



Charles and other schoolchildren are the beneficiaries of the Oxfam school latrines project in Haiti. Oxfam has installed latrines into five schools to be used by 504 children. Photo: Vincent Tremeau/Oxfam

# ACCOUNTABILITY AND OWNERSHIP

## The role of aid in a post-2015 world

Despite substantial development progress globally since 1996, hundreds of millions of people still live in extreme poverty. In September 2015, world leaders adopted the Sustainable Development Goals—an ambitious new agenda to eliminate poverty by 2030 and tackle key challenges around inequality, hunger, and climate change. But what is the role of public development finance (aid) in a post-2015 world? Achieving the SDGs requires the international community to adopt a new vision for aid. In this vision, aid enables countries to be owners of the development process and supports the citizen-state compact by actively breaking down barriers to participation, decision-making and accountability. More aid, as well as more effective aid, can support people to fight inequality and become active citizens, while also supporting effective and accountable governments to plot their own path to achieving the SDGs.

# INTRODUCTION

Aid from rich countries was important for the achievement of the Millennium Development Goals (MDGs). It saved millions of lives by reducing the burden of preventable diseases such as malaria and HIV/AIDS, allowed millions of children to go to school, and helped millions of farmers adapt their practices to a rapidly changing climate.

The MDGs showed that even the poorest countries can make dramatic and unprecedented progress with targeted and time-bound interventions, sound strategies, adequate resources and political will. Aid was most valuable when it was delivered for priorities that were championed by developing countries and communities themselves.

Since 1990, more than one billion people have escaped extreme poverty. Yet, over this period, the poorest 20 percent of the world's population—who live on less than \$1.48 per day—have been virtually locked out of developmental progress, capturing less than one percent of the benefits of global economic growth.

People trapped in poverty are denied many of their basic rights and are unable to meet basic needs. They lack income, assets, access to basic services and opportunities, and suffer from discrimination, insecurity, and limited opportunities for development. People living in poverty are often stuck in a vicious cycle: their influence is diminished by their lack of resources, and their lack of voice diminishes their opportunities for development. This exclusion can be amplified by elites who seek to limit poor people's ability to organize, assemble peacefully, and speak out in favor of more equitable development. Women and girls are more likely to be poor than men and boys due to gender inequality, which results in them owning fewer resources and having less decision-making power than men.<sup>1</sup>

The Sustainable Development Goals (SDGs) agreed in 2015 were designed to tackle these varied dimensions of poverty, inequality, and injustice. They measure progress across 17 areas for action. While the SDGs build on their predecessors, the MDGs, they also go beyond the "Band-Aid" type solutions the MDGs provided. The SDGs aim to eradicate, not just reduce, extreme poverty and hunger. They also target areas that compound poverty, and in doing so, aim to reduce inequality, halt climate change, and realize gender equality and women's human rights. These policy areas are also causes of poverty; a major novelty of the SDGs is the way they aim to comprehensively address cause and symptom at the same time.

Beyond this, the SDGs incorporate an explicit rights-based approach—one that is most visible in the promise to "leave no one behind"—embodied in the promise to realize the goals for all people, including those who are marginalized, excluded, or discriminated against. The achievement of women's rights and gender equality is a critical dimension of this. Governments have also committed to "reach the furthest behind first," with a specific promise to help people and countries catch up by 2030.

Oxfam's vision for the role of aid in the SDG era centers around four key pillars:

1. Aid that helps countries mobilize and sustain financing for their own development priorities.
2. Aid that helps countries deliver the development results their citizens demand.
3. Aid that helps citizens demand the investments and outcomes they need.
4. Aid that helps people escape poverty sustainably.

**Figure 1 The Sustainable Development Goals**



Source: Sustainable Development Goals, United Nations Development Programme website <http://www.undp.org/content/undp/en/home/sdgooverview/post-2015-development-agenda.html><sup>2</sup>

Since the MDGs were agreed in 2000, the global development landscape has changed: more countries benefit from domestic resources, new providers of aid have emerged, and international commercial and private finance provide some developing countries with additional sources of finance for development. These new sources of development finance are significant, but come with inherent limitations when compared to public development finance such as aid. In addition, these flows tend to favor countries and areas that are already making the most development progress. This leaves behind governments that cannot raise domestic revenue or attract private capital.

Economic growth plays an important role in poverty reduction. However, it does not automatically lift people out of extreme poverty or enhance governments' capacity to mobilize their own resources; deliver basic needs, rights and resources; tackle climate change; or reduce inequality.

In this paper, Oxfam presents its vision for aid in a post-2015 era. According to Oxfam, the central role of aid in a post-2015 world is to support the citizen-state compact. The citizen-state compact sits at the center of the relationships and institutions in a country which are necessary to drive development progress. In this role, aid remains as relevant as ever for the world's poorest countries and communities. Accountability for the achievement of the SDGs lies with governments. Governments have the primary responsibility for making the investments necessary for all their citizens to achieve the SDGs so as to leave no one behind. A large numbers of countries still lack the necessary resources to meet their citizen's needs—be it public services, fighting climate change, or developing capable, effective, and accountable public institutions over the longer term. Aid helps these countries catch up and enables them to be in a stronger position to lead their own development path. Equally important is the role that aid plays in helping citizens of these countries organize and demand that their governments invest resources wisely and accountably, to ensure that all people, including the poorest and most marginalized, achieve the SDGs.

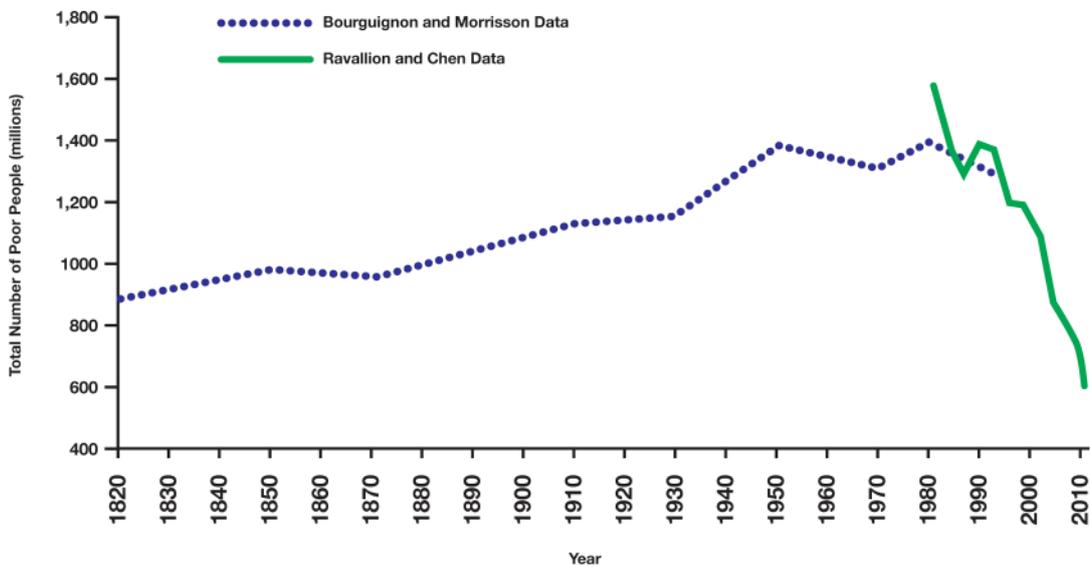
Realizing this vision for aid does not necessarily require new commitments from donors. Many of the promises donors have made in the past, if implemented, would change the quality of aid in meaningful ways, and make it an effective policy instrument to end extreme poverty and inequality. In doing so, aid would make an effective contribution to leave no one behind and realizing the ambition of the SDGs and the Agenda 2030.

# 1 ECONOMIC GROWTH AND POVERTY

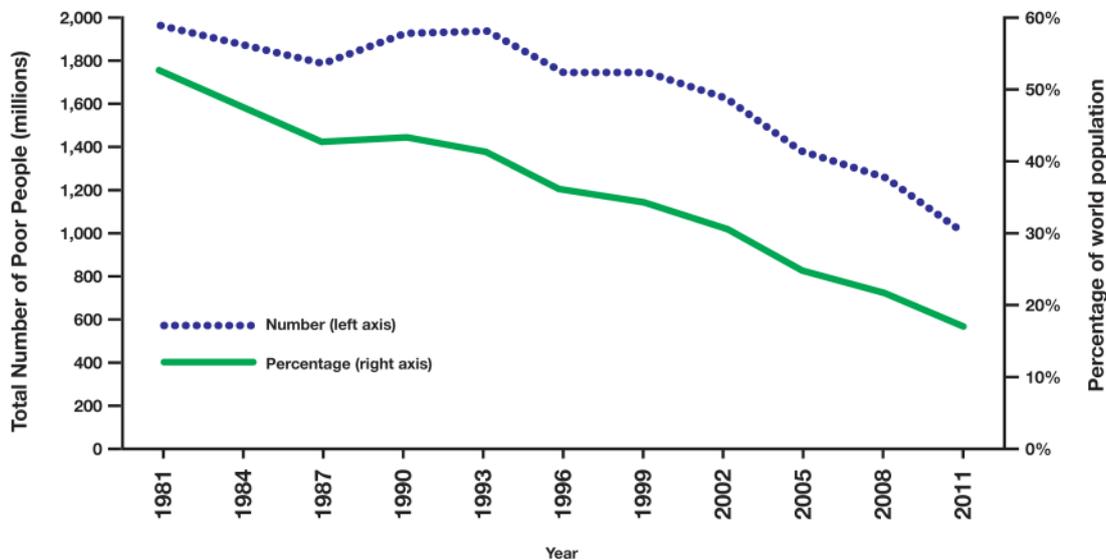
Over the past few decades, poverty has declined further and faster than at any time in human history. Since 1990, more than one billion people have escaped extreme poverty.<sup>3</sup>

**Figure 2 The recent decline in global poverty and extreme poverty**

The rise and fall of global poverty, 1820–2011  
Total number of people with income less than \$1 a day



The decline in global extreme poverty since 1981  
Total number of people and percentage of population living in extreme poverty (\$1.25-a-day poverty line)



Source; S. Radelet. (2015). *The Great Surge: The Ascent of the Developing World*. New York: Simon & Schuster.<sup>4</sup> Figures used with permission.

This progress has led the international community to believe it can actually achieve a world where everyone can claim their right to live free of the injustice of extreme poverty. But success in reaching this goal is not assured. The poorest people and countries have lagged behind most of the world. This chapter looks at whether economic growth is sufficient for the eradication of poverty and how rising inequality acts as a brake on poverty reduction and growth.

### **Box 1: Measuring poverty**

Even when focusing solely on income poverty, the lack of recent, accurate data, particularly in the poorest countries, means it is difficult to make comparisons across countries. For much of the past decade, the most widely accepted poverty measure was \$1.25 per day; this was adopted as part of the SDGs. More recent data on exchange rates has led the World Bank to adjust this to \$1.90 per day, to reflect the real impact on prices for extremely poor people.<sup>5</sup> While people living on less than \$1.90 per day are defined as “extremely poor,” this does not mean that people earning an income above this level are no longer poor. A large number of people worldwide earn more than \$1.90 per day but still struggle with poverty, deprivation, exclusion, and a lack of rights and basic services.

