

Paying the Price

Why rich countries must invest now in a war on poverty

Addition

$$6 + 2 = 8$$

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'We are the first generation that can look extreme poverty in the eye, and say this and mean it – we have the cash, we have the drugs, we have the science. Do we have the will to make poverty history?'

Bono, September 2004

In 2005, the leaders of rich countries have the opportunity to lift millions of people out of poverty. At the G8 Summit, at the UN Special Session on the Millennium Development Goals (MDGs), and at a ministerial conference of the World Trade Organisation (WTO), trade rules, aid, and the unsustainable debt of developing countries – issues critical to the future of the world's poorest people – will be up for discussion. But will world leaders deliver on their rhetoric? In 2000, rich countries made a commitment to play their part in ensuring that the MDGs are met – but their promises remain unfulfilled. Five years later, they should ensure that a new round of international summitry becomes a platform for action.

The Millennium Development Goals, chosen on the grounds that they were realistic and achievable, are a commitment by global leaders to halve poverty and hunger, provide education for all, improve standards of health, halt the spread of major diseases such as HIV/AIDS, and slow down environmental degradation by 2015.

A vital aim of these goals is that the poorest countries will have the finance needed to achieve them. To do this, rich countries have promised to provide a very small fraction of their wealth – just 0.7 per cent of their national income – and to improve the way in which they give aid, to make it work best for poverty reduction, and to end the burden of debt which means that low-income countries must pay out \$100 million every day to their creditors. For rich-country donors, making this finance available is not simply an act of charity: it is both a moral obligation and a matter of justice – born of a collective duty to guarantee the rights of all citizens, and the responsibility of rich countries to recognise their role in creating the debt crisis which continues to threaten the prospects of poor countries. A failure to meet these obligations also has consequences for rich countries themselves, with global poverty threatening the prosperity and security of the entire international community.

Time for action to meet the MDGs is running out, yet progress has been unforgivably slow. Only one goal – halving income poverty – has any chance of being met, but even this is due to progress in just a handful of countries. The first target – enrolling all girls in primary and secondary school by 2005 – is certain to be missed. The poorest people will pay the price for this failure. If the world fails to act to meet even these minimal goals, and current trends are allowed to continue,

- 45 million more children will die between now and 2015
- 247 million more people in sub-Saharan Africa will be living on less than \$1 a day in 2015
- 97 million more children will still be out of school in 2015
- 53 million more people in the world will lack proper sanitation facilities.

Tackling global poverty requires more than money: poor countries' prospects are also undermined by unfair trade rules, the violent consequences of the arms trade, and the impacts of global warming. Poor-country governments must also fulfil their commitments to fight poverty. But, without finance, these countries will not be able to take advantage of global trade and investment opportunities, or protect their citizens' basic rights to life, good health, and education.

The sums that rich countries invest in global poverty reduction are shamefully small. At an average of \$80 per person per year in rich countries, the sum is equivalent to the price of a weekly cup of coffee. What is more, the wealthier these countries have become, the less they have given in aid. Rich countries

today give half as much, as a proportion of their income, as they did in the 1960s. In 1960–65, rich countries spent on average 0.48 per cent of their combined national incomes on aid. By 1980–85 they were spending just 0.34 per cent. By 2003, the average had dropped to 0.24 per cent.

It is no surprise that vital poverty-reduction programmes are failing for lack of finance. Cambodia and Tanzania are among the poorest countries in the world, yet they require at least double the level of external financing that they currently receive if they are to achieve their poverty-reduction targets. Global initiatives to support poor countries to achieve universal education and combat HIV/AIDS are starved of cash. Despite the fact that HIV infection rates are rising in sub-Saharan Africa, the Global Fund to Fight AIDS, TB, and Malaria is assured of only one quarter of the funds that it needs for 2005. And poor countries continue to pay out more to their creditors than they spend on essential public services. Low-income countries paid \$39 billion to service their debts in 2003, while they received only \$27 billion in aid. As a result, countries such as Zambia spend more on debt servicing than they spend on education.

