

Jean-Michel Severino

## **Aid is dead. Long live aid!**

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## B- Aid is dead. Long live aid!

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**Abstract.** The concepts, targets, tools, institutions and modes of operation of official development assistance have been overtaken by the pace of change in a world marked by the combined momentum of demography, technology and economic growth.

Aid can however recover, as social consequences of the globalization call for new forms of regulation. It will then be necessary to modify and diversify our target-setting processes, to update operating procedures, and to find better ways of measuring policy implementation. Aid volumes will certainly continue to grow, and we must transform the way aid is financed. Public and private aid stakeholders must recognize the importance of these transformations and be ready to support them, by questioning the methods as well as the objectives of the policies they are implementing. Otherwise, they will severely impede the emergence of the policies we need if we are to build a better world.

**Keywords.** Official development assistance, public policy evaluation, Millennium Development Goals.

Aid is a hydra.

In an article dating back to 2010, I had, with Olivier Ray, announced his death.<sup>1</sup>

It is confirmed.

Messages of condolences flow from people who were supposed to benefit from it: the academic community, governments and public opinion—and assistance aid professionals—join enthusiastically. The first group asserts repeatedly that they want to reject the weight of policy, deemed excessive: conditionality oppresses, aid flows create dependency, and corruption is reinforced by them. This is what Ms. Dambisa Moyo, in her successful “dead aid”, recently told us. Academics also accumulate criticism about its effectiveness, with a vitality that continues to impress. Some, like Mr. Easterly, make indeed a living from this criticism. Governments build on views of the first group, in a time of severe economic crisis: when you compress spending, it is convenient to accuse the dogs you want to kill of having the rage of inefficiency. As a consequence, you can cut spending in peace and good conscience: this is what happens everywhere, with the notable and admirable exception of Great Britain. The opinions join the concert: they are generous but do not believe in public assistance; they can worship NGOs, certainly. Unfortunately, NGOs are better at helping directly populations in the most pressing humanitarian need than addressing the difficult and often austere challenges of the

conditions of their growth. And now aid professionals bring a cascade to the water of these mills! In recent years, how many conferences, how many meetings, how many memoranda on the effectiveness of assistance! Reading them, it is understandable that critics of aid feel right and comfortable: why would you support a policy whose inefficiency is denounced by its own stakeholders?

### 1 Life after death

All the more remarkable, then, is that development aid has survived a situation that would have killed off seemingly better-founded public policies. The level of aid may not be stratospheric, but its growth is nonetheless impressive: it remains at an estimated 126 billion dollars in 2010—a record in absolute terms. To this figure, we should add the considerable inflow from private sources: foundations and NGOs. International solidarity has never been so active.

To understand why, we must look at the motivations. During the long Cold War years, post-colonial guilt, along with the determination to contain Soviet ambitions in poor countries, helped to keep aid at significant levels. But with the fall of the Berlin wall, international aid lost its geopolitical underpinnings. The basic core of compassion remained, but it was not enough to justify significant commitment from industrialized countries. By the end of the decade, however, aid levels were rising again, driven by a new awareness, among the leaders of the largest nations, of the dangers inherent in the widening financial gap between

<sup>1</sup> See “The End of ODA” (Official Development Assistance), CGDEV, 2009

rich and poor, of global interdependencies that give rise to growing numbers of “collective concerns”, and the role of aid in managing or preventing conflict.

We are therefore witnessing a profound change in the function of development aid. In fact, we probably ought to start calling it something else: “global social policy”, for example. And the most profound single change is in its underlying interests. In the years leading up to the great wave of globalization, when the geopolitical dimension was there behind development aid, it wasn’t really all that important how well it performed, technically speaking: whether aid was effective or not was secondary, so long as it helped to shore up friendly regimes. In the 1990s a very different problem came to the fore; although aid is even now sometimes justified on geopolitical grounds—as we have seen in Afghanistan and Iraq—an ever-larger share of aid objectives are now focused on specific problems such as climate warming, the loss of biodiversity, the spread of HIV/AIDS and other major endemic diseases, international inequalities, and the like, and are thereby embedded in a whole set of issues around the protection, promotion or convergence of interests. Increasingly, old-style development aid is being mobilized to address the negative externalities of globalization, bound up with relations between rich and poor. And there is no shortage of such problems!

