Reframing aid in a world where the poor live in emerging economies

Gilles Carbonnier and Andy Sumner
Reframing aid in a world where the poor live in emerging economies

Gilles Carbonnier and Andy Sumner

Special thanks for research assistance to Rich Mallett, Ricardo Santos, Pui Yan, Henrique Conca Bussacos, Nicki Goh, and Emmanuel Dalle Mulle.

1. Introduction

The landscape for aid is undergoing a major international rethink (Evans, 2010). Many are grappling with the question of how aid can be done better – for example, via an aid transparency and accountability revolution (Barder, 2009) or conditional cash transfers and output-based aid (Birdsall and Savedoff, 2010). Others are stepping back from the aid paradigm altogether and beginning to explore possible alternatives to international development cooperation. They argue that contemporary aid effectiveness debates have missed the point by focusing solely on the quality or quantity of aid, rather than discussing wider structural issues (see e.g. Fischer, 2010).

The very definition of what aid is and what it hopes to achieve are increasingly on the table for discussion, and the scope for a new kind of development assistance – an Aid 2.0 – is increasingly evident.¹ The global development landscape is currently undergoing significant changes. In this chapter, we focus on three of them that will largely contribute to determining the future of aid.

First, there is a shift in the geography of poverty. The traditional remit of development assistance has long been to alleviate poverty and promote socioeconomic development in poor countries. Yet, today, the vast majority of the world’s poor do not live in the poorest countries, but in middle-income ones (MICs). Over the past 15 years, many developing economies have grown substantially and graduated from low-income (LICs) to MICs. In these richer economies, international development assistance typically accounts for a very limited share of gross domestic product (GDP) and government revenue. Hence aid tends to play only a marginal role in MICs. The transfer of official development assistance (ODA) to these countries has been put into question because of
their capacity to finance their own development without foreign aid. Poverty alleviation increasingly depends on domestic policies in the MICs themselves, which requires addressing inequality through political engagement rather than technical approaches.

Second, there is a mushrooming of new aid donors. Over the past few years, large MICs such as Brazil, China, India and South Africa have become significant donors themselves: non-traditional donor states (meaning non-members of the Development Assistance Committee – DAC) accounted for about US$10 billion a year in 2010 – a doubling since 2005. The emergence of these bilateral donors together with the rise of large private donors erodes the de facto oligopoly exerted by the DAC members. Increasing donor competition opens new doors to address development challenges but it may also diminish the power of aid conditionality.

Third, the international cooperation agenda increasingly centres on the provision of global public goods or the fight against global public bads. This has resulted in the mushrooming of new financing and delivery modalities and of innovative finance mechanisms, most notably in the area of public health and climate change. Bilateral and multilateral aid agencies – willingly or unwillingly – focus ever more on financing, implementing and monitoring global public policies whose scope and objectives go well beyond poverty reduction. Such global public policies address biodiversity, peace and security, public health, energy security, financial stability, migration, environmental degradation and other issues that are critical not only for developing countries, but for donors as well.

There are of course additional shifts in the development landscape with a direct bearing on the future of aid, most notably:

- Stringent environmental and energy constraints fundamentally challenge the dominant development model centred on maximisation of economic growth. Increased competition over scarce resources and environmental degradation calls for a paradigm shift in the relationship between human activity and the biosphere and lower carbon development, at least in MICs and high-income countries (HICs).
- Shifts in regional comparative advantages and patterns of integration in the world economy pose new risks and opportunities, especially for Africa. Much ODA is focused on this continent. Africa will double its population by 2050 (UN-DESA Population Division, 2011) making it relatively labour abundant and land scarce, while at the same time East Asia is experiencing a demographic transition that will contribute to increasing labour costs. This means that sub-Saharan Africa may fare a better chance of developing labour-intensive industrial activities than up to now.
- The unfolding of a series of crises from 2008 on – from food and energy to private finance, banking, sovereign debt and public finance – has put the aid system under great strain as support for aid erodes in the North in the face of public spending cuts. Many traditional donors are set to reduce their aid budgets, which puts into question earlier pledges made.
- Dealing with fragile states remains a major challenge, compounded by the increasing frequency of disasters in war-torn and post-conflict settings. Mixing development with defence and diplomacy has produced uneven results at best, which calls for reconsidering the role of aid in stabilisation and state-building.

