Because of the numerous changes in the motivations and objectives of aid policy over the past decades, Jean-Michel Severino compares official development assistance (ODA) to a Hydra. Yet while today’s global “macro-social” complexities create new ground for international solidarity, he argues that a profound reconsideration of the objectives, measurements, policy content and financing modes of development assistance is not only necessary and welcome, but also inevitable. A new generation of shared, long-term goals is needed to set the pace for collective mobilisation by reconciling social concerns with concepts of public goods and global macroeconomic management, shifting the focus from finance only to more inclusive policy approaches. Yet the challenge, he sustains, is not only to define objectives, but to measure results against them. To this end, a new international measurement system is needed. Severino foresees a gradual shift in financing of public welfare, with the rich in all countries bearing the burden of financing for the poor, for instance through international taxation.
Official development assistance – ODA – is a Hydra. In a paper from 2010, Olivier Ray and I announced its death (Severino and Ray 2009) and since then, it has been repeatedly confirmed. Messages of condolence have flowed.

The academic community, governments and public opinion have repeatedly affirmed the need to do away with the excessive weight of aid policy: conditionality oppresses, they claim, and aid flows create dependency and reinforce corruption. Dambisa Moyo, in her successful book *Dead Aid*, is eloquent on these points (Moyo 2011). Other academics accumulate criticism of aid’s effectiveness – or lack thereof – with a vitality that continues to impress. Indeed some, like William Easterly, make a living from this criticism. Governments build on these views in our times of severe economic crisis to cut back on spending, accusing the dogs they seek to kill of having the rabies of inefficiency. This facilitates making spending cuts in peace of mind and good conscience – as has happened everywhere with the notable and admirable exception of Great Britain.

Public opinion joins in the concert: people are generous but they do not trust public assistance. They worship non-governmental organisations (NGOs) of course. But unfortunately, NGOs are better at directly helping populations with the most pressing of humanitarian needs than at addressing the difficult and often austere challenges of growth.

And now ODA professionals bring a new cascade to the waterfall. In recent years, how many conferences, how many meetings have been held, how many memoranda written on aid effectiveness! Reading them, aid critics feel justified and comfortable: why would you support a policy whose inefficiency is denounced by its own stakeholders? Aid professionals have proven to be the best undertakers of their own business.

**Life after death**

With such formidable criticism – which would probably have killed many apparently better-formulated public policies – it is remarkable that ODA continues to survive. While its volumes are not exploding, growth in ODA remains impressive: in 2010, it reached an estimated all-time record at USD 129 billion (Annex B, Figure B.2). To this amount one must add the considerable contribution of private flows from foundations and NGOs. Never has international solidarity been so active.

The reasons for such strong support must be sought in the motivations and interests behind aid policy today.

During the long Cold War era, post-colonial bad conscience and the desire to contain Soviet ambitions in poor countries helped to maintain aid at significant levels until the fall of the Berlin Wall deprived aid of its powerful geopolitical roots. And while a foundation of compassion remained, it was not enough to justify significant commitments by industrialised countries. Yet at the end of the 1990s, aid levels...
rose again, powered by an acute awareness on the part of the leaders of large countries of “collective concerns” resulting from things such as the growing financial gaps between rich and poor, planetary interdependencies and the potential role of aid in managing or preventing conflict.

As a consequence, what we now call ODA probably has little to do with the type of development co-operation that was driven by the concerns of a few decades ago. We are witnessing a profound change in the function of ODA, which should probably lead to its being renamed, for example, “global social policy” or something along those lines.

Before the great wave of globalisation, as long as ODA supported geopolitical objectives, the technical performance of the policy measures was secondary. It really did not matter whether aid was effective or not, for instance, if it consolidated friendly political regimes. Of course, this geopolitical dimension has not disappeared in our century: ODA continues to be applied – by diplomats or the military – as an instrument, as in the case of Afghanistan or Iraq.

Nevertheless, a substantial portion of aid’s objectives are increasingly linked to specific problems such as climate change, loss of biodiversity, expansion of HIV/AIDS and major endemic diseases, international inequality and others. More and more, old-style development aid is being mobilised to solve externalities of globalisation that are bound up with relations between rich and poor. And these problems abound.

