HITTING THE TARGET

An agenda for aid in times of extreme inequality

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The deadline for achieving the Sustainable Development goals is looming, and the poorest countries face significant funding gaps as well as growing economic inequality that stands in the way of poverty reduction. This means that aid has a critical role to play, and a new mission to fight both inequality and poverty. This is only possible if donors put the interests of the poorest people ahead of their own interests. This paper identifies ten principles that are crucial to ensuring aid rises to this challenge, and asks donors to act quickly to ensure the SDGs have a chance of success.

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For further information on the issues raised in this paper please email advocacy@oxfaminternational.org

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Cover photo: The Phnom Penh boardwalk in Cambodia’s capital city. Kimlong Meng/Oxfam Novib.

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SUMMARY

Today we live in a world of plenty, yet 10% of the world lives in extreme poverty. In the face of this injustice 2015 saw world leaders commit to an ambitious set of goals to tackle poverty, insecurity and inequality by 2030: the Sustainable Development Goals (SDGs.)

The scale of the poverty and inequality challenge for the poorest countries is significant; it is projected that hundreds of millions of people will still be living in extreme poverty by 2030,[1] and the majority will be women and girls. Poor people will also increasingly live in the countries that lack the resources to tackle poverty and face high levels of economic inequality. This is a double challenge, as there are limited options for such countries to increase spending to tackle poverty, and inequality is widely evidenced to stand in the way of poverty reduction.[2]

In this context, aid is a crucial financial flow, and also has an important new mission to tackle inequality and poverty. There are 10 principles that are key to donors rising to the challenge, and giving the SDGs a chance of success. These include principles to ensure that firstly aid is doing no harm and secondly that aid is designed and delivered in ways that will maximise its positive impact on poverty and inequality reduction.

1. All bilateral aid agencies should build on the example set by the World Bank and establish two legally binding goals that ensure all aid that is given is clearly a. reducing inequality and b. reducing poverty. They should use these twin goals to evaluate all their programmes and assess their impact on reducing poverty and inequality, including on closing the gap between the incomes of the top 10% and the bottom 40% in countries receiving aid.

Donors should ensure first that aid is doing no harm and is not allocated in ways that could result in enhanced poverty and inequality. In particular, they should:

2. Stop using aid to support risky and unproven public–private partnerships, especially in education and health, which have been shown to increase inequality. There is a considerable risk that putting a profit motive at the heart of development, particularly in sectors like health and education, increases the likelihood of unaffordable user fees, privatisation of public services, and where there is poor governance, land grabbing. There is, however, a rationale for subsiding private investment in some sectors if it supports national development strategies; addresses real issues of market failure and increases public revenues; helps developing country small- and medium-size enterprises (SMEs) overcome credit constraints and develop comprehensive business models that support the achievement of the SDGs; and supports projects that open up new markets that can benefit poor people. It is crucial, however, that public money is not used to unnecessarily subsidise the private sector, and that scarce aid resources are not diverted from investing in the public sector.
3. Stop diverting aid to serve national political and commercial objectives. Donors should never put their own interests ahead of the interests of the poorest people. In particular, donors should stop using aid budgets to cover domestic costs related to hosting refugees within their own borders, to serve their short-term security agendas or to limit the number of migrants arriving at their borders. They should also stop giving preference to companies from their own country when awarding aid contracts.
4. Avoid aid modalities and instruments that contribute to put countries in debt distress, or deepen such a problem. Today, two in five countries in sub-Saharan Africa are facing a major debt crisis.[3] Since 2013, concessional resources available to Low-Income Country (LIC) governments have either reduced or stagnated,[4] increasing their reliance on non-concessional external finance to cover gaps in government expenditures, which can be a serious threat to their stability and ability to deliver public services. Despite this context, donors are increasingly providing aid under the form of loans, even in countries

considered to be at risk of, or in, debt distress.[5] Donors should favour grants, and scale up their efforts to help reduce debt burdens through restructuring and cancellation.

Donors should instead design aid to have the maximum positive impact to reduce inequality and poverty.

5. Meet aid promises with good quality aid. According to analysis by the United Nations, low and lower-middle income countries would need more than $2.5 trillion additional financing each year to meet the SDGs.[6] Yet donors are failing to meet aid quantity commitments, and the aid that is delivered still leaves the poorest countries and the poorest people short-changed. Bilateral aid to Least-Developed Countries (LDCs) is stagnating, and only 35% of aid goes to countries that are home to three-quarters of the world's poorest people.[7]
6. Use aid to strengthen country systems and country ownership and increase budget support. Support for country systems is a key part of agreed development effectiveness standards, as it is crucial for long-term, country-led development. Donors must make aid commitments of three to six years so that their assistance can support spending on recurrent costs like teachers and nurses, and be recorded in national budgets for public oversight. Despite the evidence that budget support has been successful in strengthening country systems and in boosting spending on sectors that tackle inequality, donors are withdrawing their support for this modality. They must review the evidence and reconsider this shift.
7. Increase aid to sectors that are proven to tackle inequality, like education and health. There is strong evidence that public health and education systems, and universal social protection schemes can tackle inequality whilst saving and transforming lives. They can also reduce gender inequality by boosting the life chances of women and girls. The Education Commission estimates that between 1970 and 2010, educating girls averted the deaths of 30 million children under five, and 100 million adults (aged 15 to 60).[8]
8. Increase aid spending on progressive Domestic Revenue Mobilisation (DRM). Progressive tax systems can both redistribute wealth and boost spending on inequality-busting public services and social protection. Oxfam has calculated, that if low and lower middle-income countries achieved a 2% increase in DRM by 2020, this would represent an additional $144 billion in their budgets.[9] Aid can help to unlock this potential, if done the right way. Donors also have a responsibility to stop tax dodging that sucks money out of public budgets in the poorest countries, and to prioritise progressive tax policy.
9. Increase aid to promote active citizenship, and build the citizen-state compact. The poorest people, marginalised groups, and women and girls are often excluded from decision making, while the richest can shape policies in their interests. Aid can play a role by supporting active citizens to hold the state to account and ensure they deliver for everyone. This can only be effective if donors also help protect civic space in developing countries.
10. Tackle gender inequality and make women's rights a priority. Gender is the most persistent predictor of poverty and powerlessness in our world today, and the story of economic inequality is one of rich men who inhabit the corridors of power, and poor women, poverty wages. By prioritising gender justice, donors can correct the economic and power imbalance faced by half of the world's population. Supporting women's organisations is a particularly effective way of making progress on gender equality and women's rights.[10]

1 INTRODUCTION

Today we live in a world that is richer than any time in history, yet more than 700 million people still live in extreme poverty.[11] That's the equivalent of more than twice the population of the United States, or 10% of the world, living without the security, dignity or life chances that a prosperous planet should offer them. The great majority of these people live in sub-Saharan Africa and South Asia.

In the face of this injustice, 2015 saw world leaders commit to a new ambitious set of global goals to eradicate extreme poverty, reduce economic and gender inequality, protect the planet and ensure peace and prosperity for all by 2030: the Sustainable Development Goals (SDGs). In adopting a standalone goal to "reduce inequality within and among countries" (SDG 10), they also acknowledged the mounting body of evidence from independent experts, as well as institutions like the IMF and World Bank,[12] that economic inequality is a significant barrier to poverty reduction. Analysis from the Asian Development Bank illustrates the extent of this; according to their estimates, 240 million more people could have escaped extreme poverty in Southeast Asia between 1990 and 2010, if growth had not been accompanied by growing economic inequality.[13]

While the SDGs represent the next step on the road to a world without poverty, the scale of the interrelated poverty and inequality challenges remain great.

Projections indicate that hundreds of millions of people will still be living in extreme poverty by 2030.[14] The poorest people will also increasingly be concentrated in certain regions: The World Bank estimates that 87% of the global poor will be concentrated in sub-Saharan Africa by 2030.[15] Yet economic inequality poses a significant and growing challenge in these same countries: Seven of the 20 countries with the very highest inequality levels can be found in Africa,[16] and more than three-quarters of households in developing countries are living in contexts where income inequality is greater today than it was in the 1990s.[17] Overall, World Bank projections show that at current rates of economic growth, extreme poverty will not be eradicated by 2030 unless inequality is reduced by making the income of the bottom 40% of the population grow faster than that of the rest.[18]

In addition, there will be no solution to poverty without gender equality. The majority of people living in poverty are women and girls; with less income and fewer assets than men, they comprise the greatest proportion of the world's poorest households, and that proportion is growing. [19]

This evidence underlines that unless the poorest countries can make huge strides in tackling both poverty and economic and gender inequalities, it will be impossible to meet global goals, and the SDGs as a whole will fail. Yet these are the very countries that lack the financing they need to do so. According to analysis by the United Nations, low and lower-middle income countries would need more than $2.5 trillion additional financing each year to meet the SDGs.[20]

THE ROLE OF AID IN TACKLING POVERTY AND INEQUALITY

In order to meet the promises they set out in the SDGs, the world's governments must use all of the tools in their power to mobilise additional resources for the poorest countries. Tightening up national and international rules to prevent tax dodging could have a significant impact, for instance. Fairer trade rules and labour rights, along with measures to tackle climate change that hit the poorest countries hardest, are also important examples of where global collective action is needed to correct economic injustices.

