

WORLD AID TRENDS DONORS DISTORTING THE REALITY OF AID IN 2008

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1. TRENDS IN AID VOLUME

Overall aid spending from DAC donors has stagnated since 2005. DAC aid performance, as a percentage of Gross National Income (GNI), has declined to 0.28%, failing to make any sustained progress towards the UN target for aid spending of 0.7% of donors' GNI ...

The OECD Development Assistance Committee (DAC) reported that Official Development Assistance (ODA) dropped from a high of US\$107.1 billion in 2005 to US\$103.7 billion in 2007 (Chart 1). As a result, the DAC measurement of overall performance (the ODA/Gross National Income ratio) fell from 0.33% in 2005 to 0.28% in 2007.

After discounting debt relief grants and support for students and refugees in donor countries, DAC donors increased aid very slightly in 2007, but fails to rise above 0.22% of GNI, the level achieved in 2005...

This stagnation in spending and performance is made all the more stark when, as NGOs have consistently argued, debt relief grants and support for students and refugees in donor countries is removed from aid calculations. The inclusion of debt relief and support for students and refugees highly distorts the reality of aid.

Excluding debt relief grants and support for students and refugees from the calculation of ODA reduces aid for 2007 from US\$103.7 billion to an estimated US\$81 billion (Chart 2)¹. The US\$81 represents a modest 4.2% increase from a comparable 2005 figure of US\$77.7 billion. But despite the increase, ODA performance, excluding debt relief and support for students and refugees, was unchanged at 0.22% of GNI in 2005, 2006 and 2007 (Chart 3). Donors have failed to keep promises made at the 2005 Gleneagles G7 Summit, and they have clearly not met their commitment to “concentrated efforts towards the target of 0.7%” made at 2002 Monterrey Consensus on Financing for Development.

¹ This calculation is made from the OECD Dataset, DAC1 Official and Private Flows for DAC donors, current dollars, accessed April 2008, taking account of Imputed Student Costs (1.A.1.2), Debt Relief Grants (1.A.1) and Refugees in Donor Countries (1.A.13). For 2007, students and refugees and donor countries is estimated by the author at the same level as 2006.

Richard Manning, the retiring DAC Chairperson, in his final “Overview” in the 2007 *Development Cooperation Report*, points to “impressive” increases in aid since 2002 (and indeed in the six years since 2000).² These figures, however, are much less impressive when inflation and exchange rate changes are removed. Excluding debt and student and refugee figures, in constant 2006 dollars, ODA increased by only 14%, from US\$63.1 billion in 2000 to an estimated US\$72.9 billion in 2007. But the latest DAC figures also reveal that such aid (in constant dollars) was no greater in 2007 (US\$72.9 billion) than it was in 2004 (US\$71.9 billion). In constant dollars (i.e. the value of aid), donors have consistently failed to increase spending for the world’s poor.

Looking at longer term trends for aid (not including debt relief and support for students and refugees in donor countries) (Chart 3), it is clear that donors collectively have failed to make any sustained progress in overall ODA performance. Sadly, donors are a long way off from the peak of their generosity at 0.31% of GNI in 1992 – not even half way to the United Nations target of 0.7%.

Debt cancellation has no place in accounting for donor aid commitments...

CSOs, including various *Reality of Aid* reports, have long called for comprehensive, unconditional debt cancellation for more than 50 of the world’s poorest countries. Creditor countries committed, in the 2002 Monterrey Consensus for Financing for Development, that the Enhanced Highly Indebted Poor Country Initiative (HIPC) should be “fully financed through additional resources” (paragraph 49). Donor countries were encouraged “to take steps to ensure that resources provided for debt relief do not detract from ODA resources intended to be available for developing countries” (paragraph 51).

Almost all donors count as ODA the full value of any debt cancelled in the year that it is cancelled.³ The real value of debt cancellation to developing countries, however, is much smaller. When debt is cancelled, the developing country foregoes only the payment of principle and interest that would have been made to the creditor that year, while the creditor (donor country) gets to count as aid the full amount of the loan cancelled. This, again, distorts the reality of aid monies available. Donor countries appear to be spending more on aid, when the opposite is true.

Debt relief grants in ODA amounted to US\$25 billion in 2005, US\$18.6 billion in 2006 and US\$18.9 billion in 2007. Debt cancellation highly distorts the real value of donor ODA and should not be counted as ODA.

The need for debt cancellation remains urgent. According to the World Bank’s *Global Development Finance 2007* for the period of 2000 to 2006, the total cost to developing countries for servicing their debt (principal and interest) was US\$2,875 billion. Total transfers to developing countries (debt disbursements, ODA grants and technical assistance) from donors was US\$2,781.9 billion. This means that there was a net transfer *from the South to the North* of US\$93.1 billion.

² OECD DAC, *Development Cooperation Report 2007*, OECD Journal on Development, Volume 9, N° 1, OECD Paris, 2008.

³ However, not all donors allocate their fiscal aid budgets for this purpose. Canada, for example, counts debt relief grants in its ODA reported to the DAC, but pays for bilateral debt relief out of non-budgetary reserves, not the annual budget for international assistance.

In Sub-Saharan Africa, where debt relief was to be a priority, some progress on past debt cancellation has been made. Unfortunately future debt remains an issue as Sub-Saharan African countries received US\$36.8 billion in ODA grants and technical assistance in 2006, according to the World Bank, and these countries still made a total of US\$23.5 billion in service payments on their debt, showing a net benefit for ODA of only US\$13.3 billion.

ODA loans made up about 16% of bilateral aid in 2006. Significant amounts of new concessional loans continue to be extended to the poorest countries by the World Bank's International Development Association (IDA) window.

Most DAC donors provide bilateral ODA in the form of grants. Loans, as a percentage of non-debt gross bilateral ODA,⁴ declined from 33% in 1990 to 22% in 2000, and 16.5% in 2006. In 2006, Japan, France and Germany however continue to extend significant bilateral ODA in the form of loans, with Japan making up most of these loans (US\$6 billion or 54% of Japan's aid). According to the World Bank's *2006 Annual Report*, the World Bank's highly concessional International Development Association (IDA) window for the poorest countries disbursed US\$8.9 billion in gross loans in that year to the poorest countries.

Donors unlikely to meet their commitments in absence of strong political will to do so...

Following the 2002 UN Summit on Financing for Development and the 2005 Gleneagles G7 meeting, most donors committed to substantially increase their ODA. Many European donors committed to exceed 0.5% of GNI by 2010, with some donors committing to reach the United Nations target for aid spending of 0.7% of GNI before 2015. The DAC, in its *2007 Development Cooperation Report*, updated its projections for each donor country to met their commitment for 2010. The news is not good.

A few donors seem to be on track to achieve the 0.7% target before 2015. Five donors have already met the target. Unfortunately, collectively donors are off-track to meet aid increase commitments for 2010. Significant increases to aid budgets, by several key G7 countries, are needed.

At the Gleneagles 2005 G7 Summit, G7 governments committed that "aid for all developing countries will increase ... by around US\$50bn per year by 2010, of which at least US\$25bn is for Africa" (Chair's Summary, July 8, 2005). In the OECD DAC's updated simulation of these 2010 aid commitments (Table 1), the DAC estimates that, if all commitments are honoured, ODA in 2010 will be US\$132 billion or 0.35% of GNI (down slightly from the expected 0.36% in the DAC's 2006 Report). Donor aid increases in this DAC scenario would add US\$53 billion over and above the actual amount of US\$79 billion in aid in 2004, exceeding the US\$50 billion target. The average country effort (the average of ODA/GNI ratios for the 22 donors) would move from 0.44% in 2007 to 0.56% in 2010.

⁴ Non-debt bilateral aid is a term used in this review of trends to refer to total ODA minus debt relief grants, support for students and refugees in donor countries for that year. Gross bilateral ODA does not reduce ODA by loans received.

**TABLE 1
DAC SIMULATION OF 2010 ODA BASED ON DONOR COMMITMENTS TO REACH 0.7%**

DONORS	2006 ODA / GNI RATIO, ACTUAL	2006 ODA / GNI RATIO, NO DEBT GRANTS [1]	COMMITMENTS	2006 NET ODA (NO DEBT)	ESTIMATED 2010 NET ODA (2006 MILLIONS US\$) [1]	AVERAGE ANNUAL PERCENTAGE INCREASE 2007 – 2010 [1]	ESTIMATED 2010 ODA / GNI RATIO
Achieved 0.7%							
Denmark	0.80%	0.76%	Minimum of 0.8%	2,123	2,423	3.4%	0.80%
Luxembourg	0.89%	0.89%	1% in 2009	291	376	6.6%	1.00%
Netherlands	0.81%	0.76%	Minimum of 0.8%	5,140	5,962	3.6%	0.80%
Norway	0.89%	0.88%	1% over 2006-09	2,932	3,661	5.7%	1.00%
Sweden	1.02%	0.95%	1%	3,663	4,331	4.3%	1.00%
Set 0.7% Target							
Belgium	0.50%	0.40%	0.7% in 2010	1,581	3,025	17.7%	0.70%
France	0.47%	0.32%	0.7% in 2015	3,433	12,519	39.2%	0.51%
Ireland	0.54%	0.54%	0.6% in 2010 & 0.7% in 2012	1,022	1,294	6.1%	0.60%
Spain	0.32%	0.27%	0.5% in 2008 & 0.7% in 2015	3,310	7,920	24.6%	0.59%
United Kingdom	0.51%	0.37%	0.56% in 2010 & 0.7% in 2013	8,956	14,856	13.5%	0.56%
Set 0.51% Target							
Austria	0.47%	0.23%	0.51% in 2010	742	1,796	24.9%	0.51%
Finland	0.40%	0.40%	0.51% in 2010	834	1,183	9.1%	0.51%
Germany	0.36%	0.26%	0.51% in 2010	7,712	16,355	20.8%	0.51%
Greece	0.17%	0.17%	0.51% in 2010	424	1,402	35.5%	0.51%
Italy	0.20%	0.11%	0.51% in 2010	2,045	10,163	51.8%	0.51%
Portugal	0.21%	0.21%	0.51% in 2010	396	1,031	27.5%	0.51%
Other Targets							
Australia	0.30%	0.26%	0.36% in 2010 & 0.5% in 2015	1,846	2,913	12.1%	0.36%
New Zealand	0.27%	0.27%	0.33% in 2010	259	344	7.4%	0.33%
No Specific Target							
Canada	0.29%	0.27%	Aid at US\$4.2 billion in 2010	3,424	4,162	5.0%	0.30%
Japan	0.25%	0.18%	Aid at US\$10.1 billion in 2010	8,185	10,092	5.4%	0.21%
Switzerland	0.39%	0.37%	0.4% in 2010	1,548	1,828	4.2%	0.40%
United States	0.18%	0.17%	Aid at US\$24.7 billion in 2010	21,947	24,705	3.0%	0.17%
Total DAC Donors	0.31%	0.25%		85,547	132,341	11.1%	0.35%
Average Country Effort	0.46%	0.41%					0.56%

Source: DAC Secretariat Calculations, Development Cooperation 2007 Report, page 17.