Against this background, this special issue of *International Development Policy: Aid, Emerging Economies and Global Policies* focuses on shifts from traditional ODA towards global public policy. It assesses the specific contributions of multilateral and bilateral
agencies as well as of non-state actors in the global public goods agenda, and addresses
the emergence of non-DAC donors as significant aid and global players.

In this introductory chapter, we start by looking at the new geography of poverty,
which raises the question of the role of aid organisations in MICs. We discuss two major
reasons for international aid organisations to stay in MICs. The first is to engage them
in the design and implementation of global policies required to protect global public
goods, arguably in the best interest of LICs and of DAC members themselves. The
second is to assist MICs in combating poverty at home, which often relies on
redistributive policies that include social security and tax reform as well as improved,
targeted public services. As part of this political endeavour, foreign aid agencies must
tread a fine line in supporting domestic drivers of change that play a pivotal role in
pushing this agenda forward. In this chapter, we focus in particular on the emerging
middle classes and civil society organisations. We conclude by arguing that policy
coherence for sustainable development offers a common framework for MICs and DAC
donors to effectively address poverty alleviation and the provision of global public
goods.

2. Aid in a world where poor people live in MICs

If one accepts the core business of development aid is poverty reduction, where the
poor live is an important question. Sumner (2010, 2011a,b,c) shows that most of the
world’s poor no longer live in LICs, i.e. countries classified as such by the World Bank
on the basis of gross national income (GNI) per capita (see Table 1.1). In 1990, over 90
per cent of the world’s poor lived in LICs. Twenty years on, MICs account for three-
quarters of the world’s poor. Sumner (see above), and Kanbur and Sumner (2011a,b),
note that most of the world’s poor live in a small number of countries: of the 28
economies that graduated from LIC to MIC status over the last decade, there is a
concentration of world poverty in five of them, which the authors refer to as the
PINCIs: China (graduated 1999), Pakistan (graduated 2008), India (graduated 2007),
Nigeria (2008), and Indonesia (re-graduated in 2003). The data show that the graduation
process translated in less poverty reduction and more inequality than might be
expected. As a result, donors need to rethink their poverty reduction strategies and
policies since there are fewer very poor countries and most of the world’s poor live in
MICs.
Aid dependence tends to be particularly high in LICs where ODA may account for a significant proportion of GDP and government revenues. Figure 1.1 shows that the share of ODA to each income group has been evolving in different directions between 1960 and 2009, yet with a sharp decline in the share accruing to the lower middle-income countries (LMICs) between 1960 and the mid-1970s, and again from 2007 onward, to the benefit of the LICs in general, and the group of least developed countries (LDCs) in particular. This category is defined by the United Nations (UN) as those countries that ‘are highly disadvantaged in their development process and risk, more than others, failure to come out of poverty’. This classification is based on three criteria: low-income per capita, weak human development and high economic vulnerability. Since being an LDC does not exclusively depend on per capita income, surprisingly a third of all LDCs are also MICs, raising question marks about how difficult it is to graduate from the LDC category (Guillaumont and Guillaumont Jeanneney, 2010).²
So are MICs just poor countries by another name? Overall, it is evident that MICs have higher standards of living than LICs and are far less aid dependent (see Table 1.2). The average, population weighted, GNI per capita – by Atlas or Purchasing Power Parity (PPP) methods – in LMICs is quadruple that of LICs. Even LMICs have much lower ODA dependency data than LICs. The removal of China and India or the PINCs raises the aid dependency indicators but to levels still far lower than that of the LICs group.