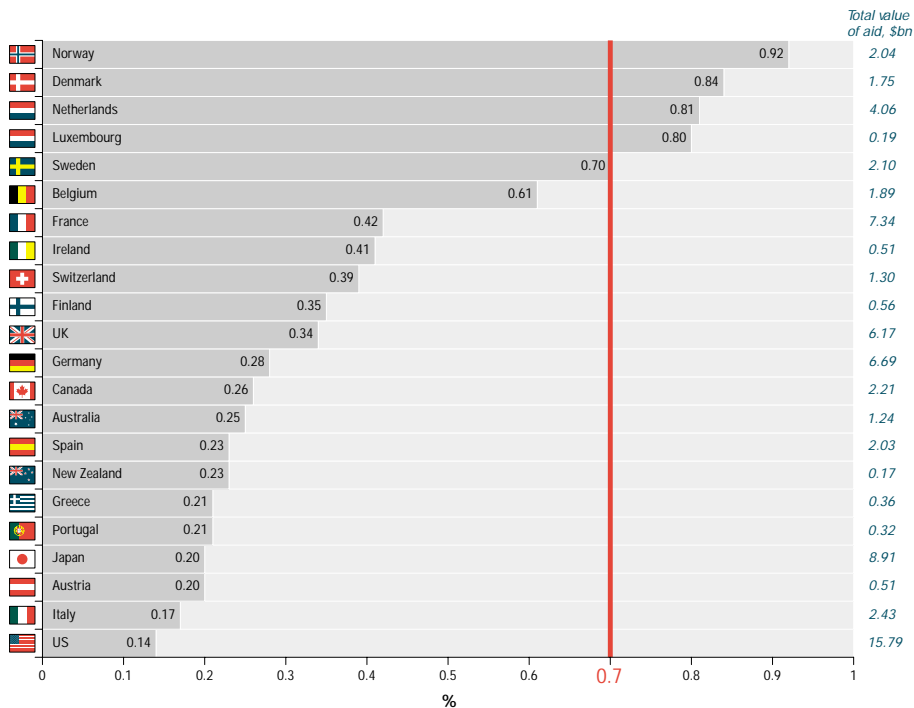
The price is small

Meeting the UN target of allocating just 0.7 per cent of national income to aid – a target set in 1970 – would generate \$120 billion, enough to meet the MDGs and other vital poverty-reduction goals.

But only five of the 22 major donors – none of them from the seven most powerful nations (the G7) – are meeting that target. In the last year, the UK and Spain have set themselves firm timetables to reach the target of 0.7. But 12 donors still have no timetable to get there, and many appear to be in no hurry: on current trends in spending, Canada will not reach the target until 2025, the USA will not reach it until 2040, and Germany will not get there before 2087.

Most donors fall short of the UN's 0.7 per cent target

Net ODA as percentage of Gross National Income and in absolute terms, by OECD donor, 2003 preliminary data



(Source: compiled by Oxfam from Development Assistance Committee data)

Rich countries can easily afford to deliver the necessary aid and debt relief. For rich countries, spending 0.7 per cent of their national income on aid is equal to a mere one-fifth of their expenditure on defence and one half of their expenditure on domestic farm subsidies. The USA (at just 0.14 per cent, the least generous donor in terms of aid as a proportion of its national income) is spending more than twice as much on the war in Iraq as it would cost to increase its aid budget to 0.7 per cent, and six times more on its military programme.

Nor is 0.7 per cent very great when compared with the priorities of global consumers, who spend \$33 billion each year on cosmetics and perfume – significantly more than the \$20–25 billion required for Africa to meet the MDG targets.

Cancelling the debts of 32 of the poorest countries would also be small change for the rich nations. The cost to the richest countries would amount to \$1.8 billion each year over the next ten years – or on average a mere \$2.10 for each of their citizens every year. If Italy and the USA were to pay their fair shares, it would cost each of their citizens \$1.20 per year. Meanwhile, the IMF holds the third-largest gold reserve in the world – a reserve that is neither needed nor used in full. Revaluation or sale of the gold could raise more than \$30 billion – more than would be needed to cancel the remaining debts to the IMF and World Bank of all the countries eligible for relief under the Highly Indebted Poor Countries initiative.

Aid works ...

