Challenging the Injustice of Poverty: Rethinking Aid Strategies

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Introduction

The Crisis in the Aid Regime

Foreign aid also known as official development assistance (ODA) is today facing an existential crisis. Its paramountcy, effectiveness, and legitimacy as an instrument to help developing countries (DCs) is being exposed to mounting challenge both at home and among its recipients. The share of ODA in total capital transfers has been in decline through the 1990s where private capital flows have emerged as the dominant source of capital transfers to the DCs. This has severely aggravated inequities in the access DCs have to external resource inflows (Commission, 2001). These inequities in total capital flows to the DCs are being compounded by the inequities in ODA transfers to the DCs. Instead of ODA playing a compensatory role to correct imbalances in private flows, in 2001, the middle income DCs received $15 billion in ODA compared to $13 billion directed to the Least Developed Countries (LDCs) (Ibid.). Issues about the direction of aid, the policy regimes associated with its delivery, the impact of aid as well as the state of governance in aid recipient countries are all feeding this sense of disillusion with aid so much so that the sustainability of aid budgets in virtually every donor country is under threat. The tendency to attach policy conditionalities to the delivery of aid has eroded ownership over policy-making in many DCs further weakening the outcomes of aid (Sobhan 2004, World Bank, 1998).
This chapter is designed to review the debate on aid ownership and relate this to the role of aid as an instrument of poverty reduction. The chapter argues that weak ownership informs poverty reduction programs in most DCs, which tend to be heavily dependent on aid. This has compromised the effective utilization of aid in the service of the poor. This ineffectiveness of aid has been compounded by the fact that the donor agencies themselves, particularly the multilateral bodies, have yet to develop a credible strategy for poverty eradication (Akash and Sobhan, 2005). As a result the policy advice tendered by the aid donors over the last two decades has served as an ineffective guide to DC regimes. These regimes, having largely ceded their policymaking responsibilities to the donors, have made limited headway in reducing poverty. This loss of policy ownership has undermined the political credibility of DC governments and encouraged the deaccumulation of domestic institutional capacity, which has eventually contributed to the delegitimization of the state (Singh, 2004). It is this crisis of the state that lies at the source of the crisis of governance in many DCs and in economics that are today termed the transitional economies (TEs) of Eastern Europe and the former USSR. Any attempt to improve the effectiveness of aid as an instrument of poverty alleviation lies in a complete rethinking of the policy agendas associated with aid in both DCs and in the international development community. This process will have to restore ownership to the aid recipients over the design of domestic policy (Singh, 2004, Sobhan, 2004). To restore ownership over policy one must take into account the nature of the aid relationship because it impinges on the political economy of the DCs.

Evolving Perspectives on Aid

The Disillusion with Aid

The issue of aid effectiveness reaches well beyond the academic domain because of the large stakes involved. Nearly a trillion dollars have been invested in aid. The yardstick for assessing aid effectiveness has varied with the era (Cassen, 1994). But the most contemporary measure of aid effectiveness poses the question, how can development assistance be most effective at reducing global poverty? (World Bank, 1998). That this question is posed after half a century of development assistance remains an indication of the prevailing disquiet with the outcomes of the aid process. The use of the metric of poverty is inspired by the nature of the appeal to