... a substantial portion of aid’s objectives are increasingly linked to specific problems ... climate change, loss of biodiversity, expansion of HIV/AIDS and major endemic diseases, international inequality and others.”

From global public goods to cargo-dollars

The relevance of this new ground for international solidarity is heightened by projected population growth and a resulting increase in the absolute number of poor, regardless of the speed of economic expansion. But there is also a new and emerging dimension of considerable importance: the management of the global “macro-social” balance.

1939 saw the beginning of the first truly global war. 2007, on the other hand, marked the beginning of the first truly global economic crisis. The world will never look the same; both events call for the emergence of a new governance system – however challenged it remains – and both have promoted and will continue to promote a sea change in the balance of power.

Given the type of policy issues we are focusing on, however, there is a major overlooked policy issue that stems from the global economic crisis: for most poor countries, it has put an end to hopes of building economic success on the replication of the Asian growth model. This model allowed a considerable mass of people living in extreme poverty to experience a dramatic change in living conditions. But its replication in a world approaching nine billion inhabitants – and its extension to the vast majority of poor people – now faces three major challenges: a problem of uncertain macroeconomic sustainability linked to the generation of excessive financial imbalances; a problem of social imbalance linked to the growing inequalities it generates in rich as well as poor countries; and an environmental problem because the model is particularly carbon-intensive.
The resurrection of aid
Jean-Michel Severino

The options are not obvious. Logic would have it that economic development models would reorient towards growth led by domestic markets, coupled with significantly improved energy performance. Signs of this change are taking place, as demonstrated in the budding dynamism of South-South trade, for instance, or the new Chinese economic policies. Despite these signals, however, it is difficult to know whether a new growth regime founded on a domestically oriented, low-carbon engine – one that could achieve the same level of economic performance as, for instance, East Asia – can emerge.

In this sense, international solidarity must play an important role, rebalancing economic engines and international macroeconomic trade in a time of economic crisis. Domestically oriented growth faces financial constraints, especially in savings and investment, that export-led models do not encounter; ODA and foreign direct investment (FDI) can play a major role in alleviating these constraints. The emphasis the Seoul G20 has placed on infrastructure is a good sign, particularly given the important time constraints. It should lead to a radically new means for emerging countries to use their considerable international reserves at the service of a new political recycling: petro-dollars should become new Asian cargo-dollars – and we should be able to learn from the failures of the 1980s.

If what we have just stated is even approximately correct, then we can at least reach four important conclusions: the objectives of ODA will continue to diversify considerably and should be formally amended; measurements must evolve; policy should also modernise and adapt to its content; and assistance volumes will certainly grow, leading to a transformation of financing modes.

Let’s consider these points successively.

The new globalised goals

At this point, I would like to take a moment to pay a special tribute to J. Brian Atwood, the current Chair of the OECD Development Assistance Committee (DAC). When he assumed the administration of the United States Agency for International Development (USAID), he proposed that the members of the DAC reflect on creating a battery of indicators that could help to set development objectives. In his mind, the positive public perception of ODA was undermined by a lack of clarity as to what it sought to resolve.

This call to action led, in several stages, to the political formulation and adoption of what would become the Millennium Development Goals (MDGs).

Subsequently, success in communicating the MDGs lent useful ideological backing to political leaders in the OECD countries who were determined to finance the goals. It helped mobilise public opinion and support for public policy and has probably contributed considerably to the rise of private philanthropy over the past decade.

The implementation of the MDGs reflects the profoundly changed role of development to which we have been referring. But the world’s pace of change has already outdated this set of goals.
Indeed, in their current state, the MDGs present many technical weaknesses: they are sometimes articulated in a confusing manner; they mix final impacts with means of achieving them; they undervalue economic growth and income and overvalue the social dimensions of development; they overstate some policy issues (health, for example) while they understate others (water, for example) or exclude others entirely (energy, for example). And while answers can be found to all of these problems, in reality they disguise many political problems.

Nonetheless, the most important issue with the MDGs lies in the future.

