1 Introduction

Progress towards the achievement of the MDGs is largely determined by developing country governments. Strong government commitment to the goals, policy reform and political leadership are crucial for success. However, it is widely agreed that international aid donors also have an important role to play and this is recognised by the eighth MDG, calling for a global partnership for development. It is also recognised by the Monterrey Consensus, emanating from the United Nations Conference for Finance and Development in 2002 (see Box 2.1). Many developing country governments do not have the domestic resources to fund the interventions necessary for MDG achievement. This is particularly true for low-income countries in the Asia-Pacific with low domestic revenues bases and which are unable to attract significant private capital flows.

As outlined in Chapter 1, an important way for donors to assist with the achievement of the MDGs is to help developing countries appropriately tailor the goals to their specific country circumstances. Further, in very general terms, donors need to support a recipient-owned development strategy which is aligned to the MDGs and agree to fund a set of mutually agreed upon development activities. Donors though, should recognise that development plans have greater chance of being achieved if they are devised by developing country governments, rather than being externally driven. Difficulties can arise if countries do not have well-formulated strategies or government commitment to development targets is weak. Moreover, the international donor community has reservations over increasing aid to some countries due to concerns over how much aid they can use effectively. Such concerns are supported
by the aid effectiveness literature which finds that there are diminishing returns to aid at high levels. There is a danger, therefore, that providing large amounts of foreign aid to some recipients might hamper its effectiveness and have only a limited impact on the MDGs.

The specific role that foreign aid will play in assisting with MDG achievement will vary greatly with each individual Asia-Pacific country. Donors (and recipients) face important decisions regarding the most appropriate levels of aid, how it should be distributed across the different economic and social sectors and what is the most suitable manner for it to be delivered. In some Asian countries foreign aid flows from international donors constitute a relatively minor source of development finance. Domestic revenues and private flows are more important than foreign aid for many developing countries. This is particularly true for China, India and Indonesia. Foreign aid will play only a very minor role in progress towards the MDGs in these countries. However, other countries in the Asia-Pacific region receive some of the highest levels of aid in the world (relative to their populations and size of their economies) and foreign aid remains a very important source of finance for many low-income developing countries. Low-income countries include Afghanistan, Cambodia, Laos and Timor-Leste in Asia and Kiribati, Papua New Guinea, Samoa, the Solomon Islands and Vanuatu in the Pacific. Foreign aid will usually need to fund a diverse range of activities but there are likely to be some areas of greater need requiring most attention. In some countries, the education sector will take priority, while in others, support for improving governance will need to receive the lion’s share of assistance. Further, to maximise its impact on MDG achievement, foreign aid should be provided to a recipient government in the form of general budget support in some countries while channelled through NGOs and other service providers in other countries where the capacity of the recipient government is believed to be weak.

While it is generally accepted that scaling up aid flows from existing levels will be necessary to assist many developing countries make progress towards the MDGs, there is also a consensus that the quality of foreign aid needs to increase if it is to have any substantial impact on their achievement. Often donors work in isolation leading to a duplication of their development efforts. The way their aid is delivered can impose high administrative burdens on recipient country officials although sometimes aid is provided independently of the recipient government which can reduce ownership and is unlikely to support their own development plans and strategies. International donors have