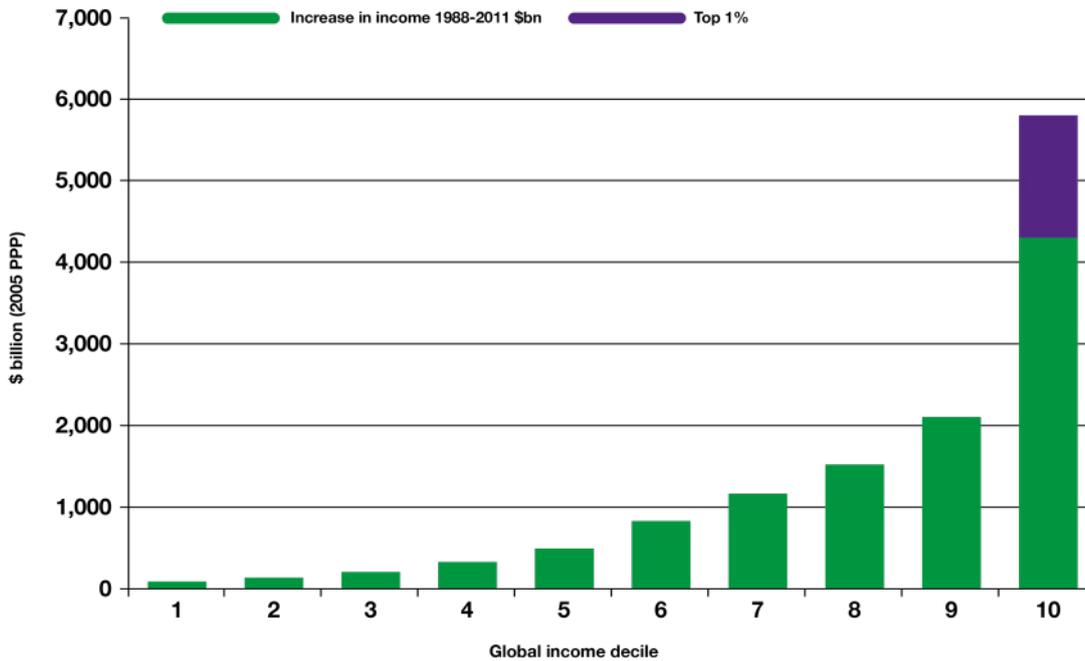
This paper mainly considers the 20 percent of people who had the lowest incomes in 2011, as measured by 2005 purchasing power parity (PPP). In 2011, this amounted to 1.4 billion people globally, all with a daily income of \$1.48 or less. This standard was chosen as a reference for this paper as it offers more available and comparable data for a greater number of countries, while accounting for a significant number of the poorest people. The year 2011 is the most recent year for which reliable data is available and was therefore chosen as reference. Ultimately, there needs to be better data on all dimensions of poverty to measure absolute progress.

## **POVERTY DECLINE SINCE 1990**

Economic growth has been seen as an important factor in the reduction of poverty. Indeed, it has been an important factor in the decline of poverty since 1990. Growth has helped many people increase their incomes, particularly in large countries such as China and Indonesia, which have now attained middle-income status. Aid plays an important part in rapidly growing economies, and it supports other sources of development finance such as foreign investment.

However, growth does not automatically lift poor people out of poverty. Economists Branko Milanovic and Christoph Lakner studied the distribution of income benefits across the global population between 1988 and 2008.<sup>6</sup> While most people saw gains from growth and development, the distribution was uneven. The greatest strides were actually made by those in the top one percent of the income scale; those in the middle of the scale, who had been living on about \$2 per day in 1988, also made substantial gains—on average doubling their income. Benefits were smallest at the bottom: people living on less than \$1 per day in 1998 saw their incomes increase by only a quarter, with those at the very bottom of the income distribution seeing little improvement between 1988 and 2008. This and other studies<sup>7</sup> demonstrate that growth alone will not end poverty.

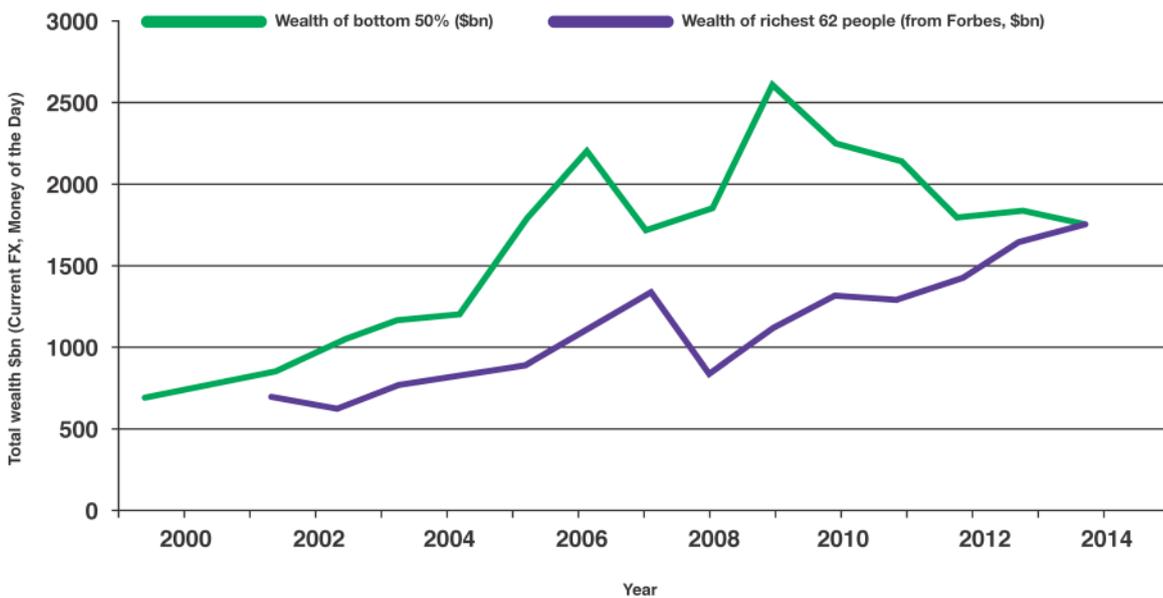
**Figure 3 Global income growth accruing to each decile 1988-2011; 46% of the total increase went to the top 10%**



Source: Oxfam calculations based on Lakner-Milanovic World Panel Income Distribution (LM-WPID) database (2013). See: D. Haroon, S. Ayele and R. Fuentes-Nieva. (2016). *An Economy for the 1%: How privilege and power drive extreme inequality and how this can be stopped*. <http://oxfamilibrary.openrepository.com/oxfam/bitstream/10546/592643/47/bp210-economy-one-percent-tax-havens-180116-en.pdf><sup>8</sup>

Earlier in 2016, Oxfam calculated that the average annual income of the poorest 10 percent has increased by less than \$3 in almost a quarter of a century. Their daily income has risen by less than a single cent every year. Oxfam’s own analysis based on data by Credit Suisse has shown a similar trend and demonstrates that far from trickling down, income and wealth are instead being sucked upwards at an alarming rate. In 2015, just 62 individuals had the same wealth as 3.6 billion people—50 percent of humanity.<sup>9</sup>

**Figure 4 The growing wealth of the richest 62 individuals as compared to the bottom 50% (3.6bn)**



Source: D. Hardoon, S. Ayele and R. Fuentes-Nieva. (2016). *An Economy for the 1%: How Privilege and Power in the Economy Drive Extreme Inequality and How This Can be Stopped*. <http://oxfamlibrary.openrepository.com/oxfam/bitstream/10546/592643/47/bp210-economy-one-percent-tax-havens-180116-en.pdf><sup>10</sup>

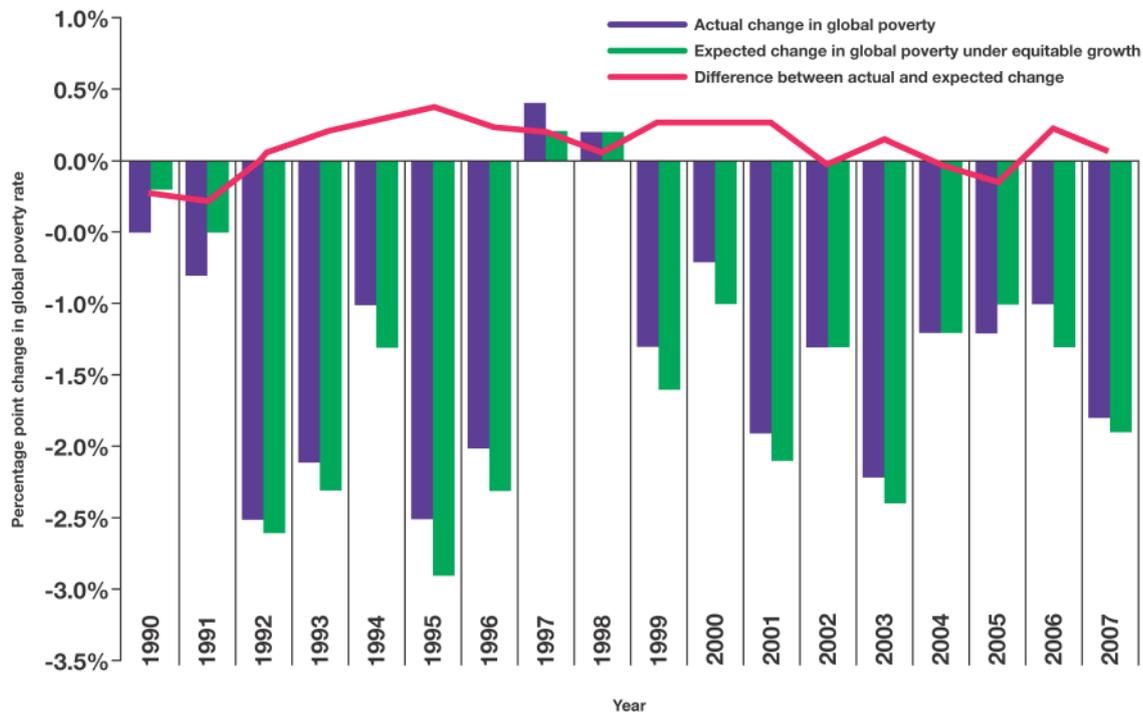
## How many people would growth leave behind?

History suggests it would be foolish to expect progress in ending poverty to continue on a linear path. As the global economy has become increasingly integrated, developing countries have become more exposed to international shocks. Many of the poorest countries depend heavily on commodity exports, and fluctuations in commodity prices have therefore meant unpredictable cycles of boom and bust. Sub-Saharan African countries are at particular risk from exposure to global economic conditions.<sup>11</sup>

Climate change is another factor that is creating huge challenges for development which are beyond the control of people living in poverty. Even assuming that international agreements can constrain the rise in global temperature to less than 2°C, climate change will continue to bring more extreme weather and droughts. These extremes most acutely affect people in poorer countries, which have the fewest resources to endure and adapt.<sup>12</sup>

The most pessimistic scenario predicts that one billion people could remain in extreme poverty by 2030; the best scenario leaves more than 100 million people in extreme poverty. This is unacceptable if the SDGs aim to leave no one behind. **Figure 5** demonstrates that in all but a few years over the past two decades, actual poverty reduction lagged behind expectations. A significant share of this is due to the unequal distribution of the benefits of economic growth.

**Figure 5 Actual poverty reduction versus expected poverty reduction under equitable growth**



Source: L. Chandy, N. Ledlie and V. Penciakova. (2013). *The Final Countdown: Prospects for Ending Extreme Poverty by 2030*. Washington, DC: The Brookings Institution. Retrieved 17 May 2016, from [http://www.brookings.edu/~media/Research/Files/Reports/2013/04/ending-extreme-poverty-chandy/The\\_Final\\_Countdown.pdf?la=en](http://www.brookings.edu/~media/Research/Files/Reports/2013/04/ending-extreme-poverty-chandy/The_Final_Countdown.pdf?la=en)<sup>13</sup>

Today, there is a growing consensus—backed by research from the International Monetary Fund,<sup>14</sup> among others—that growing inequality acts as a brake on growth.

Inequality also leaves people behind. An additional 700 million people would have escaped poverty between 1990 and 2010<sup>15</sup> if developing countries had managed growth in a pro-poor way. If this had happened, the income of the bottom 40 percent would have grown two percentage points faster than the average. Poverty rates could have been as low as 5.6 percent in 2010.

Addressing income inequality can therefore provide a much needed boost to growth and poverty reduction. The International Monetary Fund (IMF) found that an increase in the income share of the poorest 20 percent of people in a country is associated with substantially higher growth in gross domestic product (GDP).<sup>16</sup> Sub-Saharan Africa has the second-highest levels of income inequality in the world. Again, the IMF found that if sub-Saharan African countries reduced income inequality to levels comparable with Southeast Asian countries, they could potentially add almost one percentage point to their annual GDP growth.

