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ESSAYS

The Aid Ring Fence: Protection or Prison?

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This essay is based on remarks Owen Barder delivered at a breakfast discussion on April 10, 2015, hosted by Russell Reynolds Associates. It draws on work submitted as written evidence to the UK Parliament's International Development Committee inquiry on "Beyond Aid: The Future UK Approach to Development." This includes analysis of the future of the UK's Department for International Development as an independent aid agency (joint with Alex Evans, published here), a paper summarising the UK's performance on CGD's Commitment to Development Index (joint with Petra Krylova, published here), and work summarising the rigorous economic evidence base on the potential development impact of "beyond aid" policies (joint with Theodore Talbot, published here). The views expressed are those of the author alone.

I'm going to talk about three big trends in development that are going to make the next 15 years very different from the last 15 years. I'm going to suggest four significant implications for development policy, including for the future role of development agencies like DFID.

The development landscape between now and 2030 will look completely different from the last 15 years. The Sustainable Development Goals that look likely to be agreed in September, including a commitment to eradicate absolute poverty by 2030, will be addressed against a very different backdrop to the relatively successful period of the Millennium Development Goals.

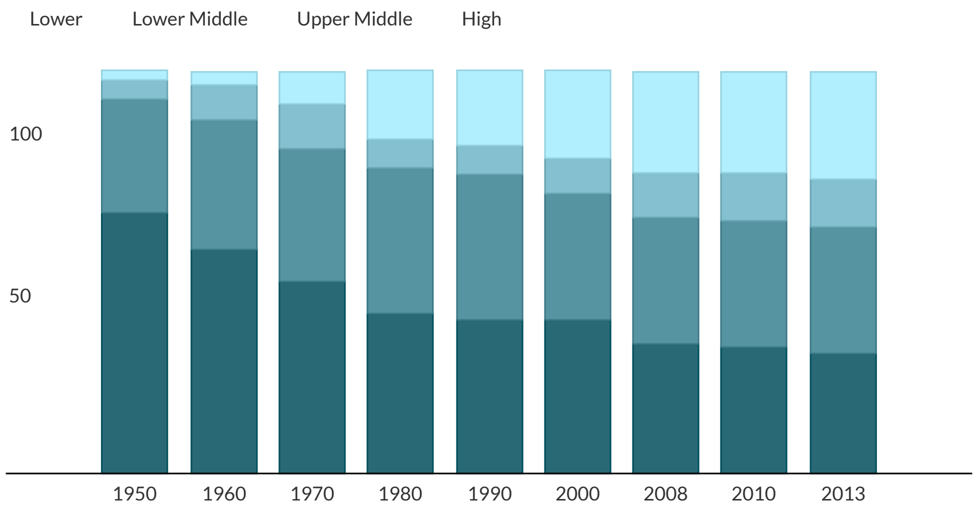
There are three challenges we are going to have to address: fragile states, inclusive growth in middle-income countries, and managing transboundary risks and providing global public goods.

Challenge 1: Fragile States (or Parts of States)

By 2030, absolute poverty will be increasingly concentrated in fragile environments — a category that will include most of the world's dwindling number of low-income countries (see figure 1), but also many middle-income countries (or regions within them). All five of 2014's highest fatality conflicts were in middle-income countries; many other middle-income countries are affected by violence ranging from rural insurgencies to endemic urban violence that blurs the line between organised crime and conflict. In many other countries, vulnerability to increasingly violent weather will create situations of chronic insecurity and poverty.

Figure 1

The number of poor countries is declining



Source: Felipe, Abdon, and Kumar 2012 Get the data

Challenge 2: Inclusive Growth in Middle-Income Countries

Growing GDP per capita often conceals underlying challenges such as rising inequality, weak social protection provision, creaking urban infrastructures, environmental degradation, and rising expectations that less capable or accountable governments will struggle to meet.

The statistics tell us that inequality in the standard of living between countries has started to decline while inequality within many countries has increased. [1]

It is already the case that two-thirds of the world's poor live in five middle-income countries: China, India, Nigeria, Pakistan, and Indonesia. The poorest eight states in India contain more poor people than the 26 poorest states in sub-Saharan Africa. If you spread India's entire national income equally it would work out at about $10 per person per day.

> The statistics say that inequality between countries is declining but inequality within many countries has increased

International actors will need to help higher-performing but poorer middle-income countries to diversify their sources of finance for development — whether through domestic resource mobilisation, FDI, commercial debt, remittances, and so on — and access know-how and technology.