Table 1.2 – Economic indicators in LICs, LMICs and UMICs (population weighted)

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Years</th>
<th>LICs</th>
<th>LMICs</th>
<th>LMICs minus China and India</th>
<th>LMICs minus China, India, Pakistan, Nigeria and Indonesia</th>
<th>UMICs</th>
</tr>
</thead>
<tbody>
<tr>
<td>GNI per capita (Atlas, current US$)</td>
<td>2009</td>
<td>494.5</td>
<td>2276.3</td>
<td>1851.4</td>
<td>2112.7</td>
<td>7480.3</td>
</tr>
<tr>
<td>GNI per capita (PPP, current US$)</td>
<td>2009</td>
<td>1156.5</td>
<td>4703.6</td>
<td>3769.0</td>
<td>4370.0</td>
<td>12494.9</td>
</tr>
<tr>
<td>Net ODA received (% of GNI)</td>
<td>2008</td>
<td>12.3</td>
<td>0.6</td>
<td>1.5</td>
<td>2.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Net ODA received (% of gross capital formation)</td>
<td>2008</td>
<td>51.3</td>
<td>2.0</td>
<td>5.8</td>
<td>7.8</td>
<td>0.9</td>
</tr>
</tbody>
</table>

Source: Sumner (2011c) based on data processed from World Bank (2011b).
There can be several reasons for traditional aid donors to stay engaged in MICs (Kanbur and Sumner, 2011a,b). First, pockets of extreme poverty and vulnerability arguably call for aid no matter where they occur. Besides, the Indonesian example shows that a country that graduated to the MIC status can easily relapse in the LIC category as a result of a financial crisis or an external shock. Second, negative externalities of MICs’ growth, such as climate change, may affect the poor in LICs and provide an argument for directing development assistance toward public goods in MICs. Third, by partnering with MICs, Western donors can gain relevant knowledge for development assistance to LICs, for instance in setting up effective social safety nets in the framework of triangular aid programmes. Fourth, there may be a moral argument to provide development assistance given that MICs are still part of global power relations that may disadvantage them to some extent until those global relationships change (e.g. trade and finance patterns). Yet policy coherence for development should prevail over foreign aid if countries of the Organisation for Economic Cooperation and Development (OECD) seriously wish to address these issues (see concluding section below).

3. Global public goods and MICs

Foreign aid can play a catalytic or incentivising role in MICs (Glennie, 2011, 18), in particular with regard to the provision of global public goods. For instance, several donor agencies are supporting multi-stakeholder initiatives that involve governments, businesses and civil society organisations. The objective is to influence the behaviour of key actors through a mix of market and political incentives and to pave the way for the emergence of global norms that can lead to new policies and regulatory frameworks (Carbonnier, Brugger and Krause 2011).

Global public goods are particularly important with respect to donor engagement with MICs. Forging and developing partnerships with MICs is increasingly critical for effective collective action. Engaging developmentally with MICs is thus seen not only as an end in itself (i.e. achieving poverty reduction in those countries), but also, and perhaps more importantly, as a means to promote global public goods. We can therefore conceptualise global public goods in three ways: as a policy framework for engagement with MICs; as meeting the long-term interests of HICs as well as MICs and LICs; and as fundamentally contingent on the actions and cooperation of MICs not as mere aid recipients but as active stakeholders in addressing the issues at stake both domestically and internationally.

In their seminal book *Global Public Goods: International Cooperation in the 21st Century*, Kaul et al. (1999, 2–3) define global public goods benefits as public (non-rivalry and non-excludability in consumption) and quasi-universal in terms of countries, people and generations. The main rationale behind providing global public goods is to regulate or compensate for the negative effects of global public ‘bads’, which generate negative externalities across borders (Coyne and Ryan, 2008, 5), such as air pollution, civil war and violent conflict, pandemics, international terrorism and financial crises.

Global public goods tend to be underprovided due to three gaps in public policy making: a jurisdictional gap with a discrepancy between the global boundaries of major policy concerns and the national boundaries of policymaking; a participation gap between a de facto multi-stakeholder world which is not reflected in international
cooperation processes that remain largely intergovernmental; and an incentive gap where individual countries lack the incentive to address their international spillovers and cooperate on the global public goods agenda (Kaul et al., 1999, 450–1). The adequate supply of global public goods often rests also on the resolution of conflicting interests at the national level, as shown by negotiations on climate change.

Since global public goods cannot be supplied by governments acting unilaterally, cooperation is needed. Donor assistance has only recently started to be focused on supplying global public goods. Te Velde et al. (2002) find that donors with large aid budgets tend to be those that also have a larger share of global public goods in their aid portfolios. In the case of aid projects in the energy sector, Michaelowa and Michaelowa (2011) show, however, that the number of bilateral projects promoting energy efficiency and renewables followed an erratic path over the past three decades, with an increase immediately before international environmental summits followed by a decrease when the political and media attention shifts to other priorities, and with a certain sensitivity to oil price booms.

