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'Aid and the Millennium Development Goals'

Felix Naschold

Introduction

Support for a set of international development targets has become universal in the development community over the 1990s. Most recently donors reaffirmed their commitment to development in the Millennium Development Goals (MDGs). Increasing the level of aid is required to help finance progress towards these goals. But how much is needed? Would a doubling of aid volumes ensure success? The Zedillo report contains some rough estimates of the required additional aid finance to achieve the MDGs overall (see table). Doubling aid could provide the additional US$50 billion required annually. However, this target sum only represents the minimum estimates for each goal, and does not fully include the difficult-to-cost health goals. Moreover, many of the existing cost estimates are based on regional level computations, and therefore are at best indicative. More reliable and meaningful estimates need to be based on individual sector analysis at country level. Such an assessment is currently being undertaken in preparation for the Financing for Development summit, but existing cost estimations, particularly in education, already provide an indication of the financing requirements of meeting the MDGs.

Financing requirements – the example of universal primary education

Best estimates suggest that substantially achieving universal primary education (UPE) will require additional resources of around US$9 billion per annum until 2015. This is more than four times the US$2 billion which DAC donors are currently spending on promoting education. Any increase in aid would therefore have to go disproportionately to education. In recent years, only 2% of aid was allocated to basic education. In contrast, 18% of the proposed doubling of aid is needed to achieve UPE. Additional funds would also have to be geographically targeted, as under present trends many developing countries are already on track to enrol all children in primary school in the near future. The main exceptions are countries in South and West Asia and sub-Saharan Africa, though for different reasons, and with different implications for additional resources.

Sub-Saharan Africa is the main region that requires substantial external financing to achieve UPE by 2015.The quality and efficiency of the school system varies between countries in the region, but are generally very low. Classes are large, teaching materials inadequate, and repetition and drop out rates are high, despite relatively high Government and household costs per pupil. Some cost savings are possible, but in addition most African countries need to substantially increase public recurrent expenditure on education, e.g. in Tanzania by 150% and in Ethiopia by 330%. Tight budget constraints make such increases impossible without significant additional donor funds.

Inadequate financing, whilst a serious issue, may not be the main constraint in South Asia. Achieving UPE in this

The Millennium Development Goals – rough estimates of additional annual costs

	$ Billion
Halving poverty and hunger	20
Halving population without access to safe drinking water	0
Achieving universal primary education	9
Achieving gender equality in primary education	3
Achieving three-fourths decline in maternal mortality	n/a
Achieving two-thirds decline in under-five mortality	n/a
Halting and reversing HIV/AIDS	7–10
Providing special assistance to AIDS orphans	n/a
Improving lives of 100 million slum dwellers	4
Total cost	**50**

Source: Zedillo Report, n/a indicates no estimate available and the total includes allowance for these headings region depends equally on addressing qualitative constraints, such as increasing the low efficiency of the system, and reducing the high opportunity cost of education. There are evident needs for improving the quality of education and hence the perceived benefits to parents, and changing social attitudes towards the education of some groups, especially girls.

Costing and financing development goals is only part of the story…

- First, increasing external finance needs to be considered alongside making better use of existing finance. Expenditure tracking studies in some countries have revealed that only a small fraction of the budgeted allocations actually reach the schools, indicating great potential for achieving 'more education for the money'. Similarly, additional resources would have limited benefit if only a small proportion reached its intended beneficiaries. The most effective and sustainable way to improve the use of funds is to further strengthen a genuine partnership (see *OPINIONS* on Aid Architecture) around national policy plans and poverty reduction strategies.

- Second, the capacity of developing countries to absorb additional finance is limited. Some estimates of finance requirements presume that any additional funds can be used as effectively as existing resources, although in reality, 'good performers' are already receiving as much aid as they can absorb.

- Third, a similar argument can be made with respect to donors; one can question their ability to manage and disburse the additional funds at least as effectively as their current assistance. A doubling of aid is unlikely to be possible without better pooling of donor funds and harmonisation of reporting requirements. This would help to increase recipient's capacity to absorb aid, as well as donors' capacity to disburse it.

- Fourth, focusing on financing requirements reveals the limited coverage of the MDGs, and highlights the need to pursue the 'spirit' of the targets, rather than focus simply on the sometimes rather narrow indicators. For example, it is possible that the most cost effective way of halving poverty may be to focus resources on eliminating poverty in some key countries, while neglecting the rest. Even costing universal targets can be contentious. The UPE target includes every child in every country, but making progress towards this goal also leads to rising follow-on costs of providing more secondary education in later years.

- Fifth, achieving the MDGs is not merely about financing inputs, or even increasing the efficiency of service outputs. Making progress towards the MDGs also requires more stable, safe, participatory and just societies. As is observed in the *OPINIONS* on International Public Goods (IPGs), financing IPGs (which are close in spirit to the MDGs), requires considerable complementary expenditures. It is difficult, and not even very meaningful, to put a price on improving accountability and governance, protecting human rights and the rule of law. Nevertheless, success with the MDGs depends on making continued progress in these areas, too.

What's the bottom line?

Making substantial progress towards the MDGs requires additional resources. From a world-wide perspective the sums involved are not very large, but they far exceed the budgets in many developing countries. Doubling aid volumes would fill the gap identified by the Zedillo report. However, increasing funding is only part of the story. The extra resources will only have the maximum impact if accompanied by a number of other measures, such as:

- Allocating the additional resources to priority sectors for poverty reduction, such as basic education, sanitation and health.

- Not applying selectivity criteria too rigorously, but supporting the MDGs in countries performing poorly as well as those performing well. Universal development goals depend on universal progress, thus the spirit of the global development goals challenges common conclusions on aid effectiveness and selectivity (see *OPINIONS* on Aid Effectiveness). The largest increase in resources is needed in countries who can least afford it, which are often also 'poor' performers.

- Continuing to support (and, where necessary, help develop) national policy plans which are linked to the budget and poverty reduction strategies.

- Accelerating the pooling of donor funds and harmonisation of procedures in support of these policy plans.

- Making societies more stable, participatory and just, as success with the MDGs depends on more than improved financing.

Felix Naschold – ODI Research Officer

Overseas Development Institute, 111 Westminster Bridge Road, London SE1 7JD
Tel: +44 (0) 20 7922 0300, Fax: +44 (0) 20 7922 0399
Email: opinions@odi.org.uk
Website: www.odi.org.uk/opinions