And if we are serious about eradicating absolute poverty, we are also going to have to help the poor people who are being left behind in middle-income countries — not through conventional aid programmes for which there is no public support, but through a mixture of influencing in country (e.g., promoting social protection and free health care), improvements in the global policy environment, and, in some cases, direct service provision where the government can't or won't step in.

Challenge 3: Managing Transboundary Risks and Providing Global Public Goods

Future development prospects will increasingly be shaped by transboundary risks and global public goods.

These include tax cooperation, managing illicit flows, an open and fair trading system, financial stability, the regulation of financial services, rules governing the mobility of people, mechanisms to spread knowledge and ideas, and mechanisms to tackle infectious disease. Perhaps most of all, poor people will be affected by environmental stresses — climate change, biodiversity loss, competition for land and water, and the effect of these trends on livelihoods, prices for food and other basic goods, and the risks of conflict.

These three challenges share a number of characteristics:

- **None of them was a focus area for the Millennium Development Goals**, but all will be decisive in shaping the outlook for international development from now on.
- **All will be addressed primarily at national level**, but with important roles in each case for international assistance and cooperation.
- **Many cannot be addressed at the national level alone** — solutions require international collaboration.
- **All involve far-reaching, very political, often messy processes of political and structural change**, usually in the absence of an established playbook for how to go about

them.

- Unfortunately, we **don’t have a very good toolkit** for tackling any of them successfully.

Implications for future of development cooperation

Aid is still important. In fragile states, two kinds of interventions that we know to be effective — humanitarian assistance and multilateral peacekeeping — are expensive, and the systems that provide them heavily overstretched. The costs of both are likely to increase in the coming years. There is a lot of work to be done in the coming years to reform the humanitarian aid system, which is not fit for purpose.

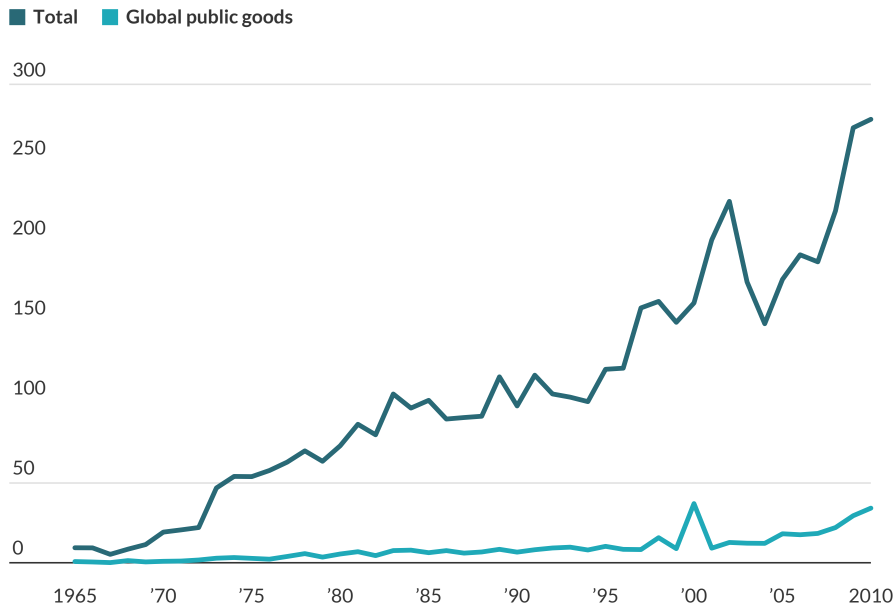
Furthermore, aid is still warranted in many middle-income countries, especially lower-middle-income countries.

And at global level, international public finance is needed for areas such as vaccine development and distribution, agricultural R&D, rainforest and ocean conservation, and clean energy. Right now, financing for global public goods is a fraction of what the world spends on directly tackling poverty (see figure 2): in 2012, the total was around $12 billion (less than one-tenth of total ODA in that year), of which three-quarters was for UN peacekeeping alone. [2]

Figure 2

Funding for global public goods is limited

Billions US$(2009)



Global Public Goods defined on basis of Creditor Reporting System identified in Helmut Reisen, Marcelo Soto, and Thomas Weithöner, "Financing global and regional public goods through ODA" (2004), as corresponding to support for GPGs.

Source: Based on Tierney et al., 2011 Get the data

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The best tools we have to address these challenges are "beyond aid". For none of the three challenges I've described — fragile states, unequal growth in middle income countries and transboundary problems — can we point to compelling evidence of the effectiveness of aid, and there are many other instruments we can use to make a real difference.

