

THE REALITY OF AID IN 2008

The Reality of Aid in 2008 is that it continues to fail to promote human development for the eradication of poverty based on core values of human rights, democracy, gender equality and environmental sustainability. This is despite the appearance of progress in the form of high-profile debt cancellations, new aid pledges and the signing of the Paris Declaration on aid effectiveness.

INTRODUCTION

The Reality of Aid Network is an international southern-led CSO network, representing hundreds of CSOs in both developing and donor countries. This *2008 Reality of Aid Report* presents evidence and opinions from organisations operating on the front line of development policies around the world about the current reality of aid policies and their outcomes. The authors also make clear and explicit calls for what is needed for aid to make a genuine and positive contribution to promoting human development in the poorest countries of the world.

Civil society organisations (CSOs) in the global Reality of Aid Network insist that Official Development Assistance (ODA) be treated as a resource held in trust by donors and recipient governments for improving the lives of people living in poverty. **Aid is a global public good**, representing a moral obligation of wealthy countries towards people of developing countries; it is a catalyst, which should be used to complement and reinforce efforts by developing countries and peoples themselves towards collective development and the progressive realisation of the human rights of poor and marginalised groups.

Sadly, CSOs have long had cause to criticise the reality of aid policies and practices. They raise issues around the impact of **donors' political and economic motives** on the actual use of aid and they point to the lack of demonstrated effectiveness of aid in making progress on sustainable development, poverty reduction and women's rights.

Powerful donor countries have long seen political and economic advantages in using aid to promote their interests by strengthening market systems in other parts of the world; the Marshall Plan was a famous example. More recently, aid has been used to promote the foreign policy and security objectives of the leading nations in the post 9-11 world, as examined in the *2006 Reality of Aid Report*.

These concerns have not abated. The *Reality of Aid* authors present studies showing the **continued use of policy-based conditionalities** by donors. The tying of aid also remains an issue, whether by formal contracts or more informal pressures. The failure of bilateral donors to address supply-led and donor-managed technical assistance is a source of continued enforcement of conditionalities and delivers largely ineffective aid.

In terms of meeting **commitments to aid increases**, donors are significantly off-track in their commitment to reach the UN target for aid spending of 0.7% of donors' Gross National Income (GNI). The DAC measurement of overall performance (the ODA / Gross National Income ratio) fell from 0.33% in 2005 to 0.28% in 2007.

Furthermore, **current donor trends show reliance on debt relief initiatives to make up for shortfalls in ODA contributions**. This seems to be an act of bad faith to distract attention from the lack of actual aid delivered. Excluding debt relief and support for students and refugees, ODA was unchanged at 0.22% of GNI in 2005, 2006 and 2007.

Donors are also **failing to meet their commitment to add at least US\$25 billion to their aid for Sub-Saharan Africa** by 2010. The reality is that only 28% of new aid money allocated 2000-06 was to honour donor pledges to increase aid spending for poverty reduction and the *Millennium Development Goals* (MDGs). A greater percentage has gone on foreign policy interests, dominated by aid to Iraq and Afghanistan.

This Report also notes the fast growing use of "**aid-for-trade**", intended to assist developing countries in benefiting from WTO agreements, but whose terms, CSOs argue, are strongly biased against the interests of the poorest countries.

The signing of the *Paris Declaration on Aid Effectiveness in 2005* was welcomed by many as a sign that donors were willing to recognise and seek to rectify the inadequacies of generations of aid policies. However, the *Reality of Aid* authors argue that the commitments made do not go nearly far enough and that, despite the rhetoric, aid relationships have not significantly changed in recent years. By **failing to put human rights at the heart of development policy**, the *Declaration* fails to tackle deep-seated obstacles that have stood in the way of aid being an effective resource to address the acute conditions facing poor and marginalised people.

More far-reaching reforms are urgently needed. The **role of the International Financial Institutions (IFIs)** in distorting aid policies and enforcing policy conditionalities on developing countries needs to be challenged. Of particular concern is the way they manage to control the purse strings of bilateral donors through their gate-keeper role.