By 2015, a new generation of goals will need to be defined, but the thinking process has hardly started. The negotiation, in reality, will be about establishing a new set of global policy goals. In a world of exploding inequalities, these goals will have to be in the form of shared public policy representing common global ambitions, because they must address growing environmental concerns and macro-financial imbalances. Discussing global poverty issues will imply discussing the convergence of these macro-trends and their transformation into public goals. Indeed, our current MDGs remain rooted in a social approach to the world; their paradigm does not contemplate public goods in general, nor does it include the battery of public concerns relating to relations between the rich and the poor inhabitants of this planet.

If the new goals are to be not only about development policy per se; if they are to cover the whole of global public objectives; if they are to be relevant to the realities of public policy, effectively mobilise actors and provide a credible measure of performance; then they will need to evolve in two directions.

First, they will need to identify – in the agreed time frame, be it 15 or 30 years – the ultimate objectives we all want to see achieved: reducing mortality and morbidity; increasing life expectancy; improving income and, as importantly, reducing inequalities; and limiting our environmental footprint.

Clarifying these objectives is particularly important because they can be achieved by various political means: good health policies can help to improve incomes; a water policy or an improvement in earnings related to a macroeconomic policy may help to reduce infant mortality; urban policies can help increase biodiversity; and a change in trade policy may decrease carbon emissions. In short, it is important to dissociate the final impacts we want to achieve from concrete policies so as to break the lobbies behind each specific objective. It is fundamental to focus on what we want to deliver and not on the means that can or cannot lead to selected results. 

It is fundamental to focus on what we want to deliver and not on the means that can or cannot lead to selected results."

The second change needed is reconciliation with the “rights movement”, which is growing stronger and stronger. Rights to water, to education, to health… these claims are increasingly gaining political recognition. Universal access to key assets and services – and not only reductions in inequalities of access – is emerging as a basic human right, cascading from the United Nations Universal Declaration of Human Rights. This is the minimal basis for human dignity in our century, a kind of global safety net.

The MDGs do not take on this challenge; the next generation of goals must. These new goals should lead to the identification of a limited number of sector policies, linked to global rights statements or legal provisions that would serve to “universalise” the relevant service. Access to health, education, water, energy and nature could be the five pillars, for example: the five basic services to which any human on this earth should have access.
The objective of these new goals should be to set the pace of universal implementation through a collective mobilisation involving, necessarily, all countries. Macroeconomic sustainability would be an important concern when determining horizons of access: a combination of local fiscal and private resources, together with international support, should frame the credibility of the goal, as it is fundamental to be very careful not to create goals that are financially impossible to reach, whatever the macroeconomic or demographic situation may be.

2015 will soon be here. But the international community has only modestly begun to focus on what is one of the world’s major public policy issues: the formulation of our shared, long-term goals. These must reconcile the social approach of international solidarity with the public goods approach and concepts of global macro-economic management. It is time to focus on the development of goals that will project us into the future and align our instruments.

From assistance to results-based policy

One of the most important problems of the way global public policy is organised today is its toolkit. The Millennium Development Goals are all too often linked to aid volume, which in most cases is presented as the only measure of achieving global poverty reduction. This puts a heavy weight on the shoulders of aid. Moving from policy goals to instruments can help policymakers encompass a wider range of options than aid per se; this should be introduced at the core of the “new MDGs” negotiations, even if it leads to some embarrassing discussions.

This point actually encompasses two complementary but separate topics: the scope of the instruments and the instruments themselves.

“A vast amount of literature has already addressed the issue of the scope of the instruments, although all too often it is treated under the heading of “coherence” (among aid and the rest of government policies). In reality, however, achieving the MDGs depends first and foremost on the range of policies implemented by each country and only second on the means implemented by the international community to support domestic policies. These can cover diverse terrain from trade, investment and finance to migration, research policy, diplomacy and… the armed forces. In fact, as the report by the Centre for Global Development (CGD), More than Money: Impact Investing for Development, suggests, industrialised countries – and probably emerging countries as well – should report not only on their ODA efforts, but on the scope of instruments and policies that define their “development friendliness” (Simon and Barmeier 2010). Moving towards a new generation of MDGs should offer an opportunity to shift the focus from finance only, however important it may be, to whole-of-policy approaches.”
Chapter 9