But as the SDGs' target looms, it is also important to recognise the significant potential of aid, or Official Development Assistance (ODA), to reduce inequality both between and within countries. Aid is the only rich-nation public policy that puts poor people around the world first. It is a form of global redistribution, and as such makes a contribution to reducing global inequality, or the gap between rich countries and poor countries. This redistribution is not an act of charity. In a world of plenty, where OECD countries boast per capita income 52 times higher than low-income countries,[21] and where the wealth of the richest countries is borne of past and ongoing exploitation of the developing world, it's a matter of justice.

Today's context also highlights the need for concessional finance such as ODA to the poorest nations to ensure they do not slip backwards. Private financing flows reaching the poorest countries are now receding, financial conditions are toughening, and there is evidence that many are facing spiralling debt. According to the IMF[22] the number of low-income countries that are either in sovereign debt distress, or at high risk of it, has doubled since 2013, reaching a rate of two out of five in total.

Given this reality, aid is particularly important. It is one of the few ways that poor-country governments have to put additional finance on budget, so that they can increase spending on public services and social programmes without increasing the fiscal deficit. Aid can also be targeted to mobilise additional resources and build government capacity, as well as the capacity of civil society, to hold government to account. As this paper will demonstrate, these are all important measures to tackle inequality and poverty.

Putting inequality front and centre of the aid agenda is gaining traction. In 2013, the World Bank acknowledged that tackling inequality would make or break the goal of ending poverty. It adopted twin goals to guide its work: reducing extreme poverty to 3% or less of the global population by 2030, *and* boosting 'shared prosperity', meaning promoting income growth of the bottom 40% of the population in each country.[23] In its 2018–2022 strategy, the French Development Agency followed a similar path by acknowledging that the fight against poverty cannot be dissociated from the fight against inequalities, and by committing that all of the Agency's actions will aim to 'reinforce social link — or at least not weaken it — by reducing inequalities particularly gender inequality, and increase access to essential education and health-related services'. The UK Labour Party charted a similar approach in its 2018 vision for international development, 'A World For the Many, Not the Few'.[24] Its proposal was to mandate all of UK's international development work not only to reduce poverty, but also, and for the first time, to reduce inequality. This second goal included measures such as partner country progress against the Palma Ratio, evaluating the impact of DFID's work on reducing income inequality and other inequalities, and forming a coalition of like-minded donors to champion the inequality agenda.

Despite this, donors are failing to meet their basic quantity and quality commitments. Some are even seeking to water down the hard-won development effectiveness principles necessary to make every aid dollar meet its transformative potential. There are also worrying trends towards donors using more of their aid for self-serving purposes, rather than prioritising tackling poverty and inequality.

This paper sets out the case for donors to prioritise aid as a key tool to meet the SDGs, as well as the key principles for donors to ensure that aid rises to the challenge of tackling both poverty and inequality to make this possible. These include principles to ensure firstly that aid is doing no harm and secondly that aid is designed and delivered in ways that will maximise its positive impact on inequality and poverty reduction.

2 DOING NO HARM: AID SHOULD NEVER EXACERBATE INEQUALITY

There are some worrying trends that are directing aid according to donors' domestic priorities and special interests, rather than based on where it is most needed and where it can have the greatest impact in tackling poverty and inequality.

PROCEED WITH CAUTION WHEN ENGAGING THE PRIVATE SECTOR IN DEVELOPMENT

Donors are increasingly using aid to promote, attract and subsidize private sector investment in developing countries. Donors and international bodies are placing the private sector at the heart of their development strategies. The argument goes that public money is insufficient to reach the SDGs, therefore donors need to leverage additional resources from the private sector. This entails using aid to encourage private actors to invest in developing countries through public subsidies, where there is a lack of purely commercial motives for them to do so.

The OECD reporting systems do not yet adequately account for this aid spending, but available evidence indicates that the scale of this is substantial. Donors from OECD countries – gathered in the OECD Development Assistance Committee (DAC) – have created 167 mechanisms that blend public and private finance since 2000 and are increasingly channelling aid through their development finance institutions (DFIs).[25] About $1.8bn of aid money was spent on blended finance in 2013,[26] and $550m was spent on public–private partnerships (PPPs) in 2016.[27] It should be noted that these figures are likely to be significant underestimates. Reality of Aid's "private sector proxy indicator" — which aggregates ODA going to sectors where the private sector has a major role and/or aligns with private sector interests in development — has grown from 21% in 2005 to 26% in 2016.[28] And in 2016, the DAC agreed to adopt new reporting rules that would allow donors to make further use of aid to support private investment. These facts indicate that this is a growing trend.

Since 2000, DAC donors have created 167 mechanisms that blend public and private finance and are increasingly channelling aid through their development finance institutions.

Economic development is obviously key in ending poverty, and donors can help developing countries design and adopt economic models which are more equitable and sustainable from the start and which are better able to create decent economic opportunities. Aid can indeed support reforms, improving wage legislation or collective bargaining to ensure that jobs effectively lead to poverty reduction and help foster alternative business models that share value by design.

However, there is insufficient evidence that aid being used to subsidise private investment is tackling poverty and inequality, and much work needs to be done to align these flows to delivering development results. The OECD itself acknowledges that "little reliable evidence has been produced linking initial blending efforts with proven results".[29]

Conversely, a mounting body of research indicates that donor engagement with the private sector could exacerbate inequalities.[30] There is a considerable risk that putting a profit motive at the heart of development, particularly in sectors like health and education, increases the likelihood of unaffordable user fees,[31] privatisation of public services, and where there is poor governance, land grabbing.[32] In Sri Lanka technical assistance from the WB and Asian Development Bank not only helped design technical aspects of irrigation projects under a PPP, but were also involved in promoting reforms that attempted to privatise water in the country.[33]

As DFIs rely on complex financial arrangements, they tend to operate in environments with legal frameworks which tend to be in tax havens. Due to this, an increased use of DFIs also leads to an increased use of tax havens[34] and greater debt burdens for partner countries.[35] Modalities such as blended finance also require clearer alignment to development effectiveness principles,[36] as they rarely include developing countries in their decision making processes and are often characterised by weak transparency and the absence of redress mechanisms for affected communities. In addition, there is evidence that aid's ability to "leverage" additional private finance is questionable.[37]

Nevertheless, most developing-country governments want private investment — both domestic and, frequently, foreign — to help develop their economy and create employment opportunities. There is a rationale for subsiding private investment if it supports national development strategies, addresses real issues of market failure and increases public revenues. These resources could play a particularly important role in helping developing-country small- and medium-size enterprises (SMEs) overcome credit constraints and develop comprehensive business models that support the achievement of the SDGs. They could also support projects where private-sector engagement has the potential to make a difference for opening up new markets that can benefit poor people, such as reducing the risk for investments in companies producing renewable technologies that prioritize energy access or in generic medicine producers.

These subsidies should not divert from existing aid flows but should be additional and represent real increases in ODA. They should also be complementary to programmes that achieve public finance leveraging, such as strengthening efficient and progressive tax systems that can boost DRM whilst tackling inequality.

BOX 1: Aid-backed PPPs in education risk entrenching economic and gender inequality

Pakistan has 24 million children out of school, and only 15% of poor rural girls finish primary school.[38] Public spending on education is among the lowest in the world. Rather than build and improve the public education system, Pakistan is attempting to find solutions through partnerships with the private sector. Punjab state is leading the way. It announced in 2016 that no new public schools would be built. Instead, government funds would go to support private schools, and 10,000 government schools would be handed over to the private sector to manage. A key aim of this vast PPP, backed by the World Bank, was to get more of the 5.5 million out-of-school children in Punjab into education.[39]

A 2018 Oxfam research report[40] examined the impact of this PPP in Punjab province, in terms of equity, education quality, and democratic and social accountability. The research looked at programmes of the Punjab Education Foundation (PEF) in 31 schools across five districts, including both rural and urban areas. It raised some major concerns.