And aid works. Millions of children are in school in Tanzania, Uganda, Kenya, Malawi, and Zambia, thanks to money provided by debt relief and aid. For the same reason, Ugandans no longer have to pay for basic health care, a policy which resulted in an increase of 50 to 100 per cent in attendance at Ugandan health clinics and doubled the rate of immunisations. Roads built with foreign aid mean that Ethiopian farmers have the potential to reach local and international markets to sell their crops more easily, while children in rural areas can travel to schools more easily, and people can reach hospitals more quickly – which is often a critical factor affecting maternal and infant mortality rates. In Bolivia, financial support to indigenous peoples has amplified their political voice – in particular when it supports women's groups to monitor local government's implementation of policies to promote equality for women and men. Key demands such as protection against sexual violence and improved standards of reproductive-health care have now been included in local-government plans.

History also shows that aid has been vital in eradicating global diseases. From the late 1960s, more than \$100 million was targeted to eradicate smallpox – a feat achieved worldwide by 1980.

And aid has been essential in rebuilding countries shattered by war. In Mozambique, financial support from UN agencies, bilateral donors, and NGOs facilitated a process of national reconciliation, peacefully repatriating nearly two million refugees, disarming 96,000 former soldiers, and clearing landmines.

Countries now considered 'developed' would not enjoy their current standards of living if it had not been for aid. After World War II, 16 western European nations benefited from grants from the USA worth more than \$75 billion in today's terms – grants which underpinned their economic recovery and hence created today's peace and prosperity. US aid also financed mass education and imports of essential goods to South Korea and Taiwan, laying the foundations for their rapid future growth, while European Union Structural Funds have supported growth in Spain and other southern European countries.

But today's poorest countries – even those where it has been shown that aid can be used productively – have yet to see the necessary aid extended to them. Meanwhile, marginalised from the global

economy, their access to other forms of external finance is limited. For the foreseeable future, aid will and should be the means to offset the lack of finance available for the poorest countries and communities. Aid also has intrinsic advantages: if managed well, it can be targeted to the communities that need it most, in a stable and predictable manner conducive to long-term investments in health care, education, clean water, sanitation, and other essential infrastructure.

... and it could work even better

However, rich-country donors need to make aid work better if poverty is to be significantly reduced. Increases in aid budgets can and must go hand-in-hand with improvements in the way that aid is delivered.

When aid-giving becomes politicised, poor people lose out – but many donors' priorities are still determined by their own strategic interests. Two top recipients of French aid – French Polynesia and New Caledonia – and one top recipient of US aid – Israel – are high-income countries. The 'war on terror' threatens to divert aid away from those who need it most. Aid is again being used as a political tool, with one-third of the increase in aid in 2002 resulting from large allocations to Afghanistan and Pakistan. And the goals of development aid are being redefined to suit the new security agenda: in Denmark, Japan, and Australia, 'combating terrorism' is now an explicit aim of official aid programmes.

Too often domestic interests take precedence: almost 30 per cent of G7 aid money is tied to an obligation to buy goods and services from the donor country. The practice is not only self-serving, but highly inefficient; yet it is employed widely by Italy and the USA. Despite donors' agreements to untie aid to the poorest countries, only six of the 22 major donor countries have almost or completely done so.

The management burden and uncertainty of aid delivery that many donors create weakens the effectiveness of the governments that they aim to support. In Tanzania in 2002–03, the government received 275 donor missions, 123 from the World Bank alone, demanding time-consuming attention by scarce skilled personnel. An Oxfam survey of donor practices across 11 developing countries in 2004 found as follows.

- In 52 per cent of reported cases, donors' procedures mean that government officials spend 'too much' or 'excessive' amounts of time in reporting to donors. The World Bank and the USA were named as the worst donors according to this criterion.
- Developing-country governments should expect delays. Only in one in three cases does aid arrive on time – and the European Commission is rated the worst offender, with one-fifth of its aid arriving more than one year late.
- Aid may be here today, but it could be gone tomorrow. In 70 per cent of cases, donors commit aid for three years or less – even though, in order to guarantee a complete primary education for one generation of children, funding would be needed for six years.

