

# The Reality of Aid 2008

An Independent Review of Poverty Reduction and Development Assistance

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## Facts and Figures

### The Reality of Poverty

- Nearly half of the world's population lives on less than US\$2 a day.
- Richest 5% receive 114 times the income of the poorest 5%.
- One third of all deaths (that's 18 million people a year or 50 000 people daily) are due to poverty-related causes.

### Aid Spending

- OECD Development Assistance Committee (DAC) donor performance for 2007: 0.28% of Gross National Income, against the internationally agreed target of 0.7%.
- DAC spending levels for 2007 after removing debt cancellation and support to students and refugees: 0.22% of GNI.
- Excluding debt and student and refugee figures, in constant dollars, donors have failed to increase spending with aid at US\$71.9 billion in 2004 and US\$72.9 billion in 2007.

### Aid to Africa

- No increase in aid allocation to sub-Saharan Africa from 1995 to 2006 with only 29.2% of total ODA spending going to sub-Saharan Africa in 2006, down from 31.4% in 1995.

### Debt Cancellation

- Total cost to developing countries for servicing debt (principal and interest) from 2000 to 2006: US\$2,875 billion.
- Total transfers to developing countries (debt disbursements, ODA grants, technical assistance) from donors from 2000 to 2006: US\$2,781.9 billion.
- Total net transfer from South to North from 2000 to 2006: US\$93.1 billion.

### Aid Policy Conditions

- For the World Bank loans, binding conditions have remained unchanged, averaging 13 per loan. Non-binding conditions appear to be less, but have also been bundled together.
- Conditions highly variable. Senegal, for example, faces a total 99 conditions in its recent loans with the World Bank.

### Aid and Conflict

- Aid to countries experiencing severe and prolonged conflict as a proportion of total donor aid from 2000 to 2006: more than doubled from 9.3% to 20.4%.
- Afghanistan and Iraq accounted for close to two-thirds of all aid directed to conflict-affected countries.

### Reality of Aid Network

- The Reality of Aid project is the only major North/South international non-government initiative focusing on poverty eradication policies and practices.
- It brings together more than 40 civil society networks working in international cooperation.
- Reality of Aid has networks in 22 donor countries, in Asia, the Americas and Africa.

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## Briefing Note: Canada

### Issue

Canada's Official Development Assistance (ODA) performance has stagnated at 0.28% of Gross National Income (GNI) in 2007 and 0.30% in 2008. There are no plans for increases to aid spending beyond 2010. Recent Canadian aid priorities are also skewed with our foreign policy interests dictating where the money goes.

### The Reality: Unmet Promises and No Plans

In 2006, during the last federal election, the conservatives pledged to improve Canada's ODA performance ratio to reach the average spending of donor countries, which at the time was 0.46% of GNI. The Conservative government has not lived up to this election promise. At 0.30%, Canada is not even half way to the internationally agreed to target for aid spending of 0.7% of GNI and there are no plans to get to the promised average donor spending.

Canadian foreign policy interests seem to be a strong determinant of new aid allocations by the Conservative government. Afghanistan has been by far Canada's largest country recipient of aid over the past two years and significant amounts of new aid resources have gone there. Canada allocated more than US \$500million in aid to Afghanistan and Iraq from 2000 to 2006 (not including debt relief). These two country programs account for about 20% of the disbursement of all new aid resources in these years.

At the Gleneagles G7 meeting, the former Liberal government committed to doubling aid to Africa between fiscal years 2003/04 and 2008/09 as part of its contribution to the G7 pledge to increase aid to Sub-Saharan Africa by \$25 billion by 2010. Since that commitment, sadly no new announcements about aid to Africa have been made by the Conservative government. There are no plans for increased spending in Africa after this fiscal year.

### A Positive Note

CIDA has been calling, internationally, for a fuller inclusion of civil society voices and positions in looking at good practices for aid effectiveness. Internationally Canada has led a major initiative to recognize the importance of civil society organizations as development actors essential to aid effectiveness. This initiative now needs to be translated into CIDA policy on the role of CSOs in development.

### Conclusion

Canada should outline a ten-year timetable to reach the UN target for aid spending of 0.7%. Recent legislation puts ending poverty, respect for human rights standards, and the perspectives of the poor at the centre of all Canadian aid decisions. Ending global poverty, and not other foreign policy concerns, should guide Canada's foreign aid spending. Civil society organizations have an essential role in ensuring that aid is effective.