The same countries also have very high levels of gender inequality, and addressing this would also boost growth. In a separate study, the IMF found, for example, that ending gender inequality would boost the GDP of Egypt by 35 percent;<sup>17</sup> in addition: “The growth payoff from removing legal gender-related restrictions also appears particularly strong for oil-exporting sub-Saharan African countries.”<sup>18</sup>

## State capacity to end poverty

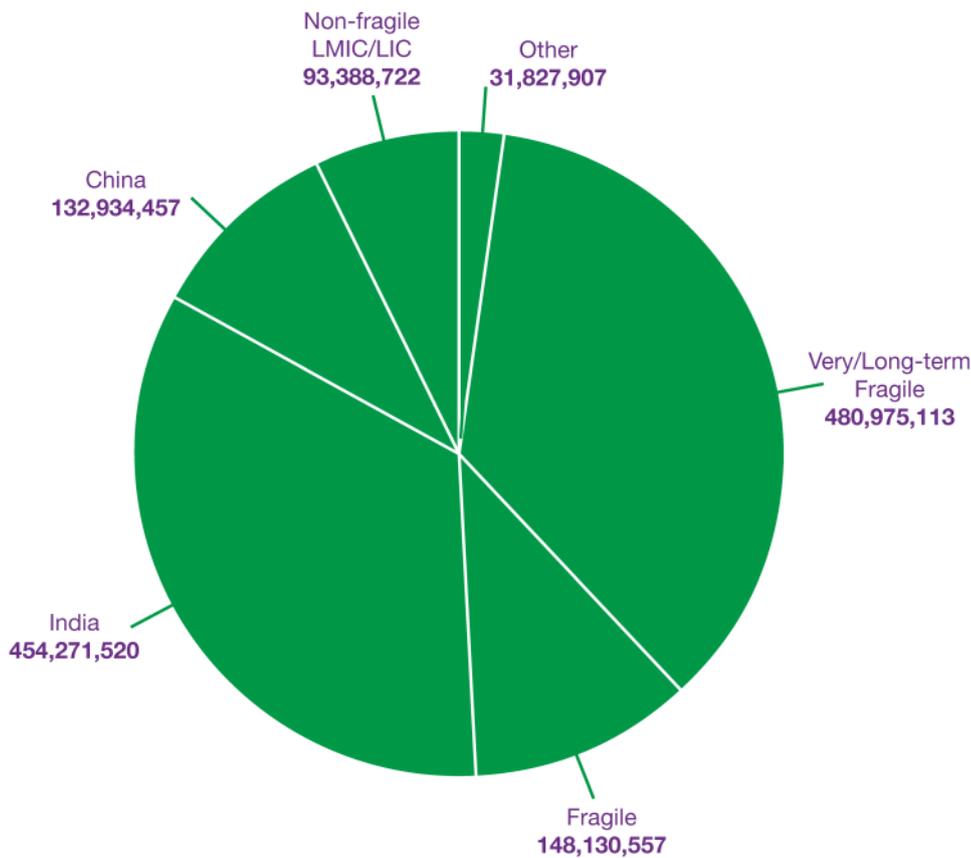
A major challenge to meeting the SDGs is the fact that most poor people over the next fifteen years will be living in countries that lack adequate domestic resources to invest in development. While governments will bear primary responsibility for ensuring their own citizens meet the SDGs, the governments in the countries where many of the poorest 20 percent of people live are significantly under-resourced.

Governments in these countries lack the capacity to deliver the basic public services and other investments that will be necessary to achieve the SDGs. Key among these are the 48 countries defined as “least developed countries” (LDCs) by the United Nations.

Some of these countries are also described as “fragile states,” meaning that their state institutions are weak, ineffective, or lack legitimacy. This fragility makes it difficult for these governments to support economic growth and provide basic public goods while at the same time responding effectively to emergencies or meeting security needs.

Great disparities between income and wealth in a country can further reduce the state’s capacity to respond to citizens’ needs. As Oxfam research<sup>19</sup> has demonstrated, extreme wealth also confers political power, which can then be used to influence the rules of the game in favor of the wealthiest at the expense of the rest—often the poorest countries and communities. One of the outcomes of this is that countries which are middle income nevertheless have very large numbers of very poor people. Countries such as Zambia have become middle-income in recent years, but have seen stubbornly stagnant poverty levels, because inequality has been so high and the proceeds of growth have accrued to the top 10 percent of the population. **Figure 6** shows that almost half of the poorest 20 percent of people worldwide live in countries classified as fragile. The implication is that state institutions in these countries find it much more challenging to meet the needs of all their citizens, let alone lead the effort to help their poorest people catch up.

**Figure 6 Where do the poorest 20% live?**



Source: Oxfam analysis of data compiled by Development Initiatives (DI), using data from World Bank PovcalNet and Fund for Peace. For more about DI's calculations, see <http://data.devinit.org/#!/data/methodology/><sup>20</sup>

In sum, policymakers cannot rely on momentum from two decades of progress and economic growth to sweep the international community towards achieving the SDGs. At least some of the lessons of the MDG years appear to have been learned. There is a growing global recognition that we must do something about a situation in which the richest 62 people have the same wealth as the poorest 3.6 billion, a world in which every three seconds a child under five dies of a preventable or treatable illness.<sup>21</sup>

Inequality, climate change, fragility, and other conditions confound states' capacity to forge their own development path. Many countries face particular capacity challenges to respond to their citizens' basic needs. It will require deliberate policy choices and public investments to ensure that progress reaches all people everywhere, particularly the poorest people. These challenges are shared by the governments of developing and developed countries alike.

## 2 AID AND OTHER DEVELOPMENT FINANCE

### AID

As a tool of public policy, aid can influence the development agenda at global, national, and community levels. Many countries have relied on social and infrastructure investments financed by aid or debt relief to support their development progress over the past few decades. Even if these investments are not the primary drivers, they have frequently made a measurable contribution to that progress (see **Box 2** for some examples of aid success stories).

Demonstrating that aid can be used as a tool of political influence, donors have helped to elevate the cause of fighting poverty and injustice. Aid can bring attention to development challenges that are neglected or marginalized within local decision making, such as prioritizing girls' access to basic education or the achievement of gender equality. Aid can also work to address issues that are critical for inclusive development, but may offer less immediate economic returns.

#### **Box 2: Aid success stories**

Aid has played an indispensable role in many development achievements, including the following:

- The global effort to eradicate polio, launched in 1988, has helped eliminate polio from more than 123 countries. As a consequence, polio infections have dropped from more than 350,000 in 1988 to 359 cases worldwide in 2014. All but three countries (Afghanistan, Pakistan, and Nigeria) have now been declared polio-free.<sup>22</sup>
- In 2004, diarrhea was estimated to kill 1.87 million children under five each year.<sup>23</sup> International efforts have decreased that number to about 530,000.<sup>24</sup>
- The eradication of Rinderpest, a highly contagious and lethal livestock disease, improved economic security for 40 million poor livestock farmers in Asia and Africa.<sup>25</sup>
- Donors helped supply more than 900 million insecticide-treated mosquito nets in sub-Saharan Africa between 2004 and 2014. This helped reduce the mortality rate from malaria by 58 percent—equivalent to saving the lives of more than 6.2 million people, primarily children under five.<sup>26</sup>

Many key decisions about how aid is defined, evaluated and counted still rest with the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD), which comprises all high-income donor countries. High-income donor countries have pledged to allocate 0.7 percent of their gross national income (GNI) towards aid, also referred to as overseas development assistance (ODA). Despite this ambition, since 2005, global allocations of ODA have essentially remained stagnant, at 0.3 percent of GNI. In 2015, DAC donors allocated a total of \$131.6 billion towards aid.<sup>27</sup>

Despite promises to make aid more consonant with the needs expressed by developing country governments and civil society, donors' control of aid policy, governance, and practice ultimately means that aid often prioritizes the interests of donors themselves.

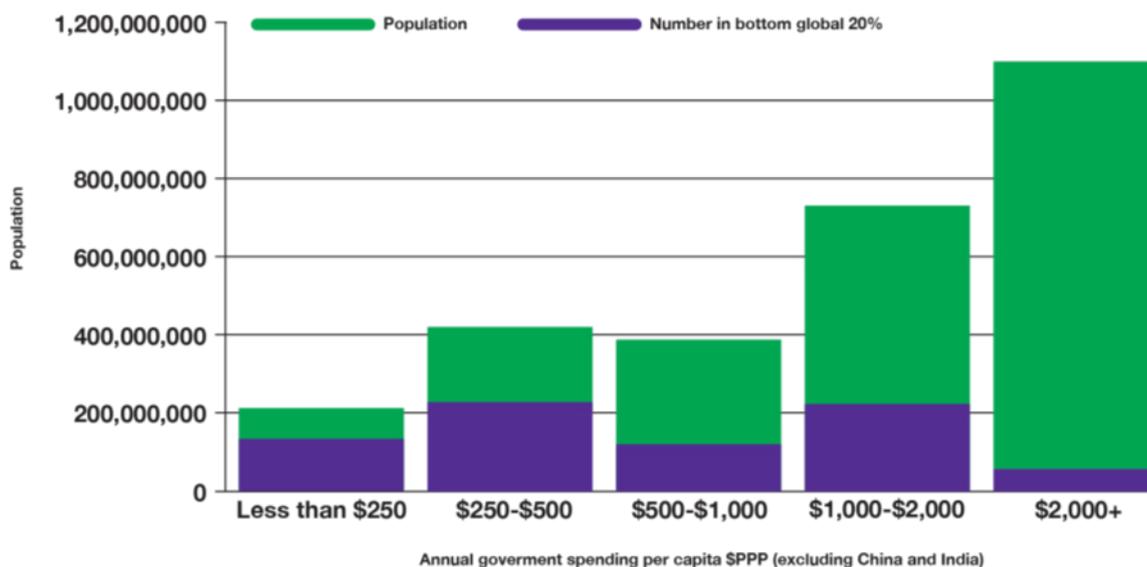
While aid budgets have increased in nominal terms for most of the past 30 years,<sup>28</sup> the global aggregate of other financial flows to all developing countries has grown much more rapidly. This fact has been used by donor governments, politicians, and aid skeptics to question whether aid is still needed, and what role it plays in today's world.

## OTHER SOURCES OF DEVELOPMENT FINANCE

### Domestic resources

As developing countries grow richer, development can be financed more readily from tax income by these nations themselves. However, over the next 15 years, most of the people living in extreme poverty will live in countries that lack adequate domestic resources to achieve the SDGs. Of the 1.4 billion people that comprised the poorest 20 percent worldwide in 2011, almost a third lived in 44 countries in which annual government spending was less than \$1,000 per capita.<sup>29</sup> This amount is simply too low to provide the level of public services necessary for widespread poverty reduction. By comparison, the average OECD country spent \$17,242 per capita in 2011.<sup>30</sup>

**Figure 7 Extreme poverty is concentrated in countries with the fewest government resources**



Source: Oxfam analysis of data compiled by Development Initiatives (DI), using data from IMF World Economic Outlook, OECD-DAC and World Bank. For more about DI's calculations, see <http://data.devinit.org/#!/data/methodology><sup>31</sup>

Martin Ravallion has shown that countries with annual per capita household consumption of less than \$2,000 lack the wealth in their economies to eliminate poverty through redistribution alone.<sup>32</sup> As of 2011, 56 countries were below this level of per capita consumption.<sup>33</sup>

## Private finance

Private flows, such as foreign direct investment (FDI) and remittances, have come to make up the largest share of resources flowing to all developing countries. However, in 2012, domestic investment and government revenue in all developing countries was seven-and-a-half times the total of incoming external flows such as aid, investment, loans, and remittances.<sup>34</sup>

Private finance is part of the effort to mobilize the massive resources required to meet the sustainable development challenge. It can contribute to poverty reduction for developing countries if it generates a significant number of well-paying jobs, decent work, and helps promote broad-based, inclusive growth. Because of this, donors have sought to invest aid in ways intended to leverage private sector investment for development purposes. According to the OECD,<sup>35</sup> \$96 billion was allocated in support of private sector investment in developing countries in 2013. This number comprises aid, as well as non-concessional loans provided by bilateral and multilateral donors.