The administrative problem is compounded when donors attach large numbers of detailed conditions to their funding. Oxfam's analysis of World Bank loan conditions, for instance, found that the Bank requires governments of countries such as Ethiopia to carry out approximately 80 policy changes per year. Tanzania's donors between them dictate that the country should carry out 78 policy reforms in one year. This practice undermines countries' ability to choose their own reform paths, meaning that aid money is less likely to support sustainable reforms, adapted to suit local circumstances. Such conditions are rarely based on independent assessments of their impact on people living in poverty. In Malawi, for example, where donors commissioned an analysis concerning the privatisation of the state agricultural marketing board at the very moment of a national food crisis, the results were

withheld for two years. Then, despite the study's recommendations to delay privatisation until the regulations necessary to protect the poorest were in place, it was ignored in the conditions attached to new World Bank loans.

Rich-country and multilateral donors have committed themselves to change their practices. In 2003 they signed the Rome Declaration: a clear statement of intent to reform the delivery of aid. Some are making progress, mostly by collaborating to deliver joint funds directly to sector ministries or government treasuries; but others lag behind, as demonstrated by the Oxfam survey. While donors are quick to hold governments to account for their use of aid, there is as yet very little done to hold donors to account for their management of aid. Initiatives such as independent monitoring or recipient-government reviews of donor practice occur largely on an *ad hoc* and voluntary basis.

Ensuring that Southern governments deliver development

Developing countries, as well as donors, have a responsibility to meet the MDGs. And well-functioning and poverty-focused governments can of course make the best use of aid. This means combating corruption, building strong and accountable public sectors which have the necessary staff to deliver vital services, and ensuring that parliaments, civil society, and the media can monitor public spending and act as watchdogs against corruption.

There has been substantial progress in the performance and accountability of many poor-country governments. Democracy is taking root in sub-Saharan Africa, for instance, with elections held in 44 out of 50 countries in the past decade, while independent TV and radio stations are being established across the continent. And civil-society groups are increasingly calling governments to account: in Malawi, education groups now check whether schools receive the textbooks and chalk promised to them in the government budget, and they report their findings in the media and in parliament.

But obviously in many countries there is a long way to go: developing-country governments, for instance, must increase the amount of money devoted to basic social services, in line with a UN recommendation to spend at least 20 per cent on these sectors. The practice of charging user fees for basic education and health services should be abolished.

Donors can play their part in furthering these developments. This includes not ignoring corruption, but tackling it by investing in a strong and efficient public sector and removing the global incentives – tax havens and weak regulation – that allow corruption to flourish. Creating donor-led structures outside governments, or avoiding certain countries altogether, can be counter-productive – merely serving to weaken them further. And such strategies risk diverting money away from those in the global community who need it most.

In 2005, Oxfam will form part of the 'Global Call for Action Against Poverty' coalition, aiming to make poverty history. The call unites a huge range of groups from South and North, including national and regional civil-society networks, trade unions, faith communities, and international organisations. It is a chance for millions of people to tell world leaders that poverty is an injustice that is not inevitable.

Paying the Price is part of Oxfam's call to action in 2005. In it, Oxfam's key recommendations in relation to aid and debt are as follows:

All donor members of the OECD's Development Assistance Committee (DAC) should adopt the following measures.

Increase finance for poverty reduction:

- Cancel 100 per cent of the debt of the poorest countries where relief is needed to enable them to reach the MDGs: both bilateral debt, and the debts owed to the World Bank and African Development Bank.
- Provide at least \$50 billion in aid immediately, in addition to existing aid budgets, and set binding timetables in 2005 to ensure that the 0.7 per cent target is met in all donor countries by 2010.
- In addition to giving 0.7 per cent of national income as aid, support innovative mechanisms such as the International Finance Facility (IFF) and international taxation to ensure immediate and sustainable development financing.
- Provide aid in the form of grants, not loans, where possible in the foreseeable future, and support the creation of an independent, fair, and transparent debt-arbitration panel to enable creditor and debtor countries to resolve debt crises without compromising poor countries' ability to finance vital social services, and without forcing them to repay what are considered by the panel to constitute odious debts. The use of export credits should be monitored by creditor governments to prevent the accumulation of unsustainable debts by developing-country governments.
- Contribute their equitable share to important global initiatives such as the Global Fund to Fight HIV/AIDS, TB, and Malaria, and the Fast Track Initiative.
- Provide long-term, predictable aid for investment in the provision of universal, free, and high-quality public services.