The study found that schools were actively screening and selecting children based on academic ability, and that the programme's test-based funding model was creating incentives for exclusion. The study also found that gender parity was not being achieved in most schools and that non-fee expenditure was a barrier to access for the poorest children.

The study also raised questions about the quality of education, including concerns about the quality of instruction, and the practice of teaching to the test. The teaching staff in the schools are under-qualified, have very limited access to training or support, and are on low wages. The average reported teacher salaries were less than half the minimum wage. The majority of the teachers are women, suggesting the schools perpetuate gender inequality.

Finally, the study revealed concerning findings in terms of democratic and social accountability. None of the schools in the sample had a school management committee or a parent-teacher council. Schools also reported that monitoring and inspection of schools was biased and potentially subject to bribes.

DO NOT USE AID TO SERVE DONORS' OWN POLITICAL AND COMMERCIAL OBJECTIVES

Firstly, donors are increasingly making the case for aid that protects their own national security and that prevents war and extremism that threatens them. This is both a public narrative used to justify aid allocations to taxpayers in donor countries, and also increasingly present in official aid agreements. For instance, in 2016 DAC donors agreed that aid can be used for "preventing violent extremism".[41] Whilst DAC rules seek to ensure this only includes activities that are "led by partner countries" and where the purpose is "primarily developmental", there is cause for concern that aid is being linked to debates that are highly politically charged in donor countries. Aid *can* play an important role in peace and human security, protecting people, and creating an environment where development can thrive. However, it shouldn't be used to support donors' own short-term national security needs over the long-term needs of people in the poorest countries.[42]

Secondly, a significant share of aid budgets is being used to pay for the costs of refugees in donor countries. There has been a rapid rise in this use of aid; it doubled to $12bn in 2015, and then rose to $16bn in 2016.[43] In 2017, these costs fell to $14.2bn[44] but this decline was due to a fall in the number of asylum applications,[45] which resulted in part from policies aimed at limiting the number of migrants arriving at rich countries' borders.

In 2017, donors spent $14.2bn of ODA to pay for the domestic costs of hosting refugees within their own borders – this was more than total aid spent on education in developing countries.

OECD data

It is rich countries' responsibility and obligation — under the Refugee Convention — to welcome people fleeing persecution. However, the costs related to hosting refugees in donor countries should not be counted as development aid: This is money that does not contribute to poverty reduction in developing countries and is instead spent within donors' own territories.

There are serious questions to be answered about how far some donors have moved in this direction. For instance, in 2017 Germany spent nearly one-quarter of its aid budget — over $6bn — on in-donor refugee costs.[46] That made Germany the largest recipient country of German aid in 2017. By comparison, Germany only allocated one-fifth of its aid to sub-Saharan Africa between 2014 and 2016.[47] In 2015, EU countries spent more than three times as much on asylum seekers than they did on aid to the Syrian Arab Republic, Afghanistan, Somalia, South Sudan and Sudan, the top five countries from which those asylum seekers had fled.[48] Today, developing countries are home to 84% of the world's refugees,[49] meaning they already shoulder a far greater burden in terms of additional costs than donor countries.

Whilst additional financing must be found to support asylum seekers in donor countries, raiding the aid budget is not the answer.

Thirdly, donors are increasingly resorting to aid as a means to limit the number of migrants arriving at their borders. Some aid programmes promote a restrictive approach to mobility, risking human rights violations. For instance, the EU Emergency Trust Fund for Africa includes a project[50] that aims at strengthening Libyan authorities' capacity to intercept and return migrants — this in spite of horrendous abuses taking place in Libyan detention centres.[51] Others programmes are more development focused, for example, by promoting economic alternatives in developing countries to dissuade people from leaving. Either way, by designing projects with the aim of "tackling the root causes of migration", donors are creating a narrative that migration is a problem. There are also insufficient checks and balances in such projects to ensure donor interests do not take precedence over the needs of the people that aid is intended to help.[52]

Aid can play a role in improving the lives of people forced to flee conflict, persecution, extreme poverty and inequalities, and the effects of climate change. It can also help to reduce the risks of such displacement occurring in the first place. However, under no circumstances should aid be used to restrict mobility, or to make it illegal, especially as migration can, in fact, be an important driver of development.

Finally, too much aid still benefits companies from donor countries, as donors are able to give preference to domestic suppliers. A Eurodad report shows that in 2016, $25bn of ODA, almost one in every five ODA dollars was reported as “tied”;[53] this means it formally requires goods and services to be sourced from companies in the donor country. This is just the most visible part of a wider problem, though. The same report found that donors also informally tie their ODA, preventing firms from outside the donor country from competing through biased procurement processes. For example, they advertise tenders in the donor country’s language, or require that the successful bidder has a “demonstrable knowledge of the donor government”.

In 2016, donors awarded 51% of the aid contracts they report to the OECD to their own domestic companies, and just 7% to suppliers in the poorest countries.[54] For three donors — the US, UK and Australia — the share of contract awards going back to domestic firms was at least 90%.[55] In the US alone, this meant that more than $14.6bn in aid was reported as going to domestic companies.[56] This undermines country ownership and systems, damaging the long-term impact that aid can have in tackling inequality.

In 2016, donors awarded 51% of the aid contracts they report to the OECD to their own domestic companies, and just 7% to suppliers in the poorest countries

Eurodad

There is also evidence that aid is subject to the influence of other powerful donor-country and international actors. In the US, the Coalition for Development Contractors hired the lobby firm the Podesta Group, to put pressure on Congress against a USAID reform intended to put more US assistance through local organisations.[57] And a coalition of US shippers and food producers mobilised to block the Obama administration’s efforts to reform the food aid programme.[58]

AVOID AID MODALITIES AND INSTRUMENTS THAT PUT COUNTRIES AT RISK OF DEBT

Today, two in five countries in sub-Saharan Africa are facing a major debt crisis (18 are in high risk of debt distress,[59] and eight are already in debt distress). Kenya, for example, is now spending almost 50% of its revenues on debt repayment.[60]

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IMF and Government of Kenya.

After the 2009 global economic crisis, developing countries initially faced a promising cycle that started with high levels of aid, lower-than-ever levels of debt, steadily increasing remittances, and access to new sources of public and private finance.

But the cycle turned around faster than expected, and today the burden of debt is, again, putting countries under very serious fiscal stress. Debt burdens are decreasing investment in health and education, as debt repayments become one of the main sources of government expenditure. Parallel to this DRM is increasing slowly, and grant or very concessional aid is stagnating or declining particularly to LDCs.

During the past decade traditional bilateral lenders have decreased the amount of aid going to the world’s poorest countries. Emerging markets such as have China have increased their creditor’s share (and account to 20% of total outstanding debt in partner countries as of 2018) more than all of Paris Club members (12% of total debt stocks).[61] In addition, another third of debt is owed to multilateral institutions.

But the bigger change has been the arrival of commercial market finance to sub-Saharan Africa, specifically in bonds, that has been higher than ever since 2013, with the Eurobond market playing a central role. And as financial conditions are toughening rapidly, these sources are starting to dry up. At this point, too many countries are incurring in new debts with deteriorating terms just to repay existing debts. While private creditors own only a third of the debt stocks, they receive over 50% of current and immediate repayments.[62]

The traditional path for countries to graduate from concessional finance and aid is more difficult than ever. Debt burdens, and more importantly, immediate repayment obligations are increasing rapidly for developing countries,[63] meaning instruments that don't increase debt are especially necessary as a means to finance the SDGs and tackle poverty and inequality.

In this context, donors are increasing their use of concessional loans (+13% between 2006 and now, accounting for 26% of ODA),[64] even in countries considered to be at risk of or in debt distress. As many of these loans are barely concessional we see the aid system contributing to the over indebtedness of already debt-stressed countries.

This is a trend that needs to stop, considering the challenges faced in financing for development. Donors need to provide support to countries in debt distress and not increase their current problems. Grant aid is today a must, and only highly concessional mechanisms among the non-grant instruments can be compatible with the needs of developing countries. In addition, donors should scale up their efforts to help reduce debt burdens through restructuring and cancellation.

This first section focused on ensuring that aid does no harm and is not allocated in ways that could result in enhanced poverty and inequality. The following sections will look into how aid should be designed and delivered to maximise its positive impact on reduced inequalities and poverty.

3 INEQUALITY-BUSTING AID: PUBLIC SERVICES AND SOCIAL PROTECTION

WHY DOES INVESTMENT IN PUBLIC SERVICES AND SOCIAL PROTECTION MATTER TO TACKLE INEQUALITY?