## 2 From global public goods to cargo-dollars

This distinctly new approach can only become more widespread with the growth of the world population, and the corresponding increase in the absolute number of poor, which will follow as night follows day however rapidly the global economy may expand. But a new dimension is emerging, one that touches on the way we manage global macro-social balances.

It is now becoming clear that the serious financial (and subsequently economic) crisis of 2007 has, for most poor countries, permanently scotched the idea that they could found their hopes for growth solely on copying the Asian export-driven model. This clever model enabled a considerable mass of people to escape the clutches of poverty. But its extension to cover a world population rapidly heading for the 9-billion mark is faced with three major challenges: a problem of macroeconomic sustainability, due to the generation of excessive financial imbalances; a problem of social equilibrium, due to the growing inequalities that it creates within countries, both rich and poor, with the resulting social disruption; and an environmental problem, due to its carbon-intensive nature.

The alternatives, however, are far from obvious. Development models will presumably need to refocus on domestic markets, while significantly improving energy performance. It will be difficult for poor countries that adopt this course to achieve this without substantial additional savings to maintain their levels of investment—a macroeconomic concern that export-led models can more easily afford to ignore.

In this respect, development aid has a new, rebalancing, role to play in international macroeconomic exchanges. The emphasis placed on infrastructures by the G20 in Seoul is a good sign, particularly relevant to the main concerns of the

day. It should lead to a radically new form of involvement for emerging countries, whose vast international reserves should be placed at the service of a new recycling policy: converting outdated petrodollars into brand new cargo-dollars.

If all of the above is even remotely true, then we can deduce at least four major conclusions: one, aid objectives will become very diverse, and need to be formally modified; two, operating procedures must evolve; three, policy measurement must also modernize and adjust to its content; and four, aid volumes will certainly continue to grow, and we must transform the way aid is financed. Let’s take these points one by one.

## 3 Towards millennium goals for globalization

At this point I would like to pay special tribute to Brian Atwood, the current Chair of the OECD Development Assistance Committee (DAC). When he took over as Administrator of USAID, he asked the members of the DAC to reflect on how to define a battery of indicators that could be used in determining aid objectives. Public perceptions of aid, he felt, were undermined by a lack of clarity about what aid was for. The resulting work led, through a series of stages, to the political consecration of what was to become the Millennium Development Goals (MDGs).

The hugely successful campaign to publicize the MDGs no doubt provided useful ideological backing for political leaders in OECD countries, strengthening their resolve to finance the policy, and may have played a supporting role in helping to increase public aid budgets, as well as private donations, over the last ten years.

The implementation of the MDGs reflects the profound changes in the role of development aid that we have been discussing. But it only takes us part of the way.

As they stand, the MDGs suffer from a number of technical deficiencies: their wording is sometimes unclear; they confuse final impacts with the means for achieving them; they under-value economic growth and income and overvalue social dimensions; certain policy areas, such as health, are over-represented, while others (such as energy) are underestimated or simply ignored. These issues can easily be resolved, but they do create a number of political problems in practice.

The most important issue with the MDGs, however, goes beyond that. In 2015, when the time comes to replace the MDGs, the new goals will need to represent common global ambitions for a shared public policy. The MDGs remain rooted in a social approach to the world. There is not much room in their paradigm for global public goods or, in general, for the whole range of “collective concerns” about relations between rich and poor in this world.

If we want these new millennium goals—which will not be just about development, but about the entire planet—to have still greater legitimacy, to be relevant to the realities of public policy, to effectively mobilize support, and to be measurable in performance terms, then we need to make progress in two directions.

The first is to identify the ultimate objectives that we all want to achieve within a set timeframe, say 15 or 30 years: reducing mortality and morbidity; increasing life expectancy;

improving incomes and, at least equally important in our global context, narrowing inequalities; and reducing our environmental footprint.

It is particularly important to clarify these key objectives, because they can be achieved by various political means: incomes can be improved by health policy; infant mortality can be reduced by good water management as well as increased household earnings; biodiversity can be encouraged by urban policies, and carbon emissions can be abated by a trading policy. In short, it is important to dissociate end objectives from ground-level policies, in order to disrupt the lobbies behind each specific objective. We must look beyond the social group that seeks dominion over that area of policy, and focus on what we really seek to achieve.

The other change we need to make in the MDGs is to reconcile them with the rights movement. The movement is gaining momentum: rights to water, education, health... It demands universal access to these goods—not just less inequality of access, like the existing MDGs—and these demands are gaining increasing political recognition. We should therefore identify, in addition to the major impact targets mentioned above, a series of sector policies aimed at making each particular service universal. 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 role of the MDGs would be to set the pace of universal implementation, through a collective effort, necessarily involving every country on earth.