Aid agencies are small but important players in the global public goods agenda. Yet they have a hard time trying to ‘walk the talk’ (Mordasini, this issue): the implementation of global public policies has been more than disappointing when compared to the stated ambitions and strategic objectives. The author remarks that, based on available evidence, the mainstreaming of the global public goods agenda in operational practice has been limited so far, mainly to progresses in identifying and costing global risks and their impact on developing countries. Mordasini (this issue) argues that significant reforms of multilateral and bilateral aid agencies have to take place at the institutional, organisational and operational levels in order to start addressing seriously the pressing challenges facing the developing world.

The UN and its agencies obviously have a central role in the production of global public goods, be it with regard to peace and security, human rights, development or the environment. Jenks (this issue) forcefully argues that the ability of the UN to produce significant outcome in the global public goods agenda relies on its continued capacity to generate universal norms and widely shared values. This in turn requires strong leadership and a strong capacity to leverage a broad variety of networks and new, innovative financing mechanisms.

3.1. New funding mechanisms and new donors

Funding global public policies to preserve global public goods has stimulated the emergence of different funding sources and aid channels. Innovative financing mechanisms (IFMs) and climate financing are two particular areas that received increasing interest both in policy and academic arenas (see e.g. de Ferranti, 2006; Jones, 2010; Ketkar and Ratha, 2009; Lob-Levyt and Affolder, 2006; McCoy, 2009).

Innovative financing is about a previously un(der)utilised means of financing development-related initiatives which differs in some way to the standard, ‘traditional’ system built on government-to-government, donor-to-recipient relationships. Innovative financing is also about creating incentives for new actors to engage with development funding, often through set-ups based on market principles and closely involving private firms, foundations and individuals. As one such example, the brand (PRODUCT)RED is a means of financing the Global Fund to Fight AIDS, Tuberculosis and
Malaria through the licensing of its trademark to various companies including Apple, American Express and Giorgio Armani. It was founded in 2006 by Bono and Bobby Shriver to ‘provide a way for companies to tap into demand by so-called “conscience consumers” without having to develop their own brand...[C]ompanies can...make more money, and do good at the same time’ (de Ferranti et al., 2008, 100).

Many IFMs relate to global public goods and involve at least regional, cross-border collaborations, and focus in particular on climate change and public health:

- Brown (2009) outlines five categories of proposals, including the auctioning of assigned amount of emission allowances and the creation of carbon market-based levies, such as the 2 per cent clean development mechanism (CDM) levy to raise funds for the Kyoto Protocol’s Adaptation Fund. Other proposals include imposing levies on international maritime transport and on air travel, developing a uniform global tax on CO$_2$ emissions and the issuance of bonds on international markets. These proposals are all means of creating new mechanisms to generate resources for addressing climate adaptation and some mitigation activities that are (or are meant to be) separate and additional to existing ODA (Brown et al., 2010).

- Aside from the more well-known new institutional approaches to global health, such as the GAVI Alliance Fund, examples of innovative financing include the Millennium Vaccine Initiative which has channelled US$1 billion in tax credits to corporations in order to promote delivery of existing vaccines and accelerate development of new vaccines for developing countries (Stansfield et al., 2002); the Debt2Health (Task Force on Innovative International Financing for Health Systems, 2009); and the International Health Partnership Plus (IHP+), which aims to strengthen national health systems.

The emergence of new powerful private actors in the global health scene, most notably the Bill and Melinda Gates Foundation, together with innovative multi-stakeholder governance structures and IFMs has radically altered the global health landscape over the past two decades, with a wider impact on the international development cooperation architecture as a whole. Traditional public health actors including the World Health Organization have lost their leadership while global and national health policies are largely funded and influenced by private actors (Buissonière, this issue). This raises many complex transparency and accountability issues and requires specific attention to make sure that health policy priorities in developing countries respond to the actual health requirements of the poor and vulnerable (see Buissonière in this issue). Some argue that output and outcome legitimacy are of the essence, but need to be complemented by an accountability-based approach to legitimacy that carefully differentiates between different forms of governance, with a variety of actors playing distinctive roles and assuming differentiated responsibilities. The legitimacy of norms setters and global policymakers in the absence of a worldwide, democratic polity has been repeatedly put into question and deserves more scrutiny. The UN Organization seems obviously well placed for the job (see Jenks in this issue), but with an uneven representation at the Security Council and other central bodies.