Private finance serves a different role from public finance and cannot substitute for it. It is driven by market incentives, and thus cannot be expected to replace aid. Furthermore, there is not much evidence that donors' use of aid to leverage private investment delivers significant pro-poor development outcomes. For example, private investment in the extractive industries can have huge social, environmental, and human rights impacts for poor communities.<sup>36</sup> Worse, the value of such investments for development is limited. A survey by the International Council on Mining and Metals found that the mining industry accounted for 60–90 percent of FDI in the developing countries surveyed, yet generated only one to two percent of total employment in those countries.<sup>37</sup> Meanwhile, Oxfam has estimated that over the period from 2010 to 2014, the value of oil produced in developing countries was worth \$1.55 trillion for their governments—an amount five times as large as the existing funding gap for 42 of the world's poorest countries in both education and health.<sup>38</sup> Yet a lack of transparency and weak accountability mean that citizens in many countries cannot ensure that this revenue is invested to fight poverty and drive development.

### **Box 3: For-profit schools in Liberia**

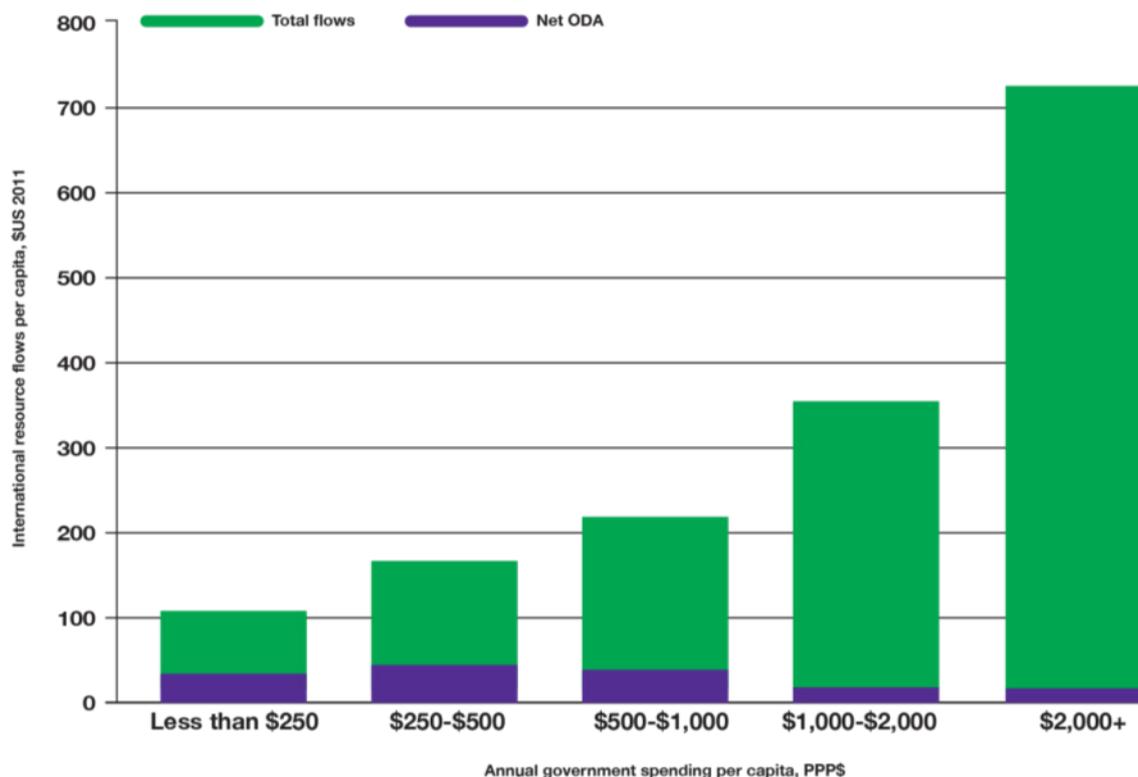
In March 2016, Liberia's Minister of Education announced that the government would seek a private firm to manage all of the country's early childhood and primary schools for five years, in a deal that relies on support from donors.<sup>39</sup> The announcement was made over objections from education specialists and civil society organizations, including the national teachers' union. In fact, it is unclear that the deal has any basis in Liberian law. It remains to be seen what role public institutions, particularly at the local level, will have in oversight and accountability for the arrangement.

The announcement has already drawn criticism from a leading UN education official, who has called the deal a "blatant violation of Liberia's international obligations under the right to education, [without] justification under Liberia's constitution."<sup>40</sup>

In February 2016, at the behest of certain DAC members, the DAC agreed to change its ODA reporting rules in a way that would make it more permissible for donors to use aid to leverage private finance.<sup>41</sup> These changes are complicated and unsupported by evidence that they would lead to either more or better-quality pro-poor development investments. The blending of aid with private finance makes it much harder to track and measure impact. A major risk is that a greater share of ODA is diverted to support firms in donor countries with dubious development results, at the expense of aid that could be better spent by developing country partners.

Moreover, private flows primarily target richer developing countries. In 2013, countries with domestic public revenues of less than PPP \$1,500 per capita attracted only one-fifth the per capita private investment of countries with greater domestic public spending.<sup>42</sup>

**Figure 8 The vast majority of non-aid international finance goes to countries with greater public spending**



Source: Development Initiatives calculations based on numerous sources.<sup>43</sup>

## South-South cooperation

Contributions from developing countries to help other developing countries overcome development challenges are not new, but the scale of this assistance is growing. Although “South-South” investment has quadrupled over the past 10 years, from \$6.4 billion to \$24.6 billion,<sup>44</sup> it still only accounts for about one-quarter of the identified deficit in public finance necessary to achieve the SDGs. The risk of a slowdown in emerging economies makes it difficult to depend on a continued strong increase in South-South aid.

The wide range of approaches to South-South cooperation by different providers makes it difficult to draw broad conclusions about its development impact. Furthermore, the limited data available from non-DAC providers makes it extremely difficult to judge how well such assistance is being targeted, evaluate its effectiveness, or shape policy to amplify its impact. Faster progress on commitments to increase transparency and accountability is crucial to ensuring that this growing resource can deliver maximum impact towards achieving the SDGs.<sup>45</sup>

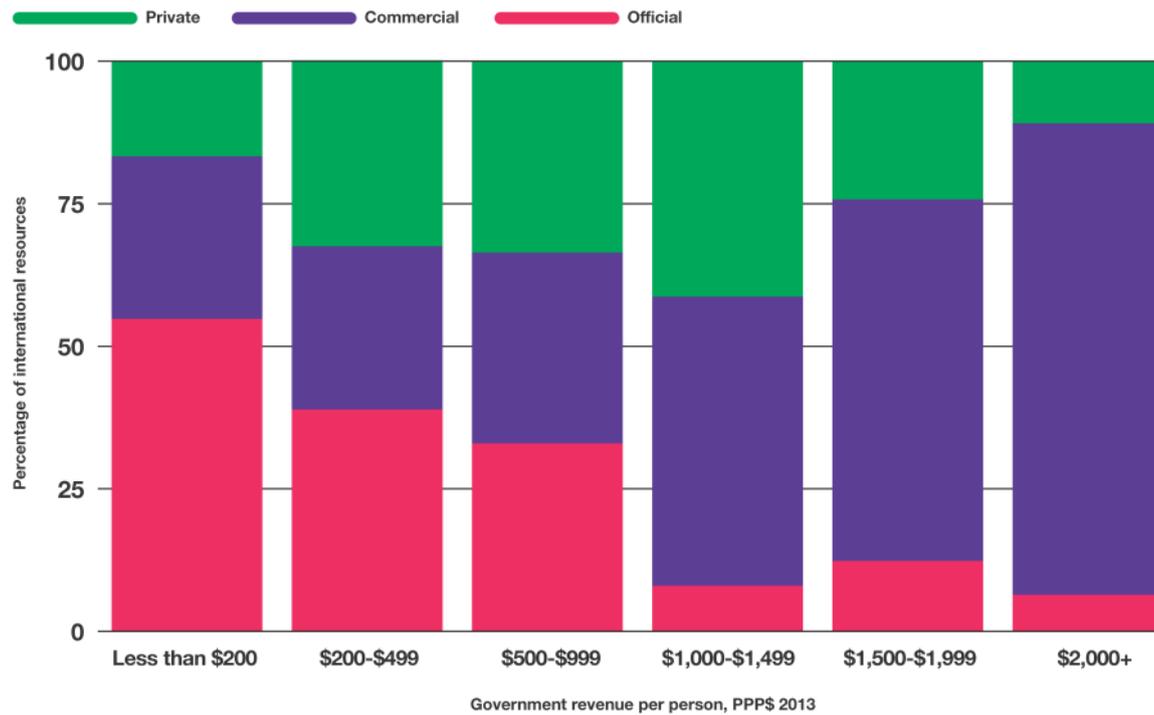
# THOSE LEFT BEHIND

**Figure 9** shows the correlation between poverty and fewer available resources—domestic and international—to fight poverty. In short, the poorest countries not only have larger poverty challenges, but also fewer resources that they can spend on development. For those countries, aid is still a very important source of financing.

In 47 countries, mostly poor countries and fragile states, aid remains larger than any other flow, including private investments.<sup>46</sup> These countries are home to more than 314 million people that are among the poorest 20 percent worldwide. In other words, for the poorest—those left behind—aid is an essential means of development. Private finance may complement aid, but it serves a different role from public finance and cannot substitute for it. In addition, in middle-income countries where poverty is compounded by rising inequality, a many people are being left behind. They have not yet been able to secure the resources, opportunities, or public investments to escape poverty and claim their rights.

## Figure 9 Governments with the fewest resources face the largest challenges

International official finance is important in countries where domestic public resources are lowest



Source: Figure reproduced from Investments to End Poverty 2015  
<http://devinit.org/#!/post/investments-to-end-poverty-2015><sup>47</sup>

## 3 A NEW VISION FOR AID

Many countries around the world will probably achieve the SDGs without a strong dependence on aid. They will do so because their governments, supported by active civil society organizations and civic engagement, are more likely to invest their own tax revenues in public services, and because free, fair, open, and functioning markets could attract the capital necessary to fuel growth.

The poorest governments, however, can neither raise sufficient revenues domestically nor attract private investment—they will need aid to support even basic service provision. But if aid can also be used to support increased revenue collection and more efficient and accountable service delivery, it could accelerate the end of extreme poverty. In other words, aid has a specific use for achieving the SDGs: it is most valuable not for its overall impact, but to the extent that it can ensure the poorest and most marginalized are not left behind. Here, we develop a vision for how aid can reach that goal.

### THE CITIZEN-STATE COMPACT

Aid is not the ultimate driver of development progress; rather, that driver is the functioning development compact between active citizens and effective, accountable governments. The relationship between poor, unaccountable governance and extreme poverty is arguably the biggest obstacle to eradicating extreme poverty. For this reason, accountable governance has itself been made an objective of the SDGs.

A country's pattern of development—including its sources of growth, how that growth is distributed, the provision of basic services, the state of human rights and justice, and the functioning of its markets—is first and foremost a function of a government's commitment to its citizens. How a government supports and responds to the needs of its citizens, and how citizens engage with and hold their governments accountable, are at the core of development (see Figure 10). Likewise, the breakdown or absence of this compact—where governments do not focus on meeting the needs of their citizens—is often linked to increasing inequality, stagnation, and dire social conditions.

**Figure 10 The citizen-state compact**



Source: D. Green. (2012). *From Poverty to Power: How Active Citizens and Effective States can Change the World*. Second edition. Oxford: Oxfam GB.<sup>48</sup>

Aid cannot forge this compact between citizens and their government. But the way donors deliver aid can strengthen or weaken that compact. Generous aid given blindly to ill-intentioned elites may lower incentives to raise domestic taxes or make public investments in development, as well as reduce electoral accountability. At its best, aid can help strengthen the citizen-state compact by helping to improve public accountability. It can promote an enabling environment for civil society, complementing government spending on much-needed public goods, and supporting strong domestic efforts (on the part of civil society and citizens) to hold governments accountable.