2015 will soon be upon us. 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—goals which must reconcile the social approach with the public goods approach. It is time to concentrate on developing a strategy that will enable us to synchronize our instruments and project into the future.

#### **4 Transforming operating procedures: from lifeline to bottom line**

One of the most important problems with the way global public policies are organized is that intervention is restricted solely to aid. Before I get started on the vexatious question of the way aid is currently measured—we will come to that shortly—let me just say that there is all too often a direct link made between the MDGs, on the one hand, and aid, on the other, as if aid were the only way of achieving our goals for the planet. This point actually encompasses two complementary but separate topics.

The first is linked to the scope of the instruments we use, frequently treated as a question of consistency between MDGs, or between aid and other government policies. In reality, achieving the MDGs depends first and foremost on the policies implemented by each country and only secondly on the means implemented by the international community in support of domestic policies. These can cover diverse terrain from trade, investment and finance to migration, research policy, diplomacy, and even military involvement. In fact, each OECD country should be able to report on the full range of support it delivers, and not just on the volume of aid

provided. This route has been recently explored by the CGD's Commitment to Development Index.

The second topic relates more specifically to the instruments of financial intervention. Here, also, the OECD countries, and indeed civil society, are using an ever-wider variety of instruments, with increasing levels of financial innovation. But the OECD reporting mechanisms on the volume and quality of aid discourage innovation: they tend to restrict it to a limited number of instruments. Once again, OECD countries should be able to report on the full panoply of measures employed to support poor countries on the path to attaining the MDGs, and not just on the instruments (namely donations and loans) that have assumed sacrosanct status since the 1970s.

In a growing number of cases, in fact, aid—in the strictest sense of the word—is not necessarily the most effective way of contributing to the fulfillment of the MDGs.

One example: Sub-Saharan Africa's energy deficit probably costs that continent one to two annual growth points. Unblocking this bottleneck would represent an invaluable contribution to incomes, health and gender equality; and even for the climate, if the challenge were to be met by using clean energy. But for the most part, the instruments required would not be counted as aid: and yet the transformation of public policies and the provision of incentives—through guarantee schemes, for example, or through actions to strengthen local capital markets—to get local and international private finance to invest in this area would be worth more than billions of dollars of aid.

Another example: social innovation—which combines the aims of economic growth, social cohesion and public policy efficacy—relies, in many of the poorest countries, on the promotion of social entrepreneurship or “social business”. This category, which has a special dynamic in the field, should not be subsidized (the services it offers must find their own economic equilibrium), but nor can it be financed by the instruments of conventional capitalism. The fight against poverty and the promotion of biodiversity will, if they are to prevail, depend on a massive expansion in this range of instruments. They cannot be addressed through the conventional categories of aid.

This brings us back to the core challenges: defining objectives, measuring results against the objectives, and determining the best mix of sector and financial policy measures to achieve them.

#### **5 Using measurements to evaluate, rather than determine, policy**

Let us now turn our attention to financial flows. Our current public policy is not measured, and therefore we cannot understand, explain or defend it—only with very rough approximations.

Measuring public policy involves a number of steps that are simple in principle but always difficult in reality: one, determining the objectives; two, identifying the volumes of each financial instrument used; three, evaluating their budget cost; and four, comparing them to the results obtained.

Official definitions of aid mask considerable confusion between steps two and three. For many reporting countries, there is a significant difference between the volumes declared

and their real budget cost. This might be due, for example (but not exclusively), to the way loans and debt cancellations are accounted for. None of this would matter very much if these accounting modalities weren't such a determining factor in behaviors: everything that can be measured has an impact on policy-making.

A review of aid accounting is a priority if we are to eliminate irrational behavior 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 aid to the implementation of any given policy.

## 6 New ways of financing public policy

With regard specifically to aid volumes, the scope of global public policies will need to expand greatly in the decades to come.

This expansion will no doubt occur regardless of how quickly the economies of developing countries grow. In our globalized world, the question of who pays for public policy will certainly evolve, just as it has within our domestic boundaries: payments will be determined not by absolute levels of poverty or wealth, but by relative levels. For decades to come, our planet will continue to be characterized by financial inequalities between countries, and so the richest countries will have to continue to finance the poorest.