In this context, development assistance is becoming a strategic foreign policy instrument for major emerging economies. Indeed, three chapters in this issue that focus on Brazil, China and South Africa respectively demonstrate that these countries construe foreign aid as a strategic policy instrument in two respects: first in relation to LICs in the framework of South–South cooperation agreements, and second to advance their interests within the global governance system and in the elaboration of global
public policies. Brazil’s foreign policy is increasingly aligned to a South–South cooperation agenda in the pursuit of much broader objectives including trade, investment, technology and the extension of Brazil’s influence in bilateral and multilateral frameworks (Muggah and Passarelli Hamann, this issue). In the same vein, South Africa’s foreign aid and overall international engagement can be best understood by looking at the country’s ambitions in terms of global governance (Sidiropoulos, this issue). As for China, a close examination of the evolution of the country’s foreign aid and its institutional anchoring within the Chinese state apparatus provides critical insight to understand how far and why the Chinese approach to development assistance diverges from that of traditional DAC donors (Meibo Huang and Pen, this issue). All these countries have also developed a rapid response capacity not only to be prepared for disasters at home, but to be able to contribute to the international response to major humanitarian crises around the globe.

The rise of new institutional and private donors and of innovative financial mechanisms requires a reconsideration of both the very definition of ODA and the current discourse on foreign aid and international cooperation, going beyond the traditional OECD-DAC perspectives.

4. From foreign aid to domestic taxes and social service delivery

Beyond the global public goods agenda discussed in the section above, is there any additional reason why development agencies should keep working in countries that have graduated from LIC to MIC status? The question is particularly relevant for many MICs that today enjoy sound fiscal and balance-of-payments positions. To the extent that most of the poor live in MICs and that poverty reduction remains their primary objective, traditional donors have little choice but to continue working in the new MICs. But they need to adapt their interventions to the evolving reality of these countries that have grown richer. Tackling poverty often means addressing inequality, exclusion and redistribution, all of which requires political engagement rather than technical approaches. It may for instance involve assistance in the design and implementation of progressive tax reform that raises complex political economy issues.

Within the MICs the potential for achieving poverty reduction through redistribution varies but can be significant. Ravallion (2010) has estimated the marginal tax rates (MTRs) on the ‘rich’ (those earning more than US$13 per day) required in order to end poverty in MICs. While the MTRs needed to end poverty are less than 10 per cent in many of the ‘old’ MICs, in many new MICs they would have to be much higher. This is particularly due to large populations of poor relative to the number of ‘rich’ people in many new MICs. In India, for example, the poverty gap would require an MTR on the ‘rich’ of over 100 per cent.

Ravallion (2010) argues that most countries with an average per capita income over US$4000 would require very small additional taxation to end poverty. As an example, Palma (2011) notes that Brazil’s Bolsa Familia social programme distributes US$50 per month to 11 million families at a cost of only 0.5 per cent of GDP in 2005. Similarly Soares et al. (2009) find that, thanks to ‘outstanding’ targeting, conditional cash transfer programmes in Brazil, Mexico and Chile have cost less than 1 per cent of GDP.
and have accounted for 15 to 21 per cent of the reduction in inequality. In short, the capacity to redistribute is an important issue for poverty alleviation in MICs. Donors have long understood that pushing for change, for instance via a progressive tax reform, requires the buy-in from the emerging middle classes whose contribution is central to the redistributive endeavour. Thus a better understanding of the redistributive preferences of the new middle classes in MICs is critical for donors.

4.1. The middle classes

Despite differences in defining the middle classes, general trends suggest that the middle class has been expanding fast in MICs. The African Development Bank (AFDB, 2011) and the Asian Development Bank (ADB, 2010) respectively estimate the African middle class at 313 million or one in three Africans (34 per cent of the population) and the middle classes in developing Asia at 1.9 billion or 56 per cent of the population (defining the middle classes as earning US$2–US$20 a day per capita). The growth in the size of the middle class is largely driven by a number of Asian countries whose populations are graduating out of poverty into the middle classes. However, it is much wider than just India and China.

