Australian National University

# The Triple Therapy for Aid Anxiety

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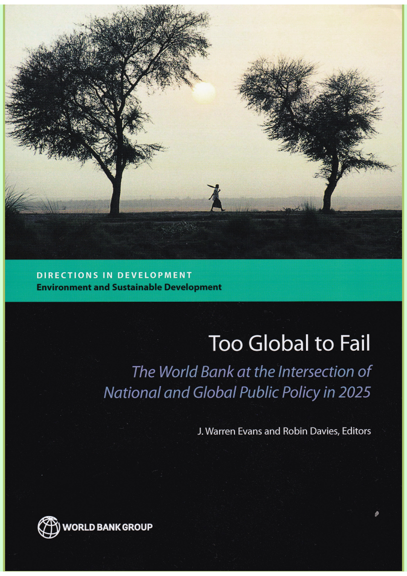
## *Prefatory*

It's a privilege to be able to speak in broad terms about this large topic, aspects of which will be explored in greater depth by several other speakers today and tomorrow.

In this talk I'll bring together some conclusions from several pieces of work in which I've collaborated over the last 18 months or so, as well as some reflections based on a previous life as an aid administrator.

Quite by chance I became involved in some work on global public goods, with Warren Evans, in his final year at the World Bank.

One result of that work was this co-edited book, which is just out.




Another result was the realisation that aid policy narratives just haven't figured out what to do with global public goods.

By another chance, I became involved in some research into the views of developing country governments about the future of aid, with Jonathan Pickering, for the OECD.

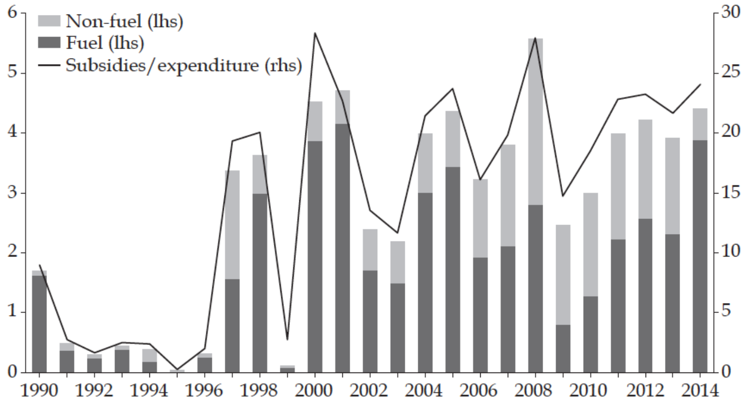
One result of that was this study, which is also just out, which we will present for the first time at this conference.


Another result was the realisation that there is a growing class of countries for whom aid still matters quite a lot, but not so much that they would hesitate to tell an annoying donor to go jump.

And by a third chance, I became involved in some work on Indonesia's economic development, with Stephen Howes, for the *Bulletin of Indonesian Economic Studies*.

One result of that was an impressive piece of economic analysis which Stephen almost entirely wrote, full of things like this.

FIGURE 4 *Fuel and Non-fuel Subsidies as a Share of GDP and Government Expenditure, 1990–2014* (%)




Another result was the realisation that I was still worried about the same things that used to worry me when I was posted in Jakarta, like: why does Australia give Indonesia's public sector so much aid, and its non-government sector so little?

After a while I realised that, with no systematic intent, I been thinking about all three of the major trends that, it seems to me, currently underlie a widespread anxiety about the future of aid.

So, those trends, and my views on how to respond to them, became the subject of this talk.

I

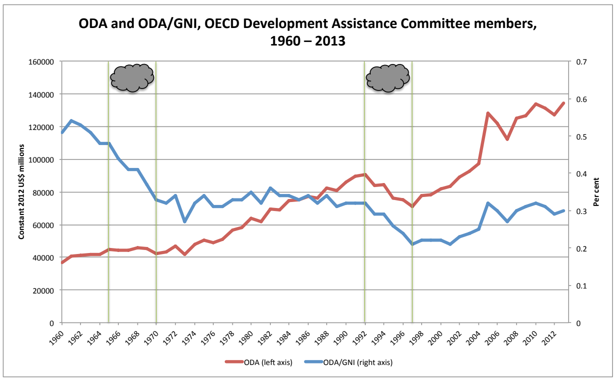
## *Introduction*

About twenty years ago, and another twenty years before that, the end of aid seemed to be nigh.

In 1970, Lester Pearson, Mr 0.7 per cent, warned of a ‘growing opposition or indifference to aid for development’.

No sooner had he said that than aid from OECD sources proceeded to grow steeply up to 1992, by which time it had more than doubled in real terms.

The end of aid seemed nigh




But a few years later, 1992 was starting to look like a peak, in fact the peak.

Between that year and 1997, aid contracted by 21 per cent in real terms, falling from 0.32 per cent of donors’ combined national income to an historical low of 0.21 per cent.