Beyond that, key principles of **democratic ownership, transparency, donor accountability and development effectiveness** need to be respected. Strengthening democracy is fundamental for achieving the purposes of aid and international co-operation: to eradicate poverty and reduce inequality. Reforms to date have failed to take on board this essential lesson and give priority to strengthening "democratic and local ownership" in aid relationships. Rather, the evidence in this Report is that democratic ownership continues to be undermined and poor and discriminated communities remain marginalised from decisions and resources that might improve their lives.

In this year, 2008, there has been unprecedented debate on the effectiveness of aid among civil society, donors and governments, in the lead-up to the **3rd High Level Forum on Aid Effectiveness** (HLF3) to be held in Accra in September 2008. HLF3 offers a strategic opportunity for governments, not only to review their limited progress against their *Paris Declaration* commitments, but to set a truly ambitious agenda for aid reform for the next two years. The outcomes of the Accra Forum will be a litmus test for the credibility of commitments to genuine aid reforms by donors and governments, which they initiated in the 2005 *Paris Declaration*.

THE FINDINGS OF THE 2008 REALITY OF AID REPORT

The only true measure of aid's effectiveness, according to authors of the *2008 Reality of Aid Report*, is its sustained impact on reducing poverty and inequality – its support for making progress in implementing human rights, in achieving gender equality, in deepening democracy and promoting environmental sustainability. On these measures, the Report documents deeply troubling trends and failure in reforms undertaken to date.

1. Aid relationships have not fundamentally changed.

Aid continues to be a source of power, used by donors to override national democratic systems – or the emergence of these – in recipient developing countries. Despite commitments to the contrary, donors continue to impose policy-based **conditionalities** through their aid, either directly or indirectly. These are deeply incompatible with **democratic and local ownership** and expose donor hypocrisy in their claim to respect “country ownership”. Donor policies continue to impact upon the sovereignty of national governments and undermine democratic institutions and structures by **cutting parliaments and representative organisations, including CSOs, out of political discussions**.

It is common to see donors claiming that the conditions applied are developed from locally owned performance review processes when, in practice, their formal or informal influence on these processes from an early stage severely limits the ability of recipient countries to genuinely make their own policy decisions. For example, the details of Australian bilateral aid to Papua New Guinea reveal that they have replaced the previous system of formal aid conditionality with a system of incentives, which uses policy reform benchmarks to trigger additional aid. The tremendous **influence exerted over national development strategies** means that the real issue is not so much whether aid policies align with these national strategies, but how these plans are developed in the first place.

This reality is possible because of the overall lack of **donor accountability to both their citizens and the recipient countries in which they operate**. Whilst the recipient countries are held accountable to donors under the threat of having aid withheld, the inverse relationship is not currently possible. There are no mechanisms by which recipient countries can hold donors to account. The position of CSOs and citizens in this relationship is even weaker. Whilst they struggle to hold their own governments accountable, CSOs from the south have little or no opportunity to demand accountability from donors. Donors are much too distant for many grassroots organisations to reach and too often do not actively seek or listen to the loud voices coming from the people most affected by aid allocations.

The continued lack of **democratic and local ownership** of development policies in recipient countries enables the continuation of flawed unequal aid relationships. This includes the emergence of new forms of **tied aid**, typically linked to existing power imbalances in the aid system, particularly in access to supposedly open tendering processes for aid contracts. Companies that are well integrated in developing countries – often thanks to the benefits of previous tied aid – are able to “win” dubious procurement contracts and then encourage their government to support the project. The end result equates to tied aid even if it is arrived at from

a different direction. As an example, CSOs have raised significant concerns about the awarding of controversial new procurement contracts to Italian firms for dam building projects in Ethiopia. Similarly, the extended use of **microcredit** schemes aimed at individuals in developing countries, according to *Reality of Aid* authors in this report, reflects less a well thought out approach focused on the needs of particular individuals and more an attempt by donors and financial institutions to reap the economic benefits available to them from such loans.