Table 1.3 – Comparable estimates of the size of the middle classes, 1990 vs. 2008 (people living with US$2–US$20/day, household survey data)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>151.4</td>
<td>288.1</td>
<td>27</td>
<td>33</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>66.0</td>
<td>129.9</td>
<td>24</td>
<td>33</td>
</tr>
<tr>
<td>Developing Asia</td>
<td>585.3</td>
<td>1894.9</td>
<td>21</td>
<td>56</td>
</tr>
<tr>
<td>China*</td>
<td>190.1</td>
<td>817.1*</td>
<td>16</td>
<td>63*</td>
</tr>
<tr>
<td>India*</td>
<td>152.0</td>
<td>274.1*</td>
<td>18</td>
<td>25*</td>
</tr>
<tr>
<td>Latin America and Carribean</td>
<td>250.3</td>
<td>349.7</td>
<td>71</td>
<td>77</td>
</tr>
</tbody>
</table>

* 2005 data.

Sources: AFDB (2011, 21) for regional data, ADB (2010, 6) for China and India 2005 data, PolcavNet for China and India 1990 data.

The OECD (2010a) discusses in detail the preferences of the middle classes for income redistribution and redistributive fiscal policy. It notes that if public services are of low quality, the middle classes are more likely to consider themselves a loser in the fiscal bargain and less willing to contribute to financing the public sector. Other factors that determine preferences include: personal experiences of social mobility, national and regional cultural and social values, the impact of (higher) taxation on leisure consumption, levels of tertiary education and attitudes toward prevailing levels of meritocracy. Support for redistribution is undermined by low institutional capacity in tax administration and the quality of state services, and by pessimistic views over social mobility.
4.2. Civil society organisations

The majority of donors acknowledge that economic growth alone is not sufficient to reduce poverty. Fighting poverty in MICs entails supporting such processes that have the potential to reduce rather than reinforce patterns of exclusion and inequality. This involves building long-term and consistent relationships with selected recipient organisations pursuing poverty reduction and social change agendas. It requires donors to involve themselves more intimately with domestic political processes, something they have tended to be unsure about doing in the past (Eyben et al., 2004, 14–15). There can obviously be various domestic actors and organisations pushing for progressive social change, defined as being conducive to poverty reduction. Women’s organisations, social movements, workers’ unions, professional associations, rights-based organisations and independent media can all play important roles in the mission to promote progressive agendas.

There is little point in pretending that this does not cross over into the political domain – indeed, this constitutes an explicitly political approach infused with liberal values. For example, Hearn (1999) finds that civil society organisations (CSOs) committed to the promotion of liberal democracy and economic liberalism are the most popular with donors. Donors also tend to link up with global citizenship movements, underpinned by universal human rights. This trend has been reinforced by the internationalisation of Western development NGOs, their transformation into multinational and networked organisations, their shift from development aid projects to political advocacy, seeking to influence the dominant development discourse and the design of global development policies. More recently, it gave rise to international NGOs headquartered in the South (Davies, this issue).

Suffice to say here, efforts to support Southern-based CSOs are not new. Howell and Pearce (2000, 75) remarked more than a decade ago that there was considerable funding for projects to strengthen CSOs in developing countries, and there has been much discussion on the UK aid agency’s ‘drivers-of-change’ approach with numerous case studies (DFID, 2005). The World Bank also made the strengthening and participation of civil society in policymaking processes a core element of the poverty reduction strategy papers (Molenaers and Renard, 2002). Over the past ten years, CSOs have become a pivotal actor in multi-stakeholder initiatives, often at the risk of being overburdened with too many tasks and unrealistic expectations (see Carbonnier, Brugger and Krause, 2011, 257–9).