## Conditions for progress

The citizen-state compact sits at the center of the relationships and institutions in a country which are necessary to drive development progress. An effective government can make the investments necessary to support development progress, and support fair and functioning markets. Likewise, in a functioning compact, citizens have the freedom to invest their own human capital to provide for their household and grow their wealth. But in order to deliver this development progress, several other conditions must be present:

1. The country must be able to mobilize a volume of development finance adequate to meet the basic needs of their citizens, such as education, food security, fair and functioning legal systems, and other duties of governments.
2. The country must have public and private institutions capable of investing resources well.
3. The government must be accountable to all citizens, women and men—particularly the poorest and most marginalized—and all citizens must have space to hold the government accountable for development outcomes.
4. Resources must be invested in ways that support cumulative and sustainable development progress, and do not leave the country vulnerable to shocks caused by global market changes, conflict, natural disaster, or climate change.

## Why do countries still need aid?

Ideally, every country would be able to achieve these conditions without aid. Aid was always intended to be a temporary expedient—to support countries until they could provide for their citizens without it. Indeed, a growing number of countries are preparing national development strategies to greatly reduce their dependence on aid.

However, donors have often cut their provisions too soon. As described in **Chapter 2**, many countries simply cannot achieve the conditions above without external assistance, for numerous reasons:

- Many countries are not currently generating the level of domestic resources necessary to fuel broad development progress. The governments of these countries simply cannot provide basic public services and functions for their citizens. In these countries, aid is vital simply to help the government hold up its side of the compact until the country can generate the income necessary to stand on its own.
- Many countries lack the data and government capacity to ensure that the resources they can influence are invested as wisely as possible, and not lost to mismanagement, tax avoidance schemes, or fraud.
- In many countries, citizens are impeded from playing an active role in influencing their governments. Sometimes this takes the form of formal restrictions on freedom of speech or assembly. In other cases, civil society lacks the information, opportunities, or resources to actively participate in decision making or the implementation of development programs.
- Poorer countries are more vulnerable to conflict, natural disasters, and the impact of climate change, and often lack the resources to recover quickly.

## How can aid help?

These large-scale problems will take decades to overcome. However, if aid were programmed with the intent to support the following conditions, it could potentially hasten the day when a particular country could drive development progress without aid:

1. Aid would help the poorest countries increase the volume of domestic resources available to invest in development. This includes direct finance for public services and other poverty reduction priorities, but also support to increase partner countries' other development resources, such as domestic tax revenues, FDI, or climate finance.
2. Aid would support national and local institutions to strengthen their ability to make development investments that deliver maximum value, by:
  - a. Helping government, civil society, media, and the private sector collect and manage timely and accurate economic and demographic data to target development investments.
  - b. Supporting effective legal frameworks and institutions to ensure that resources are not misspent, diverted, or squandered. This includes effective tax and audit institutions, strong parliamentary oversight, a free and open media, and tools to manage the proceeds of the extractive industries.
  - c. Supporting states and citizens to ensure binding, fair, and transparent redress processes that allow citizens, particularly poor and marginalized people, to secure remedies when aid projects impact negatively on them.
3. Aid would support both the capacity of government institutions to respond to citizens' demands and the ability of citizens and civil society organizations (CSOs) to engage in formal and informal public processes. Citizen engagement is valuable not only to demand that governments address citizens' needs, but also because it can help extend the reach of social programs to the poorest and most marginalized people. For example, this is an important prerequisite to achieving women's rights and gender equality.
4. Aid would be delivered in ways that would maximize and sustain the impact of other development investments. This includes support to help countries and communities address climate change as an integral part of development planning, as well as additional resources to adapt to changing climates, to prevent conflict and violence, and to resist economic and environmental shocks.

Together, these four elements constitute Oxfam's vision for aid in a post-2015 world. This vision can be achieved by improving donor practice and aid effectiveness on a number of fronts. However, aid volumes are central to achieving this vision too. Donors need to allocate annually a minimum of 0.7 percent of GNI towards ODA. This is not merely a measure of charity or justice—it is also a prerequisite to reducing the inequalities between countries. This goes to the very heart of the Agenda 2030 and the SDGs, which aspire to realize social progress, human rights, and welfare for all, not only leaving no one behind, but reaching those furthest behind, first.

**Figure 11 A vision of aid for the SDGs**



## 4 ACHIEVING THE VISION

Achieving Oxfam's vision for aid in a post-2015 world will require more public finance of the type that includes aid. In preparing to launch the SDGs, the United Nations estimated that in addition to their own expected domestic tax revenues and foreign commercial finance, low-income countries and lower-middle-income countries will need \$167 billion of additional public finance from DAC countries per year over the next 15 years.<sup>49</sup> To meet the finance gaps facing poor countries, rich countries would actually need to give 0.85 percent of GNI, beginning in 2015 and continuing through to 2030.<sup>50</sup>

Making aid more effective is just as important as increasing aid volumes. Too little attention has been paid to aid effectiveness in recent years. However, for the implementation of the SDGs, high quality aid that strengthens government accountability and citizens' ownership of the development process is indispensable. Effective aid is also essential to increase public support for aid in donor countries, where aid has come under increasing criticism. While such criticism should have prompted changes to make aid more effective, it has instead given some governments (including some who were very supportive during the development of the SDGs) a welcome excuse to drastically cut aid budgets.

### Box 4: How much money is needed?

The Third International Conference on Financing for Development in Addis Ababa, Ethiopia, in 2015, adopted a call for all donors to provide between 0.15 percent and 0.2 percent of GNI to least developed countries (LDCs). In 2014, DAC donors provided only 0.06 percent of their GNI to LDCs.<sup>51</sup> Preliminary estimates from the OECD indicate that DAC donors have begun to increase the proportion of their ODA to LDCs, and will continue over the next three years. But aid to some individual LDCs, such as Guinea and Niger, is still declining.<sup>52</sup>

In addition, at the 2009 Copenhagen Climate Summit, rich countries pledged to provide \$100 billion per year in climate finance. At the Paris Climate Summit in December 2015, rich countries promised to continue holding themselves accountable to that amount through 2025. Oxfam estimates that, by 2014, rich countries were providing only one-fifth of that amount.<sup>53</sup> Rising temperatures are likely to increase the adaptation finance needs of developing countries to almost \$300 billion per year by 2050, and could reduce developing countries' GDP growth by \$600 billion—a loss of about 1.3 percent.<sup>54</sup>

# AID THAT HELPS COUNTRIES MOBILIZE AND SUSTAIN FINANCING FOR THEIR OWN DEVELOPMENT PRIORITIES

ODA is defined as financing from donor countries that “is administered with the promotion of the economic development and welfare of developing countries as its main objective.”<sup>55</sup> However, this is based on the judgment of donors, not developing countries or their citizens. Much of what is counted as ODA never actually makes it to developing countries. That which does is often not invested in the areas of greatest need, or serves donors’ commercial or security interests. Donors’ formal policies and/or legal mandates can have a significant impact on how they allocate assistance.

## Aid that targets the greatest needs

A 2015 review of donor policies by Development Initiatives found that donor agencies with a legal mandate to reduce poverty allocated more of their ODA in 2013 to countries that faced larger poverty challenges.<sup>56</sup> In other words, donors’ laws, policies, and mandates really do influence how they direct their aid towards the poorest people and countries.

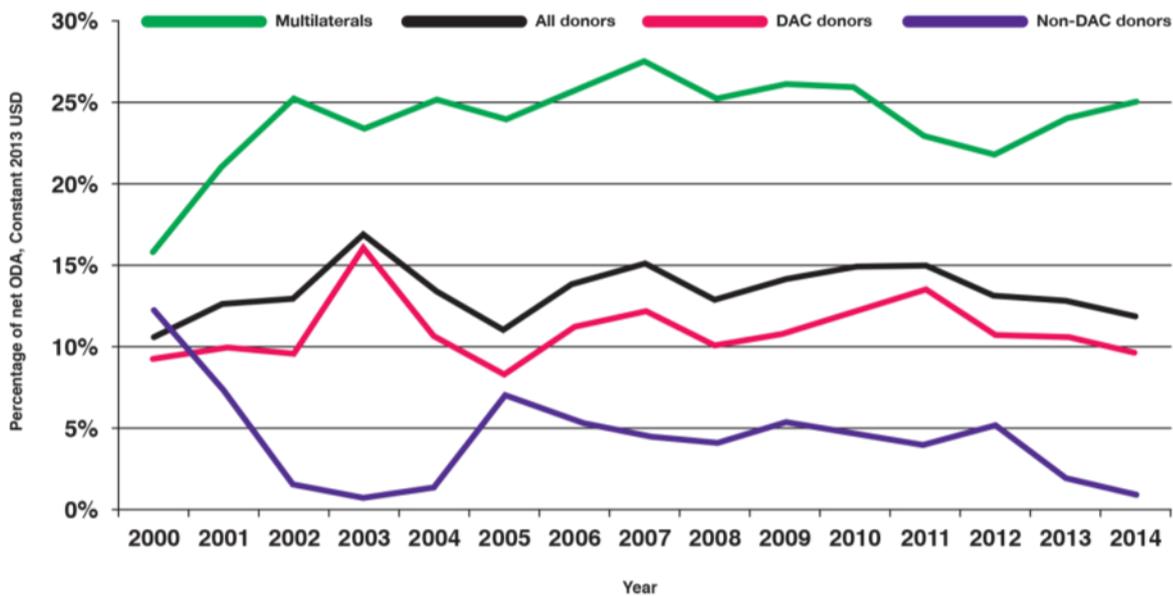
Oxfam conducted an analysis of the 23 “most challenged” countries, selected according to the following criteria (listed in Annex 1):<sup>57</sup>

- **Limited government capacity:** government spending below \$1,000 per capita per year.
- **Limited potential tax base:** annual household consumption below \$2,000 per capita per year.
- **Aid dependence:** ODA was the largest external flow into the country.

These countries were home to more than 248 million of the poorest 20 percent of the world’s population in 2011 (comprising about 18 percent; see Annex 1).

However, bilateral DAC donors contributed less than 14 percent of their total aid to these countries per year between 2000 and 2014 (see **Figure 12**). Non-DAC donors contributed even less—around five percent per year. While this deficit was somewhat balanced by the efforts of multilateral sources of ODA, these 23 countries still received a smaller proportion of total ODA from all donors than their poverty and development challenges would suggest is necessary.

## Figure 12 Percentage of ODA to 23 most challenged countries



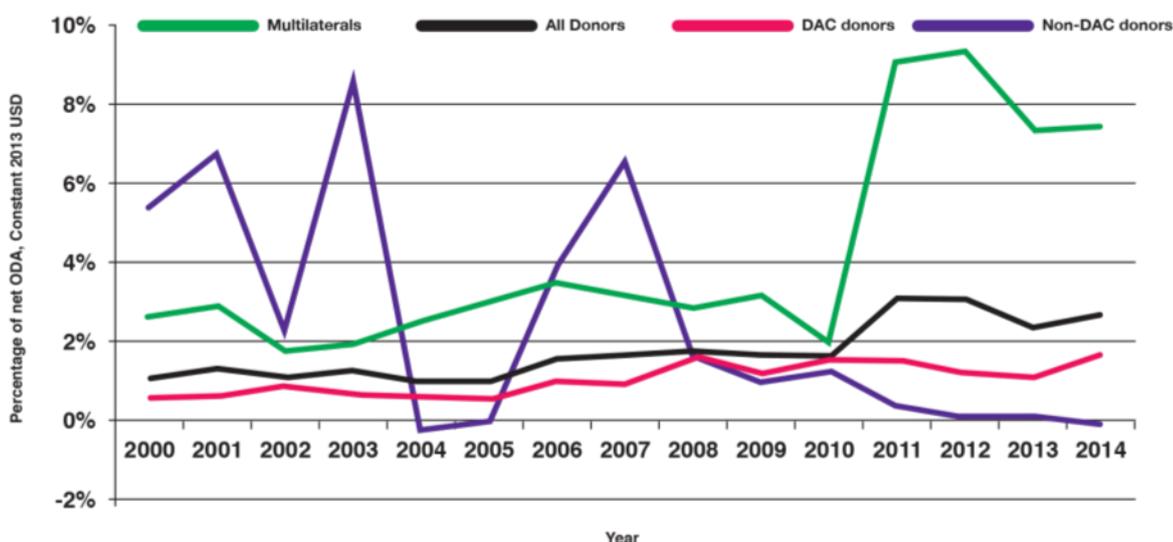
Source: Oxfam analysis and calculations based on data from World Bank and Development Initiatives. See Annex 1 for data.<sup>58</sup>

In contrast, all DAC donors, including bilateral donors, provide a slightly larger share of ODA to countries that face fewer development challenges. Let us take a different sample of “less challenged” countries using the following criteria:

- **Greater government capacity:** government spending over \$4,000 per capita per year.
- **Stronger potential tax base:** annual household consumption above \$4,000 per capita per year.<sup>59</sup>
- **Less aid dependence:** non-ODA external flows into the country were larger than ODA.