[1] Note: Aid without Debt and Average Percentage Increases are Reality of Aid calculations. To calculate the percentage increase Reality of Aid took the difference between 2006 ODA (no debt) and divided it by the four year (2007 to 2010). A percentage increase was calculated for each year and then averaged over the four years. Percentage increases are larger in early years than in 2010. The resulting percentage should therefore be treated as an indicator rather than an annual target.

What are the prospects for achieving this goal? The Reality of Aid is pessimistic that donors will succeed. Several donors – the United Kingdom, Ireland, and Spain – are well positioned to achieve 0.7% before 2015, if they sustain existing aid budget increases (Table 1). Others, the United States, Canada and Japan, will achieve their own targets but only because they initially set very low targets for themselves in 2005. Their lack of ambition means that they might meet their goals. Achieving the overall G7 goal will depend on political will to provide for very large annual aid increases on the part of several key G7 donors – France, Germany and Italy – who are currently very far from their 2010 targets, when debt relief grants are removed from 2005 and 2006 figures. As the DAC points out, the high levels of debt relief grants in 2005 and 2006 will not be available to be included in ODA by 2010. There is little evidence that these three countries, which represent close to 30% of the DAC target for aid in 2010, will make the required double digit annual percentage increases to their aid budgets between 2007 and 2010 (averaging 39% for France, 21% for Germany and 52% increase for Italy).

Given political will, aid increases are affordable...

Aid increases are affordable for rich countries. But they have failed to increase aid as their overall wealth increases.

As a proxy for the ability to pay, Reality of Aid examines the trend in both aid and GNI growth for the rich countries. There has been an expanding gap between per capita aid and per capita wealth in donor countries since the early 1960s (Chart 4). Aid per capita was 0.5% of GNI per capita in 1961, but by 2006, aid per capita represented less than 0.25% of GNI. Since 1995 the gap between aid and wealth has almost doubled.

Since aid is allocated from donor government revenue, the level of aid spending as a percentage of tax revenue is also a measure of political will to help end global poverty. Total DAC aid at 0.77% of total government tax revenue in 2004⁵ is an increase from a low of 0.61% in 2000, but still well below the peak of more than 1% reached in 1990 and in the 1980s (Chart 5).

Aid increases since 2000 have not been available for new investments in human development goals...

Have any increases in aid spending provided *new* resources for long-term development priorities?

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 in donor countries.

In 2000, the international community vowed, in the historic Millennium Declaration, “to spare no effort” to realise human rights and reduce poverty and inequality. Aid was identified as a critical catalyst to meet this commitment and donors pledged to increase aid accordingly. But

⁵ 2004 is the last year for information on government tax revenue from the OECD statistics.

only a minimal part of new aid resources, over and above what was already available prior to 2000, have been available for poverty reduction and the achievement of Millennium Development Goals (MDGs). Any increased donor allocations to the MDGs, since 2000 (see below), have been largely the result of re-profiling existing pre-2000 aid dollars.

Between 2000 and 2006, donors added a total of US\$148.2 billion new dollars for ODA, over and above what existed at the time of the Millennium Declaration (Table 2). But more than 40% of these new aid dollars were never budgeted as aid. Donors were able to count as new aid, amounts resulting from increases for debt relief, increases for imputed costs for students from developing countries studying in donor countries and for support for refugees for their first year in donor countries. All of these “ODA dollars” do not appear in any aid budget, but are permitted, by DAC rules, for calculating ODA. Massive increases in aid for Iraq and Afghanistan, following the events of 9/11 and largely in response to foreign policy interests in donor countries, further distorts the aid picture. Aid driven by “war-on-terror” foreign policy interests accounted for 31% of the disbursements of new aid dollars during this period. Only 28% of new aid money was left to honour donor pledges to increase aid spending for poverty reduction and the MDGs.⁶

TABLE 2
ALLOCATION OF NEW DONOR AID RESOURCES, 2000 – 2006

INDICATOR	BILLION USD	
New Aid Resources		\$ 148.2
Minus:		
▪ Additional debt cancellation	\$ 53.8	
▪ Additional support for refugees	2.2	
▪ Additional imputed student costs	4.5	
Sub-Total of Non-Aid Items		60.5 (40.8%)
Additional Aid to Iraq, Afghanistan and Pakistan		46.0 (31.0%)
New aid resources for potential use in poverty reduction / MDGs and other development programs		41.7 (28.1%)

Source: Reality of Aid calculations based on OECD Stat Online DAC data, 2000 to 2006, current US dollars. New aid resources in each of these years are compared to aid levels in 2000. Similarly, the deductions made from total new aid resources are compared to levels in 2000.

The close to US\$50 billion in new aid resources for Iraq, Afghanistan and Pakistan since 2000, not including US\$18.4 billion in debt relief grants for these three countries, represent the largest ever donor country commitments for aid. But this aid spending seems miniscule compared to the massive cost of conducting the wars in these three countries. Joseph Stiglitz, former Chief Economist at the World Bank, estimates the current and future costs of the war in Iraq for the US at between US\$1.7 and US\$2 trillion up to 2017, when benefits to veterans and other future costs

⁶ When converted to the value of 2006 US dollars and removing the impact of exchange rates changes, only 18% of the value of new aid resources in 2006 dollars was available for MDGs and other poverty related investments.

are considered. He further calculates that the cost of these wars in 2008 to be \$12 billion *each month*. Recent UK estimates add US\$500 million to this monthly bill and Canada has reported spending more than US\$1 billion a year on its military efforts in Afghanistan. To put these numbers in perspective, the UK, the US and Canada will be spending US\$150 billion in 2008 on wars in Afghanistan and Iraq, almost double all budgeted aid from all donors for 2006. And these figures do not factor in the costs of damage to Iraqi and Afghan infrastructure and economy as a result of the wars⁷ (Chart 6)

In promoting the importance of the 2005 Paris Declaration on Aid Effectiveness, donors have often referred to their commitment to spend effectively the new aid resources made available in the wake of the 2002 UN Financing for Development Summit. Sadly, the reality is that very few new aid dollars, from the accumulated increases since 2000, are available to demonstrate the potential impact of increased aid spending on poverty reduction for millions of people who continue to live in poverty (Table 2).

But perhaps the quality of aid dollars has been improving overall, with the implementation of the Paris Declaration and the commitment to the Millennium Development goals? While clearly insufficient in quantity, an improved targeting of existing aid dollars and actual reform of anarchic, unpredictable, non-transparent and volatile aid practices would demonstrate that the international community has listened to the call of citizens, North and South, for governments to meet their international human rights obligations to end global poverty and inequality. Unfortunately the evidence suggests that donors have made little progress in the quality of their aid, despite repeated commitments since the early years of this decade.

2. TRENDS IN THE QUALITY OF AID FOR POVERTY REDUCTION

Focusing on poverty reduction and the rights of the poor: Paris Declaration indicators fail to measure impact...

In follow-up to the Paris Declaration, the DAC and the World Bank identified 14 indicators and targets for measuring progress in achieving the Paris Declaration commitment. A baseline report was produced in 2006 and progress on these indicators and targets is currently being measured in an exercise coordinated by the DAC Secretariat and involving developing country governments, donors and the World Bank for the September 2008 High Level Forum.⁸

⁷ Charles Hanley, "Iraq, Afghanistan wars to cost U.S. \$12-billion monthly: studies", *Globe and Mail* (Canada), March 10, 2008. See also Richard Norton-Taylor, "Cost for Iraqi and Afghan wars has doubled", *Guardian* (UK), March 11, 2008. UK estimates the total cost of both wars to the UK Treasury since 2003 is approximately US\$10 billion. Canadian estimates have been reported in "Tories don't deny Afghan mission \$1B over budget", *Toronto Star*, March 11, 2008.

⁸ OECD Secretariat / World Bank, "Baselines and suggested targets for the 12 indicators of progress – Paris Declaration on Aid Effectiveness", August 2005. Indicators 2 and 5 each have two separate indicators and are counted as separate in this chapter. A Benchmark study was published in 2007 and is available at http://www.oecd.org/document/20/0,3343,en_2649_3236398_38521876_1_1_1_1,00.html. For a CSO assessment of the scope and results of this monitoring exercise see Eurodad, "Eurodad brief analysis of the OECD Paris monitoring survey", June 2007, available at http://betteraid.org/index.php?Itemid=26&id=42&option=com_content&task=view. This world trends chapter also references CSO perspectives set out in the Policy Paper prepared by the International Civil Society Steering Group for the Accra High Level Forum in September 2008, "From Paris 2005 to Accra 2008: Will Aid be More Accountable and Effective?", February 2008, also available at http://www.betteraid.org/index.php?option=com_content&task=view&id=88&Itemid=26.

In measuring progress from the baseline study on the Paris Declaration commitments, CSOs are calling for greater aid transparency at the country level (including gender disaggregated data), engagement with CSOs in assessing aid performance, and explicit documentation of the progress made by individual donors.

The International Civil Society Steering Group for the Accra High Level Forum has stressed the centrality of human rights, gender equality, poverty reduction and social justice as the true measure of the aid effectiveness agenda. Unfortunately, none of the current Paris Declaration indicators or targets measures the methods used for these disbursements and the actual impact of aid disbursements on the rights of poor, on women's rights or marginalised populations.

The World Bank and the International Monetary Fund in the 2008 *Global Monitoring Report: MDGs and the Environment* admits for the first time that “on current trends, most countries are off track to meet most of the MDGs, with those in fragile situations falling behind most seriously”. The report notes that “shortfalls in the human development areas are especially serious in South Asia and Sub-Saharan Africa”.⁹ Recent World Bank technical data point to serious over-estimations of the degree to which the number of people living on less than a dollar a day, in at least 33 countries, including China and India, has been reduced.¹⁰ These last two countries have contributed the most reductions to meet the first MDG to halve the proportion of people living on less than a dollar a day between 1990 and 2015. With this over-estimation, realising the MDGs is even more illusory.

Donors have significantly improved their focus, since 1990, on key sectors relevant to achieving the Millennium Development Goals, such as basic education and primary health. But donors have not significantly increased funding to these key sectors since 2000.

Neither the DAC nor the United Nations system measures aid contributions in achieving the Millennium Development Goals. Aid statistics can only give an approximate measure of change over time for some sector allocations that seem highly relevant to the MDGs.¹¹ Reality of Aid's proxy indicator for aid to MDG priorities, using a number of key sectors (Chart 7), suggests that by 2006, the proportion of aid committed to these sectors doubled from 1990 and the dollar value of US\$18 billion in 2006 was more than three times its value in 1990.

⁹ The World Bank. *Global Monitoring Report 2008: MDGs and the Environment: Agenda for Inclusive and Sustainable Development*, April 2008, page xi.

¹⁰ A Keidel, “The Limits of a Smaller Poorer China”, *Financial Times*, November 14, 2007. This report suggests that the number of people living on less than \$1 a day is 300 million in China, three times the current estimate. See also Institute of Development Studies, “PPP – Purchasing power parity or patently persistent poverty?”, February 2008. The World Bank will release revised figures for number of people living on less \$1 a day in late 2008. See World Bank 2008, *op. cit.*, page 27.