Fiscal deficits, rising private flows and doubts about aid effectiveness were blamed.

However, this decline, like that in the previous aid generation, turned out to be temporary.

In 1998, aid began to grow again, returning to its former levels by 2002 and exhibiting a steep upward trend ever since.

Aid is now about 75 per cent higher in real terms than it was in the second half of the 1990s, hovering at around 0.3 per cent of OECD donors’ national income over the last decade.

Nevertheless, it often sounds like the end of aid is nigh again.

In the present epoch, it's not that the supply of aid is drying up.

In fact, OECD supply has so far held up pretty well after the global financial crisis.

This time, the viability of aid as we know it is being called into question by several changes on the demand side.

First, the ranks of low-income countries are thinning.

Second, global risks, most obviously those associated with climate change, are making increasing calls on international public finance.

And third, the less aid-dependent countries are increasingly turning to non-traditional financing sources for what they perceive to be more flexible and responsive assistance.

These demand-side trends have led various observers to predict, and often to prescribe, a progressive contraction of one kind or another in the uses to which aid from traditional sources is put.

Some, like Paul Collier, argue that aid should increasingly be concentrated in the remaining low-income and fragile countries.

Some, like Nancy Birdsall, think that aid should increasingly be applied to global problems and reconceived as global public expenditure.

And some, like the current members of the UK International Development Committee, think aid to middle-income countries should increasingly be used for what might be described as 'return-seeking' purposes in competition with aid from other sources.

Probably nobody would argue that aid should pursue just one of these purposes, whether now or in five or ten years' time.

But there does seem to be a widespread view that aid either will or should cease to do everything that it is doing now and shift toward a primary emphasis on one of these three things, or some combination of them.

The timeframe allowed for this shift varies, but is generally taken to be no more than twenty years, and often much less.

Only rarely is the desirability and inevitability of such wholesale change questioned.

But to question it is the purpose of this talk, which contends that aid need not and should not contract radically in its purposes and destinations anytime soon.

I'll follow a three-part structure, taking each of three propositions in turn, rejecting in each case some part of its premise, then suggesting what lesser change might in fact be called for in the ways in which we conceive or allocate aid.

# Three questions, answers, prescriptions

| Question | *Is aid running out of customers?* | *Should aid give way to 'global public finance'?* | *Should aid be more return-seeking as recipients get less dependent?* |
|---|---|---|---|
| **Answer** | No. LDCs & moderately-dependent countries still numerous. | No. Global & national problems & objectives intertwined. | No. Less dependent countries' public expenditure is stretched thin. |
| **Prescription** | Retire income-based graduation. Take account of the role that aid currently plays within countries' economies. | Adopt a two-part aid objective. Renovate aid narratives to normalise & multilaterise aid for GPGs. | Refocus aid on longer-term public expenditure priorities (e.g. high-risk, high-impact social programs; subsidies for non-government activity). |

You can't ignore the fact that, among those who do see an ongoing need for aid roughly as we know it, there is uncertainty, disagreement and a degree of anxiety about how to explain and defend it.

This anxiety is, I think, symptomatic of the fact that some things do have to change.

I'll be arguing, though, that it's enough to settle for three relatively modest points of change.

First, assessments of aid need should take account not only of the state of a country's economy but of aid's current role within that economy.

Second, aid for global public goods should be normalised and multilateralised.

And third, aid from traditional sources to less aid-dependent countries should be refocused on what are properly longer-term public expenditure priorities.

II

# *1. Is aid running out of customers?*

The countries deemed eligible to receive aid numbered 150 in 1996.

Only nine fewer are eligible now, having crossed the high-income-country threshold.

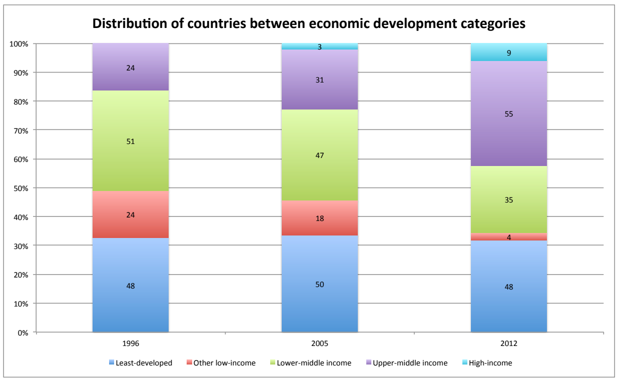
However, the number of low-income countries has almost halved, from 64 to 34, and the number of upper-middle-income countries has more than doubled, from 24 to 55.

It could be argued, though, that this is an overly dramatic depiction of the contemporary situation, because 11 of the 31 graduates are still deemed to be Least-Developed Countries (LDCs).

In 1996 there were 72 countries that were least-developed or low-income or both; there are now 52.

Perhaps, then, a better way of illustrating the recent category shift is to observe that we have moved to a situation in which all but four of the low-income countries are LDCs, whereas there were 24 low-income countries outside the latter category in 1996.