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## Briefing Note: 0.7%

### Issue

Donors are unlikely to meet commitments to reach the internationally agreed target for aid spending of 0.7% of Gross National Income (GNI). Why? Simply put, there is a lack of political will to increase funding to help end global poverty. And when new funds are available, surprisingly the money has not been disbursed to help end poverty.

### The Reality: Promises, promises, but no political will

Although political will is clearly lacking, rhetoric abounds.

Following the 2002 United Nations Summit on Financing for Development and the 2005 Gleneagles G7 meeting, most donors committed to substantially increase their aid spending (Official Development Assistance or ODA). Many European donors committed to exceed 0.5% of GNI for ODA by 2010, with some donors committing to reach the 0.7% target by 2015. At the Gleneagles G7 Summit, G7 governments promised that “aid for all developing countries will increase”. Unfortunately few donors are on track to achieve the 0.7% target by 2015.

In 2007, donors collectively gave only 0.28% of GNI to aid – not even half way to the 0.7% target. After removing debt relief and support to refugees and students from the ODA calculations, aid spending dropped to 0.22%.

But aid increases are affordable for rich countries. Donor countries have just chosen not to increase aid spending as their overall wealth increases.

As a proxy for the ability to increase aid spending, Reality of Aid looks at both aid and GNI growth for rich countries. There has been an expanding gap between per capita aid and per capita wealth in donor countries since the early 1960s. Aid per capita was 0.5% of GNI in 1961, but by 2006 aid per capita dropped to less than 0.25%.

### The Reality: Less than 30% of new aid money available for poverty goals

Less than 30% of all new aid money, disbursed since 2000, was actually available to poverty reduction priorities. Almost two thirds of disbursed new aid resources since 2000 have gone to donor foreign policy interests in Iraq, Afghanistan and Pakistan, and to increases for non-aid purposes in debt relief and support for students and refugees.

Of the US\$148.2 billion new dollars available for ODA between 2000 and 2006, over 40% went to debt relief and support to students and refugees and aid driven by “war-on-terror” foreign policy interests accounted for another 31%.

### Conclusion

Significant increases to aid budgets by several key G7 countries are needed in order to meet the 0.7% target for aid spending by 2015. The definition of what counts as aid needs to be revisited to ensure that aid money goes to ending poverty.

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## Briefing Note: Aid to Africa, Afghanistan and Iraq

### Issue

More than two-thirds of Sub-Saharan African countries (34) rank among the bottom 40 countries on the UNDP 2007 Human Development Index (HDI). All 22 UNDP “low development” countries are from the sub-continent. Yet there has been no evident priority for aid spending to Sub-Saharan Africa in this decade.

### The commitment

At the 2005 Gleneagles G7 Summit, major donors pledged to add US\$25 billion to aid to Sub-Saharan Africa by 2010.

### The Reality: Aid to Africa increases only marginally

Donors are significantly off-track in their commitment to add at least US\$25 billion to their aid for Sub-Saharan Africa.

According to the OECD Development Assistance Committee (DAC), aid disbursements to Sub-Saharan Africa amounted to 37.9% of total ODA in 2006, up from 26.7% in 2000. However, this increase was not a sign of priority spending in Africa, but rather an indicator of the impact of high debt relief grants. Removing debt cancellation, aid to the region was 29.2% of total ODA in 2006, up marginally from 25.9% in 2000 but well below the high of 31.4% in 1995.

Asia actually received the highest proportion of ODA in 2006 at 34.4%. This was primarily the result of very high disbursements for Afghanistan and Iraq.

### Conclusion

If donors are to meet their Gleneagles commitment, aid to Sub-Saharan Africa will have to increase by 30% each year from 2007 to 2010.

### Conflict-affected countries: The Issue

Donors have concentrated more of their aid on the immediate needs of conflict-affected countries with aid spending more than doubling from 2000 to 2006.

### The Reality: Aid to Afghanistan and Iraq overwhelm aid spending

The distribution of aid among the severely conflict-affected countries was also highly unequal in 2006. Aid to Afghanistan and Iraq overwhelms aid to conflict-affected countries as donor foreign policy preoccupations influence the distribution of aid. Almost one-third of all new aid resources since 2000 were directed to Iraq, Afghanistan and Pakistan.

### Conclusion

Ending poverty, not donor foreign policy concerns (in particular the “war on terror”), should be at the heart of aid spending.