¹¹ The Reality of Aid has refined a proxy indicator for aid and the MDGs used in its 2006 Global Report. For the current Report, the following sectors have been chosen as a proxy indicator of the degree to which aid is directed to MDG purposes: basic education, basic health, population programming and reproductive health, environmental protection and development food aid and food security assistance. Aid commitment to these sectors (both bilateral and multilateral) are compared to total sector commitments of ODA, excluding action relating to debt, support to NGOs, refugees in donor countries and unallocated. Current information is quantitative only, and does not permit a measurement of the actual impact of these disbursements on achieving quality progress in these areas. The trends should also be treated as indicative only, as it is not possible to verify that disbursement data is complete for these sector codes, particularly for earlier years. Data is drawn from the DAC CRS Database, March 2008.

Interestingly, the proxy indicator also suggests that increased allocations, as a proportion of aid, since 2000 have been marginal. (Measuring progress from 2000 is relevant because although 1990 is the baseline for measuring progress in achieving the MDGs, world governments only committed to the MDGs in 2000.) This marginal increase is not surprising given that most new aid money since 2000 was not available for these purposes (except insofar as aid allocated to Afghanistan and Iraq were directed to MDG goals). It is also not possible to know whether improved targeting of these sectors since the early 1990s was the result of better targeting of existing aid and/or the consequence of better reporting by donors to the DAC's Donor Creditor Reporting System.

Sufficient aid to meet poverty reduction goals inherent in the MDGs requires major scaling up of total aid resources for these purposes. Aid disbursed for basic education, for example, did increase significantly from US\$747 million in 2000 to US\$2.8 billion by 2006, in no small measure due to strong pressure from civil society in support of the global Education for All (EFA) initiative. EFA points out that despite these investments:

“77 million children [are]not enrolled in school and an estimated 781 million adults have not yet had the opportunity to learn to read and write – two-thirds of them women. By the latest estimation, 23 countries are at risk of not achieving universal primary education by 2015 and 86 countries are at risk of not achieving gender parity even by 2015. Primary-school fees, which are a major obstacle for universal access, are still collected in 89 countries out of 103 surveyed.”¹²

The 2008 *Global Monitoring Report* for the EFA initiative proposes that bilateral donors allocate 10% of their sectoral aid to basic education. Aid for basic education was only approximately 4% of total sector aid allocated aid in 2006. Civil society organisations involved in the Global Campaign for Education argue that it is only through reaching the 0.7% target for aid spending that there will be the resources needed to fulfill donor commitments to education.¹³

Gender equality is invisible in donor accountability...

It is widely agreed that poverty is a feminised phenomenon, with women making up to 70% of people living in poverty. Many donor agencies have impressive policies that put gender equality and the empowerment of women as central priorities in efforts for development. CSOs have argued, in relation to the implementation of the Paris Declaration, that “without that commitment [to gender equality and women's rights], no aid mechanism can be effective in delivering sustained poverty reduction”. Assessing the gender implications of implementation of the Paris Declaration, CSOs have also drawn attention to the fact that “women's voices and perspectives have been largely excluded at both the national and international levels in development policies

¹² See Education for All, “Ten Things you should know about EFA” at http://portal.unesco.org/education/en/ev.php-URL_ID=52210&URL_DO=DO_TOPIC&URL_SECTION=201.html.

¹³ See UNESCO, *EFA Global Monitoring Report 2008: Education for All by 2015 – Will We Make It? Summary Report*. 2008 p. 39, accessible at <http://unesdoc.unesco.org/images/0015/001548/154820e.pdf> and the Global Campaign for Education. *Class of 2007: Not Up to Scratch*. Johannesburg:GCE, 2007, p.16 accessible at <http://www.campaignforeducation.org/documents/news/2007/April/EngsNarrativelowres.pdf>.

and processes funded by aid”.¹⁴ Given the stated centrality of gender equality in donors’ development policies, it is remarkable that donors have only recently begun to provide the DAC documentation to track trends in “gender-equality focused aid”.¹⁵ There are, however, currently no statistical tables related to gender-equality focused aid included in the annual DAC *Development Cooperation Report*.

Women’s rights organisations are seeking a target of 10% of ODA for gender equality and women’s empowerment by 2010 and 20% by 2015.¹⁶ Donors have a long way to go to reach this target. Unfortunately, since 2003, only an estimated meager 3.8% of ODA has been allocated to gender equality. Monitoring of the Paris Declaration implementation should be adjusted to integrate gender equality targets, with substantive work up to 2010 to develop strategic plans on gender equality in subsequent aid reform initiatives. Women’s organisations play a crucial role in holding government 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 organisations as part of civil society, and particularly those CSOs representing women from socially excluded groups.

Gender equality-focused ODA is still not reported systematically by donors. A two-year average for 2005 and 2006 of a DAC gender marker as a proportion of sector-allocated aid put gender equality-focused aid for 16 donors reporting on this marker at only 5.1% of their sector-allocated aid.

The DAC gender marker, while an important step forward, includes both aid that has gender equality as a “principal objective” and as a “significant objective”. The latter leaves a wide margin for differing approaches to assessing aid disbursements in terms of gender equality. In a study (by the DAC Secretariat and Gendernet) of 16 countries reporting on the gender marker, more than 87% of the reported activities in 2005 reported gender equality as a “significant objective”. Only US\$1.2 billion were reported as disbursed to gender equality as a “principal objective”, amounting to 13% of all gender marker activities, and a mere 3.3% of all sector-allocated aid in that year.¹⁷

¹⁴ Cecelia Alemany, Nerea Craviotto, Fernanda Hopenhaym *et. al.* “Implementing the Paris Declaration: Implications for the Promotion of Women’s Rights and Gender Equality”, AWID and WIDE, January 2008, accessible at http://www.ccic.ca/e/docs/002_aid_2008-02_aidid_wide_aid_effect_gender_equality.pdf.

¹⁵ The OECD DAC Gendernet and the DAC Secretariat recently published a review of “Aid in Support of Gender Equality and Women’s Empowerment” based on the DAC Creditor Reporting System for 2004 – 2005, <http://www.oecd.org/dataoecd/7/55/38898309.pdf>. See also Report of the Expert Group Meeting, “Financing for gender equality and the empowerment of women”, Division for the Advancement of Women, United Nations, Hosted by the Government of Norway, September 2007, accessible at http://www.un.org/womenwatch/daw/egm/financing_gender_equality/EGM%20Report%20Final.pdf.

¹⁶ Report of the Expert Group Meeting, *op. cit.*, page 29.

¹⁷ OECD DAC, “Aid in Support of Gender Equality and Women’s Empowerment”, OECD Paris, June 2007, accessible at <http://www.oecd.org/dataoecd/7/55/38898309.pdf>. 70% of this US\$1.2 billion was accounted for by four donors – Sweden, the Netherlands, Japan and Germany.

“Aid-for-trade” departs from the primary focus of aid on poverty reduction and the rights of poor and excluded populations. The DAC notes strong growth in “Aid-for-Trade”...

The DAC notes in its 2007 *Development Cooperation Report*, a growing commitment to “aid-for-trade” to assist developing countries to benefit from WTO agreements and more broadly to expand their trade. Between 2002 and 2005, according to the report, an average of US\$21 billion per year on categories associated with “Aid for Trade” (including US\$2.6 billion for trade development and increasing understanding of trade policy and regulations).¹⁸ These aid commitments averaged 34% of total sector-allocated aid and grew by 22%. This contrasts with an average of less than half (15% of total sector-allocated aid) for basic education, primary health and population programs combined. The DAC expects that an additional US\$8 billion will be delivered by donors for aid for trade by 2010, reaching a total commitment of US\$30 billion in that year.

Can “aid-for-trade” initiatives demonstrate coherence with aid effectiveness principles? Is this aid truly country-driven and untied, or is it driven by donor policies and strategies to extend their interests in trade and investment liberalisation? What is the demonstrated impact on poverty reduction, employment generation and gender equality?

CSOs point out that a focus only on export industries and international markets will likely disadvantage poor producers, traders and entrepreneurs for whom domestic and regional markets might be more important. The latter are the backbone of economic development for poverty reduction. “Aid-for-trade” relies heavily on technical assistance, which remains highly reliant on donor initiative, knowledge and advice. Finally, increased spending on “aid-for-trade” should be clearly delinked from current and future trade negotiations. “Aid-for-trade” should not be used to “compensate” developing countries as trade deals fail to delivery real benefits for these countries.¹⁹

Country ownership of diminishing bilateral aid resources...

Country ownership is the defining principle of the Paris Declaration on Aid Effectiveness. But country ownership of aid priorities should be implemented in ways that build from local and democratic ownership. CSOs have pointed out that not all ODA is available to be managed by developing country partners. Since its 2002 report, Reality of Aid has estimated aid disbursements that have the *potential* to be managed by aid counterparts in the South.²⁰ Reality of Aid makes this estimate based on the amount of total bilateral ODA that could be available for

¹⁸ OECD DAC, *Development Cooperation Report 2007*, pp 32 – 34. The broad sector categories included are i) trade policy and regulation, ii) trade development, iii) trade related infrastructure, iv) building productive capacity, and v) trade related adjustment.

¹⁹ See “CSO Statement: Global Aid for Trade Review”, November 21 – 22, 2007, accessible at http://www.realizingrights.org/pdf/Global_Aid_for_Trade_Review_Statement_Nov_07.pdf.

²⁰ The Reality of Aid measure of potential country ownership of aid reduces ODA by the following amounts: debt relief grants, imputed student costs in donor countries, imputed costs for refugees in donor countries, donor administration, emergency and humanitarian assistance, 15% of the amount of tied aid (representing the cost of tied aid to developing countries) and 80% of all technical assistance (on the assumption that it is directed by donor countries).

actual programmes in developing countries.²¹ Richard Manning, former DAC Chairperson, has also addressed this issue as “programmable aid”, involving genuine transfer of resources to developing countries, in his “Overview” in the 2007 *Development Cooperation Report*. He points out that programmable aid, excluding Iraq, was lower in 2006 than it was in 2002.

According to the Reality of Aid, since 2003, less than a third of all bilateral ODA and about US\$25 billion in 2006, has been available for actual programs in developing countries – that is aid which developing country partners can potentially use to meet development priorities that they themselves determine.

Country programmable aid has been falling since 1990, and particularly since 2003 (Chart 8). As a percentage of total bilateral aid, country programmable aid has been less than 32% on average since 2003, down from an average of 41% between 2000 and 2002 and 49% in 1990.

Supply-led and donor-managed technical assistance challenged by developing country governments...

The failure of bilateral donors to address supply-led and donor-managed technical assistance is a major factor in the capacity of developing country partners to determine and manage the allocation of aid in their country.

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.