There are, of course, numerous risks and potential problems associated with externally funded CSOs. For example, to what degree will external assistance influence or manipulate an organisation’s agenda? Do CSOs risk having their views and actions delegitimised by accepting foreign assistance, either directly from foreign governments or from international non-governmental organisations (INGOs)? The fact that aid seeks to support political change runs the risk of being regarded as a renewed colonial enterprise by Western states. Is this less the case when local CSOs are supported by INGOs? Robinson and Friedman (2007) investigate how far external donor funding influences the policy engagement and outcomes of a selection of CSOs in Uganda and South Africa. They find that the source of funding, whether internally generated or externally supplied, does not seem to be a significant factor in explaining their differential policy impact (Robinson and Friedman, 2007, 659).
Howell (2000, 7–8) outlines three broad and overlapping approaches that donors have traditionally adopted in order to support and develop CSOs: institution and capacity building, partnerships and coalitions, and financial sustainability. The latter reflects the centrality of non-governmental organisations’ (NGOs) and CSOs’ material bases. The performance and impact of many, if not most, of them tend to be constrained by insufficient resources. The opportunities for Southern-based NGOs and CSOs to fundraise domestically are limited due to their countries’ high poverty levels and low levels of economic development.

These constraints may diminish slightly but remain prevalent in countries that just acquired MIC status, and Aldaba et al. (2000, 678) argue that one way to ensure NGO sustainability in a ‘beyond aid scenario’ is taking better advantage of domestic funding options. Robinson and Friedman (2007, 665) also encourage the adoption of strategies designed to identify and institutionalise local sources of funding and suggest three measures that donors can take to strengthen the organisational capacity of CSOs: replace short-term project support with long-term programme grants and technical assistance; provide specialised assistance aimed at strengthening capacity for policy analysis and advocacy; and encourage host governments to remove restrictive controls and simplify NGO registration procedures, thus promoting a more supportive policy environment for CSOs. Several MICs having a rather autocratic and centralised political culture, donors put high expectations on local civil society organisations, supporting them to address politically sensitive issues such as rent-seeking and patronage and exerting checks on the political elite.

Several authors question the democratic legitimacy of non-state actors in the global policy arena, and that of self-mandated NGOs and CSOs in particular. Thanks to the support they get from donors, these organisations are often financially stronger and enjoy a higher degree of institutionalisation than domestic political parties and, at times, even state institutions. They may substitute both the government in providing essential public services and political parties in voicing opposition. How can international aid agencies avoid weakening nascent democracies in this context? Supporting political parties with ODA remains taboo and would be difficult to justify. But aid organisations could do more to strengthen legislative and judiciary bodies, starting with national and regional parliaments, which often lack the resources and capacities to function properly (Carbonnier, Brugger and Wagner, 2011).

5. Conclusion

Development cooperation is in a state of flux with new actors, new policy requirements beyond national borders and a shift in global poverty away from the poorest countries. By some estimates, there will only be about 20 or so remaining LICs in 2025, most of which will be fragile states in sub-Saharan Africa. Many of the MICs will not need ODA resource transfer. Indeed, many will be donors themselves, as is already the case of Brazil, China and South Africa, India being about to establish its own foreign aid agency (Patel, 2011). The changing dynamic entails a need to rethink aid and redesign the aid system from a focus on poor countries to poor people, tailored to different contexts.

Looking ahead, the aid system will be one with major tensions: traditional aid agencies may focus more on equity, governance and progressive change while MICs may be more interested in ‘policy coherence for development’ (PCD). Aid often has much less
impact on MIC economies than do donor countries’ policies on international migration, trade, finance, security, agriculture, investment or research and technology. For example, Berthelemy et al. (2009) find that for countries with a per capita income of less than US$7300 (PPP 2000 prices), a tightening of migration policy is equivalent to a reduction of the level of aid by about 24 per cent. Therefore, they conclude that a trade-off exists between aid and migration.

Over the last two decades, there has been much progress on policy coherence in terms of conceptual clarification, analysis and reporting, and more publicity given to the concept itself. Developmental NGOs and some bilateral aid agencies are taking a firmer stand on a broad range of policies that are critical to global development. In practice, however, PCD is often wrongly equated with inter-ministerial coordination and there has not been much improvement in the design and implementation of more coherent policies. Some contend that the policy coherence agenda has been pushed forward by development aid agencies in an attempt to obscure their failure to make aid more effective, as a rhetorical attempt to put the responsibility for low aid effectiveness on others (Carbone, this issue).