These conclusions are supported by the evidence of the Global Trends chapter and the OECD donor country reports. These papers highlight the fact that:

- ❑ Official ODA figures tend to include debt relief and support for students and refugees in donor countries, thus distorting the real value of the aid claimed – ODA performance, excluding debt relief and support for students and refugees was unchanged at 0.22% of GNI in 2005, 2006 and 2007.
- ❑ Aid in constant dollars (adjusted for inflation and exchange rate changes) was no greater in 2007 (US\$72.9 billion) than it was in 2004 (US\$71.9 billion).
- ❑ Overall, DAC donors are a long way from meeting their commitment to give 0.7% of their GNI as ODA – only five countries now meet the target.
- ❑ The gap between aid and wealth is growing – aid per capita has nearly halved since 1995.
- ❑ Only 28% of new aid money 2000-06 was to honour donor pledges to increase aid spending for poverty reduction and the MDGs.
- ❑ Future debt is still an issue – ODA loans made up about 16% of bilateral aid in 2006.
- ❑ Technical assistance, as a proportion of all bilateral aid from DAC donors (net of debt relief grants), averaged 38% between 2004 and 2006 and remains largely tied to Northern contractors and donor control.
- ❑ There is a totally inadequate focus on tackling donor conditionality and tied aid.
- ❑ Since 2003, less than a third of all bilateral ODA has been available for programs for which developing country partners can determine their own priorities.
- ❑ Gender equality issues are invisible in donor accountability – gender equality-focused ODA is still not reported systematically by donors.
- ❑ Non-debt aid to Sub-Saharan Africa 2004-06 increased by only an average of 8.8%. If donors are to meet their commitment, aid to Sub-Saharan Africa will have to increase by 30% each year from 2007 to 2010.
- ❑ Aid allocations to the most severely conflict-affected countries, not including debt relief grants, increased from 9.3% of total ODA in 2000 (for 12 countries) to 20.4% (for 10 countries) in 2006.
- ❑ The distribution of aid among severely conflict-affected countries was also highly unequal in 2006 – Iraq and Afghanistan accounted for close to two-thirds of it.

Finally, it was noted that growing private sources of aid and emerging donors may increasingly challenge the influence of DAC donors. However, at the same time, a more anarchic array of aid channels may also reduce the potential for the citizens of the poorest countries to achieve real ownership in support of local and country-determined priorities.

2. The IFIs have significant responsibility for the lack of change.

International Financial Institutions (IFIs), often acting as lead-donors, represent most fully the **entrenched and collective power of the donors in their governance** and act as a barrier to more progressive aid delivery. The IMF adopted revised guidelines on conditionality in 2002 and the World Bank conducted a review of aid conditionality in 2005 in which both institutions committed to reducing the overall number of conditions and ensuring that those attached were drawn from nationally developed poverty plans.

However, CSO monitoring of their performance reveals that, in reality, **policy conditions are still applied regularly by the IFIs**, in a way that seriously undermines country ownership of development policies. More than one article and the global aid trends chapter in this report quote a 2007 Eurodad evaluation¹ that concluded that “more than two thirds of loans and grants (71%) from the World Bank’s International Development Association (IDA) still have sensitive policy reforms attached to them as conditions. The majority of these are privatisation-related conditions.”

Even more recently, a 2008 Eurodad report² found that “the IMF has not managed to decrease the number of structural conditions attached to their development lending. Moreover... a quarter of all the conditions in Fund loans approved after 2002 still contain [highly sensitive] privatisation or liberalisation reforms.”

Beyond merely the direct conditions that IFIs apply to their aid, they also exert tremendous power over recipient countries through their dominant influence over the wider donor community. **The IFIs’ “gatekeeper role”** in signalling resource transfers – by which other donors allocate resources based on the IFIs’ macro-economic assessments of particular countries – is a source of tremendous power, which limits the ability of recipient countries to reject IFI prescriptions and seek aid elsewhere. Any positive tendencies among bilateral donors for reform (on conditionality for example) are rendered ineffective by their failure to reform the policies and governance of the IFIs.