## The polarisation of developing countries

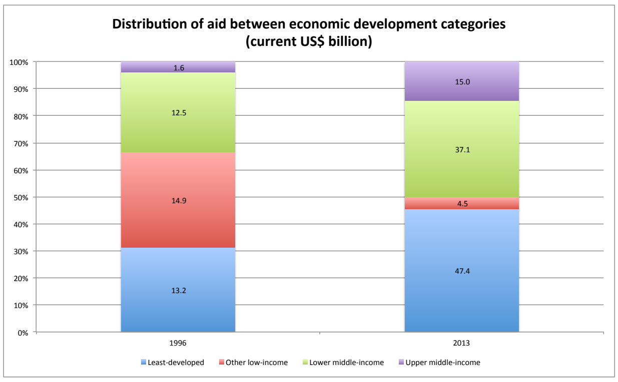



In other words, we are seeing a polarisation of countries between the middle-income and least-developed country groupings.

This polarisation is equally evident in the allocation of aid.

In 1996 aid was divided about equally between three groupings: LDCs, other low-income countries, and middle-income-countries.

## … and the polarisation of aid




Now, following the near-disappearance of the 'other low-income' category, aid receipts are divided about equally between LDCs and middle-income countries.

Despite these category and aid allocation shifts, donors' aid policy narratives, and in some cases their actual aid allocation models, continue to accord centrality to the low-income threshold.

Most notably, the World Bank's concessional financing arm, the International Development Association (IDA), only provides soft loans and grants, subject to some specific exceptions, to low-income countries, leading some observers to conclude that it is 'sleepwalking' into oblivion.

*NB: Loosely based on a draft Development Policy Center Discussion Paper. Figures subject to final checking.*

Other observers prefer to look on the bright side.

Homi Kharas & Andrew Rogerson have noted that if poverty in middle-income countries were to more or less look after itself, and if aid were maintained at 0.3 per cent of donors' collective GNI out to 2025 and concentrated upon the fragile, mostly low-income countries, it would become possible in principle to eliminate the residual US$2-per-day poverty gap in those countries by providing aid as cash transfers to the poor.

In other words, aid at something like current levels is, in principle, sufficient for the diminished task ahead of us.

A curmudgeon might consider it unlikely that poverty in low-income countries will actually be eliminated by means of externally-financed direct cash transfers.

Given this, and the observation that almost all low-income countries are now least-developed countries, the curmudgeon might be tempted to conclude the following.

*Donors should reduce their bilateral aid to around 0.15 to 0.2 per cent of their collective GNI and confine it to LDCs and the few remaining other low-income countries, going about business as usual there.*

In this scenario, the poverty-reduction rationale for aid would be undisturbed, as would allocation practices at country level, and donors would meet a slightly obscure target for aid to LDCs which was set in Brussels in 2001.

However, there would be far less aid.

Those who do not like this picture but who believe in the value of country-based aid, such as Ravi Kanbur & Andy Sumner, tend to respond that aid should go where the poor people are rather than being allocated on the basis of arbitrary income thresholds.

On this view, aid should be targeted to meet the special needs of hard-to-reach vulnerable groups, both directly and through support to governments, and also withdrawn gradually rather than in a sudden-death fashion.

But even this view would in most cases involve a substantial contraction in the purposes for which aid is used in many middle-income countries.

There is, however, a different kind of objection to the blanket elimination of aid to all but LDCs and a few other low-income countries, which entails no such contraction of purpose.

If the question is how, broadly, to assess a country's need for aid, one way of approaching that question, for countries receiving aid already, is to think about what difference its absence would make.

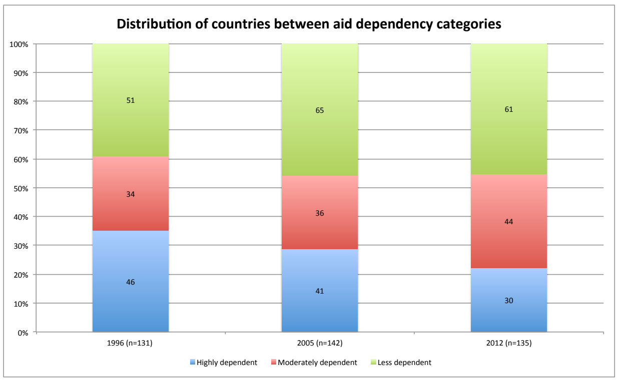
To do that, we can look at its current level of aid dependence, defined as the ratio of the country's aid receipts to its national income.

We can, quite conventionally, distinguish countries according to whether they exhibit low, moderate or high levels of aid dependence on the basis of more or less standard thresholds.

Let’s say then that a highly aid-dependent country is one that has an aid to GNI ratio of 10 per cent or more.

There are currently 30 such countries.

