EDITOR'S COMMENT

All welfare organisations, big and small, perpetually articulate their demand for 'aid'. Although it is assumed that monetary aid results in benefits for the recipients, this is not always the case. Aid can be detrimental in many ways if it is not accompanied by adequate plans for its effective utilisation. To illustrate this further, one can study the example of fund flow to developing countries through development assistance channels.

In 1969, the Pearson Commission recommended 0.7% of the Gross National Product (GNP) of donor countries, as the preferred level of official development assistance to least developed countries. According to some estimates, this would amount to a whopping 175 billion dollars in current terms. Three decades after the Pearson Commission's recommendation however, the current contribution from donor countries is only about 0.22% of their GNP.

Yet, it is important to speculate about what the impact would have been if 0.7% of the GNP of donor countries was to be directed as aid to developing countries.If this money were to be distributed on a per capita basis to all the poor people in the least developed countries, a country like Ethiopia would have received three times the amount of its Gross Domestic Product (GDP) in today's terms. Viewed in another way, if the poverty level is taken as below $500 per capita annual income, then most recipient countries would have got amounts that are several times their total government expenditure.

Even if the cut off level were raised to $800 per capita annual income, which would include India and China in the group of recipient countries, the amounts received would have been too high for these countries to absorb easily. If a country like India were to receive such a large aid flow in a year, its foreign exchange reserves would have gone up considerably, resulting in a huge appreciation of currency, and making exports virtually non-viable. Unlike a commercial fund flow, aid is not subject to market disciplines; hence large inflows of money could also result in poor management of funds, leading in turn to poor aid effectiveness.

This example underscores the fact that setting aside a quantum of funds for aid per se does not lead to the intended results. It is necessary to plan a road map to utilise the funds, before the quantum of aid is determined. The aid target needs to be grounded in a credible spending plan. This means that the recipient should have the necessary capacity to absorb and manage the funds effectively. Lack of funds, though often cited, is not the only problem for most recipients of aid. Often it is the lack of capacity to absorb and manage the aid that is the crux of the problem.

This is a universal principle, whether the recipient of aid is big or small, whether it is a large developing country or a small organisation that carries out development work. Because of this, it is incumbent on donors to ensure that they build capacity in the recipients to manage funds effectively, before they disburse aid. Money by itself does not lead to development, unless it is backed by sound policies and planning.

As in the previous issue, this issue also carries an experiential article, the last in the Brief Reports section.

The Editorial Team wishes all readers a Happy New Year!

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