The 11 countries<sup>60</sup> that meet these criteria were, in 2011, home to just 4.2 million of the world’s poorest 20 percent of people (comprising 0.5 percent; see Annex 2). However, bilateral DAC donors sent 1.5 percent of their total ODA to these 11 countries in 2011 (see **Figure 13**). Altogether, these countries received more than three percent of total global ODA in 2011—a number which had tripled over the previous decade. This is not to suggest that this aid has been wasted; these 11 countries still face challenges in achieving the SDGs. But if one of the primary criteria for investing ODA is supporting the poorest people and countries to catch up, then this analysis suggests that donors have been moving in the wrong direction.

**Figure 13 Percentage of ODA to 11 less challenged countries**



Source: Oxfam analysis and calculations based on data from the World Bank and Development Initiatives. See Annex 2 for data.<sup>61</sup>

## Development assistance to middle-income countries

More than 44 million of the poorest 20 percent of the world’s people live in 52 countries classified as upper-middle-income.<sup>62</sup> In these countries, per capita income is higher and they are more likely to possess the national resources to achieve the SDGs.

However, the research presented above demonstrates that some middle-income countries are among those with the greatest need for public finance, as many of these countries are also home to some of the poorest people. This also holds for countries that have recently “graduated” from the group of lower-income countries to middle-income status.

Poverty in these countries is compounded by high levels of inequality. The poorest people in these countries have not yet been able to secure the resources, opportunities, or public investments to escape poverty and claim their rights. In addition to being home to some of the poorest people, many of these middle-income countries, and in particular those who have just joined this group, face a number of adverse shocks, such as slower growth or governance challenges. Some of them also host large groups of refugees and migrants, putting an additional strain on public budgets and increasing fragility.<sup>63</sup> Donors should be very cautious about pulling out from these countries too fast or without due consideration simply because per capita income has risen, meaning a country has achieved middle-income status, when this actually has no relevance to poverty in that country.

While these countries are to a lesser degree dependent on aid than the least developed countries, aid still plays a vital role in these countries to strengthen the citizen-state compact. In doing so, aid is a critical tool for strengthening civic engagement so that people can claim their rights and their share of the benefits of national economic growth. Aid will thus also be needed to support people in

these lower-middle-income countries to demand their share of development progress.

## **Domestic resource mobilization and tax avoidance**

One way to make ODA more efficient is to invest more in helping countries raise more of their own revenue through domestic resource mobilization (DRM). An analysis conducted for the UN projects that low-income and lower-middle-income countries will need to generate more than \$2 trillion each year until 2030 to contribute their part of the financing to achieve the SDGs.<sup>64</sup> Supporting countries to generate more of their own revenue not only provides them with additional development resources but also means they have more of a say in how those resources are used; they can be spent on areas that are consistent with citizens' demands, without needing to compromise with donors.

In July 2015, a number of donors announced that they would collectively double their support for DRM through the Addis Tax Initiative.<sup>65</sup> An analysis conducted by Development Initiatives found that in 2013 all donors invested only \$92.6 million in programs with DRM as a core objective, and a further \$600 million in programs with a DRM "component."<sup>66</sup> Even including both as a baseline, the Addis pledge to double such assistance would still only amount to less than \$1.4 billion per year of aid invested in DRM, which is insufficient given the scale of the task.

Investing in developing countries' tax systems is not enough on its own. Donor countries' tax policies often undermine efforts to help developing countries keep more of the taxes owed to them. Tax avoidance by multinational firms now starves developing countries of approximately \$100 billion per year.<sup>67</sup> Some 30 percent of all financial wealth owned by the richest Africans—a total of \$500 billion—is held offshore in tax havens.<sup>68</sup> This costs African countries an additional \$14 billion a year in lost tax revenues—enough money to pay for healthcare that could save the lives of four million children and employ enough teachers to get every African child into school.<sup>69</sup>

Requiring multinational companies to make country-by-country reports of financial data publicly available for each country in which they operate could give a significant boost to DRM efforts and the strengthening of domestic tax collection and administration systems.

## **AID THAT HELPS COUNTRIES DELIVER THE DEVELOPMENT RESULTS THEIR CITIZENS DEMAND**

One of the key premises of the SDGs is that each country is responsible for its own progress. One way to get the most value from aid is to ensure that it strengthens local institutions by building their capacity, and making them more effective and responsive. This in turn would strengthen accountability for the achievement of the SDGs.

DAC donors have repeatedly committed to using and strengthening partner country systems, dating back to the Paris Declaration on Aid Effectiveness in 2005, which established that country ownership was a core principle of effective aid. The most recent set of commitments is the Busan Partnership, agreed in 2011, which emphasizes the principles of ownership of development priorities by developing countries, a focus on results, diverse partnerships for development, and transparency and shared responsibility for development outcomes.<sup>70</sup>

The Global Partnership for Effective Development Cooperation (GPEDC), created at Busan, is the main body that monitors implementation of aid effectiveness commitments. But donors continue to lag in following through on these pledges. As a consequence, there are numerous ways in which donor policies undermine or circumvent developing countries' systems. If donors want countries to eventually lead their own development without aid, supporting self-reliance must be a priority in how aid is programmed.<sup>71</sup> Below are five ways this can be achieved.

## **1. Putting aid “on budget”**

When donors fail to provide timely and useful aid information to partner country governments so that they can include it in national budget processes, it puts those flows beyond parliamentary scrutiny. That makes it harder for government officials to manage the development and macroeconomic impacts of aid flows. Donors have pledged to put 85 percent of their aid “on-budget” in partner countries, but by 2014 only 64 percent of aid was on-budget.<sup>72</sup> In addition, many donors have been cutting their use of budget support and sector budget support, despite the considerable evidence that giving aid in this way is strongly supportive of country ownership and more positive development outcomes.<sup>73</sup> Providing aid through these channels reduces transaction costs, supports country plans, and makes states more accountable to their citizens. It pays for key recurring costs, notably the salaries of teachers and nurses who are desperately needed in the poorest countries. In this way, aid supports country ownership, and obtains far greater outcomes in terms of poverty reduction.<sup>74</sup>

## **2. Progress with untying aid**

“Tying” aid to requirements that it can be used only to buy goods or services from the donor country can exclude vendors who might be able to offer greater value. Most donors have made substantial progress informally untying their aid. However, there remains a problem with informal de facto tying. In 2013, contracts were used to award almost 11 percent of total ODA. Almost half of this amount—accounting for \$6.4 billion—was awarded to vendors based in donor countries. Less than 0.5 percent of the value of contracts was awarded to vendors in least developed countries or heavily indebted poor countries.<sup>75</sup>

## **3. Using country systems**

Government systems are like muscles; they strengthen through use—and atrophy through lack of use. Despite pledging to use country systems by default in 2011, by 2014, there was no measurable change.<sup>76</sup> There are worrying signs that some donors' progress in this area is slowing down. USAID, the United States' main ODA-providing agency, had aimed to triple the amount of

assistance it provided directly to developing country partners, including government. But between 2010 and 2014, DAC data shows that overall, the US government only increased the proportion of its total ODA delivered via partner government systems by one percentage point—from 3.55 percent to 4.54 percent.<sup>77</sup> The UK's Department for International Development (DFID), which has long been one of the largest providers of budget support for developing countries, has announced that it will “end all traditional general budget support,” a key method of using country systems.<sup>78</sup>

## 4. Generating country-owned data

Transparency and accountability are core principles of effective aid. Developing countries and citizens need more and better data to help them identify and measure problems, track and monitor investments, and evaluate and prioritize effective strategies to lead their own efforts to achieve the SDGs. Even when data is available (such as population surveys or evaluations), it is often not shared with developing countries, which limits the ability of poor people and their representatives in government or civil society to influence how aid is delivered. Donor support for statistical development in 2013 was only \$448m globally. This amounted to less than one-quarter of one percent of global ODA.<sup>79</sup>

## 5. Installing safeguard policies

Aid is implemented with binding safeguard policies that offer transparent redress for citizens if they are adversely impacted.<sup>80</sup> Safeguard policies should provide protections from social and environmental impacts that can often occur in relation to large-scale aid projects. Multi-lateral donors such as international financial institutions (IFIs) already have such policies in place.<sup>81</sup> Bilateral donors and country governments where aid is being delivered should also put in place safeguard policies guiding their aid investments. Ultimately, the safeguard policies should be incorporated into country systems so they apply to aid and national investments. They should apply to all aid projects, whether implemented by governments, donors, the private sector, or a combination of actors. As capacity is often still limited, this process must be well-developed and happen in consultation with national and local civil society.

Donors also need to provide more data on who is actually benefiting from their investments. While donors have made progress in making their aid more transparent since Busan,<sup>82</sup> more and better information is still needed for aid to deliver on its potential. Many donors fail to disclose basic information on the aid they provide; often the data that is disclosed is not particularly useful for informing partner country citizens or government officials about donor activities. A 2013 review of 10 aid-dependent countries found that information on over \$13 billion of aid investments for that year—42 percent of the total aid to those 10 countries—was not publicly available.<sup>83</sup> Information about aid needs to be timely, accessible, comparable, and comprehensive. As pledged in Busan, all donors should sign up to the International Aid Transparency Initiative (IATI), and disclose their data in keeping with its provisions. One key improvement would be to make standard use of the OECD-DAC gender equality marker when tracking and reporting aid statistics, as this would help ensure that aid is effectively addressing the particular needs of women and girls.

In order to address these unhelpful practices, donors should:

- Put aid “on-budget” to the greatest extent possible.
- Immediately untie all their aid to developing countries, including food aid and technical assistance.
- Use country systems as the default means of aid delivery.
- Disclose data on their own aid investments, and invest in country-owned data.
- Aid should be given long-term and predictably, preferably on a three-year rolling basis.
- Safeguards should be installed so as to ensure citizens are not adversely affected by aid projects.

## AID THAT HELPS CITIZENS DEMAND THE INVESTMENTS AND OUTCOMES THEY NEED

The compact that drives development—and the prospective achievement of the SDGs—requires that citizens have the power and freedom to hold their governments and the private sector accountable, whether as individuals or organized collectively. This report has shown how donors can do more to support effective governance. Accountable governance must be a priority as well.

### **Aid for achieving gender equality**

Gender equality is essential to achieve development—a major conclusion drawn by the 2030 Agenda and the SDGs, which include an ambitious gender equality goal. However, when it comes to achieving gender equality and women’s rights in development cooperation, there is a huge gender financing gap. According to the UN Secretary-General, only some 10 percent of all ODA is allocated towards gender equality.<sup>84</sup> UN Women has estimated that some countries have a 90 percent funding gap for their national action plans on gender equality.<sup>85</sup> Closing this gap must be a top priority for donors to ensure that the SDGs are delivered for women and girls, so as to truly leave no one behind.<sup>86</sup>

There is also an issue with aid targeting the thornier issues pertaining to the achievement of gender equality. Aid from DAC donors for gender equality more than tripled between 2000 and 2014, reaching \$28.7 billion, mainly focused on education and health.<sup>87</sup> But significant funding gaps remain, particularly in the economic and productive sectors, and for programming to end violence against women and girls.<sup>88</sup>

Research shows that the most effective way to support long-term change towards gender equality and achieving women’s rights—by holding other actors to account and shifting underlying power structures and social norms— is to support women’s organizations.<sup>89</sup> However, such organizations are often the last to receive funding from donors. A 2011 survey by the Association for Women’s Rights in Development (AWID) of 740 women’s organizations revealed that their

median annual income was just \$20,000.<sup>90</sup> In addition, gender finance is rarely allocated towards core expenditures or made available in a long-term and predictable way. Such donor practice hardly seems effective in meeting the financing needs for gender equality.