Obviously, total policy coherence will never be achieved. Incoherence is deeply ingrained in policymaking, reflecting the variety of conflicting interests in any society. PCD should thus not be seen as a realistic objective to be achieved at any cost. It should rather serve as a heuristic tool for informed democratic deliberation in donor countries when debating policy options. This is a precondition for minimising the most blatant inconsistencies between domestic policies and development objectives and will help to adopt compensatory or corrective measures where appropriate. Another conceptual flaw is that PCD has been regarded as relevant for (Western) donor countries only, whereas it is actually highly relevant for MICs as well and could help spur progress in international and domestic debates on global public policies, as well as for MICs developing their own foreign aid programmes.

To have a substantive impact, PCD should become part and parcel of policymaking in both MICs and HICs, and be geared toward sustainability. ‘Policy coherence for sustainable development’ may provide a common framework for both country groupings in the design and implementation of global public policies required to come to grips with the pressing worldwide challenges facing all of us.

BIBLIOGRAPHY


DFID (Department for International Development) (2005) Using Drivers of Change to Improve Aid Effectiveness (London; DFID).


Sumner, A. (2011c) *What is a Poor Country if the World’s Poor Live in Middle-Income Countries?* (IDS: Brighton).


**NOTES**

1. For early suggestions on Aid 2.0 see these examples: www.owen.org/blog/3397 and www.how-matters.org/2010/08/05/development-aid-2-0 (accessed on 11 October 2011).

2. The income dimension is measured by an average income per person over three years; human development is primarily captured by weak human resources, as measured by indicators of nutrition, mortality of children aged five years or under, secondary school enrolment, and adult literacy rate; economic vulnerability is captured by population size, remoteness, export diversification, share of agriculture, forestry and fisheries in the economy, instability of agricultural production and of exports, and homelessness resulting from natural disasters. In 2011, 14 MICs were classified as least developed countries (LDCs) in the list of aid recipient countries established by the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD): Angola, Bhutan, Djibouti, Equatorial Guinea, Kiribati, Lesotho, Sao Tomé and Príncipe, Samoa, Senegal, Sudan, Timor-Leste, Tuvalu, Vanuatu, and Yemen. Note that a country can also refuse to be classified as LDCs.

3. For instance, the regular peer review mechanism by OECD/DAC members increasingly focuses on policy coherence for development (PCD).

4. See, for example, the annual Commitment to Development Index (CDI) at http://www.cgdev.org/section/initiatives/_active/cdi/ (accessed on 11 October 2011).
ABSTRACTS

This special issue of International Development Policy analyses the major shifts affecting traditional development assistance, particularly with regard to global public policy and the emerging economies. In this introductory chapter, the authors examine the changing development landscape and the shifting geography of poverty to question the role of aid organisations in middle-income economies (MICs). They argue that continued donor engagement in these richer countries is warranted for two reasons. First, and in the best interest of lower-income countries (LICs), traditional donors and MICs must cooperate in the design and implementation of global policies to protect global public goods. Second, foreign aid agencies can assist MICs in reducing poverty at home. They must, however, tread lightly in this political endeavour that often implies supporting domestic drivers of change in pushing for tax reform and improved public service delivery. The authors focus in particular on the pivotal role of the emerging middle classes and civil society organisations in MICs. Finally, they introduce policy coherence for sustainable development as a shared framework for MICs and high-income countries (HICs) to effectively address the poverty and global public goods agendas.

INDEX

themes: accountability, civil society, emerging economies, financing mechanisms, global public goods, global public policies, governance, international cooperation, middle class, Millennium Development Goals, official development assistance (ODA), policy coherence, poverty, tax and development

AUTHORS

GILLES CARBONNIER
Professor of Development Economics at the Graduate Institute of International and Development Studies and Editor-in-Chief of International Development Policy. His research and teaching focus on international development cooperation, humanitarianism, energy, the governance of natural resources and the political economy of war. Before joining the Graduate Institute, he gained over 18 years of professional experience in multilateral trade negotiations, development cooperation and humanitarian action.

ANDY SUMNER
Research Fellow in the Vulnerability and Poverty Reduction Team at the Institute of Development Studies, Sussex, UK, and a Visiting Fellow at the Centre for Global Development, Washington, DC. He is a cross-disciplinary economist. His research relates to poverty, inequality and human wellbeing, with particular reference to poverty concepts and indicators, global trends and MDG/post-MDG debates.