Donor-driven technical assistance, unfortunately, is still a major channel for the delivery of development assistance (Chart 9). While total technical assistance has declined marginally, as a proportion of non-debt bilateral aid, from a high of 44% in the early 2000s, it remains much higher today than it was in 1990 when such spending was 34% of bilateral aid. There are no comparable statistics for the levels of technical assistance in multilateral aid, but there is little doubt of its importance for the World Bank and many UN agencies. One study calculated that in 2004 there were more than 20,000 free standing technical assistance activities related to aid, enough for a least one starting every working day in every developing country.²²

A study by Actionaid UK concluded that technical assistance remains “heavily donor-driven, tied to donor country firms and dependent on expensive ‘expert’ knowledge from rich countries”. Actionaid’s research confirmed earlier reports from the DAC, the World Bank and the UNDP

²¹ A number of other CSOs and research centres have made similar estimates (based on somewhat differing assumptions) in recent years. Actionaid UK has developed the concept of “real aid” (See http://www.actionaid.org.uk/100473/real_aid_reports.html). Concord has analysed European donor aid using a more limited definition. Homi Kharas, writing for the Wolfensohn Centre for Development at the Brookings Institution has adopted the notion of “country programmable aid” in “Trends and Issues in Development Aid”, Working Paper #1, November 2007, accessible at http://www.brookings.edu/papers/2007/11/development_aid_kharas.aspx.

²² IDA, “Aid Architecture”, *op. cit.*, p. 22.

that technical assistance has been largely ineffective as a development resource.²³ Donors use technical assistance often to enforce multiple conditions attached to aid programs in order to promote reforms that donors believe important for aid effectiveness, but with few options and little direction from developing country partners.

In the DAC 2006 benchmark survey of the very modest targets set for the Paris Declaration, developing country government representatives pointed to the pervasive failure of donors to make any progress in re-orienting technical assistance so that it builds real capacity, with its use and terms determined by developing country partners. While there is no agreement among donors about what the contribution of technical assistance can be, representatives of developing countries interviewed for the DAC study suggest that “the element most often missing was effective country leadership based on a specific strategic vision for capacity development”. The benchmark survey report concluded that “the Paris Declaration’s vision of the future needs of capacity development is clearly not just unfinished business, but business that has barely begun”.²⁴ Given its predominance within bilateral aid, technical assistance reform remains one of the most important barriers to local and democratic ownership of aid relationships.²⁵

No donor targets for reducing conditionality...

The 2006 benchmark survey on monitoring the Paris Declaration noted that country ownership implied that developing countries have to develop their own development strategies based on “each country’s priorities, pace and sequencing of reform”. CSOs suggest that donor conditionality undermines the potential for democratic ownership to influence the allocation of aid to country priorities as determined by citizens, legislatures and government. CSOs argue that the “use of aid as a tool to impose policy conditions has no place in an aid paradigm rooted in a commitment to ownership”.²⁶

Since the adoption of the Paris Declaration, there has been no reduction in imposed policy conditions, including benchmarks, triggers and performance-based allocations. The Paris Declaration has no objectives or targets for reducing aid conditionality, even though it espouses the principle of country ownership.

The World Bank has adopted a set of “Good Practices Principles” for conditions it attaches to loan programs. The Bank claims that these principles have resulted in some reform of conditionality and in reducing the numbers of conditions attached to its loans. The European Network on Debt and Development (Eurodad) reports, in a recent review of the World Bank’s own conditionality database, that while this claim of reduced numbers of conditions may be

²³ Actionaid International. Real Aid 2: Making Technical Assistance Work. 2007, accessible at http://www.actionaid.org.uk/doc/lib/real_aid2.pdf. The Actionaid Study notes that a foreign consultant in Cambodia typically costs US\$17,000 a month, while a local civil servant earns US\$40.

²⁴ OECD DAC. “The 2006 Survey on Monitoring the Paris Declaration”, May 2007, pages 23 & 24, accessible at http://www.oecd.org/document/52/0,2340,en_2649_15577209_36162932_1_1_1_1.00.html.

²⁵ See proposals in Land, T, Hauck, V, and Baser, H., “Aid Effectiveness and the Provision of TA Personnel: Improving Practice”, European Centre for Development Policy Management, Policy Management Brief #20, November 2007, accessible at <http://www.ecdpm.org/>.

²⁶ International Civil Society Steering Group for the Accra High Level Forum, *op. cit.*, p. 4.

technically true, it is the result of a reduction in non-binding conditions (from an average of 33 to 24 per loan). Binding conditions have remained largely unchanged at an average of 13 per loan. It is these binding conditions that continue to promote detrimental economic policy conditions such as privatisation and liberalisation. Indeed the actual number of conditions may not have fallen as the World Bank now “bundles” conditions. When counted as separate conditions, these bundled conditions resulted in a 12% increase in the overall number of conditions. There are also highly variable country experiences where Senegal, for example, faces a total 99 conditions in its recent loans with the World Bank.²⁷

While aid relationships should have clear fiduciary terms that are fair to both donor and recipient, the continued practice of conditionality goes to the heart of political will on the part of donors to reform their aid practices. All donors, as they move to implement the Paris Declaration principle of harmonisation, are increasingly aligning themselves, not with democratically determined country strategies, but are rather using the power of their aid relationship to impose their policy preferences. Such impositions need not be spelled out as a condition of aid. There are more oblique ways to achieve donor influence on policy. The World Bank annually assesses and ranks low income countries in terms of economic policy and institutional governance in its “Country Policy and Institutional Assessment” (CPIA).²⁸ Recipient-country governments are well aware of the influence CPIA scores as well as the World Bank’s review of “Public Financial Management Systems” as signals for continued donor support. Indeed, donors have included in their assessment of Paris Declaration’s commitments on alignment and harmonisation, several indicators drawn directly from the Bank’s CPIA.²⁹

As a principal means to harmonise donor practices and align with country strategies, donors have agreed, in the *Paris Declaration*, that 66% of their aid flows by 2010 are to be “provided in the context of program-based approaches”. CSOs have welcomed a greater focus on coordinating aid and support for the capacities of governments to meet their human rights obligations, particularly to those living in poverty and otherwise marginalised. At the same time, without fundamental commitments to donor-agreed targets that move substantially away from conditionality, program-based approaches will, unfortunately, become a highly effective means for the transmission of donor aid conditions.

The proportion of program aid (direct support for the budget of a developing country government or a sector-wide program) recorded by the DAC has grown from 12% of non-debt related bilateral aid in 2000 to just over 18% in 2006.

The DAC “Creditor Reporting System” records a relatively small proportion of aid as program and sector aid (18% in 2006). The 2006 benchmark survey of targets for the Paris Declaration, however, identifies a baseline of 43%. The authors of the survey indicate that donors are

²⁷ Eurodad, “Untying the knots: How the World Bank is failing to deliver real change on conditionality”, Eurodad Report, November 2007, accessible at http://www.eurodad.org/uploadedFiles/Whats_New/Reports/Untying%20the%20knots%20-%20How%20the%20WB%20is%20failing%20to%20deliver%20real%20change%20on%20conditionality.pdf.

²⁸ For a critique see Kanbur, Ravi, “Reforming the Formula: A Modest Proposal for Introducing Development Outcomes in IDA Allocation Procedures” (March 2005). CEPR Discussion Paper N° 4971.

²⁹ See Roberto Bissio’s overview of the assessment of the implementation of the Paris Declaration from the point of view of the Right to Development in this volume.

working with differing assumptions about a “program based approach” in arriving at this higher figure. The DAC “Creditor Reporting System” suggests that approximately 65% of “program budget support” between 2004 and 2006 was implemented in Sub-Saharan Africa, in countries where governments remain highly dependent on aid and least able to resist multiple donor conditions attached to such programs.

Aid tying still a major concern...

The donors offered an almost meaningless commitment in the Paris Declaration to “continue to make progress on untying aid”. Untying aid reduces transactions costs for developing countries and improves country ownership and alignment.

According to the World Bank, the proportion of donor aid considered to be tied to purchases in the donor’s country, all items considered, is 58%. The proportion of aid tied to purchases in least developed countries is 32%.³⁰

Meanwhile the DAC reports that the proportion of tied aid has fallen from 19% in 2000 to 5.4% in 2006. DAC figures differ from the World Bank’s assessment because DAC members have not agreed to include in their figures for tied aid technical assistance and food aid, which are highly tied. DAC figures also do not include the United States, the largest donor by volume (disbursing 33% of all DAC bilateral aid, net of debt relief grants), nor Italy, both of whom are reputed to heavily tied their aid.³¹ The Centre for Global Development, in its 2007 *Commitment to Development Index*, estimates that approximately 70% of US aid remains tied to US purchases. The 2006 DAC survey of Paris Declaration targets reports that an astounding 93% of US aid to 29 countries was tied.

But has untying aid benefited developing country suppliers? The rationale for untying aid is to give more choice to developing country partners in the procurement of aid goods and services. It should serve to stimulate developing country enterprises and to develop and use developing country expertise. In reality, untying of aid has meant the liberalisation of procurement in Northern donor countries. Incredibly, despite reported progress on aid untying, particularly by Netherlands, Sweden, Ireland and the United Kingdom with fully untied aid, according to a UNDP official, in 2003, a mere 4% of the US\$50 billion development procurement business went to enterprises in G77 developing countries and China.³² This is because “fully” untying aid means that goods and services can be procured anywhere. Donors that give preference to local developing country suppliers have, according to the DAC, only “partially” untied their aid. But in only “partially” untying their aid, donors can actually favour developing country suppliers.

³⁰ International Development Association (IDA). “Aid Architecture: An overview of the main trends in official development assistance flows”, February 2007, page 39, accessible at <http://siteresources.worldbank.org/IDA/Resources/Seminar%20PDFs/73449-1172525976405/3492866-1172527584498/Aidarchitecture.pdf>.

³¹ The 2007 DAC *Development Cooperation Report* says that in 2006 the tying status of 43.9% of “financial aid” (i.e. still not including technical assistance) was not reported by DAC members (page 23).

³² Nachilala Nkombo quoting a UNDP official at the Inter Regional Dialogue on Aid Effectiveness Workshop – Ensuring Aid Effectiveness, the way to Sustainable Development – in Lusaka, Zambia, 16 – 19 October 2007 in Nkombo, N. “Development Aid and National Ownership: A review of critical experiences from Africa: milestones, good practices, failures and future research options”, Forum on the Future of Aid, page 4, accessible at <http://www.futureofaid.net/files/Ownership%20-%20Nkombo.pdf>.

Donors fail to give priority to Sub-Saharan Africa...

At the 2005 Gleneagles G7 Summit major donors agreed that US\$25 billion would be added to aid to Sub-Saharan Africa by 2010, more than doubling aid from 2004 (US\$16.7 billion). 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 countries that the UNDP ranks as “low human development” are from the sub-continent. Sub-Saharan Africa’s overall HDI in 2007 at 0.493 is lower than it was in 2005 (0.515).

Donors are significantly off-track in their commitment to add at least US\$25 billion to their aid for Sub-Saharan Africa. Donors will no longer be able to hide their actual performance behind debt relief grants in their ODA. From 2004 to 2006, non-debt aid to Sub-Saharan Africa 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.