Furthermore, the Paris principle of **harmonisation of donor terms for aid** is, in many cases, only serving to increase the capacity of the IFIs to exercise policy control over developing countries. As the dominant partner, the IFIs are able to push for harmonisation around their own agenda, rather than harmonisation around a genuinely national approach emerging from democratic processes. This has reduced competition between donors and choice in aid relationships still further.

¹ Untying the knots: How the World Bank is failing to deliver real change on conditionality http://www.eurodad.org/uploadedFiles/Whats_New/Reports/Untying%20the%20knots%20-%20How%20the%20WB%20is%20failing%20to%20deliver%20real%20change%20on%20conditionality.pdf

² Critical Conditions: The IMF maintains its grip on low-income governments http://www.eurodad.org/uploadedFiles/Whats_New/Reports/Critical_conditions.pdf.

3. The Paris Declaration does not go far enough – it fails to recognise human rights as the heart of development policy.

Overall, the *Paris Declaration* on aid effectiveness fails to deliver an aid agenda that serves to improve the lives of the poorest people in developing countries because it has failed to put human rights and democratic ownership at the heart of development co-operation.

Whilst it is hard to disagree with the five Paris principles as such, it is apparent that they are **insufficiently tightly defined along the lines of human rights, equality and sustainability**. This means that it is possible for donors to implement the principles without improving development effectiveness. The power in aid relationships is still heavily weighted on the side of donors, and the declaration does nothing to check this imbalance. The aid effectiveness being promoted remains essentially donor centred.

This table summarises the issues at play:

PARIS PRINCIPLE	ISSUE
Ownership: Partner countries should exercise effective leadership over their development policies, and strategies and co-ordinate development actions	Real ownership includes but cannot be limited to government leadership over development policies. The people and communities most affected by development policies must have ownership over them. This means not just “ownership”, but “democratic and local ownership”.
Alignment: Donors should base their overall support on partner countries’ national development strategies, institutions and procedures.	It is not enough that donors link aid to countries’ national development strategies, it must also be clear that these strategies have been developed independently by recipient countries in the context of democratic and local ownership. The “behind-the-scenes” impact of advisers, consultants and informal pressures from donors are key issues.
Harmonisation: Donors’ actions should be more harmonised, transparent and collectively effective	Unfortunately, a serious adverse effect of harmonisation is to reduce aid competition and limit the choices for recipient countries. It reinforces the position of the IFIs as the principal arbiters of aid policy.
Managing for Results: Decision-making and resource management should be improved towards a results-focused approach	Managing for results can only be effective when the results being targeted are poverty reduction and the promotion of human rights and gender equality. When the “results” being managed are economic policy reforms, then this “principle” becomes a justification for conditionality.

<p>Mutual Accountability: Donors and partners should be mutually accountable for development results</p>	<p>The principle of mutual accountability requires the development of specific mechanisms by which aid recipients can hold donors to account. Once again this must not be limited to recipient governments, but must also include the communities most affected by aid expenditure.</p>
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These issues translate into specific and concrete problems in the reality of aid practices today. National parliaments and civil society organisations are not effectively enabled to fully engage in the decision-making processes around setting national policy agendas and determining the direction of aid spending. The result, as set out in several papers in this report, from around the globe, is significant negative impacts of aid on some of the poorest and most marginalised communities in the world.

This failure of the Declaration to address key concerns is also reflected in the continued large numbers of missions with which recipient countries have to comply, increasing the transaction costs of aid and stretching their capacity to engage in effective policy implementation.

Much was made of the political signal in the signing of the *Paris Declaration* in 2005. However, the implementation of the key principles agreed in Paris so far reveal that much of the content of the Declaration is simply rhetoric and has not fundamentally changed the reality of aid relationships. The principles are in practice limited to technical issues of aid management rather than to successful development policy-making.