## The growth of moderate aid dependence




Most highly dependent countries are LDCs, but seven of them, all but one small and/or girt by sea, are non-LDC middle-income countries.

In addition, if the threshold for moderate dependence is set at 2.5 per cent of recipient GNI, then 74 countries currently fall into either the highly or moderately dependent categories.

Two decades ago, there were 80 countries across these two categories.

In other words, average aid dependency has come down—in fact, from nine to six per cent of recipient GNI in unweighted terms—but a large number of countries retain a moderate-to-high level of dependence on aid.

What’s more, you can see that the number of moderately dependent countries is on the rise, increasing from 34 to 44.

The expansion of this country cohort is reflected in the fact that, on various measures of poverty incidence, aid consumption and economic expansion, the typical moderately dependent country is now the typical developing country.

# The typical developing country is moderately aid dependent

| | All countries | MAD countries |
|---|---|---|
| *Poverty headcount ratio, US$1.25 / day, unweighted average (%)* | 21 | 22 |
| *Poverty headcount ratio, US$2 / day, unweighted average (%)* | 37 | 38 |
| *Aid / GNI, unweighted average (%)* | 6 | 6 |
| *Aid / central gov't expenditure, unweighted average (%)* | 23 | 25 |
| *Aid / capita, unweighted average (US$)* | 137 | 135 |
| *Real growth in aid receipts, 1996-2013, weighted average (%)* | 64 | 60 |
| *Real GNI growth, 1996-2013, weighted average (%)* | 125 | 150 |

Obviously, moderate aid dependency is almost always a stop along the route to low and no dependency.

However, there are reasons both good and bad why the path from high to low dependency might be non-linear, characterised by a pause at a certain dependency point.

A country might linger in the moderate-dependency category because it faces structural barriers to growth, as is the case with some small island states or, by definition, all 17 of the LDCs currently within the category.

It might prolong its stay in that category because its government and its donors perceive a high return on development investments in an environment of discerning government but still limited prosperity.

Or, from the stable of bad reasons, it might fall into a 'moderate-dependency trap', loitering in that category because its officials are tenacious and capable aid hunters and its donors prone to inertia or averse to the risk of transferring resources elsewhere.

Over half (26) of the 44 countries that are currently moderately dependent are neither low-income nor least-developed countries.

Nevertheless, aid is playing an important or at worst non-trivial role in all their economies.

In many cases, though certainly not all, it will be achieving good returns to investment and playing a carefully defined role within an overall development strategy.

Except in those possible cases where countries are simply malingering in the moderately dependent category, the withdrawal of aid—particularly any abrupt withdrawal linked to an income-threshold crossing—would make a substantial, negative difference to the country concerned.

*NB: Loosely based on a draft Development Policy Center Discussion Paper.*
*Figures subject to final checking.*

So, circular as it might sound at first, when assessing a country's need for aid it makes sense to take account of the contribution that aid is currently making to that country's national income.

On this basis, the domain of countries to which aid might be directed is still large, at 74 using the parameters just specified, and its membership has not changed much in the last two decades.

Moreover, the population of such countries, currently around 860 million, has barely changed since 1996 in proportional terms.

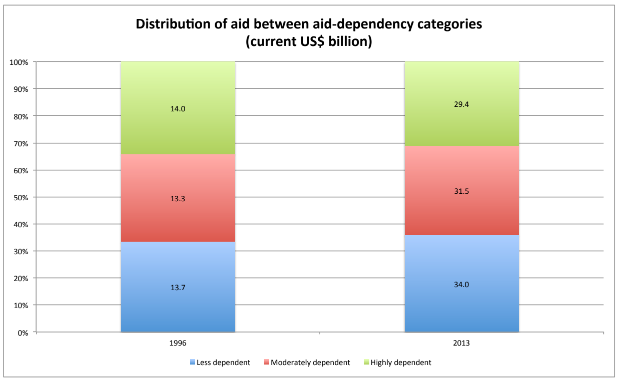
It represents about 14 per cent of the developing country total, or 27 per cent if the populations of China and India are excluded.

There should, in other words, be plenty of aid work to be done in the countries that are currently highly or moderately dependent on aid.

Perhaps, in fact, there is no practical need to labour this point.

Though aid has shifted markedly toward middle-income countries, it has shifted only slightly toward less aid-dependent countries.

## Aid has shifted only slightly toward less dependent countries




About one-third of global aid was consumed by each of the three dependency categories two decades ago and, despite substantial changes in category membership over that time—only 15 of the 44 countries that are now moderately dependent had that status in 1996—it is still the case that each category consumes more or less one-third of global aid received.

In sum, donors interested in poverty reduction through country-based aid could reasonably be working with a pool of more than 70 customers in the overlapping LDC and moderate-to-high-dependency categories for at least another decade, if not two.

Contrary to the perception that aid has drifted toward countries that do not need it, the share of global that goes to less dependent countries has barely changed.