Shockingly, there was no evident priority for aid spending to Sub-Saharan in this decade, when debt relief grants are excluded. In 2006, only 29.2% total ODA spending went to Sub-Saharan Africa down from a high of 31.4% in 1995 (Chart 10).

If donors are serious about poverty-focused aid to Sub-Saharan Africa, Reality of Aid would have expected its proxy indicator for aid investments to achieve the MDGs to demonstrate this priority. Indeed, more than a third of the aid commitments covered by the proxy MDG indicator in 2006 were made to Sub-Saharan Africa. However, as a proportion of total sector-allocated aid to that region, the proxy indicator made up only 21%, just marginally greater than the 18% proportion for all regions of the developing world.

According to the DAC, aid disbursements to Sub-Saharan Africa amount to 37.9% of total ODA in 2006, an increased proportion from 26.7% in 2000. However, the reason for this increase is not greater priority, but rather was due to the impact of high debt relief grants, particularly in 2005 and 2006. Removing these grants, aid disbursed to the region was 29.2% of total ODA, up marginally from 25.9% in 2000. On this measure, Asia received the highest proportion of ODA in 2006 – 34.4% – primarily the result of very high disbursements for Afghanistan and Iraq (3.5% and 6.2% of non-debt ODA respectively).

Humanitarian assistance remains high...

Humanitarian and emergency assistance as a proportion of donor aid fell only marginally in 2006 to 8%, from a high this decade of 8.9% in 2005.³³

High disbursements for humanitarian assistance in 2006 are likely still affected by the huge response to the 2004 Tsunami and the 2005 earthquake in Pakistan. In dollar amounts, bilateral humanitarian assistance has more than doubled from US\$2.9 billion in 2000 to US\$6.6 billion in 2006.

³³ *Reality of Aid* calculations of the proportion of aid devoted to these purposes is higher than comparable DAC figures, as the former excludes both debt relief grants and support to refugees from total ODA.

Aid to Afghanistan and Iraq overwhelms overall aid to conflict-affected countries ...

Total aid to countries experiencing severe and prolonged conflict is becoming more concentrated as a proportion of total donor aid. Aid to countries in conflict has more than doubled from 9.3% in 2000 to 20.4% in 2006. Aid to conflict-affected countries was also highly unequal, with extremely high levels of aid for Iraq and Afghanistan compared to other conflict-affected countries.

With foreign policy imperatives driving large amounts of aid to Iraq and Afghanistan since 2002, the emphasis on conflict-affected countries is affecting overall aid allocations in 2006. Examining aid allocations to the most severely conflict-affected countries³⁴, not including debt relief grants, aid increased from 9.3% of total ODA in 2000 (for 12 countries) to 20.4% (for 10 countries) in 2006. In current dollar terms, donors have concentrated more of their aid on the immediate needs of conflict-affected countries with the amount of aid devoted to these countries almost tripling in value in these six years. But the distribution of aid among severe conflict-affected countries was also highly unequal in 2006 and influenced by donor foreign policy pre-occupations. Iraq and Afghanistan accounted for close to two-thirds of all aid directed to severely conflict-affected countries. The other eight countries shared the remaining 36.7% (with the Democratic Republic of Congo and the Palestinian Administered Areas accounting for 5.4% and 6.4% respectively).

UN aid channels declining in importance...

Multilateral aid as a whole, as a proportion of total ODA, experienced a modest declining trend since 2000. But within multilateral aid, the share for UN agencies declined from close to 30% in 2000/2001 to less than 20% in 2005/06. Multilateral aid channelled through the International Financial Institutions (IFIs), however, saw an increase from 33% to 37% in the same years.

Overall, aid delivered through multilateral channels declined from 37% of non-debt ODA in 2000 to just less than 34% in 2006. This modest decline, however, has not yet approached the low of 31% in 1990. However, there have been significant shifts in the relative importance of different multilateral channels. UN agencies are seemingly increasingly marginalised financially as a channel for DAC donor multilateral aid. The UN agencies' share of this aid channel declined almost 10% since 2000, while the IFIs increased their share by 4%. The growing pre-dominance of IFIs will likely continue. In renewing their commitments to the concessional International Development Association (IDA) loan and grant window at the World Bank for the poorest countries, donors in late 2007 pledged a record US\$25.1 billion for the next three years, a jump of 41% over the previous three-year period.

³⁴ Severely conflict-affected countries are those where the current phase of the conflict has resulted in more than 100,000 casualties. The list of such countries for 2000 and 2006 is derived from Project Ploughshares' *Armed Conflicts Report 2007* and *2001*. See <http://www.ploughshares.ca/libraries/ACRText/ACR-TitlePageRev.htm>. These countries are Afghanistan, Iraq, Indonesia (2000), Angola (2000), Philippines, Palestinian Administered Areas, Sudan, Somalia, Algeria, Burundi, Rwanda, and the Democratic Republic of the Congo.

While there is a growing concentration of multilateral resources in the World Bank and regional bank channels, there has also been a proliferation of international organisations, funds and programs within the multilateral sector. One study noted 230 such funds and programs in 2007, many of which are specialised in a particular sector or theme.³⁵ This study also commented on increased donor ear-marking of contributions to multilateral organisations, with about half of bilateral aid channelled through multilateral channels in 2005 having some degree of earmarking by sector or theme. Such practices complicate budget management, and may reduce the inherent capacity of multilateral aid to more closely align with recipient countries' priorities.³⁶ The study also drew attention to the growth of "Vertical Funds" or global programs such as the long standing Consultative Group on International Agricultural Research (CGIAR) or the more recent Global Fund for Aids, Tuberculosis, and Malaria (GFATM). These funds have catalysed resources in support of agreed international priorities and strategies in a particular area of health, education or environment. But again they may also distort the capacities of developing countries to maximise support for a more holistic sector approach. For example, aid for infectious diseases made up 36% of all health financing for Sub-Saharan Africa in 2005, in a context where strengthening basic health systems is essential for effective health investments.³⁷

New resources for climate change adaptation and mitigation...

Increasing donor financing for climate-change adaptation must be channelled through equitable North/South mechanisms based within the United Nations Framework Convention on Climate Change (UNFCCC) and should be considered additional to the donor's commitment to reach the 0.7% aid target for ODA.

At their 2006 High Level Meeting, Development Cooperation Ministers from the donor countries agreed to the *OECD Declaration on Integrating Climate Change Adaptation into Development Co-operation*. This statement acknowledged "the importance of adaptation for developing countries and poor people due to their particular vulnerability to the adverse effects of climate change and weak adaptive capacity".³⁸ Since then, many donors have stated their intention to review current aid programs with reference to mitigating climate change risks. Several donors have also announced an intention to create or contribute to bilateral and multilateral climate-change mechanisms promoting "low-carbon" development paths for developing countries.³⁹

³⁵ IDA, "Aid Architecture", *op. cit.*, p. 12.

³⁶ *Ibid.*, pp. 15 – 16.

³⁷ *Ibid.*, p. 18.

³⁸ OECD, "Declaration on Integrating Climate Change Adaptation into Development Cooperation", adopted by OECD Environment and Development Ministers, April 2006. Accessible at <http://www.oecd.org/dataoecd/44/29/36426943.pdf>. See also OECD DAC, Network on Environment and Cooperation, "Adaptation: Stocktaking of Progress on Integrating Adaptation to Climate Change into Development Co-operation Activities", October 2007. Accessible at <http://www.oecd.org/dataoecd/11/18/39575695.pdf>.

³⁹ Japan for example recently pledged \$10 billion "in aid" over five years to help combat the effects of global warming. One suggested use for these funds would be to "improve the efficiency" of China's coal fired power plants. See "Japan plans \$10 billion aid to fight global warming", Reuters, January 10, 2008, accessed at <http://uk.reuters.com/article/environmentNews/idUKT26232320080110>.

In April 2008, the World Bank moved forward on plans to create three specific investment funds, providing both loans and grants, “to scale up financing available for policy reforms and investments and achieve sustainable development goals through a transition to a low-carbon path and climate resilient economy”. These funds will include a Clean Technology Fund (with a target of US\$5 to \$10 billion), a Forest Investment Fund (US\$300 - \$500 million), and an Adaptation/Climate Resilience Pilot Fund (US\$300 to \$500 million). A Strategic Climate Fund, will act as an umbrella for receipt of donor funds and disbursements.

The UNFCCC is recognised as the multilateral framework in which globally equitable climate change negotiations take place and in which the commitments under the Convention on Climate Change, including financial, are to be met. But since the December 2007 UN Climate Change Conference in Bali, donors, under the leadership of the World Bank, have been moving quickly to establish “parallel” donor-driven and controlled mechanisms for financing donor climate change commitments. These parallel mechanisms already have \$US7 to \$12 billion in new resources. By comparison the Least Developed Countries Fund for adaptation action under the UNFCCC had pledges of \$US163 million and has received only \$US67 million as of December 2007.⁴⁰

CSOs have raised a number of concerns about placing control of significant climate change investment and mitigation resources under the control of the World Bank:

- ❑ Contrary to the UNFCCC that recognises climate principles and the rights of developing countries who experience the impacts of climate change to participate fully in policies for its mitigation, these “parallel” Funds are donor-controlled and will be managed to respond to donor priorities.
- ❑ Rather than meeting an obligation of developed countries under the UNFCCC (polluter pays), access to funds will depend on developing countries demonstrating that they have in place a regulatory framework for a low-carbon path of development.
- ❑ Climate change funds under the control of the World Bank a pose serious risk that developing countries will be subject to new conditionalities for access to these funds, including informal pressures to agree to the negotiating framework of donor countries for a post-2012 convention on climate change.
- ❑ The World Bank, with its dismal track record of continued strong support for carbon-intensive investments in oil, gas and coal extraction, and large traditional energy infrastructure projects in developing countries, has no credibility and is in serious conflict-of-interest to be seen as a promoter of low-carbon development paths.⁴¹

⁴⁰ See Celine Tan, “World Bank’s Climate Funds will undermine Global Climate Action”, Third World Network, April 10, 2008, accessible at <http://www.twinside.org.sg/title2/climate/info.service/climate.change.20080401.htm>. See also Toby Quantrell, “Adapting to Climate Change: the Challenge for Development”, WWF UK, Powerpoint Presentation, December 7, 2007.

⁴¹ See Janet Redman, *World Bank: Climate Profiteer*, Sustainable Energy and Economy Network, Institute for Policy Studies, April 2008, accessible at <http://www.ips-dc.org/reports/#292>.

Developed countries, as the primary sources of emissions related to climate change, have an urgent obligation to reform, fundamentally, their own high-carbon development paths. They also have a responsibility, under the UNFCCC, to provide sufficient funds to respond to the unavoidable impacts of climate change felt most acutely by billions of poor people who bear no responsibility for the shifts in climate patterns.

Meeting donor climate change financial obligations should be considered additional to individual efforts to achieve the 0.7% target for aid spending. Climate change funding should not divert ODA from other urgent development priorities. In proposing additionality for climate-change financing, CSOs are also urging donors to give priority to sustainability in implementing ODA programs, taking account of the importance of addressing adaptation and minimising the risks for poor people.