There is strong evidence that free public health and education systems, coupled with social protection, are crucial to meeting the rights of citizens, while helping reduce economic and gender inequality, and the intergenerational transmission of poverty. Women and girls living in poverty stand to gain most from high-quality, universal and equitable public services and social protection.[65]

Evidence shows that public services mitigate the impact of skewed income distribution, allocating virtual income progressively. In other words, they effectively lift the incomes of the poorest most and reduce income inequality.[66] This equalising effect was found to reduce income inequality 10% to 20% in a study of five Latin American countries (Argentina, Bolivia, Brazil, Mexico and Uruguay),[67] and evidence from Asia,[68] and more than 70 developing and transition countries[69] shows the same underlying impact.

Public services have reduced income inequality by between 10% and 20% in Argentina, Bolivia, Brazil, Mexico and Uruguay.

World Bank

When free public systems are not available, the very poorest pay the price, and inequality becomes more deeply entrenched. Due to significant underfunding and misguided policies of international organisations in the past, user fees for healthcare still exist in the majority of developing countries. These fees push 100 million people worldwide into extreme poverty every year — the equivalent of three people every second.[70]

A European Commission study of sub-Saharan Africa found that education has the greatest impact in reducing income inequality, raising the income share of the bottom 80%, mainly at the expense of the top 10%.[71] It also has the power to transform societies by enabling people to claim their rights and to hold their governments to account. It helps to give people a voice to challenge unfair rules that perpetuate economic inequality and to improve their life chances.

The impact of education in reducing gender inequality is also well documented; giving girls more control over their own lives means, for example, that they marry later[72] and have fewer children. Educating girls also contributes to tackling inequality of earnings between men and women. The World Bank has found that one additional school year can increase a woman's earnings by 10% to 20%.[73] The effect can also be life-saving; the Education Commission estimates that between 1970 and 2010, educating girls averted the deaths of 30 million children under five, and 100 million adults (aged 15 to 60).[74]

Education is a powerful lever to reduce gender inequality: one additional school year can increase a woman's earnings by 10% to 20%

World Bank

Social protection schemes also have an equalising effect, and whilst the vast majority of low and middle-income countries lack the finance to deliver universal benefits, there is strong evidence that such systems would do most to tackle poverty and inequality. A study of three middle-income countries found that the expansion of large-scale cash transfer schemes, such as Jefes y Jefas (Argentina), Bolsa Família (Brazil) and PROGRESA/Oportunidades (Mexico), have had “remarkable redistributive power”.[75] Another study found that Brazil’s large-scale old-age pension has had an even greater impact on poverty and inequality reduction than the Bolsa Familia.[76] Thirty-six percent of people living in extreme poverty who received social protection benefits have escaped extreme poverty, and even where these programmes cannot manage to get people above the poverty line, they have been shown to reduce the poverty gap by 45%.[77]

Support to other sectors, such as public water and sanitation systems or small-scale agriculture, is also key to reducing inequality and poverty. For instance, people in poverty often spend a significant proportion of their income on water, with the cost of water in Papua New Guinea being as much as 54% of a poor person's daily wage.[78] Reducing the cost of water saves poor families a lot of money, reducing both poverty and inequality. Aid spending in such sectors is key, but will not be the focus of this paper.

THE IMPACT OF AID TO PUBLIC SERVICES AND SOCIAL PROTECTION

Aid has an important role to play in tackling healthcare crises, strengthening public services and boosting social protection in the poorest countries.

Aid has provided much-needed finance to strengthen education systems in developing countries. Since the Dakar World Education Form in 2000, where donors committed to increase aid to achieve basic quality education for all, 34 million more children have attended school.[79] Thanks to multilateral funding through the Global Partnership for Education, 238,000 teachers were trained in 2016, up from around 98,000 in 2014.[80] Thanks to such aid-backed innovative projects as the Alliance for Change in Education in Ghana,[81] children living in remote areas have fulfilled their right to a quality education. Together these investments made significant strides in getting more girls into school,[82] reducing gender inequality, as well as poverty.

Some countries that received substantial aid to support their health system have also made great progress. For instance, Ethiopia, which consistently ranks among top aid recipients, has cut maternal and under-five mortality rates by more than half between 2000 and 2015.[83] Aid has also galvanised resources to tackle some of the worst healthcare crises in developing countries. For example, health programmes supported by the Global Fund to Fight AIDS, Tuberculosis and Malaria have saved more than 27 million lives since the fund's creation,[84] and between 2000 and 2017 the number of new HIV infections declined by 43% in countries it supported. The fund has also provided 4.2 million HIV-positive mothers with treatment to prevent transmission of HIV to their babies.

Aid covers 100% of the funding to social protection programmes in six sub-Saharan African low-income countries, and one third of the funding in Kenya and one fifth in Ghana.

Development Initiatives

In many of the poorest countries, aid is also crucial in supporting governments to provide social protection. In fact, aid provides 100% of the funding to social protection programmes in six sub-Saharan African low-income countries and even comprises a significant share in some middle-income countries, like Kenya and Ghana, where donors fund one-third and one-fifth, respectively.[85]

These interventions in support of large-scale public services and social protection have had an equalising impact. They have saved the lives of some of the poorest and most vulnerable people in the world, and ensured that countless others don't slip between the cracks.

THE REALITY OF AID TO PUBLIC SERVICES AND SOCIAL PROTECTION

This evidence makes a strong case for using aid to strengthen government health, education and social protection systems to tackle inequality. Aid is one of the only ways to put long-term predictable finance on budget in the poorest countries, so they can fund the recurrent costs and systems that underpin universal public health and education and social protection. Yet, these sectors have long been chronically underfunded in the poorest countries.

In the early 2000s aid to such social sectors as health and education grew rapidly. But since its peak in 2009, it has slightly decreased in real terms.[86] As a share of total ODA, aid to basic education decreased from 4.3% to 3.8% between 2010 and 2016, and aid to basic health and reproductive health has changed little since 2010, remaining at more or less 17%.[87] Available data[88] also indicates that aid to social protection has stagnated over the long-term; today, donors give roughly the same share of their aid to this crucial sector as they did in the 1990s.

In the early 2000s aid to social sectors such as health and education grew rapidly, but since its peak in 2009, it has slightly decreased in real terms.

UN Inter-Agency Task Force on Financing for Development

Far more investment is needed, both to meet the rights of the poorest people and to unlock the inequality-busting potential of these public services and social protection. Even if they grow steadily, and improve tax collection at their higher possible capacity, 48 countries still lack the domestic resources to fund universal health, education and social protection and would need an extra $150bn to meet these needs.[89] UNESCO estimates that one in six children in low- and middle-income countries were still not completing primary school in 2015,[90] and the world needs 10 million more health workers to achieve universal health coverage.[91]

Lack of investment in social protection also means billions of people are falling through the cracks. The International Labour Organization estimates that 55% of the world population remains entirely unprotected by any form of social protection benefit.[92] This includes 1.3 billion children, most of whom live in Africa and Asia where poverty is greatest.[93]

Fifty-five percent of the world population remains entirely unprotected by any form of social protection benefit.

International Labour Organisation

The poorest people, especially women are paying the price. When healthcare and childcare are not provided by governments, the burden does not disappear. It falls on the shoulders of women and girls, who spend on average three times more time in unpaid care work than men globally, and up to 4.1 times more in Asia and the Pacific.[94] The poorest women are also paying with their lives. In 2015, 830 women died every day due to complications of pregnancy and child birth; 550 of them were in sub-Saharan Africa and 180 in Southern Asia, compared to just five in developed countries.

Donors should do more to ensure that support to public services and social protection is designed with an understanding that gender and other inequalities will affect how women and men will access them differently. They can ensure this happens by supporting governments to carry out gender-based assessments of services to understand what might be holding women or men back from accessing them; to consult with women's rights organizations and those representing marginalized groups, including LGBTI (lesbian, gay, bisexual, transgender, and intersex) populations; to prioritize the types of services that would reduce inequality, including those that reduce and redistribute care work; and to promote women as workers in public services. Donors should not only support governments to ensure that these services are designed to meet the needs of women. They should also help challenge wherever possible the traditionally perceived roles of women and men, for example, by supporting policies to ensure fathers and mothers share parental leave rather than only giving maternity leave to mothers.

4 INEQUALITY-BUSTING AID: THE DOUBLE DIVIDEND OF INVESTING IN TAX SYSTEMS

WHY DOES EFFICIENT AND PROGRESSIVE TAXATION MATTER TO REDUCE INEQUALITY?