The scope of public policy will increase in two ways. Firstly, the number of subjects of "collective concern" will grow in line with 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; and secondly, these problems will grow in intensity.

The level of payments levied on the wealthy for the benefit of the poor must necessarily increase, for three simple reasons.

First, global policies will above all address global public goods. On this score, the poor countries are at once the victim (suffering the consequences of climate change induced by others), the cause (as by far the main locus of AIDS and conflict) and the solution (their biodiversity is vital). Because we need the developing countries to resolve a number of "collective concerns", we will accept the need to pay them due compensation.

Second, public policies will focus on the countries with the weakest potential for globalization. With nine billion people on Earth – eight of them in emerging and developing countries, including more than five in China and India, and two in sub-Saharan Africa – the political sustainability of globalization lies in its ability to marshal a large number of countries in a world-wide drive for growth. Countries will be increasingly willing to pay for this outcome, and this will focus traditional development aid on growth.

Third and last, there are parts of the world that will not be invited to come to the ball of global prosperity any time soon, due to political difficulties, isolation, and other factors. Even under the best-case scenario, the world of 2050 will still be home to more than a billion people living in absolute poverty.

In the global, integrated economic space that is now being built, it will be necessary to establish—officially or unofficially—a global redistribution policy. This comprehensive social safety net will be required for the duration, and it will be crucial to managing the geopolitical problems arising from the exclusion of large sections of the planet.

Crisis management and prevention will, in many cases, dictate the ground rules for redistribution. But the social security safety net will be much wider than that: as things stand already, the way the MDGs are defined makes them unattainable even for relatively well-run poor countries. Massive financial support is needed, and will continue to be needed, to enable their populations to access the basic human needs—increasingly recognized 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 widening scope of public policy—and the growing pricetag—will have implications for how aid is funded. Until now, the budgets of OECD countries have been the sole source of funding for public assistance. This situation is going to have to change, and for one very simple reason: the poor in rich countries will be increasingly less willing to pay for the rich in poor countries.

As we stated before, the evolution of the international economy is not only characterized 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 each category of country, including in the industrialized world. 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 prove to be perfectly consistent with relatively high economic growth, even in the poorest countries. They also may be consistent with an increasingly large wealthy elite, especially in the poorest countries. This planetary structure will gradually shift the burden of funding "social welfare", "development" and "global public goods" onto the rich, be they in poor, emerging or industrialized countries.

This is why international taxation has a promising future.

The emergence of international taxation has been somewhat clumsily described as the advent of "innovative finance" in the field of development. But there is nothing innovative about taxation—it is as old as the world! Its extension beyond national boundaries has something of the inevitability of gravity. The search for new bases of taxation – targeting the world's affluent or wealthy classes – will necessarily lead to international taxes. As it may take a very long time to develop an international income tax, a wide variety of targets for taxation will be reviewed; but the focus will be on property or transactions used by the world's "rich". Many possibilities are already being studied: taxation on air traffic, international transit, carbon dealing... in fact, many options are already in play.

There is a certain ideological fuzziness surrounding the global debate on international taxation. Some of its promoters have been accused of trying to cover up the unwillingness of a number of rich countries to meet their aid obligations. But the issue is much more serious than that. The aid budgets of OECD governments will remain indispensable in the fight against global poverty for a long time to come, 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 own citizens: for Europe, for example, the fate of the south-shore Mediterranean countries is a vital regional issue that warrants international involvement. But in the long run, we will have to recognize the impressive transformation of the social structures of our planet, which requires changing our more than 60-year-old funding systems: they need to attune to the fact that we are now facing global challenges that render national boundaries meaningless.

## 7 By way of a non-conclusion

Yes, aid is a hydra. It could even be called a “born-again” policy.

Although aid, in its historical sense, is dead, it is living a new life in the form of global policies that the 21<sup>st</sup> 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 costs 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, the operational targets of these policies still, in the vast majority of cases, focus on the poorest countries and seek to benefit the poorest people. In future, however, they will increasingly need to be designed to deal with ever more complex externalities, as well as the growing links between the social condition of the poor in the developing countries and that of the poor in OECD countries.

Today, aid’s concepts, targets, tools, institutions and operating modes have been overtaken by changes occurring in a world characterized by the combined momentum of demography, technology, and economic growth. Public and private aid stakeholders must recognize 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 if we are to build a better world. Old aid and its partners have a major role to play in building that new world. That is the challenge we must face.

Are we up to the task?