New country donors and increasing and private aid flows assuming greater importance...

Richard Manning noted in his 2007 *Development Cooperation Report* “Overview” that recipient countries are likely to experience an expansion of aid-type flows from both non-DAC country donors and a growing number of private foundations, both of which have significantly added to the flows from the traditional private voluntary agencies (Northern NGOs).

New and existing private sources of aid, along with new emerging donors, may provide a funding counter-balance that challenges the influence of DAC donor-imposed aid terms and conditions. But, the increasingly 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.

Fifteen donors, not members of the OECD DAC, report their aid activities to the DAC. These 15 non-DAC donors accounted for US\$4.2 billion in aid in 2005, up from US\$3.2 billion in 2002. Several other countries – Brazil, China, India – are both developing country recipients and donors of development assistance. Brazil, China and India are not among the 15 non-DAC donor countries currently reporting to the DAC.⁴² One analyst estimates that Brazil, China and India contributed between US\$3.5 and US\$4 billion in aid in 2005, bringing the total of non-DAC aid in 2005 to about US\$8 billion.⁴³ This amounts to about 10% of non-debt DAC ODA in that year.

In 2007, China announced significant increases in its assistance plans for the next three years. These increases include “US\$10 billion for developing countries, with an incremental US\$5 billion for the ASEAN countries, US\$3 billion for the Pacific Islands, and US\$3 billion for Africa, plus another US\$3 in preferential credits”.⁴⁴ It is not clear how much can be considered ODA under the DAC guidelines. Firoze Manji, Director of Fahamu and Pambazuka News, notes that Chinese aid “has taken the form of financial investments in key infrastructural projects,

⁴² World Bank, *Global Development Finance*, 2007, Volume One, Chapter One, accessed electronically.

⁴³ Kharas, H. “Trends and Issues in Development Aid”, *op.cit.* p. 17 – 18 and Kharas, H. “The New Aid Reality”, Wolfensohn Centre for Development at Brookings, August 2007, pp. 7 – 8, accessible at http://www.brookings.edu/papers/2007/08aid_kharas.aspx.

⁴⁴ Kharas, “The New Reality of Aid”, *op. cit.*, p. 9.

training programs, debt relief, technical assistance and a program of tariff exemptions for selected products from Africa, not dissimilar to the agreements that Africa has had with Europe, the US and other western economies”. Some DAC countries raise concerns that unrestricted Chinese lending in Africa, without formal conditions, may undermine DAC-donor “progress” in conditional debt relief and DAC-donor leverage over African economies.⁴⁵

Significant new aid resources are also coming from private philanthropy. The Bill and Melinda Gates Foundation, with the donation of US\$30 billion by Warren Buffet in 2007, has become the world’s largest foundation. It is projected that the Gates Foundation will disburse about US\$2.8 billion in 2007, which is equal to more than 3% of non-debt DAC ODA in 2006 and exceeds about half of the DAC members’ level of ODA.⁴⁶ The Gates Foundation influence in a number of health areas is already predominant. The Foundation is set to make major investments in “green revolution” technologies for African agriculture, a strategy criticised by African and international NGOs.

Total private aid from the United States alone is estimated at \$33.5 billion in 2005, of which Private Volunteer Organizations (not including religious organisations) and International NGOs provided US\$16.2 billion.⁴⁷ Approximately US\$21.4 billion is directed to development projects and programs, excluding including emergency operations. These estimates for US private giving demonstrate the significant under-estimation by donors in their report to the DAC. For 2006, all DAC donors reported that Private Voluntary Agencies contributed only \$US\$14.6 billion in grants, up from US\$10.2 billion in 2003. Funding from private voluntary sector organisations, including foundations, could rival total non-debt official DAC flows.

Aid architecture, with the emergence of new donors and growing funding by the private voluntary sector, is becoming more fragmented and volatile. At the same time, donors are struggling to reform their own aid practices. In this context, CSOs are independently examining their own aid effectiveness. CSOs are looking at principles to guide them in their relationships with other development actors (donor and governments). They are finding ways to strengthen the capacity of civil society to play a central role for local and democratic ownership of aid policies. CSOs will also continue to support capacity of the poor and marginalised to have a voice in the aid system.⁴⁸

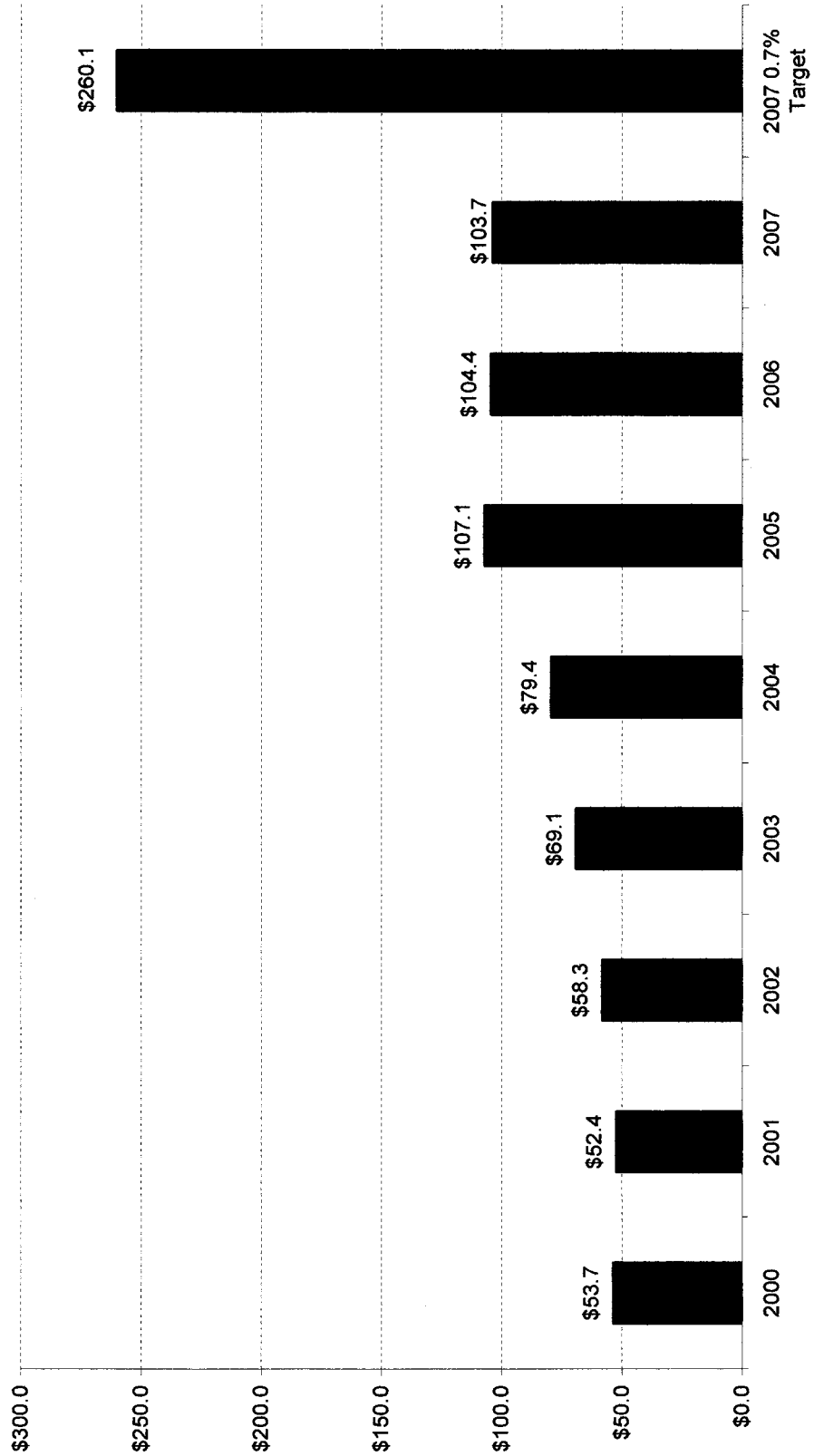
⁴⁵ Firoze Manji, “BRICs countries – A perspective on China in Africa”, presentation to an International Conference, The Changing Face of Global Development Finance”, Ottawa, February 1, 2008, accessible at <http://www.nsi-ins.ca/english/events/HAlifax.asp>.

⁴⁶ World Bank, *Global Development Finance*, *op. cit.*

⁴⁷ Kharas, “The New Reality of Aid”, *op. cit.*, pp. 9 – 10.

⁴⁸ See information on CSO discussions of aid effectiveness, including CSO aid effectiveness, on www.betteraid.org and on CCIC’s web site at <http://www.ccic.ca/e/002/aid.shtml>.

CHART 1
TOTAL ODA, 2000 – 2007
BILLIONS OF US \$, CURRENT PRICES



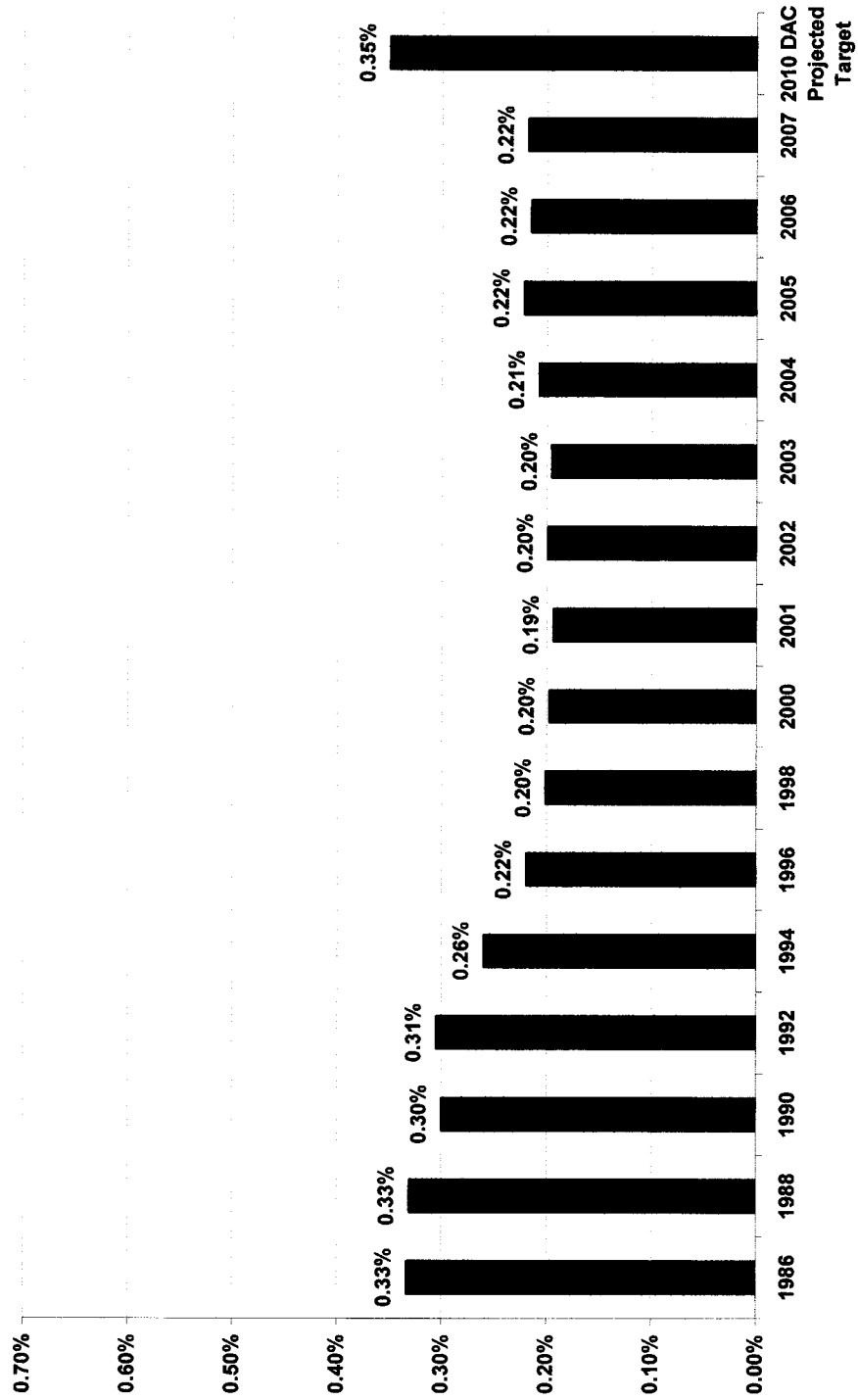
Source: OECD Stat Extract DAC1.