In the run up to July's Financing for Development conference in Addis there has been a welcome new emphasis on other sources of finance for development — including domestic public resources, private investment, nonconcessional international public finance, and remittances. This is important, not least because it responds at last to repeated requests from developing-country finance ministers and presidents to encourage private investment rather than aid dependence. But the options being discussed range from half-baked at best to economically illiterate at worst, partly because they are being discussed mainly by a development industry deeply rooted in the aid business. [3]

But it is a mistake to think that additional external financing, whether aid or otherwise, is the main answer to these future development challenges. The "beyond aid" agenda does not only mean encouraging private-sector financial flows or finding new, innovative sources of finance. "Beyond Aid" also means "beyond financial flows."

The biggest development challenges for the coming decades stem not from lack of global finance but lack of global governance. In the coming years, we need to build new coalitions which can support cooperative international frameworks in areas from tax cooperation to managing shared environmental commons like transboundary watercourses or the atmosphere. In areas like trade, tax, and climate change, we need practical mechanisms for collective action. We need to support and promote enabling environments for private sector–led growth, reducing corruption and illicit financial flows, tackling market failures, and bringing knowledge of emerging approaches around the world to policy areas ranging from social protection to green growth and climate resilience. These are policies which address the underlying causes of poverty, and these are the policies to which we are going to have to turn our attention if we are to make progress on the three big trends I described.

> "Beyond aid" does not only mean innovative finance; it also means "beyond financial flows."

For example, if we want to encourage investment, growth, and jobs in middle-income countries, it would be much more powerful to give them access to our markets by removing trade barriers than to invent financial instruments intended to 'derisk' those markets for our investors. According to a report by the African Union, $1 billion in foreign direct investment from the United States to sub-Saharan Africa was directly linked to African Growth and Opportunity Act trade preferences, and overall FDI inflows to AGOA beneficiary countries increased by 77 percent from 1999–2000 (just before AGOA) to 2004–05.

> The biggest development challenges for the future stem not from lack of global finance but lack of global governance

If we want to encourage innovation, we should take a long hard look at the way our intellectual property rules inhibit the spread and growth of knowledge and ideas.

If we want to improve livelihoods for the rural poor in the developing world, we should start by ending our agricultural subsidies, especially export subsidies, which protect our own farmers from competition.

If we want people everywhere to have opportunities to find work and support their families, and to allow balanced rather than unbalanced globalisation, then we are going to have to be as committed to global markets for labour as we are to global markets for capital, goods, and services.

Even quite modest improvements in these policies would bring about much larger benefits for the world's poor than can be brought about through aid. There was scheme in the Pacific Islands to take up seasonal employment on farms in New Zealand that increased annual earnings over 350 percent for participants from Vanuatu and over 750 percent for those from Tonga. Their households saw gains in consumption, investment, and education. In the words of one of the authors of a report evaluating the project, the scheme's welfare impact makes it "among the most effective development interventions ever evaluated."

The good news is that most of these policies have direct benefits for us in OECD countries. The Pacific Island visa scheme not only cost New Zealand nothing, it worked to its benefit by bringing additional temporary labour to their agricultural sector.

Contrast that with aid. I continue to believe that maintaining our aid spending is the right thing to do and that it is in our long-term interest, but let's never forget that in the short term it costs British households on average £430 per year. In the short term, aid is a zero sum transfer from people in richer countries to people in poorer countries. Beyond aid policies are, in contrast, for the most part actually good for rich and poor countries alike even in the short term. Policies to open our markets, reduce agricultural subsidies, improve international tax cooperation, put a price on scarce environmental resources or lift the baleful shadow of excessive intellectual property restrictions will help our economies, taxpayers, and consumers.

Of course there may be individual losers in rich countries, but we have the capacity to compensate them with part of the broader economic benefits that these reforms bring about.

The bad news is that the development community is poorly equipped to take on this agenda. Our institutions are built around securing, spending, and defending foreign assistance budgets and charitable giving. Our institutions, skills, and culture have evolved towards managing aid budgets effectively. When you are trying to persuade people to lend you their hammer, you inevitably describe every problem as a nail.

My biggest worry about the ringfence around our aid budget is that we are in danger of becoming imprisoned within it.

Third, the development community is going to need to change. We are going to need new skills and new expertise.

My biggest worry about the ringfence around our aid budget is that we are in danger of becoming imprisoned within it.

Working in developing countries, the development worker of the future will need expert knowledge of specific countries and their politics, history, and culture — built up through longer postings, language skills, and specialisms in specific regions; skills in specialist areas related to political transitions; and the ability to operate across disciplinary boundaries (humanitarian, mediation, military, institutional, development, and investment).