Evidence from the IMF has underlined that tax systems that redistribute wealth and boost spending on public services are one of the most effective ways for governments to reduce inequality and poverty whilst sustaining growth.[95]

Efficient and progressive taxation reduces inequality directly in this way, through redistribution, but also boosts public spending. We have already looked at the inequality-reducing potential of public services and social protection, which governments could fund with increased tax resources, and especially domestic revenue mobilisation (DRM). For example, a USAID study found that a 10% increase in DRM leads to 17% increase in public health expenditures in low-income countries.[96] This means that the right kind of tax system can give countries a double inequality dividend.

A 10% increase in DRM leads to 17% increase in public health expenditures in low-income countries.

USAID

Increasing DRM is a difficult task for most countries. The political economy challenges are massive, as progressive reforms needed to tax strong economic sectors, big companies or wealthy individuals often face strong opposition. These reforms also face technical challenges, and financial limitations on what can effectively be done. Improving DRM will require that governments and donors demonstrate strong political commitment and do not shy away from supporting inequality-busting reforms (e.g., reducing tax incentives and tax dodging).

THE IMPACT OF AID TO STRENGTHEN TAX SYSTEMS

The potential of DRM in developing countries is significant and crucial to meeting the 2030 goals. Christine Lagarde, IMF Managing Director, has declared that “domestic revenue mobilization is an imperative for those countries that are seeking to achieve the new Sustainable Development Goals”.[97] Oxfam’s research has found that if low and lower-middle income countries achieved a 2 percentage point increase in DRM by 2020, this would represent an additional $144bn in their collective annual budgets. This is the equivalent of total aid in 2017.[98]

‘Domestic revenue mobilization is an imperative for those countries that are seeking to achieve the new Sustainable Development Goals.’

Christine Lagarde, IMF Managing Director

If aid can help to unlock this potential, it could be a game-changing development in the fight against poverty and inequality, and there is some evidence that aid dollars can go a long way in boosting revenue and tackling inequality. In Nepal, for example, a number of donors (Danida, USAID, World Bank and UNCTAD) have provided aid to fund a government-led initiative to increase DRM. Results in this period have been considerable, with total domestic revenue (excluding grants) increasing from 11.3% to 21.6% of GDP between 1999/2000 and 2015/16. This is despite the impact of the 2015 earthquake.

Donors have recognised this potential and have promised action. Twenty of the world’s largest donors have signed up to the Addis Tax Initiative (ATI), which commits them to doubling their aid to DRM by 2020. If they follow through on their commitments, this would represent an annual increase from $223.7mn in 2015 to $447.5mn.[99]

THE REALITY OF AID TO STRENGTHEN TAX SYSTEMS

Donors only allocated a 0.18% of total ODA to support domestic revenue mobilisation in developing countries in 2016.
Oxfam

Despite these commitments and the potential of aid to unlock the transformative power of tax systems, aid to DRM remains weak. Based on the Addis Tax Initiative dataset, we estimate that only 0.18% of total ODA was allocated to support DRM in 2016 ($211mn).[100] Whilst it is likely this total doesn't capture all aid commitments with a DRM element, it is far from the level of resourcing necessary to support more effective and equitable tax systems in the poorest countries.

Also, while the ATI galvanised commitments from donor countries to increase their aid investment in DRM, the majority of these donors are already off track.[101] It should also be noted that the reduction in General Budget Support (see 'The reality of development effectiveness principles' section), one of the few types of aid that can be invested in wider fiscal system strengthening, is likely to undermine progress.

Donors also need to shift away from supporting narrow technocratic reforms, and instead focus their aid to DRM on addressing the underlying challenges countries face in building fair revenue systems. These include excessive tax incentives for corporations and investors, a lack of taxes on wealth and assets (such as property and capital gains taxes), and failures of transparency, accountability and citizen trust in public institutions.[102] Donor support should help ensure that the pressure to increase domestic revenue in the short-term doesn't trigger poor policy decisions — e.g., squeezing the poorest through quick rate hikes or creation of new taxes. Instead, donors should support country-led efforts to achieve a more equitable composition of revenue, where reforms lead to more revenues, with a greater percentage of that revenue being derived from progressive taxes (e.g., direct taxation) and sustainable revenue sources, and less from regressive taxes (e.g., consumption based taxes, which hit poor households and women the hardest).

Box 2: A case for policy coherence: donor governments must support progressive tax reforms – nationally and globally

Aid can be transformative, but not when other policies are undermining it. For example, the UK is the second-largest DAC donor in Yemen: In 2017 it provided $147mn[103] which reached millions of people suffering from the world's worst humanitarian crisis. However, at the same time other parts of the UK's government sign export licenses worth billions for arms that fuel a war harming the same people. Rich countries' responsibility doesn't start and end with aid: If they are serious about ending poverty and reducing inequality, they need to ensure better coherence across all of their policies, including on trade, labour, taxes, climate change, military and foreign policy, etc.

A case in point is the need for better coherence between the aid and tax agendas. It would be irresponsible of donors to offer aid and technical assistance to DRM without taking steps to mitigate the outflow of money from developing countries thanks to flawed international tax rules and harmful tax practices.

For example, there is an urgent need to reform outdated tax rules and close loopholes that allow the richest companies and individuals to avoid tax. Developing countries lose at least $170bn each year in foregone tax revenues from corporations and the super-rich.[104] In Africa alone, rich individuals are avoiding an estimated $14bn a year in taxes by using a global network of tax havens.[105] According to Oxfam's 2018 Commitment to Reducing Inequality (CRI) Index,[106] most ATI donors have policies in place that enable harmful tax practices.

A new consensus is also needed to tackle regressive tax policies such as excessive exemptions and other tax incentives for companies and donors. In Nicaragua, for example, tax exemptions amount to more than two and a half times the amount the government spends on primary education.[107] This is in a country where only three-fourths of children complete primary school. In Mali meanwhile, VAT — a regressive tax that falls disproportionately on the poorest, and on women — is the principal source of tax revenue; in 2013 it stood at 31.5%, compared to 16% corporate tax and 15.3% income tax.[108]

Evidence indicates that revenue systems are becoming less progressive. Between 2001 and 2015, the contribution of corporate tax revenue to budgets in LICs and MICs actually decreased from 16.9% to 15.5%.[109] There has also been an increasing reliance on consumption taxes, which hit low-income households harder. In 2015, such consumption taxes contributed three times more to total revenue than corporate income taxes.[110] While property tax is considered a highly progressive and gender-responsive tax, it still plays a negligible role in most LICs and LMICs, contributing just 0.24% of GDP in these countries, compared to 1.91% in OECD countries.[111]

Data also indicates that governments are actually collecting a larger proportion of indirect taxes like VAT and sales tax, than progressive taxes like property and income tax that tend to be paid by richer citizens. Globally, governments collect around 40% of sales taxes and VAT due to them, yet just 14% of corporate and personal income tax.[112] The situation is worse in low-income countries, where only around 10% of each extra taxable dollar of income owed is collected.[113] This serves to make the whole tax system more regressive; it fuels economic and gender inequality by going easy on wealthy business owners and salaried workers, the majority of whom are men, whilst seeking to raise maximum revenue from poor, mainly women, who bear the greatest burden of consumption taxes.

5 TACKLING INEQUALITY OF POWER AND HOLDING THE SYSTEM TO ACCOUNT

WHY DOES ACTIVE CITIZENSHIP MATTER TO REDUCE INEQUALITY?

To tackle inequality, aid must also strengthen the citizen-state compact by investing in national democratic and accountability systems, and active citizenship to hold decision makers to account.[114] This is essential to help close the gap between the powerful and the powerless, and tackle the root causes as well as the consequences of inequality.

The poorest people, marginalised groups, and women and girls are often entirely excluded from decision making, or even the opportunity to scrutinise decision makers. This is not only an infraction of their rights, but a recipe for greater inequality: Those who have power and voice are able to shape policies and tax and spending decisions to give them yet more money and power, whilst the majority of people are left behind.

Such political capture of rules and institutions will continue, without support to citizens who can hold the state to account and ensure they deliver for everyone. For example, support to trade unions that allow workers to organise and negotiate fair pay and conditions can play an important role in tackling the causes of poverty and inequality, by counterbalancing the power of employers. In Argentina, for example, the resurgence of unions was a key factor in reducing wage inequality after 2002, following decades of some of the highest rates of inequality in the region.[115]

In Argentina, the resurgence of Unions was a key factor in reducing wage inequality.