## Aid that supports civil society organizations and strengthens civic space

Space for civic action (or an enabling environment for civil society; see **Box 5**) is an essential prerequisite for achieving a new vision for aid. Donors need to do more than simply invest in collaboration between government and civil society. They also need to invest more actively in strengthening civil society in developing countries, and support greater space for civil society to operate. Watchdog organizations that monitor and promote the fundamental civil and political rights that underpin civic action—such as freedom of speech, association and assembly—continue to require public funding. Where domestic public resources are scarce, aid has proved to be a vital tool providing support in a way that most other development finance sources cannot.

### **Box 5: What is ‘civil society’?<sup>91</sup>**

Civil society refers to “everything between the citizen and the state,” from community self-help groups to trade unions and business groups, from women’s movements to development and humanitarian organizations, faith-based groups, human rights activists, peace campaigners, and more.

Civil society offers a platform for citizens to organize themselves outside of the state, private sector, and family. It is a vital part of a decent society in which values such as trust and cooperation are central, and in which poor and marginalized people can gain greater control over their lives by exercising their right to political participation, to freedom of expression, information, and assembly, and access to justice. This crucially includes youth and women’s movements that often lead positive social change and, in many countries, a ‘virtual civil society’ that has become a major part of such activism for a better world.

DAC donors channel the majority of ODA for civil society to organizations based in, or operating in, donor countries. According to the OECD, “In 2013, DAC members provided around seven-and-a-half times more aid to and through CSOs based in donor countries than through developing country CSOs and three times more aid through donor country CSOs than international CSOs.”<sup>92</sup>

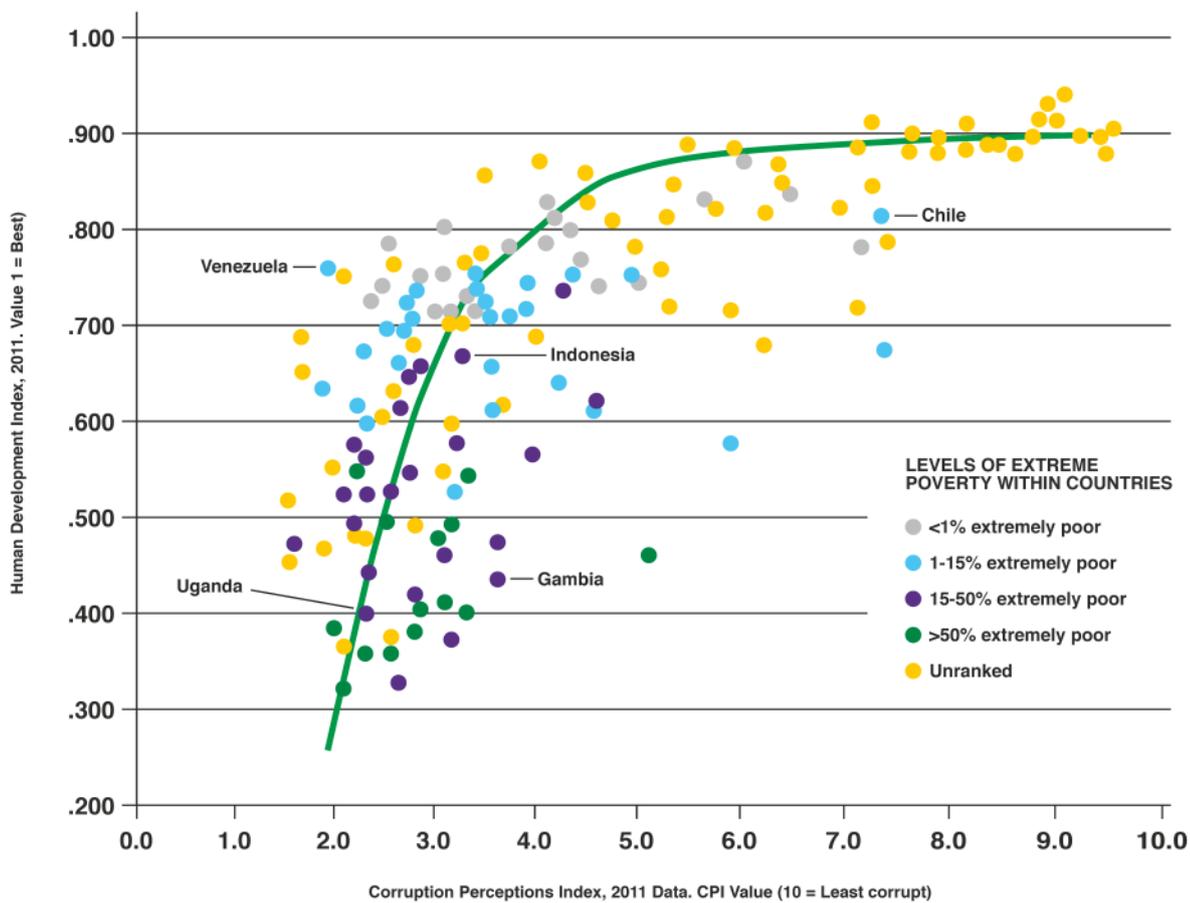
It must be noted that many international CSOs pass a significant share of this funding to local CSO partners, and can also provide expertise or capacity that local CSOs find valuable. However, the unique role of domestic organizations is being undervalued by many donors. Donors that have started to adopt measures to ensure more resources reach local civil society can serve as models. This can happen either by channelling these funds directly to CSOs in developing countries where capacity allows, or via intermediary CSOs that adopt a strong partnership approach, ensuring that the large majority of these funds are ultimately directed and implemented by domestic civil society. Even with limited resources or technical capacity, domestic CSOs are often better placed to support their own citizens to play their full role in the development compact to

demand accountable governance.

## Aid that tackles corruption

Corruption and poor governance have a major impact on poor people, not just by diverting precious resources needed for development, but also by undermining trust in public institutions and skewing them towards the interest of a few privileged elites. Thus it is no surprise to see a correlation between corruption and lack of development (see **Figure 14**).

**Figure 14 Human development of populations in poverty as a function of the corruption they face**



Source: T. S. Ahmad. (2015). *To Fight Corruption, Localize Aid: How US Foreign Assistance Can Support a Locally Driven Fight Against Corruption*. Washington DC: Oxfam America. Retrieved 18 May 2016, from <http://www.oxfamamerica.org/static/media/files/CorruptionFINAL-small.pdf><sup>93</sup>

While DAC donors have invested nearly \$100 million of aid per year for anti-corruption efforts, few of those efforts deliver measurable progress. This is because donors tend to consider corruption to be caused by a lack of technical expertise, institutional capacity, or formal procedures. As a consequence, they seek to invest in technical solutions, such as training or systems-strengthening.<sup>94</sup>

However, corruption is often a product of the social and political contexts of a given country, which are rooted in its unique history. When donors are insensitive to the political and social contexts of the countries with which they work, they greatly increase the likelihood that their efforts to support better

governance will fail.

Rather than seeking to impose a model of good governance, a more promising approach is to support demand for better governance from within the country. Government counterparts should be consistently encouraged to be accountable to their citizens. This can also include identifying local leaders inside or outside government, and finding ways to support their existing efforts on accountability. Rather than using a confrontational approach, donors can support citizens' work by collaborating with government and non-governmental stakeholders on specific issues such as improving access to basic services. By emphasizing accountable service delivery, donors can support the emergence of more responsive, accountable governance.

**Box 6: The World Bank's Global Partnership for Social Accountability (GPSA)**

Much of the research to understand how to support better governance in developing countries has been conducted over the past 15 years by the World Bank. Today, the Bank is putting some of that learning into practice with an initiative known as the Global Partnership for Social Accountability (GPSA).

The GPSA was designed to add a new tool to the Bank's approach to governance. It seeks to support CSOs to participate in the design, monitoring, and implementation of investments financed by the World Bank. For example, the Bank is funding the Government of Tajikistan's efforts to expand access to clean water and sanitation in rural areas. The Bank, through the GPSA, is supporting Oxfam to work with the Consumer Union of Tajikistan (CU-TJK) to develop civil society-based monitoring capacity and mechanisms for the service providers on performance, and to ensure that citizens' priorities are included in implementation. Among other objectives, by 2017, the effort aims to increase the share of citizens affected by the project who are able to share their views from zero to 80 percent, and ensure that authorities act on at least 30 percent of feedback, with 70 percent of government responses being initiated by women.<sup>95</sup>

## AID THAT HELPS PEOPLE ESCAPE POVERTY SUSTAINABLY

Donors often focus on development outcomes only until the end of their particular project or program. Ensuring a central role for countries and local communities helps to focus investments on long-term development progress.

### Strengthening local resilience

There will always be disasters that overwhelm a country's capacity to respond. But protracted emergencies—many of which are caused by conflict and, increasingly, by climate change impacts—continue to stress the global humanitarian response system. There is thus an urgent need to help countries exit the cycle of needing repeated international assistance for smaller emergencies that they might be able to manage themselves if they had greater capacity.

Developing countries need support to prepare for, respond to, and recover from disasters without being overly dependent on international assistance. There is some evidence that such investments can help countries increase the impact of their development efforts. One study in Kenya found that every \$1 invested in disaster resilience translated to \$2.90 of savings in the form of reduced humanitarian spending, avoided losses, and development gains, when modeled over a 20-year period. In Bangladesh, the equivalent figure was \$5 for every \$1 spent.<sup>96</sup> However, donors have spent meager amounts on disaster risk reduction—only 0.4 percent of total ODA over the past 30 years.<sup>97</sup>

Therefore, donors need to prioritize helping countries build the institutions and response tools they need to manage smaller emergencies. One advantage of this approach is that many of the same capacities that developing countries need to respond to emergencies—capable government institutions, and a strong, empowered civil society—are the same as those needed to make progress on all the SDGs.

## Funding climate change adaptation

A cost estimate prepared for the UN suggests that developing countries will collectively need almost an additional \$2 trillion over the next 15 years to cope with the impact of climate change—this is on top of funds needed to achieve the SDGs.<sup>98</sup> This sum is larger than the amount donors are projected to provide in ODA over the next 11 years at current levels.

Figures on international climate finance are highly contested. An OECD-Climate Policy Initiative (CPI) report prepared ahead of the climate summit in Paris in 2015 estimated that aggregate bilateral climate finance from DAC members was \$24.6 billion in 2013–2014, with a further \$17.9 billion in multilateral public climate finance from development banks and key climate funds.<sup>99</sup> Oxfam research, on the contrary, shows that public climate finance amounts to only \$11–\$14 billion during that time, with finance specifically for adaptation—i.e. funding to help countries deal with the immediate impacts of climate change—amounting to between \$4 billion and \$6 billion, far below what countries already need.<sup>100</sup>

Not all countries will be affected in the same way by climate change; some, such as small island states and arid countries, have unique vulnerabilities. However, in 2013 just nine percent of new climate finance was committed to the top quarter of most vulnerable countries.<sup>101</sup>

Donor support for climate change adaptation is especially necessary because the people affected most by climate change—those living in poverty—have done the least to cause it. The one billion poorest people in the world produce only three percent of carbon emissions. Given the disproportionate contribution of rich countries to climate change, donors bear a moral duty to fund efforts to cope with its impacts. It is vital that donors provide climate finance on top of what they provide to meet existing aid commitments, such as the 0.7 percent GNI target, and stop the diversion of existing aid to climate finance. As a first step, countries should begin by committing to ensure that climate finance that qualifies as ODA is part of a rising overall aid budget and is rising at least at the same rate.

## 5 DIVERTING AID: A WORRYING TREND

More and more aid is being diverted by donors to meet their domestic financing needs. This practice presents a worrying trend in which aid, instead of being spent in the poorest countries meeting the needs of the poorest countries, is spent in rich countries. This practice is often in line with OECD-DAC rules about what donors can report as ODA. However, even though the DAC rules may allow donors to spend aid in rich countries, for example on in-donor refugee costs or student costs of developing country nationals, it does not mean that this is the right thing to do, or that they need to make use of these rules. Over the long term this practice undermines the quality of aid, not only because less aid is available for the poorest countries, but also because it undermines the ability of the poorest countries and the poorest people to shape their own development path to meet the SDGs. People expect French aid to be spent on primary schools in Senegal, not on scholarships to the Sorbonne.