There is no obvious reason why the legitimacy of current aid allocation patterns should be called into question by an arbitrary income threshold, or why IDA or any other agency should have to engage in contortions to assist countries above that threshold if it has sufficient resources to do so.

We should celebrate the clear trend toward reduced aid dependency overall, and do nothing to reverse it.

But, conscious that there is still a large number of moderately-to-highly dependent countries, we should discard sudden-death aid graduation thresholds and instead prepare ourselves for a long and sometimes demanding engagement on the moderate-dependency plateau.

III

## *2. Should aid give way to ‘global public finance’?*

The notion of a global public good, which is a relatively recent invention, helps in distinguishing between two different views about aid, one of which is nested within and sometimes obscured by the other.

First, there is the view that some proportion of global aid should be focused on specific problems rather than on countries.

That is, the aid in question should be allocated in the first instance to a problem, and only secondarily, if at all, to countries.

Second, there is the specific view that some proportion of global aid should be focused on a specific subset of problems, namely global public ‘bads’.

These are problems affecting the whole world, with usually disproportionate impacts on developing countries, whose mitigation or solution requires dedicated resources and usually international coordination.

Unmitigated climate change is a global public bad; non-universal school enrolment is a bad thing and a problem in the first of the senses just mentioned, but it is not a global public bad.

Acting in their own national interests, poor countries would allocate few or no domestic resources (including flexible external resources) to such problems, hence the need for resource dedication.

The view that the production of global public goods should be recognised as an important purpose of international public finance gained ground for about a decade from the late 1990s.

Ultimately, though, it faced stiff competition from the Millennium Development Goals (MDG) narrative.

The latter came strongly to the fore from about 2005, after a slow start, and positioned aid much more in accordance with the first of the two views just mentioned, as a general problem-solving tool.

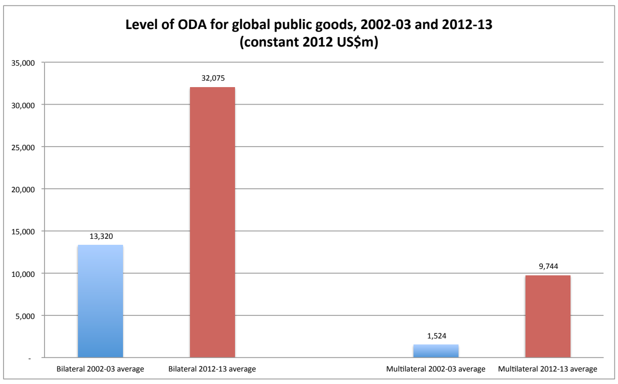
This conception of aid led to some tension between donor and recipient priorities, which got resolved partially and rather awkwardly by applying the MDGs or variants of them at the level of individual countries.

The deeper tension, however, was and remains that between global and national priorities.

This remains entirely unresolved and has in fact been building throughout the MDG ‘era’ as funding for global public goods has quietly exploded.

Overall, it looks like aid spending from bilateral sources for purposes broadly related to both global and regional public goods has grown by a factor of around 2.5 in real terms over just the last decade, from about $13 billion to about $32 billion per annum.

The ballooning of aid for international public goods




Spending from multilateral sources for the same range of purposes, which recycles some of the bilateral funding just mentioned, has increased six-fold, from about $1.5 billion to almost $10 billion per annum.

What goods? Global public goods can be variously classified but let’s use five broad headings: public health, environmental protection, peace and security, research, and economic coordination.

*NB: Loosely based on a draft Development Policy Center Discussion Paper.*
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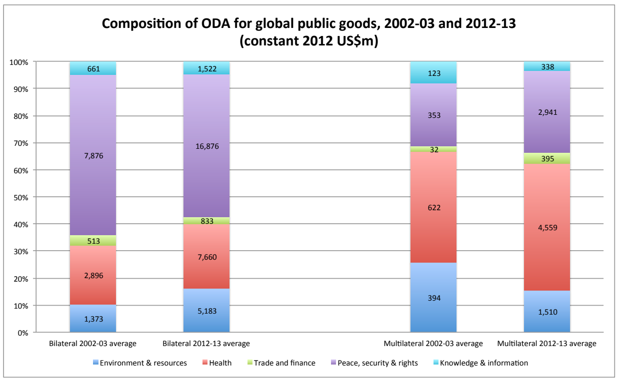
# Global health and regional conflicts dominate GPG spending




Around one-third of all aid from bilateral sources, and one-fifth of aid from multilateral sources, is now being spent on one or another of these five purposes, with global health and refugee-related expenditures dominant.

Absent increases in aid, the proportions just mentioned can be expected to increase further as climate-change financing commitments accumulate and flow through to disbursements.

A case might be made, based in part on the emergence of the other two trends that I'm talking about today, that even more aid, or perhaps eventually all aid from traditional sources, should be spent on global public goods.

Given the scale of the problems in question, particularly climate change, this would not necessarily involve any diminution in aid volumes.