The resurrection of aid
Jean-Michel Severino

### Table 9.1. Various financial instruments to mobilise and use resources for development

<table>
<thead>
<tr>
<th>Resource mobilisation</th>
<th>Recurrent public financing</th>
<th>Recurrent private financing</th>
<th>“One-shot” collecting</th>
<th>Pooled resources</th>
<th>Use of market instruments</th>
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<tr>
<td><strong>Recurrent uses</strong></td>
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<td>Payment of ecological services/taxation systems</td>
<td>Socially responsible investment (ethical finance)</td>
<td>The International Finance Facility for Immunisation (IFFIm)</td>
<td>The Global Fund to Fight AIDS, Tuberculosis and Malaria</td>
<td>(Product)RED*</td>
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<tr>
<td><strong>Investment</strong></td>
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<td>Financing of infrastructure through concessional loans</td>
<td>Clean development mechanisms</td>
<td>Improving the productive use of migrant remittances</td>
<td>Thematic donor first-loss investment funds (e.g. microfinance, agriculture/migrant bonds)</td>
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<tr>
<td><strong>Leverage effects</strong></td>
<td>Microfinance</td>
<td>Debt-to-health (converting debt relief to investments in health)</td>
<td>Pooled procurement initiatives</td>
<td>Equity investment</td>
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<tr>
<td><strong>Systemic effects</strong></td>
<td>Climate policy loans</td>
<td>Awards for scientific advances in the field of development</td>
<td>GAVI Alliance (formerly the Global Alliance for Vaccines and Immunisation)/UNITAID (for the purchase of drugs against HIV/AIDS, malaria and tuberculosis)</td>
<td>World Food Programme (WFP) local purchases/advanced market commitments</td>
<td></td>
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<tr>
<td><strong>Securisation/prevention</strong></td>
<td>Preventive programmes against global pandemics</td>
<td>Non-governmental projects in conflict prevention</td>
<td>Humanitarian appeals for trust funds</td>
<td>Emergency funds/International Monetary Fund (IMF) exogenous shocks facility</td>
<td>Guarantee and insurance instruments</td>
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*(RED) is a business model created to raise awareness and money for the Global Fund to Fight AIDS, Tuberculosis and Malaria by teaming up with the world’s most iconic brands to produce (RED)-branded products. A proportion of profits from each product sold goes directly to the Global Fund to invest in African AIDS programmes.

Source: Severino and Ray 2009.

The instruments of financial intervention are another matter. An increasing variety of financial instruments is being employed by OECD countries and civil society, creating a dynamic financial innovation trend that has gained momentum over the past 20 years (Severino and Ray 2009) (Table 9.1). But it is difficult to include these innovations in the current ODA reporting system – which actually acts as a deterrent – as finance ministers and governments in general tend to favour innovations that boost their ODA ranking. And because it is difficult to encourage instruments that leverage aid or promote private-sector financial interventions, grants and concessional loans remain the categories with real legitimacy in the current aid declaration system. The OECD countries should be able to report the on-the-whole toolbox they use to support poor countries in their progress towards the MDGs, not only on the “blessed” and exclusive instruments used since the 1970s.
In a growing number of cases, in fact, assistance in the strictest sense of the word may not be an effective contribution to the achievement of the MDGs – as the following example illustrates. Sub-Saharan Africa’s energy deficit probably costs that continent one to two annual growth points. Overcoming this limitation would not only represent an invaluable contribution to revenues, health and gender equality; it would even contribute to dealing with climate concerns if the challenge were to be met by using clean energy and applying energy efficiency. But energy is not, on the one hand, an MDG; and on the other, most donors are reluctant to get involved in this difficult issue when they can gain more public support by addressing health and education.

What’s more, beyond the small amount of money that can be declared as technical assistance, the key instruments needed to address this challenge – transformation of public policies and incentives, the establishment of guarantee schemes that will strengthen local capital and the private sector, and the improvement of local and international markets for investment – cannot be reported as ODA. And when public money is needed, it is likely that concessional loans will be more important than grants, for which there will be many disincentives. It is no wonder, then, that over the past years the energy issue has remained very low on domestic and international aid agendas despite its critical importance.

This brings us once again to the core challenges: defining objectives, measuring results against objectives and determining the best mix of sectoral and financial policy measures to achieve these results.

