by donors, committed to improve malaria control. By January 2008, more than 20 million bed nets were delivered increasing coverage of at-risk children by 1500%. At the same time, Ethiopia rolled out its health extension worker program which saw 30,000 women mobilised – two per village – to provide health education to communities and to deliver basic medications when needed. This dramatically expanded access to anti-malaria drugs. As a result of this simple plan, the number of children who die from malaria has been halved in just three years. The case of Ethiopia demonstrates the profound impact of the delivery of well-known simple yet effective techniques. The Ethiopia story is not one of innovation or creativity as much as thinking at scale and implementing what is known to work.[68]

*Vanuatu economic and tourism growth*
In conjunction with the government of Vanuatu and other donors, AusAID's Governance for Growth program has achieved remarkable results. Working together to overcome governance obstacles to broad-based growth, effective service delivery and poverty reduction, the program has contributed to economic growth rates of more than 6.5% over the past few years. US government funding has helped to improve infrastructure and Australian assistance has contributed to a major increase in access to telecommunications and banking services as well as to the liberalisation of the aviation sector. Partly as a result, tourism – one of the biggest industries in the country – has boomed. In 2004, there were approximately 99,000 visitors and, in 2008, that had doubled and continues to grow.

*Bringing clean water to Vietnam*
Australia has invested A$80 million in partnership with the Vietnamese government to improve water infrastructure and to provide sanitation facilities. The project involved the construction of water treatment plants and infrastructure to deliver safe drinking water, the construction of new drainage systems, and the ongoing replacement of uncontrolled waste dumps. All together, the project has provided 760,000 people with access to safe water and improved sanitation facilities to more than 500,000. The endeavour also sought to raise awareness – through partnership with local communities – of the links between water, sanitation and health.[69]

*Mobile banking in Kenya*
Especially for the rural poor, getting access to a bank account can be incredibly difficult. M-PESA – implemented by Safaricom with assistance from the UK Department for International Development (DFID) – is a money-transferring mechanism that allows people to use their mobile phone to deposit, withdraw and transfer money without the need for a formal bank account. Started in 2007, it already has 6.5 million users who can open an account in a local shop or petrol station and then transfer money via text message. With mobile phone subscriptions increasing by 550% in Africa over the past five years, such collaborative aid can lead to a banking revolution.

*Family planning and fertility reduction in Thailand*
Amidst recent focus on population increases and the strain they can place on the environment, the global community would do well to remember what Thailand was able to achieve with targeted donor technical and financial support. Thailand was able to cut its population growth rate in half over the 1970s and 1980s and to increase contraceptive use among married couples from 15% to 70%. Thailand developed a population policy and worked with NGO partners and donors, leveraging the egalitarian relationships between men and women in Thailand and religious support.

*Rwanda's entry on the information technology highway towards economic growth*
Most people associate Rwanda with the 1994 genocide but there is a new story that is deserving of attention. Rwanda's economy has grown incredibly quickly over the past decade with annual GDP growth rates reaching 11.2% in 2008 and greater than 7% most other years. The government is working to develop the economy and reform the financial and business sectors to encourage investment and small business development. The government's plan for the future – Vision 2020 – is ambitious and is based on a dream of eradicating poverty by becoming the Singapore of Africa. As a country-driven strategy, it has been supported by a wide range of donors. Realising that it is a small land-locked country with unreliable neighbours, Rwanda had to emphasise education and technology rather than agriculture or other expensive-to-transport goods. Rwanda is aiming to become an information-technology hub for the resource-rich nations of Eastern and Central Africa. Rwanda is weeks away from completing a link to a new fibre-optic network promising high-speed internet for East Africa. Investors are flocking to Rwanda to take advantage of opportunities in this now stable country experiencing an economic boom.