CHART 2
TOTAL ODA, 2000 – 2007
BILLIONS OF US \$, CURRENT PRICES
NO DEBT RELIEF GRANTS AND SUPPORT FOR STUDENTS AND REFUGEES IN DONOR COUNTRIES



Source: OECD Stat Extract DAC1.

CHART 3
DAC DONOR ODA PERFORMANCE
PERCENTAGE OF GNI, LONG TERM TREND
NET OF DEBT RELIEF GRANTS, SUPPORT FOR STUDENTS AND REFUGEES IN DONOR COUNTRIES



Source: OECD Stat Extract, DAC1.

CHART 4
THE GROWING GAP BETWEEN AID AND WEALTH IN DONOR COUNTRIES (1961 – 2006)

Aid per person in the donor countries has grown by only \$29 over 45 years;
 Gross National Income per person has grown by \$25,400.
 (Aid excludes debt cancellation; 2005 constant \$)

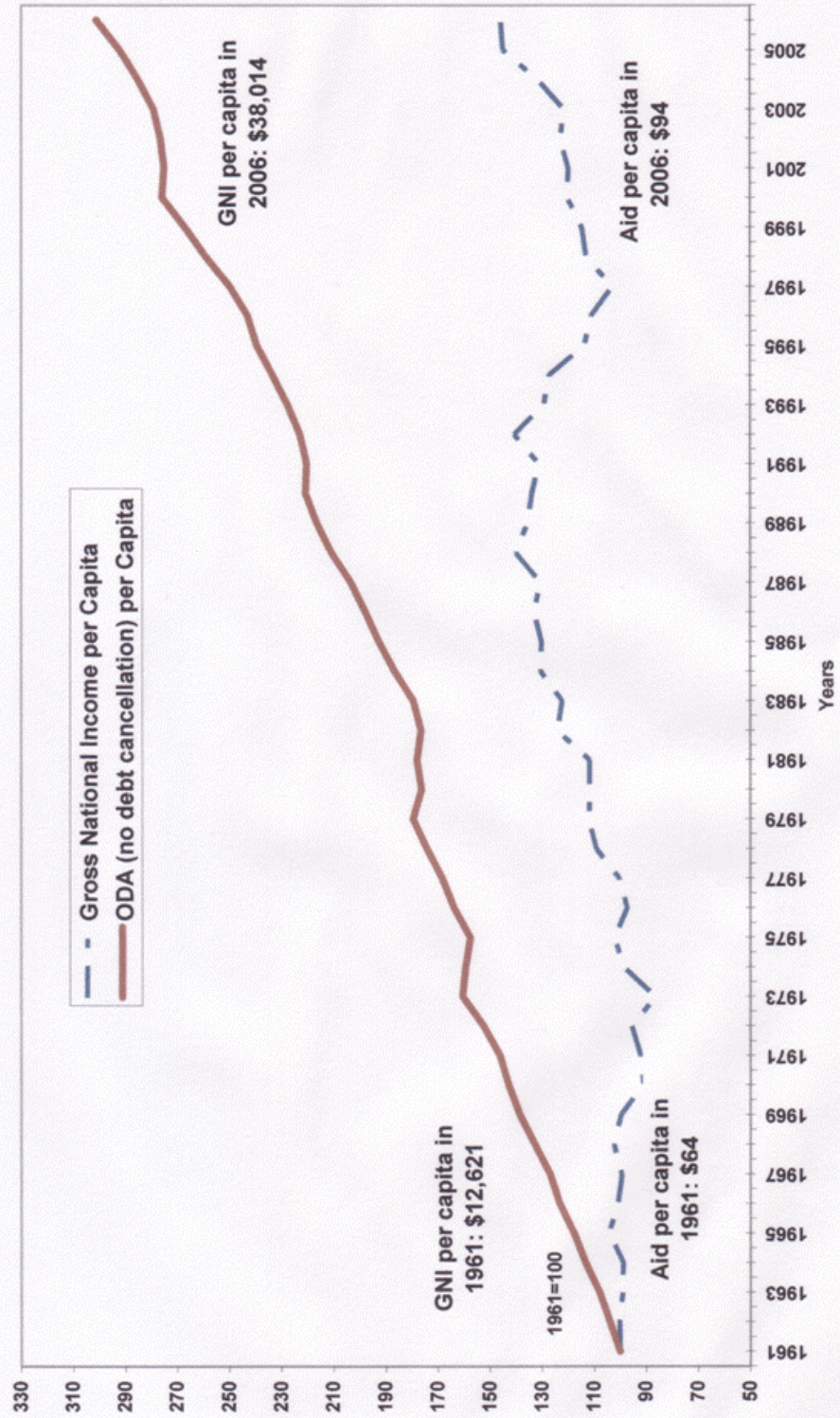
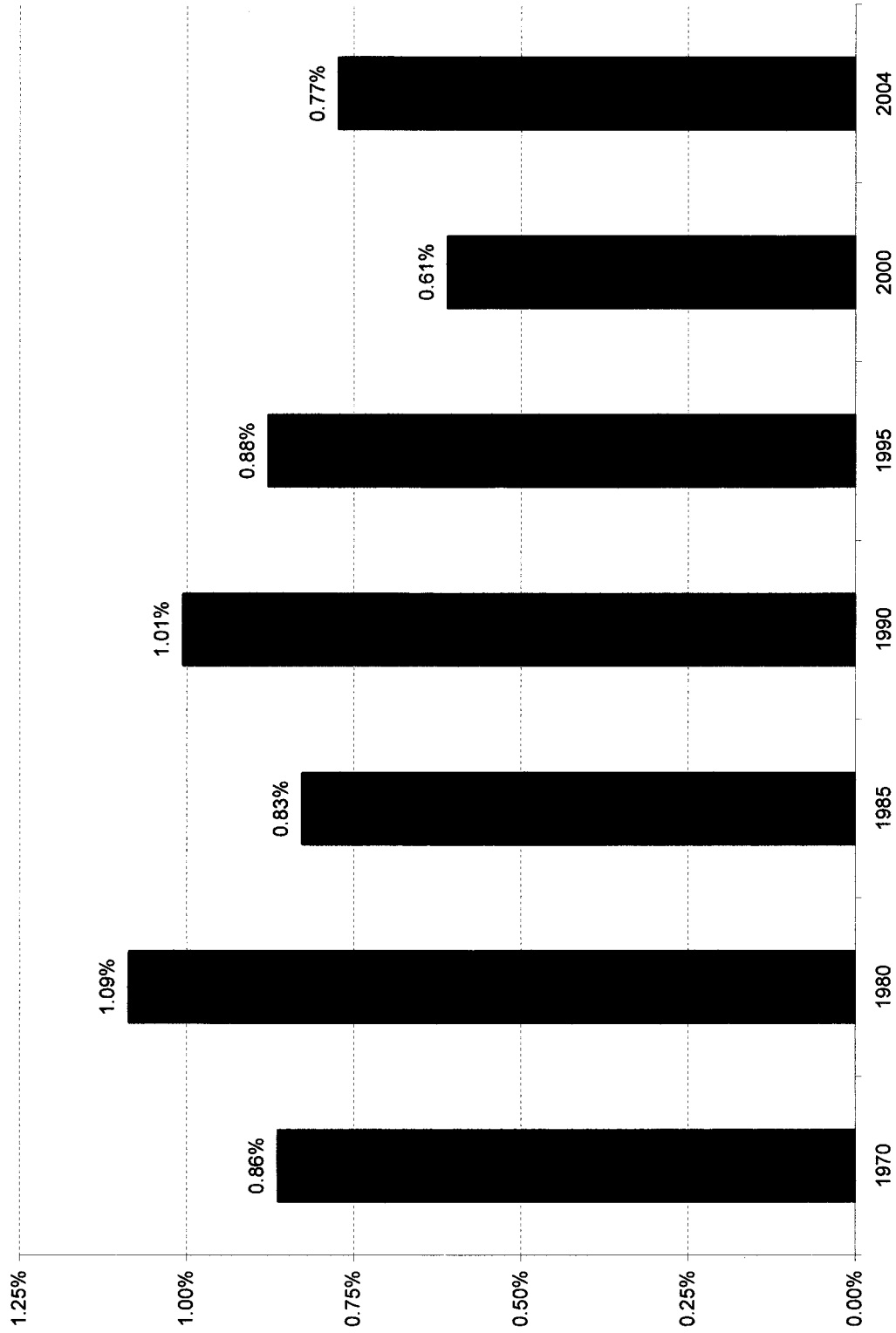
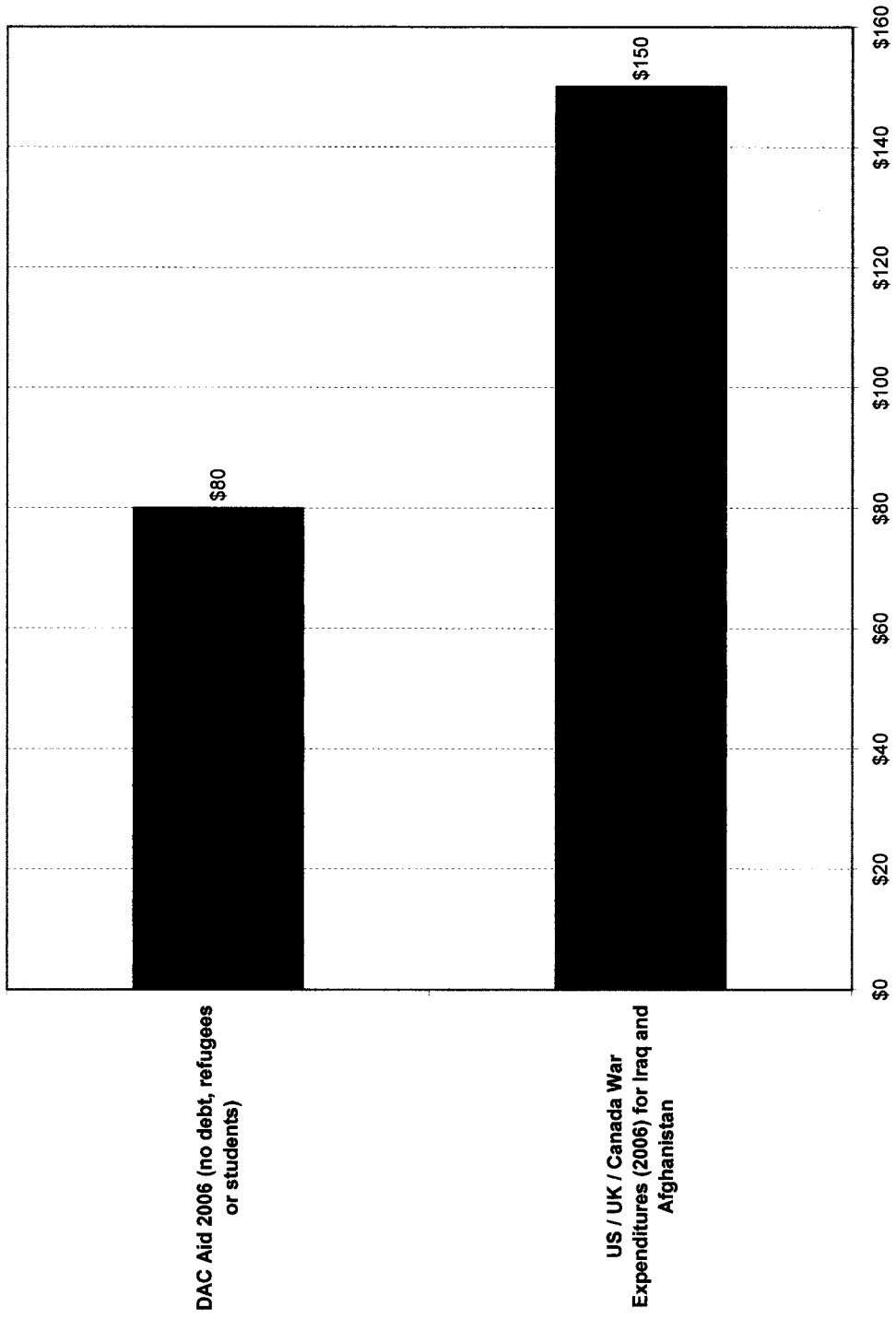