RECOMMENDATIONS: WHAT IS NEEDED FOR AID POLICIES TO FACILITATE DEVELOPMENT OUTCOMES FOR THE POOREST COMMUNITIES

The Reality of Aid Network, involving hundreds of CSOs globally, calls for the urgent implementation of the following proposals. The Network is committed to pursue them vigorously over the next two years as the foundation for deep and meaningful reform of aid for the purposes of reducing poverty and inequality:

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

International human rights obligations for all countries must be the essential framework of determining the purpose and means for delivering aid. Governments, donors and CSOs should come together to reiterate that the primary objective of aid is to combat poverty and hunger and promote education, health and gender equality in ways that respect human rights and environmental sustainability and justice.

The aid effectiveness agenda is crucial, but will have little impact if it does not tackle difficult issues in the aid regime. Aid can no longer be assessed as “effective” without showing any impact on poverty, disease, hunger and under-education in developing countries. The *Paris*

Declaration needs to be reviewed to address central issues of inequitable governance and the terms and conditions in the aid system emerging from the profound imbalance between donors and governments.

A total change of philosophy is needed away from the traditional “donor-recipient”; power-based model towards a model that sees shared responsibilities towards promoting the right to development. Official Development Assistance (ODA) needs to be treated as a global public good held in trust by donors and recipient governments to complement and reinforce efforts by communities themselves towards their own development.

2. Donors and governments must promote democratic and local ownership, including active inclusion of parliaments, 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 facing the people on the ground. This helps reduce the likelihood of misconceived policies or mismanaged implementation.

Democratic and local ownership implies full participation of citizens both directly and through their representative bodies: parliaments and CSOs. The expressed priorities of those living in poverty and those facing discrimination and inequality must be taken into account to better enable policies to facilitate their efforts to develop.

Strengthening democratic and local ownership is therefore critical to the achievement of the purpose of international co-operation and aid. Both recipient governments and donors have a duty to ensure that the voices of the people most affected by aid policies are not ignored, but are taken into account when allocating resources and agreeing strategies.

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

To ensure the effective and appropriate allocation of resources, donors need to be accountable for the aid that they deliver. They must be accountable to the recipient countries and ultimately the citizens of these countries who are most affected by their policies, as well as their own citizens.

Accountability means donors having to justify their actions (answerability) and others having the ability to rectify or sanction poor performance by donors (enforceability). This requires transparency and openness with predictable opportunities for full and open dialogue on aid processes, priorities, agreements and assessments of progress. These processes should include recipient governments, but also representative bodies of the people, including parliaments and CSOs and the local communities that are the intended beneficiaries of international co-operation.

Accountability and the successful realisation of long-term aid policies require the ability to monitor the achievements of aid against policy objectives and also their failures and unintended consequences. This enables the continuation or improvement of good practices and the modification or cancellation of bad ones towards more efficient and effective reduction of poverty and promotion of human rights. Such processes should draw upon existing human rights monitoring modalities mandated in the United Nations.

Taking into account the current weaknesses of the UN and the lack of balance within the OECD, further discussion is also needed towards the creation of a more equitable multilateral body to oversee the international aid system. This body could negotiate policies for aid and development effectiveness, with independent monitoring and evaluation mechanisms and ensure a human rights and sustainable development focus is maintained throughout.

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

Underlying several of the recommendations set out in this report is the essential need for openness and transparency by those operating in the field of development policy. If these principles are not applied through the highest standards, then other principles such as democratic ownership and accountability become impossible.

High standards of transparency would reduce the likelihood of inappropriate, ineffective and even harmful aid allocations, since issues from affected communities could be identified early and impending aid projects challenged. They would also contribute to reducing problems of corruption where these occur.

Transparency and openness are not just about letting people see what you do, but making sure that people are informed about what is happening and have the opportunity to respond. This requires the timely provision of information and clear spaces and pathways of engagement for citizens.

These standards must cover information, processes, meetings, objectives, planning, funding and monitoring to ensure that democratic ownership, accountability and effective monitoring can take place at each stage of the process.

5. Donors, including the IFIs, must commit to eliminating all types of imposed policy conditions from their aid and untying their aid without restrictions by 2010.