Nora Lustig, Luis F. Lopez-Calva, Eduardo Ortiz-Juarez

The impact of aid to support active citizenship

There is strong evidence that aid can play a role here. The Civil Society Education Fund (CSEF), for instance, has supported national civil society in more than 60 countries to hold their governments to account on education, and to advocate for better policies and allocation of resources.[116] As a result, national groups have been able to organise and engage citizens in influencing education decisions. For example, the Pakistan Coalition for Education organises “social audit” hearings across the country to improve transparency and accountability in the education sector.[117] In 2013, Kenya’s Elimu Yetu coalition organised a mass demonstration and petition to push back on plans for increases to secondary school fees that would exclude poor families.[118]

Research has also found that supporting women’s organisations is a particularly effective way of making progress on gender equality and women’s rights.[119] Such progress is essential to build a more human economy and greater economic equality, as well as to tackle gender inequality and discrimination. A global study of 70 countries over four decades identifies the mobilisation of feminist movements as the most important driver of ending violence against women, for example.[120]

The mobilisation of feminist movements is the most important driver of ending violence against women.

Htun, Mala and S. Laurel Weldon

There is also a need for donors to combat the closing of civil society space that in many developing countries is seriously constraining the ability of citizens to scrutinize their governments and advocate for their rights. Civicus’ 2018 State of Civil Society Report finds that this space is seriously constrained in more than 109 countries; CSOs are suspended and closed down, activists face public vilification, detention and sometimes even death. And the risks are especially high for activists who dare to challenge economic and political elites.[121] International development cooperation platforms, such as the Open Government

Partnership (OGP) and the Global Partnership for Effective Development Cooperation (GPEDC), have acknowledged the importance of this; they increasingly prioritise and assess issues of civic space and citizen participation in development.

By investing aid in support for national civil society groups and women's organisations, supporting trade unions and taking action to prevent governments closing civil society space, donors can ensure their money is well-used to tackle poverty and inequality. This is another safeguard that donors have in delivering aid through a modality on the budget support spectrum.

Box 3: Investing in better governance in Mali

In 2016, Mali's Joint Budgetary Review concluded that "in the fight against corruption and financial crime […], a paradigm shift is necessary in order to transform commitments into concrete action", in particular through "actions such as providing support to NGOs".

The Swiss government has contributed 500,000 euro to a civil society project in Mali that seeks to promote better governance by opening up channels for citizens to speak directly to local elected representatives in the presence of the media. Despite some initial reservations from elected representatives, these public meetings helped identify and tackle instances of corruption and financial misappropriation and led to annual consultations that give citizens a voice on regional planning and development.

Civil society has also been successful in adding a clause to the Regional Authorities Code stipulating that government annual accounts be published before the start of each financial year. These measures give citizens more of a voice in regional and local decision making, tackling corruption and inequality.

THE REALITY OF AID TO SUPPORT ACTIVE CITIZENSHIP

Despite these encouraging examples, there is room for improvement in terms of aid to active citizenship. The pattern in aid to civil society organisations (CSOs) gives us some indications of this.

In 2016, total aid to and through CSOs was at 16%, and historically there's a significant variation among members with some giving very little at all.[122] For example, an OECD analysis shows that aid to, and through, CSOs ranged from Ireland giving 43% to France giving just 3% in 2016.[123]

Not enough aid makes it to CSOs based in developing countries: in 2016 they received $1.2bn, while international CSOs received $4.8bn and CSOs based in donor countries received $13.4bn

OECD data

Even more concerning is the fact that not enough of the aid given to CSOs makes it to independent national organisations that can effectively hold their government to account. In fact, in 2016, only $1.2bn in aid went to organisations based in developing countries, compared to $4.8bn to international CSOs and $13.4bn to organisations based in donor countries.[124] This constitutes a challenge that INGOs must look into, but it also highlights that there is an even greater gap in donor finance to strengthen civil society in recipient countries than the headline numbers at first imply.

6 INEQUALITY-BUSTING AID: FIGHTING FOR GENDER JUSTICE

WHY DOES GENDER JUSTICE MATTER IN AN INCREASINGLY UNEQUAL WORLD?

Respect for women's rights is the primary reason for working towards gender equality, and gender is also the most persistent predictor of poverty and powerlessness in our world today.

Gender inequalities persist in the economy and decision making, and manifest in violence against women and girls, as well as restrictions on sexual and reproductive health rights, land ownership, and the right to vote. These infringements on women's rights hold back many women from escaping from poverty, or gaining power. Today's levels of economic inequality tell a story of super rich men and poor women. Men are disproportionately represented among the richest and most powerful, whilst women are largely absent from the corridors of power. Women are also significantly more likely to be employed in the informal sector, with lower wages and less job security, fuelling a gender wage gap with the poorest women at the bottom.

The concentration of income and wealth in the hands of men gives them more decision making power at the national level, where women usually have little voice or representation. As a result, national laws often take a piecemeal and incoherent approach to addressing gender inequality, for instance, implementing policies that increase job opportunities for women, but without policies to prevent low wages or to promote adequate working conditions and high-quality childcare.

The difference we could see in the world from fully achieving gender equality would be remarkable. If women around the world had the same opportunities as men in the job market, the world's economy would grow by $28 trillion by 2025,[125] which would do a lot to help end extreme poverty. By improving mothers' education, you greatly improve their children's likelihood of having better health and educational outcomes.[126] When women are an integral part of peace processes, peace agreements are 35% more likely to last over 15 years.[127] And those are just a few examples.

If women around the world had the same opportunities as men in the job market, the world's economy would grow by $28 trillion by 2025.

McKinsey Global Institute

THE IMPACT OF AID TO GENDER JUSTICE

By investing aid in programmes that are dedicated to tackling the structural causes of gender inequality, and mainstreaming gender justice through all development cooperation programmes and policies, donors can have a significant impact on tackling both economic and gender inequality. This should go hand-in-hand with practical steps to adopt policies that advance gender justice and women's rights, for example, policies tackling violence against women and girls or supporting women's leadership.

There is evidence that gender budgeting can foster greater participation of women in decision making, for example. Improving access to quality health and education for women and girls can significantly boost their life chances and their ability to claim their rights. In Rwanda, UN Women supported civil society groups analysing the gender responsiveness of spending on agriculture — a sector where many women make their livelihoods. Data collected by those groups informed advocacy that encouraged a 26% jump in Rwanda's agricultural budget from 2009 to 2011.[128]

Data collected by Rwandan civil society groups on the gender responsiveness of public spending in agriculture informed advocacy that, from 2009 to 2011, encouraged a 26% jump in Rwanda's agricultural budget.

UN Women

Aid can also be instrumental in supporting women's rights organizations and their allies working to change attitudes and end gender-based discrimination. Canada, as part of its Women's Voice and Leadership Programme launched in 2017, has committed $150mn over five years to local women's organizations in developing countries working to advance the rights of women and girls and promote gender equality.

For this to be effective, it must include core and multi-year funding, and be accessible to smaller organizations, including those working at the grassroots level. Donors can also improve the gender impact of budget support by making this aid contingent on governments embedding gender indicators in national poverty reduction strategies.

THE REALITY OF AID TO GENDER JUSTICE

Donor efforts to achieving gender equality goals agreed to in the SDGs, notably under Goal 5, are also falling short. An OECD report[129] shows that while donors are making progress in mainstreaming gender into their activities – with 33% of bilateral allocable aid integrating gender equality as a secondary objective in 2015-16 – this upward trend is nowhere near the levels needed to meet donors' commitments to mainstream gender throughout their portfolios. In addition, just 4% of bilateral aid funded programmes in which gender equality is a primary objective. And 63% of programmes screened by the OECD had no gender-related objectives at all.

In 2015–16, just 4% of bilateral aid went to programmes where gender equality is a primary objective, and only 33% went to programmes in which gender equality is integrated as a secondary objective.

OECD data

Also, although strong women's rights organizations and movements are recognized as particularly effective actors in bringing about sustained changes towards gender equality, aid going to these organisations is woefully inadequate. In 2015-16, only $225mn on average per year was committed specifically to non-government women's organisations, of which only $38mn went directly to women's organisations based in developing countries.[130]

7 INEQUALITY-BUSTING AID: THE RIGHT WAY TO INVEST

HOW SHOULD AID BE GIVEN TO BEST TACKLE INEQUALITY?

Decades of work has gone into agreeing a set of development effectiveness principles — country ownership, transparency, accountability and development results — that are critical for ensuring that aid ends poverty, reduces gender and other inequalities, advances sustainable development and ensures no-one is left behind.[131] These principles are critical for aid to help developing country governments invest in inequality-busting interventions and strengthening the citizen-state compact.[132] This means we already know how aid should be given to best tackle inequality.

