

Abstract

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Two stylized facts motivate this paper. First, reducing poverty is a function of many factors among which the growth of per capita GDP is preeminent.

Second, past ODA has not served to increase the growth rate of recipient countries. There is evidence suggesting that ODA has contributed to improved welfare and foreign assistance has been instrumental in enabling countries to reduce the numbers living below the poverty line, but the effect of ODA on the headline indicator of economic performance, is barely perceptible.

Nevertheless, support for continuing ODA remains widespread and some are convinced that a massive increase in ODA – a doubling over the next five years – would dramatically improve economic conditions in the least developed countries, releasing people caught in ‘poverty traps’ which past efforts of governments and the international community have been unable to spring.

But skepticism is deepening as the results of past efforts overall, continue to disappoint. This skepticism coexists with evidence that progress is being made towards achieving the MDGs and accelerating growth rates throughout the developing world, most notably in sub-Saharan Africa. It is grounded in doubts regarding the contribution of ODA to poverty reduction and to improving specific indicators of welfare.

Maintaining the current level of ODA over the medium term is not an immediate concern. However, if foreign assistance programs are to be sustained over a longer period and for these programs to be scaled up substantially as the proponents of a big push urgently demand, the case for ODA needs to be retooled and focused more narrowly on a few major challenges.

Five long-term challenges are uppermost for the global community as a whole but most urgently for developing countries which face severe resource constraints and need to ameliorate high levels of poverty. Responding effectively to these challenges would concentrate resources and transfer technologies, helping to move countries closer to their MDGs. The five challenges stem from:

- Urbanization
- Water Scarcity
- Rising energy demand
- The potential of IT
- Climate Change

Developing countries will need more resources and better technologies to raise their growth rates and build more resilient economic systems. Undoubtedly most of these resources will need to be mobilized from domestic sources, however, ODA can be a valuable supplement if the mistakes of the past are not repeated, these being: diffuse objectives; fluctuating aid flows; poor coordination among donors; limited grasp of the needs and absorptive of individual countries; and a weak understanding to the comparative advantages of international providers of assistance. These are among the reasons why the past record of ODA is less than stellar. It is a history that ought not to be repeated.

This paper argues that by taking a longer term perspective, by focusing on a few key challenges now confronting the low income countries, and by emphasizing infrastructure and technology transfer, ODA can hasten progress towards the MDGs. Moreover, given the severity of the challenges arising from urbanization, resource scarcities and climate change, the potential role of ODA could be more crucial.

Raising living standards in low income countries will require an array of measures including most importantly, investment in urban infrastructure, rural irrigation systems, alternative energy sources, and in technology capabilities aimed at raising agricultural productivity. ODA can contribute the term financing for lumpy investment in infrastructure of all kinds and for building technical capabilities. These are areas where low income countries can benefit most from foreign assistance. They are also areas where foreign donors have demonstrated a comparative advantage. Given the volume of ODA available and the likely growth in aid, targeting relatively few priorities is most likely to yield returns, not immediately but over the coming decades. And the five areas identified affect both growth, and the quality of life making it easier to achieve the MDGs in a more complex global environment.