Imposed conditions are incompatible with all of the recommendations set out above. They override democratic governance, are based on the antithesis of openness and transparency, result in no accountability, and fail to adopt an approach targeting the realisation of human rights and the reduction of poverty. They can no longer be seen as an acceptable practice.

Similarly, the practice of forcing developing countries to open up their procurement markets to companies from the developed world must be replaced by policies that support developing countries in building strong procurement systems that are appropriate to their development needs. All industrialising countries have supported their own small and medium enterprises through public procurement contracts to respond to the country's needs during their development; developing countries must not be deprived of the same opportunities.

It is not enough to *reduce* conditions, since donors are able to simply group several issues together into one condition, or rename them as “benchmarks”, thus meeting the requirement without any actual improvement in performance. Furthermore, it is not the number of conditions that is the most important thing so much as the nature and sensitivity of the conditions applied, particularly where they apply to the privatisation and liberalisation of key sectors.

Furthermore, donors should fully untie their aid without restrictions, 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. Not only does this impact on the potential effectiveness of the aid in promoting development but directly undermines democratic ownership of national policies and expenditure.

Direct budget support should be favoured as a means of enabling developing countries to fund long-term development planning and investment. This support should be given in ways that allows democratic processes to decide how the money is spent – an approach which EC funding is starting to demonstrate.

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

Just as banks during a credit crisis or businessmen during a bankruptcy are supported in writing off bad debts, so the poorest countries must be supported in writing off their debts, which in many cases were undertaken without public consent in the first place. Illegitimate debt and the debt of the poorest countries undermine the efforts of aid allocations to promote development and keep countries locked into dependence.

Furthermore, whilst this debt cancellation is an essential pre-condition for development, actual aid is still needed to give an impetus to development in the countries concerned. Donors must meet their commitment to allocate 0.7% of GNI to ODA without counting debt relief initiatives, refugee costs or student costs to that total.

As well as increasing the volume of aid, donors should also increase its predictability so that recipient countries can make the necessary planning to develop successfully. Commitments by donors to support developing country government budgets are welcome, but require predictable multi-year commitments and the delivery of those commitments on schedule. A big issue here is providing sustained budget support that can be used to fund the increase in workers needed in key service sectors such as health and education. But budget support mechanisms must also include avenues for sustained democratic engagement and participation.

7. Donors and governments meeting in the September 2008 Accra High Level Forum III must agree on an Accra Agenda for Action that sets in motion ambitious initiatives over the next two years to deepen their commitments to aid reform beyond the *Paris Declaration*.

Civil society organisations, north and south, have welcomed and responded to recent opportunities to reflect with donors and governments on progress in aid reform and the implementation of the 2005 *Paris Declaration*. This *Reality of Aid Report* documents the reality in actual aid practices that many CSOs experience as development actors, confirming their deep concern and scepticism about progress to date and the actual commitment to reform. But the Accra High Level Forum presents a unique opportunity to set a new and more authentic course for aid reform.

CSOs, working together in the International Steering Group (ISG), which brings together Reality of Aid Network CSOs with other representative coalitions such as Civicus, Social Watch, Alliance 2015 and the Association for Women's Rights in Development (AWID), have presented a practical agenda for deeper and more fundamental aid reform:

- ❑ Eliminate the use of imposed policy conditionality.
- ❑ Reform the practice of technical assistance as a demand-driven resource for developing country counterparts.
- ❑ Make growing aid budgets more predictable and aligned to priorities determined by people who are the intended beneficiaries and affected by aid.
- ❑ Creating robust mechanisms for accountability served by increased aid transparency.
- ❑ Establish development indicators for aid effectiveness based on impacts for poverty reduction, gender equality, human rights and social justice.
- ❑ Set the agenda for a visionary HLF IV in 2011 that addresses the need for an equitable multilateral aid architecture that includes CSOs as equal development partners and enshrines human rights, social justice, gender equality and environment at the heart of aid effectiveness.

The ISG will be active in Ghana promoting this plan for the next two years that would result in real outcomes for developing countries and people living in poverty.