Firstly, it must respect ***country ownership*** and put the developing country in the driving seat. This means giving aid that can be used to support national development and poverty reduction strategies, and to strengthen national institutions and country systems. Democratic ownership must also mean giving citizens — especially women and the most marginalised groups who are least likely to benefit from the status quo — the means to have a voice in development, to be part of decision making, and to hold decision makers to account.

Secondly, aid must be given on a ***long-term and predictable*** basis. This is necessary to enable developing countries to effectively plan and manage aid programmes, and to accurately reflect aid resources in national budgets, thereby, increasing scrutiny from parliaments and citizens. This is the only way national governments will be able to commit to the recurrent costs involved in rolling out mass social protection systems, training teachers and doctors, or strengthening fiscal systems and raising more public finance.

In the late 2000s there was an emerging consensus that ***budget support*** was the best way for aid to deliver on development effectiveness principles. As then European Commission Development Commissioner, Louis Michel, put it in 2008: “I am convinced that, where circumstances permit, budget support is the most effective instrument of development... If in future, as the volume of aid increases, we all continue to fund our own micro projects, each with our own requirements, staking our own little claims, we can say goodbye to any aid efficiency agenda. Budget support and more of it is the only answer.”[133]

This statement came as he announced an increase in budget support from 20% to 50% of EC aid and as European MDG contracts committed aid over longer period of six years. So, what does the evidence say about the impact of budget support?

‘I am convinced that, where circumstances permit, budget support is the most effective instrument of development... If in future, as the volume of aid increases, we all continue to fund our own micro projects, each with our own requirements, staking our own little claims, we can say goodbye to any aid efficiency agenda. Budget support and more of it is the only answer.’

Louis Michel, Former European Commission Development Commissioner

LESSONS LEARNED FROM THE EXPERIENCE OF BUDGET SUPPORT

Firstly, where budget support has been given, reviews consistently find that it has translated into increased public spending on key sectors to tackle inequality and poverty.

In a recent (2018) evaluation by the German Institute for Development Evaluation, budget support was found to have increased government spending in these sectors in Malawi, Rwanda, Uganda and Zambia.[134] This echoes a 2014 European Commission analysis that found that in four low-income countries — Mali, Mozambique, Tanzania and Zambia — the additional resources from budget support were predominantly used to significantly increase spending on education, health, water, social protection, agriculture and roads.[135] According to World Bank research, countries that received debt relief — essentially a form of general budget support as it frees up money in the national budget — increased investments in poverty reduction from $6bn in 2000 to $17bn in 2006.[136]

Countries that received debt relief — essentially a form of general budget support as it frees up money in the national budget — increased investments in poverty reduction from $6bn in 2000 to $17bn in 2006.

In Bangladesh, budget support has given education quality a boost by increasing access and retention,[137] and a 2015 OECD report suggests the same impact in middle-income countries. In South Africa, budget support led to improvements in primary healthcare, water and sanitation, employment promotion, and access to justice and technology. In Morocco, the coverage of health services, secondary and tertiary education, and adult literacy services has also been improved as a result of budget support.[138]

Secondly, budget support has been given in ways that allow investment in recurrent costs. A European Commission analysis found that recipient countries used budget support to fund the training and salaries of public sector workers,[139] which all the evidence shows is critical to quality healthcare and education. In Zambia, for instance, it allowed the government to increase the number of health workers from 12,000 in 2005, to 17,000 in 2010.[140]

These kinds of investment are nigh on impossible to fund without long-term predictable money that is put on budget, and the evidence shows that budget support is more predictable than other modalities. It has an annual disbursement of 90% to 100%, compared to 60% to 80% for projects and common-basket funds.[141]

Thirdly, there is evidence that countries receiving budget support have made more progress in strengthening tax administrations[142] than other developing countries. The reviews of Morocco and Tunisia also underline the key role budget support has played in the tax reform and regulation that have been crucial to economic modernisation as well as leveraging finance to invest in services.[143]

Countries receiving budget support reduce income inequality, and increase the income share of the poorest 20% more than non-budget support countries.

Dutch Ministry of Foreign Affairs

Finally, budget support tends to perform well on development effectiveness measures that are key to building the citizen-state compact to help keep inequality of resources and power in check. For example, studies have found that recipients of budget support demonstrate greater budget transparency. They score an average of 44 on the Open Budget Index rating compared to 39 in other developing countries.[144] There is also evidence of budget support strengthening systems to tackle corruption, and increasing transparency — especially in LICs — as well as improving Public Finance Management and accountability.[145]

Overall, this makes a strong case for budget support to play a role in future development cooperation. It not only leads to greater investment in sectors that are crucial to reducing inequality, but can also strengthen redistributive tax systems, and tackle inequality of power by strengthening the citizen-state compact. A review of budget support by the Dutch Ministry of Foreign Affairs also found that countries receiving budget support reduce income inequality, and increase the income share of the poorest 20% more than non-budget support countries.[146]

BOX 4: Alternative approaches to budget-support

Given the variety and complexity of the contexts where aid is most needed, budget support is not a one-size-fits-all solution, but there are various ways of delivering aid on the budget support spectrum to take these contexts into account.

Where there are sufficient state capacity and accountability systems in place, general budget support (GBS) can be given directly to the country's treasury, allowing the maximum flexibility for a recipient to put aid on budget in support of a broad national development strategy. Alternatively, it can be transferred to the ministry responsible for a development sector like health or education as sector budget support (SBS).

This effectively ring fences the aid for development, whilst allowing a system-strengthening approach in these sectors rather than piecemeal project-based interventions.

In contexts where neither GBS nor SBS is possible, targeted budget support allows donors to reimburse recipient states for agreed eligible expenses or budget lines on condition of successful audit, for example. Pooled funds that remain outside of the recipient country, and are subject to the financial management procedures of the fund are another way to deliver benefits of budget support where state capacity is insufficient. In the US, the Millennium Challenge Corporation delivers large, five-year grants — or compacts — that contribute to state led development plans but are held in a separate account subject to independent monitoring.

THE REALITY OF DEVELOPMENT EFFECTIVENESS PRINCIPLES

The way that donors give aid is also crucial to how effective it is at tackling inequality. So, how are donors measuring up on the development effectiveness principles that matter for inequality and the modalities that put these principles into practice?

Firstly, donors have committed to **making aid more predictable**, by disbursing funds in a timely manner according to agreed schedules — something entirely in their hands. This is key to enable developing countries to better plan and manage their aid resources and to record them in their annual budgets, thereby, increasing parliamentary oversight and wider scrutiny. However, donors have failed to make progress on aid predictability between 2010 and 2015, and only 66% of DAC aid was recorded in national budgets in 2015, short from the 85% target agreed to in 2011.[147]

Secondly, **use of country systems** is one of the key principles crucial to strengthening country ownership and boosting public spending and tax collection. Research by Oxfam America and Save the Children USA in Ghana, Indonesia, Jordan and Rwanda have demonstrated the importance of this and how it can work in practice.[148] However, aid channelled through country systems remains relatively low. The GPEDC's most recent Progress Report assessing performance on development effectiveness notes that in 2015 just 47% of aid disbursed by DAC donors to developing country governments used country systems (i.e., domestic public finance management and procurement systems).[149] This means that half of aid meant to strengthen government institutions is bypassing those very institutions. Peer reviews note a number of reasons, including a reduction in budget support by many donors in recent years.[150]

Just 47% of aid disbursed by DAC donors to developing country governments used country systems – i.e. went through the country's domestic public finance management and procurement systems.

GPEDC

As we have already noted, in the mid-2000s **budget support** was on the rise and gained support from many donors. Between 2006 and 2009, budget support from DAC countries almost doubled, both in real terms, and as a percentage of their collective aid.[151] However, aside from an exceptional peak in 2013, since then budget support has diminished significantly, falling back to almost 2006 levels in 2015.[152] Between 2011 and 2014, budget support to developing countries by EU DAC members fell from €3.7bn to €2.8bn, predominantly due to changes by the UK, France, Germany, Denmark and the Netherlands.[153] In 2015, the UK's Department for International Development (DFID) announced that it would "end all traditional general budget support", after a long record of giving aid in this way.[154] General budget support, which has the greatest potential to support country ownership and system strengthening, has seen a steady decline in recent years, falling from 2% in 2004-2005 to 0.6% in 2015, an all-time low.[155] And there is no doubt that this is undermining the role of aid in tackling inequality in the poorest countries.

In 2015, budget support made up just $2.9bn (2.8% of total aid), falling back close to 2006 levels.