However, any substantial shift in this direction would entail a fundamental recasting of the case for aid.

Some people have argued for exactly that outcome, suggesting that the notion of Official Development Assistance (ODA) is redundant or 'dead' and should be replaced by a concept of global public finance (Severino & Ray).

Others have argued that such a financing category should be created to complement rather than replace the ODA category, so as to capture and motivate a new and additional class of international public expenditure (Kaul).

However, once it is detached from a poverty-based case for aid, the case for global public finance becomes distinctly unappealing from a resource mobilisation perspective.

The case is essentially that, up to some undefined but possibly quite advanced level of development, countries need financial incentives to deviate from business as usual and contribute to the supply of global public goods.

Thus global public finance should flow to where such incentives can achieve the biggest global impact, which will generally be in very large and not always very poor countries.

Norway's large payments to Brazil for forest conservation are a case in point.

While this sort of argument has theoretical force, it raises difficult moral-hazard and burden-sharing questions.

Even if we don't rebadge aid as 'global public finance', aid might seem to be at risk of losing public support if less and less of it is perceived to be dealing with the day-to-day problems of poor people.

There is certainly a problem here, and a renovation of aid narratives to fix it is past due.

But the renovation need not be dramatic.

A relatively conservative one would involve distinguishing two objects of aid, developing countries and global risks, and aligning them with two channels of aid, bilateral programs and core contributions to multilateral organisations.

The multilateral channel, in this narrative, would have a special responsibility to pursue the provision of global and regional public goods, including through national interventions, and would not be cast, as it often is now, merely as an alternative delivery channel for bilaterally-financed aid.

This type of narrative would admittedly be quite a stretch for many multilateral organisations, who might see it as limiting their fundraising options.

It might also be unpalatable for some bilateral donors who expect multilateral organisations to concentrate their work in the poorest countries, or who have ambitions to global leadership in dealing with one or another global problem.

However, equating aid for global public goods with core aid to multilateral organisations would provide comprehensibility for the general public.

It would lessen the perception problem that bilateral donors face in directly assisting middle-income countries to contribute to the provision of global public goods.

And, most importantly, it would provide an appropriate and much-needed sharpening of the mandates of the organisations themselves, which after all were established as instruments of international co-operation, not as project financing and management agencies.

It's important to note that this narrative doesn't involve accepting a dichotomy between country-focused and globally-focused aid—on the contrary.

Many important global public goods are produced in a cumulative fashion, built up through sustained action across many countries, embedded in national development strategies.

Strategies established at the global level for the production of global public goods cannot ignore, and in fact need to support and influence, national development strategies.

For this reason, international agencies interested in the provision of global public goods will primarily have to work at the intersection of global and national public policy, not just through country-blind problem-solving funds.

In sum, donors interested in supporting global public goods do need to clean up their policy narratives, which are well out of tune with reality, but they do not need to upturn existing narratives by subordinating poverty reduction to the production of global public goods.

A two-pronged narrative in which aid goes to both countries and global public goods, and in which multilateral organisations are the recognised intermediaries of aid for the latter purpose, could lead to beneficial improvements in the clarity of the mandates of multilateral organisations and also to additional resources for underfunded global public goods.

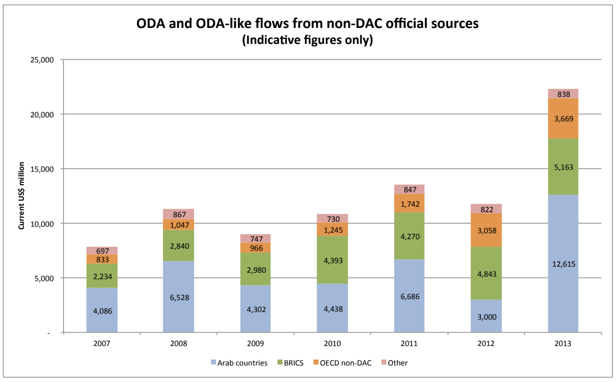
IV

## *3. Should aid become more return-seeking as recipients become less dependent?*

Aid-like financing from non-OECD official sources is still small in comparison with aid from OECD sources, but increasingly important.

Estimates of its scale vary wildly but a very recent and conservative estimate of its magnitude in 2013 put it at more than US$20 billion.

# Official aid from non-DAC sources is volatile but rising




Much of this is likely to be flowing to the less aid-dependent countries, given the terms on which it is offered, and it is in those countries where it is most likely to displace OECD aid.

Perhaps few would argue that DAC aid should engage in wholesale competition with non-DAC aid in these countries.

However, some DAC donor governments, such as those of Australia, Canada, and the Netherlands, do appear increasingly to view their bilateral aid as a tool for developing or maintaining non-aid relationships with such countries.

The view of such governments seems to be that, as recipient countries grow less dependent on aid, we should increasingly adopt a return-seeking approach.