*Agricultural production in Malawi*
Since the 2005 growing season, the Malawi government has provided a fertiliser subsidy to smallholder farmers to allow them to purchase fertiliser and seed to produce a more robust and plentiful crop. This program is now supported by a number of donors including DFID and the World Bank. After years of drought and under-investment, Malawi has now had five years of agricultural surpluses and has met national food needs. Malawi now exports to the neighbouring countries and donates to the World Food Programme.[70]

These successes by no means represent a comprehensive list of aid achievements but they do suggest that with long-term assistance, a clear vision and strong government support, progress can be made against development indicators and with regard to economic growth. Education, health and infrastructure are critical as is access to financial and telecommunications services. The successes also demonstrate that sustained implementation of well-proven basic interventions such as anti-malaria bed nets, fertiliser and mobile phones can lead to considerable achievements. For too long the global aid community has sought the magic bullet but it remains the roads and schoolbooks and simple medications that lay the foundation for social and economic development.

## Australian aid's special challenges

Australia's aid endeavour faces some particular challenges as it moves into the second decade of the 21st century. AusAID is, relative to other aid donors, a small development agency whose main aid recipients have significant and unique development challenges. The Pacific Island countries have small dispersed populations across massive areas of the earth's surface and the limited economies of scale can make development assistance more challenging and more expensive. Additionally, whereas other comparably-sized donor countries such as Norway and Ireland are niche actors in all the countries in which they operate, AusAID balances two models that require different skill sets and approaches: in the Pacific region and in Indonesia, Australia is the biggest or one of the biggest aid partners and its contribution to development endeavours is substantial. At the same time, Australia provides assistance to parts of Asia and Africa where it represents a tiny proportion of aid flows. In accordance with the aid trends noted in this paper, in the Pacific region Australia needs to play the role of the stable, consistent, transparent large funder working with regional governments to achieve mutual but locally-owned development priorities. In South Asia or Africa, on the other hand, AusAID will always be a niche player which can address areas that other donors are neglecting or which can innovate and try out new approaches in conjunction with local partners.[71] These different approaches require different types of thinking and different models – one reliable and large-scale and the other more nimble and innovative. Whether the organisation will be capable of playing both roles simultaneously is a significant question.

AusAID is already taking some steps in the direction of country ownership and is becoming better integrated into regional efforts with increased collaboration with other aid actors. These efforts are commendable and need to be supported. But AusAID continues to rely too heavily on technical assistance that doesn't sufficiently build local capacity. While acknowledging that this is a particular challenge in the small populations of the Pacific, AusAID itself knows that it can make more progress in this area.

## Reviving dead aid

International development assistance has undergone significant changes over the past decade, including greater levels of public interest, funding and community support. The way aid is delivered has shifted through the proliferation of actors and funders including the Gates Foundation and China and amidst greater emphasis on empowering countries to control their own development pathway. At the same time, there have been prominent critiques of aid that have challenged practitioners and funding agencies to ensure that aid is effective and not simply self-serving. Despite these changes and challenges, there have been real aid successes – in a wide range of countries and across diverse sectors – that provide a way forward for other development efforts. The progress seen over the past decades in countries such as Chile, Vanuatu, Bangladesh, Rwanda and Ghana demonstrates that there is reason to be optimistic that developing-country governments and their people can successfully reduce poverty and increase the opportunities of its citizens.

Australians are right to scrutinise their aid program – that of the government as well as that of NGOs to which Australians donate – to make sure it reflects their values and desire to support those less fortunate. While the amount of money involved with official aid is relatively small as a proportion of the budget, it can affect how our neighbours and other developing countries view us as friends and partners – and therefore is of disproportionate importance.

Australia's bipartisan political support for an increased aid budget is laudable and needs to be supported and encouraged by the community now more than ever amidst increasing concerns regarding climate change's impacts and in light of the global financial crisis – which is squeezing many aid budgets[72] at the same time as driving an additional 64 million people into poverty.[73] We should continue to strive to make the aid we deliver as effective and impactful as possible while genuinely working to build the capacity of developing partner governments. The ultimate goal of development assistance is to work with developing country partners to end poverty and build sustainable economic growth. This makes the aid industry one of the few whose definition of success is putting itself out of business.

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