OECD data

8 REACHING THE POOREST PEOPLE, AND THE POOREST COUNTRIES

Poor and marginalised people, irrespective of which country they live in, should be supported in their efforts to realise their human rights commensurate to their needs and in conformity with humanitarian standards. Donors urgently need to target more of their aid to countries with the least resources to tackle extreme poverty — in particular Low Income Countries and fragile and conflict-affected states.

Yet, in recent years donors have failed to put aid to the LDCs on an upwards trajectory. Whilst bilateral aid to LDCs and to sub-Saharan Africa increased slightly in 2017, the medium-term trend of aid to vulnerable countries remains one of stagnation — between 2011 and 2016, aid to LDCs fell by 17%, and aid to sub-Saharan Africa fell by 13%, in real terms.[156]

In addition, recent research from Development Initiatives has highlighted the extent of the inequalities in the way aid is distributed. It found that in 2016, countries that are home to 75% of the world's poorest people received 35% of aid, whilst nations that are home to just 1% of the poorest people received 25% of aid.[157] In fact, countries with government revenue over $4,000 per capita, receive three times as much ODA per poor person as countries with the lowest government revenues (under $400).[158]

Countries with government revenue over $4,000 per capita, receive three times as much ODA per poor person as countries with the lowest government revenues (under $400).

Development Initiatives

While donors should increase their aid towards the poorest countries, this should not come at the cost of too rapidly reducing aid to countries that have made it to Lower Middle Income and Middle Income status, where the majority of the world's poor people now live. As a country graduates away from a Low Income Country (LIC) status, its access to concessional finance is reduced, in large part because soon after, and depending on its capacity to take on debt, it no longer benefits from the World Bank's International Development Association (IDA) money, but also because bilateral donors tend to see IDA graduation as a signal that other forms of ODA can be reduced.

Yet IDA graduation relies heavily on a measure of a country's gross national income (GNI) per capita, which means that donors base their decision to reduce or stop giving aid on an indicator that is blind to the levels of inequality in middle-income countries. Donors' herd mentality and rush to cut aid without appreciating the country's multidimensional poverty and inequality realities can adversely affect government financing for social and economic activities that reduce poverty and support the inclusion of marginalised populations. Oxfam's research in Vietnam[159] documents the potential for reductions in ODA to adversely affect government financing for social and economic activities that reduce poverty and support the inclusion of marginalized populations, given the importance of ODA in certain sectors. Even small amounts of donor resources in the education sector, for example, stimulated government spending particularly for disadvantaged groups in Vietnamese society. Similarly, there is evidence that ODA-financed programmes in gender equality influenced government policy and decision making processes, which resulted in pro-reform policies, laws and legal measures.

As countries graduate to middle income status and can increasingly attract more private investment for commercially viable infrastructure projects, the appropriate transition becomes critical. Rather than cut aid, donors should change how they invest aid based on the unique and transformative role aid plays. In particular, donors should prioritise aid that helps leverage an increase in domestic revenue mobilisation, supports progressive tax reform to address structural inequalities and improves the capacities and responsiveness of institutions to providing social services and initiatives that target poverty and inequality.

9 CONCLUSION AND RECOMMENDATIONS

In the last five to 10 years, inequality has risen on the international agenda. It has ranked regularly as a top risk in the World Economic Forum's Global Risks Report, and fighting extreme inequality has become a rallying cry for grassroots activists around the world. Tackling economic inequality has also become a key principle in the development strategies of major institutions, including the IMF, the World Bank, the OECD and the UN, with a specific SDG 10 targeting inequality. The French President Emmanuel Macron has also announced the 2019 G7 will prioritise tackling inequalities.

This is because the evidence overwhelmingly shows that reducing economic inequality makes growth more robust and sustainable, and also accelerates poverty reduction. There has long been a strong case for tackling age-old gender inequality, and these goals go hand in hand, both vital to building a more human economy.

We also know that the poorest countries have significant funding gaps and that we will not achieve the SDGs if these countries are left behind. Aid can help fill these gaps, by leveraging greater domestic finance and provide a sustainable, public solution. At the same time, it can build domestic accountability systems that ensure economic inequality and inequality of power are kept in check, and help to tackle gender inequality.

But the step change needed will only be possible if donors act in the interests of the many. Part of this — and a part that is within their control — means meeting aid quantity and quality commitments. Donors must deliver predictable aid that builds country systems and institutions, puts principles of ownership into practice, supports active citizens, and supports long-term investment in public services and universal benefits.

Without this kind of action from donors, it is highly unlikely that the world's governments will live up to their shared commitment to achieve a better and fairer future for everyone.

10 GOLDEN RULES FOR DONORS

To invest in aid that tackles inequality, and has a chance of meeting SDGs and giving everyone the chance to live in dignity, donors must:

1. Build on the example of the World Bank and **establish two legally binding goals that ensure all aid that is given is clearly a. reducing inequality and b. reducing poverty**. Bilateral aid agencies should use these twin goals to evaluate all their programmes and assess their impact on reducing poverty and inequality, including closing the gap between the incomes of the top 10% and the bottom 40% in countries receiving aid.

Donors should ensure first that aid is doing no harm and is not allocated in ways that could result in enhanced poverty and inequality. In particular, they should:

2. **Stop using aid to support risky and unproven public–private partnerships** — especially in education and health — that have been shown to increase inequality. There is a considerable risk that putting a profit motive at the heart of development, particularly in sectors like health and education, increases the likelihood of unaffordable user fees, privatisation of public services. And where there is poor governance, the risks also include land grabbing. There is, however, a rationale for subsiding private investment in some sectors if it supports national development strategies, addresses real issues of market failure and increases public revenues. These resources could play a particularly important role in helping small- and medium-size enterprises (SMEs) in developing countries overcome credit constraints and develop comprehensive business models that support

the achievement of the SDGs. They could also support projects where private-sector engagement can help open new markets that can benefit poor people. It is crucial, however, that public money is not used to unnecessarily subsidise the private sector, and that scarce aid resources are not diverted from investing in the public sector.

3. **Stop diverting aid to serve national political and commercial objectives.** Donors should never put their own interests ahead of the interests of the poorest people. In particular, donors should stop using aid budgets to cover domestic costs related to hosting refugees within their own borders, to serve their short-term security agendas or to limit the number of migrants arriving at their borders. They should also stop giving preference to companies from their own country when awarding aid contracts.

4. **Avoid aid mechanisms and instruments that put countries at further risk of over-indebtedness,** especially LICs. Donors should deprioritize all instruments that can contribute to deepen the already serious debt distress situation in LICs and LMICs and instead prioritise grants and scale up their efforts to help reduce debt burdens through restructuring and cancellation. Donors should instead design aid to have the maximum positive impact to reduce inequality and poverty.

5. **Meet the existing aid target of 0.7% in GNI in their next budget or have plans to achieve it within four years**, ensuring aid increases come with good quality aid. If all OECD donor countries followed through on their commitments, an extra $1.5 trillion could be raised by 2030.[160]

6. **Use aid to strengthen country systems and support country ownership**. This means:

   a) investing more aid as budget support, whether this is general budget support, sector budget support or pooled funds where direct budget support is not yet possible;

   b) making aid commitments of at least three years, and ideally six years, so that it can be invested in recurrent costs and recorded in national budgets for enhanced public oversight;

   c) awarding aid contracts to suppliers in recipient countries as a first preference and encouraging international suppliers to help develop the capacity of local suppliers.

7. **Increase aid spending on sectors that are proven to tackle inequality**, including, public health, education, universal social protection schemes, water and sanitation systems, and supporting small scale agriculture. Within these sectors, those left behind should be especially targeted.

8. **Increase aid spending on progressive domestic revenue mobilisation**, supporting governments to collect more taxes, and increase domestic financing for public budgets to tackle inequality, and to do so progressively. This can only work if donors stop dodging taxes, thereby sucking money out of public budgets and undermining their own aid efforts.

9. **Increase aid spending in support of active citizenship,** including through support to independent civil society groups — women's organisations, trade unions and budget monitoring groups — that can counteract political capture and invest in building a more human economy. This will also help to make aid more transparent, so governments and donors can be better held to account; this is the foundation for a functional citizen-state compact. Donors must also do more to protect civil society space and freedoms to assuage fear of reprisal.

10. **Tackle gender inequality with greater urgency, hand-in-hand with steps to reduce economic inequality.** It is essential to tackle both gender and economic inequality in order to effectively fight poverty and achieve the SDGs. Therefore, donors have a responsibility to develop deliberate strategic approaches to prioritise gender justice in aid allocations, including through increased support to women's rights organisations. They should also monitor, measure and publicly report on the impact of all aid on both economic and gender inequality.

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