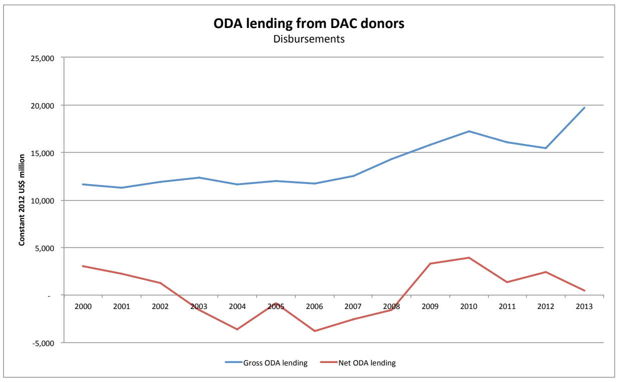
Either we should use aid to encourage mutually beneficial policy deviations from business-as-usual, though of course we also do that from time to time in more dependent countries.

Or else we should provide it in at least partially repayable form, setting a price for it which is inversely proportional to need.

At the level of instruments, we have already seen a hardening of the terms of financing to some countries consistently with the second of the views just mentioned.

The use of ODA lending has been on the rise since about 2006, though this has been masked in net aid statistics by the growth in repayments on old loans, mostly Japanese.

# DAC bilateral soft lending has been increasing since 2006




Some donors are considering the creation of new bilateral development financing institutions to manage soft loan portfolios.

As for the use of aid to encourage policy deviations, we have already seen that relative to a decade ago much more aid is being spent in connection with objectives such as counter-terrorism, refugee resettlement and cross-border disease control.

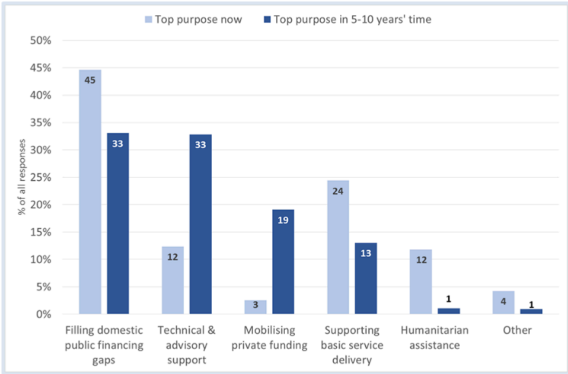
Some of the spending in these categories which is captured in DAC statistics will be serving primarily bilateral interests even if it has wider spillover effects.

A problem for both of the return-seeking impulses just described is that recipient appetite for the uses of aid proposed might well be quite limited.

The findings of the partner-country survey which I mentioned at the beginning indicated that aid consumers, including the less dependent ones, see an ongoing role for DAC donors in five to ten years' time, complementing rather than competing with non-DAC bilateral donors.

The less dependent countries particularly want to see DAC donors providing 'backstage' public policy advisory support and helping to mobilise private financing.

## Partner countries see a changed but ongoing role for DAC donors




So, if DAC donors do consent to complement rather than compete or simply bow out, how might they explain their continued presence in less dependent countries, and what specifically might they do with their aid?

It's worth noting that less dependent countries as a group have a per capita income of just under US$5,000, around one-eighth that of the OECD countries.

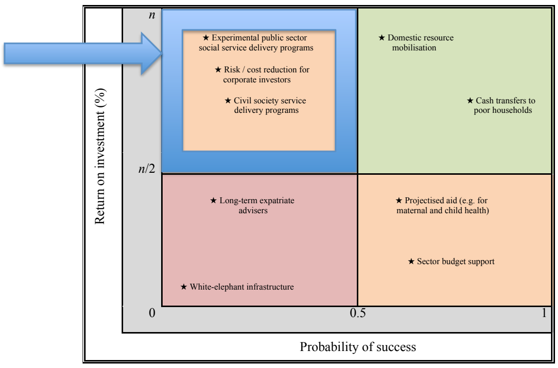
Their public expenditure is thinly stretched, particularly as they commence in many cases the introduction of social safety net programs.

Their governments should therefore be expected and encouraged to accord priority to low-risk, high-impact public expenditure programs.

Donors can better afford to do some of the things that these governments might not be expected to do themselves with scarcer resources, including borrowed funds.

What things? If we leave it to governments themselves to support lower-risk, high impact investments, there are three main categories of spending in which donors might concentrate their efforts.

## Where donors should invest in less aid dependent countries




*NB: Loosely based on a draft Development Policy Center Discussion Paper. Figures subject to final checking.*

First, donors might support high-risk but potentially high-impact social programs, in which quite large-scale investments might sometimes be justified.

Second, donors might do much more to increase the reach and effectiveness of private sector service provision through civil society organisations at the local and national level.