Measuring policy versus playing the politics of measurement

Is our international measurement system up to the task?

The answer is no.

Let’s focus on financial flows. Our current public policy is not measured and therefore our system cannot understand, explain or defend it – or can do so only with very rough approximations.

Measuring public policy is simple in principle but always difficult in reality. Official definitions of ODA, for example, mask considerable confusion about measurements of volume, budgetary costs of a policy and administrative expenditure.

This lack of precision is a result of the age of the measurement system. Defined in the 1960s, there has been little possibility for revamping it because of the need for consensus around each and every modification. And no one dares to propose changes in the measurement system for fear that other changes may then be proposed and that these may be unfavourable to them.

Yet there are many areas where change is badly needed. The scope of what can be declared as ODA is both too large (many things can be declared as ODA even if their relation to development is tiny) and too narrow (many innovative instruments cannot be captured by the current system). As a consequence, ODA does not capture real volumes of policies – be they private or public in origin. More importantly, there is no way one can figure out what the real costs of the policy are to the taxpayer: costs of concessional loans and of debt restructuring and cancellation are so opaque and complex that their relationship to actual costs is impossible to trace. Administrative expenditure is also very roughly tracked. Yet these technical issues would not be very
serious if accounting modalities did not frame behaviour, on the one hand, and if the resulting numbers were not used by academics and evaluation bodies to discuss aid effectiveness, on the other.

A review of ODA accounting is a priority if we are to eliminate perverse behaviour and clearly distinguish between budget costs incurred by the taxpayer and the total volume of financial commitments of any kind undertaken to achieve specific results. The clarification of this chain is essential to enable informed debate on the contribution of financial volumes to the implementation of a given policy.

Funding public policy differently

The scope of global public policies will need to expand greatly in the decades to come.

This expansion will no doubt occur, whatever the speed of developing countries’ economic growth may be. Today, the links between global policies and issues of economic and social convergence are being broken. Increasingly, as we have discussed, it is more a matter of global public goods that are related rather than to the level of poverty in the world, to a combination of concerns generated by demographic growth, global increase of economic activities and the prevalence of international inequalities.

Indeed, in today’s globalised world, the principle of payment for public policies will certainly evolve in the same manner as it has within our domestic borders: payments will be determined not by absolute levels of poverty or wealth but by relative levels. Financial inequality among countries will continue to characterise our planet for many decades and this will determine the need for rich countries to finance the world’s poorest countries – but not only to finance them, as we shall see.

The public policy perimeter will increase in two ways. To begin with, the number of subjects of “collective concern” will grow following the upward curve of world population, the increasing density of the planet and the accumulation of problems in managing the relationship between man and nature in general (we could call this the “extensivity syndrome”). And second, the importance of these problems will grow in intensity.

In this context, the level of payments assessed on the wealthy must necessarily increase for three simple reasons:

First, in the global public goods equation, poor countries are simultaneously victims (e.g. suffering the consequences of climate change induced by others), sources (e.g. generating conflict) and providers of solutions (e.g. biodiversity). For these reasons, compensation, “weakest-link transfers” and payment for global services are at the core of growing international public and private financial flows.

Second, in a globalised world, public policies must increasingly focus on the poorest countries. With nine billion people on Earth – including eight in emerging and developing countries, more than five in China and India, and two in sub-Saharan Africa – the political sustainability of globalisation lies in its ability to integrate a larger number of countries in a wide and fast pace of growth. Even in countries that demonstrate potential and real growth, securing the convergence of revenues is of prime importance and making this coherent with the world’s environmental limits is a matter of life or death. Willingness to pay for this will be more and more essential, refocusing the international agenda not only on poverty, but also – and in an increasingly important way – on sustainable development and green growth. In this respect, the 2012 Rio+20 conference will play a major role in shaping the next decades’ development agenda.
Finally, over the coming decades, we will see how political difficulties, isolation and other factors continue to prevent vast areas of the world from joining in global prosperity. Even in the best-case scenario, in 2050, the world will still be home to more than one billion people in absolute poverty. In the global, integrated economic space that is now being built, it will be necessary to establish – officially or indirectly – a global redistribution policy. This comprehensive social safety net will need to be in place for a long time and it will be critical to manage the associated geopolitical problems. Crisis management and prevention will, in many cases, create the ground rules for redistribution. Today, the way the MDGs have been set already makes it impossible even for many relatively well-run poor countries to meet the targets. Massive financial support is needed to allow their populations to access the basic human needs – increasingly recognised as basic human rights – we described earlier. In the future, this need for support will grow as the weight of demography and global inequalities increase.