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## Briefing Note: Overview Distorting the Reality of Aid

### Issue

The reality of aid in 2008 is that despite the appearance of progress, in the form of high-profile debt cancellation and aid pledges, aid – in both its quality and quantity – is failing to help end global poverty.

### The Reality: The quality of aid distorted by donor interests

The Reality of Aid network insists that aid should be a global public good, representing a moral obligation of wealthy countries towards people of developing countries. Aid should reinforce efforts by developing countries towards the realization of human rights for poor and marginalized groups.

Tragically, aid has become a source of power, wielded by donors over recipient developing countries. Donors impose policy conditions, tie aid to benefit donor-country suppliers, link aid with trade and use aid to further donors' geo-political interests.

What has been lost in this power grab is a focus on education, health and gender equality, priority spending in sub-Saharan Africa and the importance of the United Nations as a channel for aid. Democratic ownership and human rights are fundamental to ending global poverty.

### The Reality: Donor aid spending performance stagnates

Overall aid spending from OECD Development Assistance Committee (DAC) donors has stagnated since 2005. Official Development Assistance (ODA) dropped from a high of US\$107.1 billion in 2005 to US\$103.7 billion in 2007. ODA performance measured against the United Nations target for aid spending of 0.7% of Gross National Income (GNI) fell from 0.33% in 2005 to 0.28% in 2007.

These numbers are clearly disappointing, but they are also highly misleading and inflated.

NGOs, North and South, have consistently argued that debt relief and support for students and refugees in donor countries should be removed from aid calculations. Their inclusion highly distorts the reality of aid. Excluding debt relief and support for students and refugees from ODA reduces aid spending for 2007 from US\$103.7 billion to US\$81 billion. ODA performance drops from 0.28% to 0.22%. Sadly, based on these calculations, ODA performance for 2005, 2006 and 2007 stagnated at 0.22% of GNI. Despite high-profile commitments made by donors at international meetings, such as the Gleneagles G7 Summit, donors have failed to increase spending to end global poverty.

### Conclusion

It is well past the time to ask the question: aid for what purpose and for whom? Aid will only be effective if those affected by poverty can organize to promote and claim their rights. Human rights, social justice and gender equality need to be at the heart of aid effectiveness.

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## Briefing Note: Gender Equality

### Issue

Although it is widely agreed that poverty is a feminized phenomenon, with women accounting for up to 70% of people living in poverty, support for gender equality is invisible in donor spending and reporting.

### The commitment

Many donor agencies have impressive policies that put gender equality and the empowerment of women as central priorities for development. Unfortunately, these impressive policies are rarely put into practice with little funding or priority focus for women's rights organizations.

### The reality: Gender equality invisible in ODA

Women's voices and perspectives have been excluded from national and international aid setting policies. Official Development Assistance (ODA) for gender equality purposes is not reported systematically by donors. There are no statistical tables related to gender-equality focused aid in the annual Development Assistance Committee (DAC) *International Cooperation Report*.

The OECD DAC did, however, develop a "gender marker" for ODA spending. This marker looks at aid that has gender equality as a "principal objective" and as a "significant objective". In 2005, of the 16 countries reporting on the gender marker, only 13% of reported gender equality activities had gender equality as a "principal objective". Since 2003, only an estimated meagre 3.8% of sector-allocated ODA has been directed to gender equality.

### Conclusion

Women's rights organizations are seeking a target of 10% of ODA for gender equality and women's empowerment by 2010 and 20% by 2015.

Women's organizations play a crucial role in holding governments accountable for financing gender equality and women's empowerment. If donors are to achieve gender-related targets, donors must also improve and ensure direct funding for women's rights organizations, particularly civil society organizations representing women from socially excluded groups.

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## Briefing Note: Democratic Ownership and Human Rights

### Issue

The lack of democratic and local ownership of development policies in recipient countries enables the continuation of flawed and unequal aid relationships. Current aid policies and practices reflect donors' political and economic interests and have little impact on sustainable development, poverty reduction or women's rights.

### The Reality: Declining programmable aid

Country ownership is the defining principle of aid effectiveness. But country programmable aid (aid disbursements that have the potential to be managed in the South) is declining. Since 2003, less than a third of all bilateral ODA has been available for actual programs in developing countries – that is aid which developing country partners can use to meet development priorities that they have determined. Country programmable aid has been falling since 1990, and particularly since 2003. As a percentage of total bilateral aid, country programmable aid has been less than 32% on average since 2003, down from 49% in 1990.