Make aid work best for poverty reduction:

- Fully implement Rome Declaration commitments to improve the delivery of aid and completely untie aid, including types of assistance omitted from DAC recommendations, namely food aid and Technical Assistance.
- Restrict the use of conditions to requirements for financial accountability and broadly agreed goals on poverty reduction and gender equity.
- Focus aid on the poorest countries and communities, enacting national legislation to mandate the use of aid solely for poverty-reduction purposes.
- Establish institutionalised and compulsory mechanisms to improve donor accountability for aid spending, such as independent monitoring groups and reviews by recipient governments.
- Link assessments of aid allocations to analyses of progress on poverty-reduction goals; such analyses should be

broader than the macro-economic analysis currently conducted by the IMF.

- Actively promote an end to user fees for basic health and education services in all poor countries.
- Minimise tax avoidance by closing tax havens and defining common standards for multinational corporations; comply with the OECD anti-bribery convention; and ensure that the Publish What You Pay Initiative is implemented.

The World Bank and IMF should take the following actions.

- Cancel 100 per cent of the debts owed to them by the poorest countries where relief is needed to enable them to reach the MDGs; finance this measure by revaluing IMF gold reserves and using the resources thus generated.
- Restrict the use of conditions to requirements for financial accountability measures and broadly agreed goals on poverty reduction and gender equity.
- Provide aid in the form of grants, not loans, where possible in the foreseeable future, on the basis of additional bilateral donor contributions to the World Bank's IDA facility. Support the creation of an independent, fair, and transparent debt-arbitration panel to enable creditor and debtor countries to resolve debt crises without compromising poor countries' ability to finance vital social services, and without forcing them to repay what are considered by the panel to constitute odious debts.
- As a matter of due diligence, conduct and publish a country-led Poverty and Social Impact Analysis (PSIA) of all proposed economic-policy reforms.
- Publicly release World Bank and IMF lending agreements in draft form, in addition to other core documents related to programmatic lending, including all economic and sector work and the Letter of Development Policy.
- Provide long-term, predictable aid for investment in the provision of universal, free, and high-quality public services.
- Actively promote an end to user fees for basic health and education services in all poor countries.
- Promote an end to the IMF's role as 'gatekeeper' for debt relief and the imposition of limits on aid spending.

Developing-country governments should take the following measures.

- Demonstrate their commitment to poverty reduction by meeting the UN recommendation to spend 20 per cent of public budgets on basic social services, and transparently directing the money to benefit poor people.
- Institutionalise, through legislation if necessary, parliamentary and civil-society participation in the making and implementation of policies that will benefit poor people, also guaranteeing civil and political rights to free and fair elections, freedom of expression, and the rule of law.
- End the imposition of user fees for basic health and education services.



Paying the Price

Why rich countries must invest now in a war on poverty

Progress towards meeting the Millennium Development Goals has fallen far short of the promises made in 2000. At the current rate, all but one of them will certainly be missed. The cost of failure will be high: 45 million more children will die between now and 2015 than would be the case if the world met the goal to reduce child mortality. The time for action is running out. 2005 offers an historic opportunity for rich countries to make good on their promises to finance the Goals effectively – and those promises are easily affordable.

In 2005 the 'Global Call for Action Against Poverty' will tell world leaders that this injustice is not inevitable: they can make poverty history – if they act now.

Copies of the full report and more information are available at www.oxfam.org

Oxfam International is a confederation of twelve development agencies which work in 120 countries throughout the developing world: Oxfam America, Oxfam-in-Belgium, Oxfam Canada, Oxfam Community Aid Abroad (Australia), Oxfam GB, Oxfam Hong Kong, Intermón Oxfam (Spain), Oxfam Ireland, Novib Oxfam Netherlands, Oxfam New Zealand, Oxfam Quebec, and Oxfam Germany.

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