### AID AND IN-DONOR REFUGEE COSTS

Donors are increasingly delving into aid budgets to cover the costs of receiving refugees in their own countries (see **Box 7** for an example from Sweden). The amount spent by DAC donors on in-donor refugee costs—money that is spent in their own countries—doubled in 2015 to \$12 billion (nine percent of total ODA). For EU DAC members, this accounted for 13.1 percent of their ODA.<sup>102</sup>

Assistance to refugees is certainly an important use of public money; all governments have the responsibility to safeguard the rights of people fleeing violence, suffering, and persecution. However, using aid budgets to cover the cost of refugee reception in donor countries is counterproductive: aid is meant to reduce poverty and inequality in developing countries, not to be spent in donor countries. Donors should find ways to mobilize additional finance to provide much needed support to refugees in donor countries without diverting aid from the poorest people. This diversion is a result of political convenience and short-term thinking on the part of donor countries that have not allocated additional resources to finance these expenses. OECD-DAC rules indirectly support this. They should not allow for donor governments to count in-donor refugee costs as aid.

#### **Box 7: Sweden is the biggest beneficiary of its own aid**

In 2015, Sweden spent almost \$2.4 billion, nearly a third of its aid budget, on in-donor refugee costs. That made Sweden the largest recipient country of Swedish aid in 2015, receiving an amount greater than it allocated to all sub-Saharan African countries combined.

## AID AND SECURITY

Violence and insecurity undermine development efforts. In turn, aid can contribute to peace and security. Helping people to be safe and secure in their home countries is an important component of supporting development and defending human rights. However, donors often use aid to support their own short-term security needs,<sup>103</sup> rather than the long-term security and human rights needs of the poorest people and countries.

In particular, aid to security services in developing countries has a poor track record of actually improving human rights, and often leads to security institutions that are less accountable to their own citizens.<sup>104</sup>

DAC donors recently adopted new rules on using aid for “preventing violent extremism.”<sup>105</sup> While activities focused on “perceived threats to the donor country” are excluded, a limited number of activities that are “led by partner countries [where the] purpose is primarily developmental” are allowed. Despite the careful wording and efforts to limit the scope, there will need to be very close monitoring of how donors apply these rules given that what counts as “extremism” is a highly contentious topic.

## AID TO LEVERAGE PRIVATE SECTOR INVESTMENT IN DEVELOPING COUNTRIES

More and more donors are using aid to leverage private sector investment in developing countries. Some of these funds and programs implicitly subsidize donors’ domestic private sectors.<sup>106</sup> Donor support to the private sector must demonstrate added value and guarantee sustainable development and poverty reduction. Most importantly, private sector investment must be effective so as to support of countries leading their own development path, and strengthen governments’ capacity to promote local economic development. It must not be seen as a substitute for filling gaps in public provision, and must demonstrate strong transparency and accountability.

Donors need to establish clear standards for public-private partnerships (PPPs) and pursue new forms of PPPs such as multi-stakeholder partnerships, which ensure that the design and implementation processes are fully owned by the poor people they are ostensibly designed to help. This includes full transparency of contracts and terms, equitable and affordable access to infrastructure and services, and efforts to protect poor people from risk.

Ultimately, ensuring that private sector engagement and finance effectively benefits poor people is dependent on finding ways to help them participate in and benefit from, fair, open, and functioning markets in their countries and communities. Such genuine “public-private-people partnerships” can make a useful contribution to financing sustainable development. This requires ample public investment to support these markets, to ensure that they are accessible to everyone.

## 6 CONCLUSION

The newly adopted SDGs provide the international community with a once-in-a-generation opportunity to end extreme poverty for good. As more development actors have emerged, including the private sector and Southern aid providers, some donor country governments have started to argue that aid is less relevant to the development process. Not only has this given some a welcome excuse to drastically reduce aid budgets, it is also a false claim.

Aid is as relevant as ever, given multiple intersecting crises including inequality, climate change, fragility, and extreme poverty. Given this context, aid is an indispensable resource for the poorest countries and poorest communities, which can neither raise sufficient revenues domestically nor attract sufficient private investment for development. Aid helps these countries catch up and enables them to be in charge of their own development and absorb other forms of development finance. Because aid is a form of public finance and concessional in nature, it has a potential impact far beyond its scale in absolute dollars precisely because it can be programmed in a way that helps people gain more power over decision-making.

In this paper, Oxfam has presented its vision for aid in a post-2015 era. Oxfam argues that the central role of aid in a post-2015 world is to support the citizen-state compact. The citizen-state compact sits at the center of the relationships and institutions in a country which are necessary to drive development progress. In this role, aid remains as relevant as ever for the world's poorest countries and communities.

Donor governments must recognize that not all countries will be able to lift themselves out of poverty through growth, largely because inequality slows down poverty reduction. At the same time, inequality acts as a brake on growth. Trickle-down economics does not work by default for the poorest and most marginalized communities. Therefore, policymakers cannot rely on the past two decades of economic growth and progress to sweep the international community forward towards achieving the SDGs.

At least some of the lessons of the MDG years appear to have been learned. However, the increasing diversion of aid to in-donor refugee costs, security concerns, or donor countries' domestic private sectors undermines the political credibility of donors and their efforts to achieve the SDGs.

The approaches that donors employed for the MDG era are out of date in the SDG era, when national accountability for delivery of the new goals will be paramount. Governments have the primary responsibility for making the investments necessary for all their citizens to achieve the SDGs so as to leave no one behind. Lasting progress is most likely when poor people and their governments can make their own decisions about how development finance is invested, and when citizens can hold governments accountable for results.

By investing aid in ways that give people and countries more influence over their own development and achieve the conditions that make them less dependent on aid, donors can ensure that aid is delivering the maximum impact to end extreme poverty and achieve the SDGs.

**Oxfam's vision for the role of aid in the SDG era centers around four key pillars:**

- 1. Aid that helps countries mobilize and sustain financing for their own development priorities.**
- 2. Aid that helps countries deliver the development results their citizens demand.**
- 3. Aid that helps citizens demand the investments and outcomes they need.**
- 4. Aid that helps people escape poverty sustainably.**

In the future, there will be a need for more aid than the target of 0.7 percent of GNI, bearing in mind that ongoing pressures linked to climate change or fragility limit countries' capacity to invest in policy areas that are prerequisites to eliminating poverty and reducing inequality. In addition, more aid needs to be allocated in support of achieving gender equality and in support of the vital work of women's rights organizations. Doing so is not merely a measure of charity or justice—it is essential to reducing inequalities between and within countries. This goes to the very heart of the Agenda 2030 and the SDGs, which aspire to reach those furthest behind, first.

## ANNEX 1: DATA FOR 23 MORE CHALLENGED COUNTRIES

Country	Population in bottom global income quintile	% of national population in bottom global income quintile	Household consumption/person 2011 (constant 2005 USD)	Govt spend/person 2011 (PPP\$)	Net ODA 2011 (USD)	ODA/capita (USD)	ODA/GDP (%)	ODA/total inflows (%)	ODA/person in bottom 20% (USD)	ODA/total govt spend (%)
Benin	5,910,054	60.43	453.09	346.67	673,250,000	68.84	3.91	52.51	113.92	44.60
Burkina Faso	8,182,400	51.14	274.43	311.25	959,160,000	59.55	4.05	75.48	117.22	43.71
Burundi	8,192,952	85.88	110.61	275.86	555,430,000	56.73	7.96	90.45	67.79	61.02
Cambodia	2,827,035	19.35	556.93	519.37	774,610,000	53.08	2.00	31.59	274.00	29.99
Cameroon	7,073,788	33.43	719.08	535.90	586,680,000	27.78	1.06	40.40	82.94	11.31
CAR	2,835,384	63.86	356.06	144.51	259,380,000	57.25	6.41	68.76	91.48	79.18
Comoros	385,280	55.04	553.80	322.64	49,530,000	69.18	5.13	73.54	128.56	39.41
DRC	56,418,225	88.25	193.70	79.92	5,380,510,000	79.02	12.80	51.08	95.37	113.59
Eritrea			141.80	382.84	125,610,000	26.23	1.86	55.55		12.94
Gambia	721,929	41.73	343.74	392.08	130,690,000	74.72	4.88	44.29	181.03	59.31
Kenya	19,459,890	46.3	464.56	579.47	2,437,390,000	58.85	2.24	47.23	125.25	22.38
Liberia	3,233,400	79.25	397.01	193.73	744,060,000	182.39	24.89	38.53	230.12	174.89
Malawi	12,159,290	78.65	208.15	261.53	785,620,000	51.59	6.80	73.57	64.61	54.73
Mali	8,944,726	62.03	297.38	386.91	1,249,380,000	79.89	5.23	53.27	139.68	51.43
Pakistan	43,091,182	24.46	568.73	831.49	3,482,260,000	20.05	0.46	15.09	80.81	8.26
Rwanda	7,898,260	70.9	318.41	316.72	1,234,980,000	116.99	8.37	80.51	156.36	77.80
Senegal	5,741,231	43.07	630.96	607.60	1,026,500,000	76.85	3.56	30.61	178.79	26.90
Sudan	8,870,705	24.35	546.15	681.81	1,068,150,000	28.93	0.73	40.78	120.41	9.23
Tanzania	25,376,625	54.75	357.28	393.60	2,397,830,000	50.88	2.37	46.88	94.49	35.48
Timor-Leste	547,166	46.37	478.60	441.86	274,070,000	244.62	12.45	63.03	500.89	19.94
Togo	3,889,764	60.12	308.79	287.50	517,880,000	78.87	6.28	31.31	133.14	60.84
Uganda	16,260,390	46.26	310.69	261.14	1,546,400,000	45.14	2.74	47.64	95.10	38.22
Vanuatu			1,231.73	712.01	91,990,000	380.32	13.05	48.87		48.36
<b>Total</b>	<b>248,019,676</b>				<b>26,351,360,000</b>					
<b>Average</b>		<b>54.08</b>	<b>427.03</b>	<b>192.76</b>		<b>86.42</b>	<b>1.81</b>	<b>37.48</b>	<b>106.25</b>	<b>24.79</b>

## ANNEX 2: DATA FOR 11 LESS CHALLENGED COUNTRIES

Country	Population in bottom global income quintile	% in bottom global income quintile	Household consumption/person 2011 (constant 2005 USD)	Govt spend/person 2011 (PPP\$)	Net ODA 2011 (USD)	ODA/capita (USD)	ODA/GDP (%)	ODA/total inflows (%)	ODA/person in bottom 20% (USD)	ODA/total govt spend (%)
Argentina	712,775	1.75	5,297.30		83,330,000	2.00		0.34	116.91	0.04
Chile	200,796	1.16	6,040.52	4,688.16	154,230,000	8.97	0.04	0.73	768.09	0.26
Dominican Republic	427,315	4.21	4,207.86	1,785.58	212,970,000	21.24	0.19	2.31	498.39	2.26
Equatorial Guinea			4,653.76	14,030.22	22,850,000	30.43	0.08	0.82		0.38
Lebanon			5,821.32	4,719.36	457,100,000	104.16	0.63	2.73		3.80
Mauritius	7,998	0.62	4,467.85	3,780.52	174,750,000	139.53	0.86	1.98	21,849.21	6.57
Mexico	2,208,160	1.85	5,586.93	4,139.90	941,120,000	7.82	0.05	0.81	426.20	0.31
Montenegro	2,294	0.37	4,140.00	6,180.70	119,660,000	192.98	1.36	5.62	52,162.16	6.58
Panama	191,862	5.13	4,559.00	4,111.08	109,610,000	29.77	0.18	2.44	571.30	1.26
Turkey	445,666	0.61	5,845.54	6,349.09	2,990,610,000	40.86	0.23	4.14	6,710.43	1.10
Uruguay	14,196	0.42	5,313.22	5,698.31	18,620,000	5.50	0.03	0.65	1,311.64	0.12
<b>Totals</b>	<b>4,211,062</b>				<b>5,284,850,000</b>					
<b>Averages</b>		<b>1.79</b>	<b>5,084.84</b>	<b>3,171.87</b>		<b>19.11</b>	<b>0.37</b>	<b>1.88</b>	<b>1,254.99</b>	<b>0.60</b>

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