### The Reality: No reduction in policy conditions

Donor policy conditions attached to aid undermine the potential for democratic ownership. Democratic ownership means that aid spending is based on country priorities as determined by citizens, legislatures and governments. According to the World Bank, conditions attached to loan programs have been in decline. Unfortunately it is the non-binding conditions that have been in decline. The binding conditions have remained largely unchanged averaging 13 per loan. And it is these binding conditions that promote detrimental economic policy constrictions such as privatization of essential services. Indeed, the number of conditions may not have fallen, as the World Bank now "bundles" conditions. When counted separately, these bundled conditions result in a 12% increase in their number.

### The Reality: Increasing aid-for-trade

"Aid-for-trade" is growing. From 2002 to 2005 aid-for-trade grew by 22%. When aid spending is focused on trade it detracts from what should be aid's primary focus: poverty reduction and the rights of poor and excluded populations. Aid-for-trade spending is focused on export industries and international markets that will likely disadvantage poor producers, traders and entrepreneurs for whom domestic and regional markets might be more important. Strong regional and domestic markets are the backbone of economic development for poverty reduction. "Aid-for-trade" should not be used to "compensate" developing countries as trade deals fail to deliver real benefits for the poor.

### Conclusion

Aid can no longer be assessed as "effective" without showing impact on poverty reduction. Democratic ownership ensures that aid policy and practice focuses on the rights and needs of those affected by poverty.

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## Aid Effectiveness: Democratic Ownership and Human Rights Recommendations

In the face of continuing sheer poverty, the Reality of Aid is calling for fundamental reform of the international aid system.

**1. Aid effectiveness commitments must be clearly and demonstrably refocused on implementing human rights obligations and standards, including the right to development.**

Aid can no longer be assessed as “effective” without showing any impact on poverty, livelihoods, disease, hunger and lack of education opportunities in developing countries. A total change of approach is needed away from the traditional “donor-recipient” power-based model to one that sees both “donor” and “recipient” sharing responsibility in promoting the right to development.

**2. Donors and governments must promote democratic and local ownership, including parliaments, civil society organizations (CSOs) and citizens in policy making and agenda setting.**

Democracy is the best institutional, political and cultural environment for the fulfillment of the rights of all people. Democratic and local ownership of policy making ensures that policies are made with a full awareness of the facts and the reality on the ground.

**3. Genuine and regular mechanisms are needed to hold donors to account and to monitor development effectiveness.**

To ensure the effective and appropriate allocation of resources, donors need to be accountable for the aid they deliver. Accountability means donors have to justify their actions (answerability) and others have the ability to rectify or sanction poor performance by donors (enforceability). Existing United Nations human rights monitoring models should be used as a starting point for the establishment of an independent multilateral body to oversee the international aid system.

**4. The highest standards of openness and transparency on the part of all development actors are essential.**

If the principles openness and transparency are not applied with the highest standards, then other principles such as democratic ownership and accountability become impossible to uphold. Transparency and openness standards must cover information, processes, meetings, objectives, planning, funding and monitoring to ensure democratic ownership and accountability.

**5. Donors, including International Financial Institutions, must commit to eliminating all imposed policy conditions and untie aid by 2010.**

Imposed conditions override democratic governance, are the antithesis of openness and transparency, result in no accountability, and fail to adopt an approach targeting the realization of human rights and the reduction of poverty.

Donors should fully untie aid, including food aid and technical assistance. Tied aid restricts the ability of developing countries to spend resources in the way they choose and on the things they need most for their development. This directly undermines democratic ownership of national policies and expenditures.

**6. Donors must cancel all illegitimate debt and the debt of the poorest countries and increase both the volume and predictability of aid.**

The poorest countries must be supported in writing off their debts, which in many cases were undertaken without public consent. Debt cancellation is an essential pre-condition for development.

Donors must meet their commitment to allocate 0.7% of Gross National Income to Official Development Assistance, without counting debt relief initiatives, refugee costs or student costs in that total. Predictability of aid, through multi-year budget and program support is critical.

**7. An Accra Agenda for Action, coming out of the Accra High Level Forum, is needed to deepen commitment to aid reform beyond the Paris Declaration.**

The Accra High Level Forum is an opportunity to set a new course for aid reform. A practical Agenda for Action would:

- Eliminate imposed policy conditions;
- Reform technical assistance;
- Increase aid spending and make funding predictable;
- Create accountability mechanisms; and
- Establish development indicators for aid effectiveness based on poverty reduction, gender equality, human rights and social justice.