The enlargement of the public policy perimeter and the resulting increase in costs will have implications for modes of financing. Until now, the budgets of OECD countries have been the major source of funding for assistance. This situation must change for a very simple reason: less poor people in rich countries will accept to pay for the rich in poor countries.

As we have already indicated, the evolution of the international economy is not only characterised by the emergence of formerly poor countries and by the persistence of a large number of very poor countries; it is also exemplified by the accentuation of inequalities within every category of countries, including industrialised countries. Never before have gaps in wealth been so evident. In the coming decades, persistent situations of extreme poverty – and increasing numbers of people in absolute poverty – may be perfectly consistent with relatively high economic growth, including in poor countries. They also may be consistent with growing numbers of wealthy elite, including in the poorest countries.

This planetary structure cannot help but produce a gradual shift in the balance of financing for global welfare, development and global public goods; and the shift must be borne by the rich, be they in emerging, poor or industrialised countries.

This is why international taxation has a promising future.

International taxation has been mistakenly described as an innovative development financing instrument. Though it will without any doubt continue to offer smart solutions to extremely difficult policy issues, there is nothing innovative about taxation. It is as old as the world. Research on a new basis for taxation, however – targeting the world’s affluent or wealthy classes – will lead to international taxes. And as it may take a very long time for an international tax on income to emerge, the focus will be on property or transactions used by the wealthy. Many possibilities are already being considered: taxation on air transactions, international transit, carbon transactions… in fact, many options are already in play.

The international debate on taxation for development was introduced in a context of ideological blur. Some argued that its promoters sought to cover up the lack of willingness of a number of rich countries to fulfil their ODA duties. But the issue is much more serious than this. Aid budgets of OECD governments will remain indispensable in the fight against poverty – or more widely in international or global policy – for a long time and indeed will continue to represent the majority of funding. It will also be
fully legitimate for countries with national interests at stake to continue funding development assistance through a call to their citizens: for Europe, for example, the fate of the Mediterranean southern bank is a vital regional issue that warrants involvement. But in the long run, we will have to recognise the impressive transformation of the social structures of our planet, which requires changing our more than 50-year-old funding systems.

So as not to conclude

Once again, ODA is a Hydra. We could call it the “born-again” policy.

And while it is dead in its historical definition, it is living a new life in the form of global policies that the 21st century must put in place simply to survive.

A world of nine billion people with a society that is integrated economically and financially needs public policies to regulate its markets, allow people to live in peace and ensure the progressive extension of prosperity to all. These global policies on environmental, economic and social issues involve costs and these must rest on the shoulders of the world’s wealthiest citizens. In the world of the future, the wealthy will not live only in OECD countries; they will live all around the world, including in the poorest countries. Of course, development targets will still in the vast majority of cases focus on the poorest countries and seek to benefit the poorest people. In the future, however, they will have to be designed taking into account more and more complex externalities, as well as the growing links between the social fates of the poor in the developing countries and those in OECD countries.

Today, ODA’s concepts, targets, tools, institutions and operating modes have been overtaken by changes occurring in a world characterised by unstoppable movement; and that is spurred by demography, growth and technology. Public and private ODA stakeholders must recognise the importance of these transformations and be ready to fall in step, questioning the methods as well as the objectives of the policies they serve. Otherwise, they will slow down the emergence of the policies we need to build a better world. Old ODA and those who serve it have a major role to play in building a new world of policy action, a world that will not be about “official” or “development” or “assistance”… but will build on these.

This is the challenge we face. Are we up to the task?
Notes

1. To illustrate his point that many changes in the motivations and objectives of aid policy, and specifically ODA, have taken place over the past decades, Jean-Michel Severino makes reference to a Hydra, a creature from Greek mythology with many heads. For every head cut off, two new ones grew back.
References