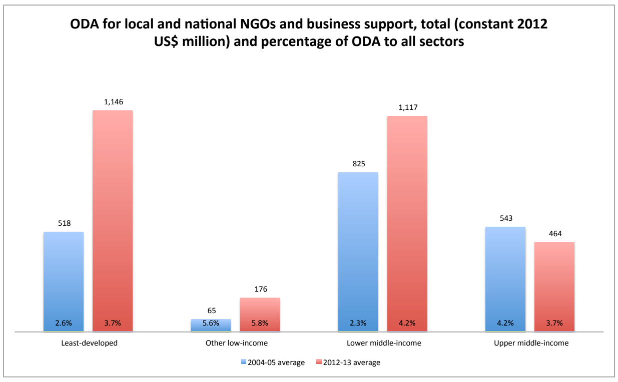
And third, donors might work directly with the recipient country's corporate sector, and multinational corporations, to reduce investment risk or to reduce cost barriers to the adoption of business models that are more inclusive of the poor.

These are all important things that recipient governments themselves would likely do in the longer-term if they had sufficient resources, but not things that should rate highly as current calls on limited public expenditure.

In short, there is much distance to travel between ceasing to be aid-dependent and commencing to be able to finance high-risk social programs and subsidies for civil society organisations and for risky or inclusive business ventures.

What is the actual record in the three areas just mentioned? It is hard to tell, but DAC statistics are at least available on aid for local and national NGOs and for business support.

## Aid beyond government is small and hasn't kept pace with overall aid growth




In contrast with spending on global public goods, spending on these purposes is very small, at around three per cent of all aid, and has grown more slowly than aid spending on all purposes, probably missing opportunities to achieve widespread welfare gains.

It has grown more over the decade in LDCs than it has in lower-middle-income countries, and it has actually fallen in upper-middle-income countries.

Aid to middle-income countries, and particularly the less aid-dependent ones, has instead been dominated by public sector technical assistance of dubious value and the pouring of grant or soft-loan money into low-risk, marketable and high-disbursing programs.

*NB: Loosely based on a draft Development Policy Center Discussion Paper. Figures subject to final checking.*

In sum, donors interested in continuing aid to less dependent countries at non-negligible levels are unlikely to find there a large market for aid debt or mutual-benefits investments.

There is, however, both scope and reason for possibly quite substantial levels of aid to be applied to purposes beyond the contemporary capacity of these countries' scarce budget resources.

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## *Conclusion: a plea for MADs, bads and things dangerous to do*

### MADs, bads & things dangerous to do

| **Question** | *Is aid running out of customers?* | *Should aid give way to 'global public finance'?* | *Should aid be more return-seeking as recipients get less dependent?* |
|---|---|---|---|
| **Answer** | No. LDCs & moderately-dependent countries still numerous. | No. Global & national problems & objectives intertwined. | No. Less dependent countries' public expenditure is stretched thin. |
| **Prescription** | Retire income-based graduation. Take account of the role that aid currently plays within countries' economies. | Adopt a two-part aid objective. Renovate aid narratives to normalise & multilaterise aid for GPGs. | Refocus aid on longer-term public expenditure priorities (e.g. high-risk, high-impact social programs; subsidies for non-government activity). |

Yes, the ranks of low-income countries are thinning, but aid is still playing a significant role in a large number of economies, and the discerning moderately-dependent (MAD) group is expanding.

Yes, global risks are making increasingly insistent calls upon international public finance, but for the most part they will need to be addressed through accumulations of country-focused interventions, mediated by capable multilateral agents with strong local presences.

And yes, middle-income countries should increasingly deal with poverty and inequality themselves, but, as they stretch their expenditures thin to do so, international donors can better afford to finance riskier public investments and strengthen the development contribution of their civil society and corporate sectors.

Until there is a far greater convergence of incomes between countries, there are good arguments for continuing to direct aid to a spectrum of countries, regardless of arbitrary threshold crossings.

Aid can and should continue to be rationalised in terms of poverty reduction, with that goal to be achieved by directly supporting governments' national development priorities, supporting multilateral development organisations to work at the intersection of national and global public policy, and making complementary investments in areas in which even better-off governments cannot yet afford to invest.

*NB: Loosely based on a draft Development Policy Center Discussion Paper. Figures subject to final checking.*

Further, we need bilateral aid organisations capable of engaging productively with increasingly choosy and demanding customers, holding thematic funds and multilateral organisations to account for their effectiveness and efficiency in providing global public goods, and working creatively and collaboratively with new types of corporate and civil society partner in less aid-dependent countries.

Overall, then, this has been a plea to direct aid to where it can achieve impacts, not to some abstract or restricted purpose or to rigidly delimited channels and countries.

We should not allow ourselves to be blinded by dichotomies—between low-income countries and the rest, between national public goods and global public goods, and between aid recipients' current interests and our own.

There are large blurs in each case.

Many middle-income countries depend on aid, many global problems can only be mitigated through cumulative, country-focused actions, and some of the currently lower-priority public expenditures of less aid-dependent countries warrant support from external financiers better able to afford them now.

Aid has a substantial and continuing role to play within the blurs.

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