Internationally, development workers need not just technical expertise in areas like trade, tax, and climate change, but also the more subtle and hard-to-recruit-for skillset of thought leadership and ideas-based advocacy. We will need to do more to broker partnerships within our own governments and policy communities as well as internationally. This will in turn depend on a more open culture with more recruitment of outsiders, and being willing to do more of our thinking in the open. This already happens sometimes, such as with the post-2015 agenda, and it is going to need to become the norm.

As well as having the right people and the right skills, the development system needs to be willing to innovate. Helping fragile states, supporting inclusive economies in middle-income countries, and providing thought leadership on global issues are all areas that will entail different approaches than we used for our core business in the era of MDGs. Aid agencies will need to act more like venture capitalists and less like wholesale bankers: spending smaller sums on higher-risk projects, and being willing to accept the possibility of failure in return for sometimes achieving success in new ways.

There has been a commendable focus in many development ministries, including DFID, on trying to bring the current international discussions about the post 2015 framework to a successful conclusion. It will be important now for development agencies to tool up to deliver the SDG agenda, which will require additional skills over and above those that they needed for the MDG agenda on which they have been focused.

As a civil servant I worked in the Treasury, DFID, and the Prime Minister's office, and it seems to me that the Treasury, rather than the Foreign Office, should be DFID's role model. I think everyone accepts the need for there to be a powerful Treasury within government, tasked with scrutinizing policies from the perspective of protecting the public's long-term interest in sound public finance from short-term spending pressures, and of protecting the economy from rent-seeking by powerful vested interests. By analogy, DFID should have a key role working with other departments, to define the long-term interest of British citizens in shared, sustainable global prosperity and protect those objectives from short-term political or commercial expediency. Neither the Treasury nor DFID should expect to win every issue they contest; but both have an essential role collaborating with, and if necessary challenging, other government departments.

Fourth, we have to reverse the narrative of a 'global race'. In my view the single biggest obstacle to making progress on all these issues is the economically illiterate idea, put around by politicians including our own Prime Minister, that countries are engaged in a "global race" in which one country's success is achieved at the expense of another.

I noticed this myself most clearly at a meeting recently in Geneva. We were meeting with experts in intellectual property to discuss the progress on the 1994 agreement that development countries would encourage technology transfer to least developed countries as a quid pro quo for developing countries to accept tougher intellectual property rules. [4] At the meeting everyone agreed that almost no progress had been made on the *developed* countries' side of the bargain — and what's more, there had been no serious efforts by them. What was worrying was the explanation for this lack of progress: the representatives of developed-country governments said that their authorities were no longer interested in working out how to share technologies with countries that they increasingly saw as our competitors rather than allies in a quest for shared global prosperity.

I recognise that it is dangerous for people like all of us here, paid up members of the metropolitan elite who gain from globalisation, to argue that globalisation is good for the country overall, but failing to recognise that within the country there can be losers as well as winners. If we are to win the argument about a global race then we need better mechanisms at home, as well as internationally, to redistribute the gains from globalisation to those whose standard of living is threatened or undermined by it.

If we fail to take this on, we will continue to regard rising prosperity in other countries as a threat to our own well-being. That is going to make it much harder for the international community to make progress on these global issues such as ensuring an open and fair trading system, financial stability, tax cooperation, peace and security, spreading technology and protection of our shared environmental assets.

Conclusion

In summary: there are three big global trends which will shape the future of international development cooperation:

1. The concentration of poverty in fragile states
2. Inequality in middle income countries
3. Global and transboundary problems

And there are four implications for development policy:

1. Aid still has an important role to play.
2. If we are to meet to SDGs, we need to focus much more on the beyond aid agenda, notably the question of how we bring about effective international action to tackle shared problems.
3. We are going to need new mind-sets, new institutions, new skills, and new approaches.
4. And we are going to have to build a consensus that sees this as a shared enterprise rather than a competition.

[1] Specifically, the latest (2011) data show a global Gini of 67, two points lower than in 2008 and five points lower than what 1998/1993 data showed." http://www.cgdev.org/blog/national-vices-global-virtue-world-becoming-more-equal

[2] Nancy Birdsall and Benjamin Leo (2011). *Find Me the Money: Financing climate and other global public goods*. Washington DC: Center for Global Development.

[3] In a report on 'innovative financing for development' commissioned by UNDP, three of the five 'innovative' ideas listed were new taxes. These are political innovations, not innovative finance.

[4] Article 66.2 of TRIPS: "Developed country Members shall provide incentives to enterprises and institutions in their territories for the purpose of promoting and encouraging technology transfer to least-developed country Members in order to enable them to create a sound and viable technological base."