CHART 5
AID AS A PERCENTAGE OF DAC GOVERNMENT TAX REVENUE
AID IS NET OF DEBT RELIEF GRANTS AND SUPPORT FOR REFUGEES IN DONOR COUNTRIES



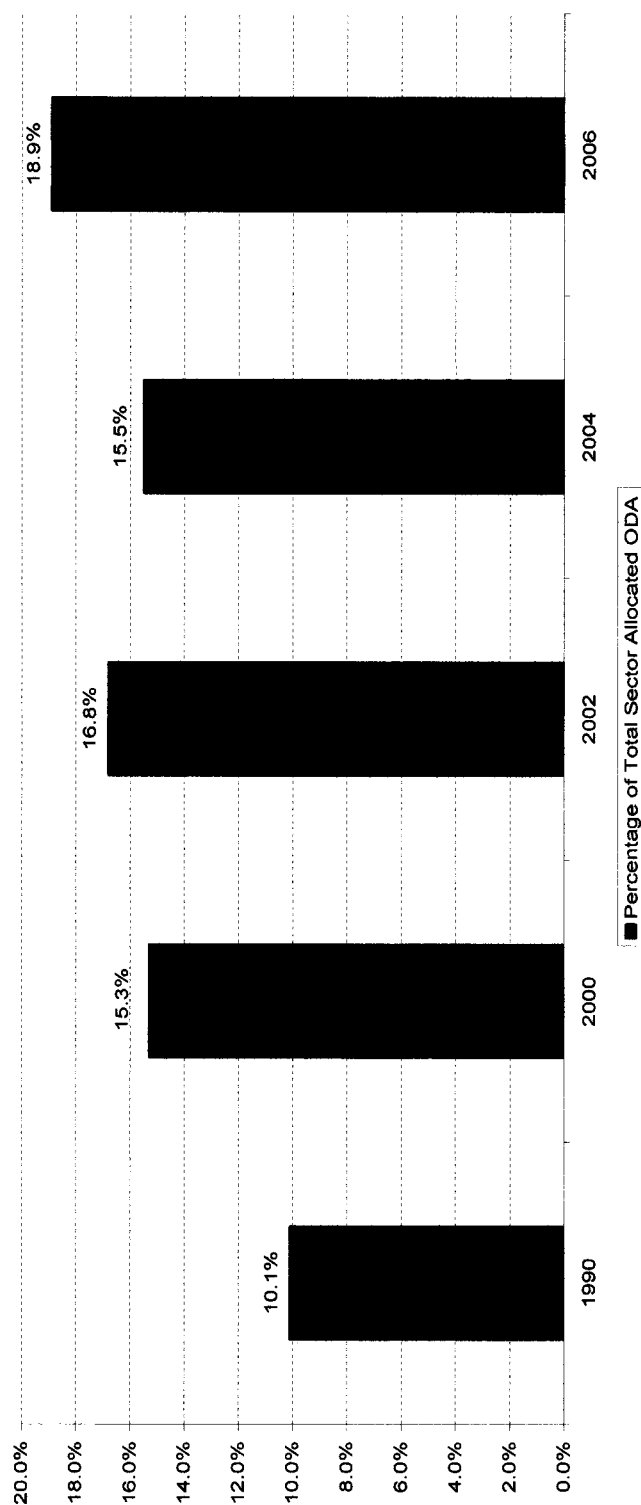
Source: OECD Stat Extract DAC1 and the OECD Factbook, Economic, Environmental and Social Statistics, 2007.

CHART 6
AP TOTAL DAC ODA (2006) COMPARED TO
US, UK AND CANADA WAR EXPENDITURES FOR IRAQ AND AFGHANISTAN (2006)
(BILLIONS OF US \$)



Source: Reality of Aid calculations.

CHART 7
MDG SECTOR INDICATORS AS PERCENTAGE OF TOTAL SECTOR ALLOCATED ODA, 1990 TO 2006



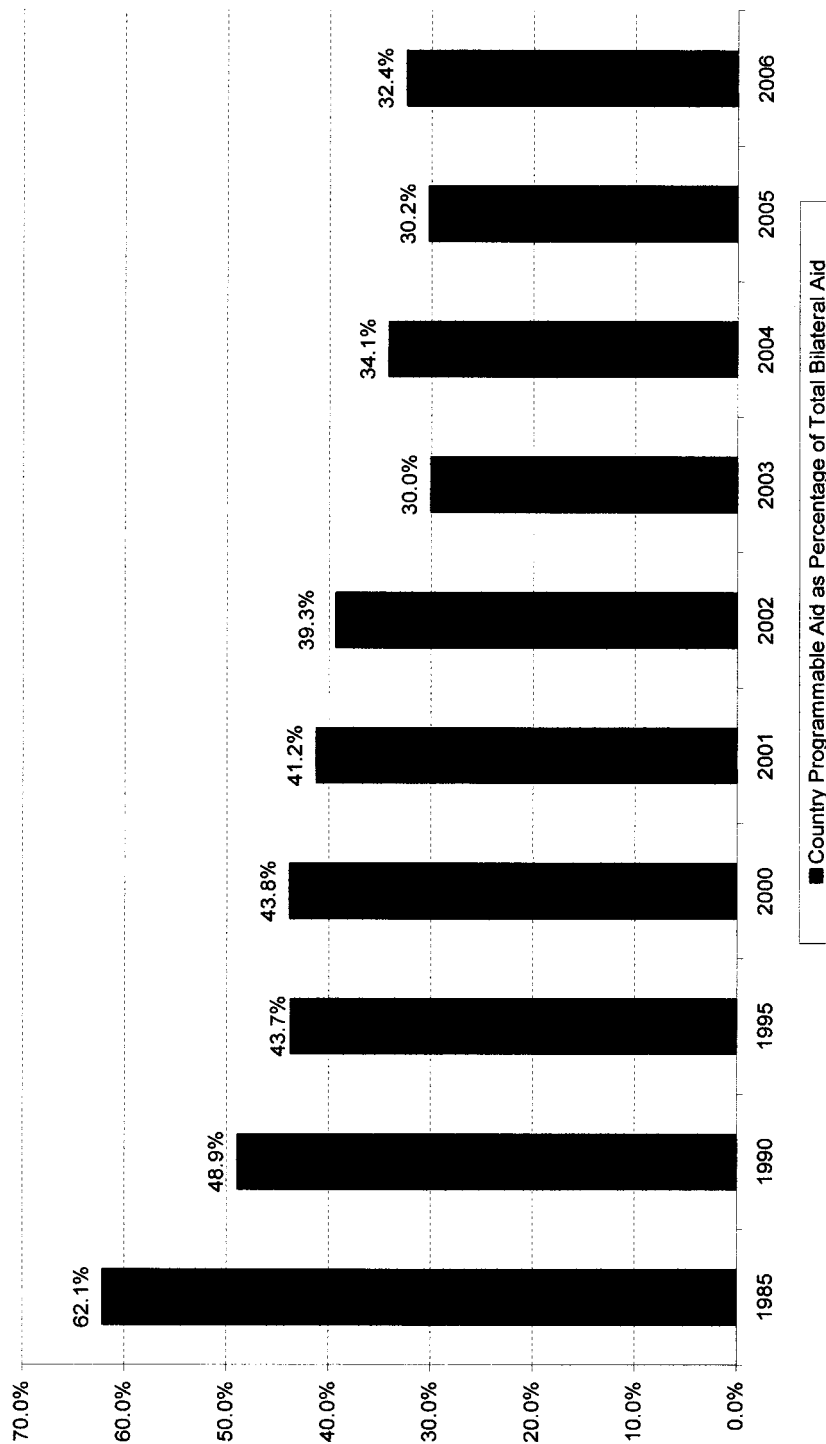
■ Percentage of Total Sector Allocated ODA

Source: OECD DAC Stats Extract, CRS.

Notes: MDG Indicator Sectors are basic education, basic health, population programming and reproductive health, general environmental protection, development food aid and food security assistance.

Total ODA (multilateral and bilateral) includes Social Infrastructure and Services, Economic Infrastructure and Services, Production Sectors, Multi-Sector / Cross-Cutting, Commodity Aid and General Program Assistance, Humanitarian Aid, Administrative Costs of Donor. Not included are Action relating to Debt, Support to NGOs, Refugees in Donor Countries and Unallocated.

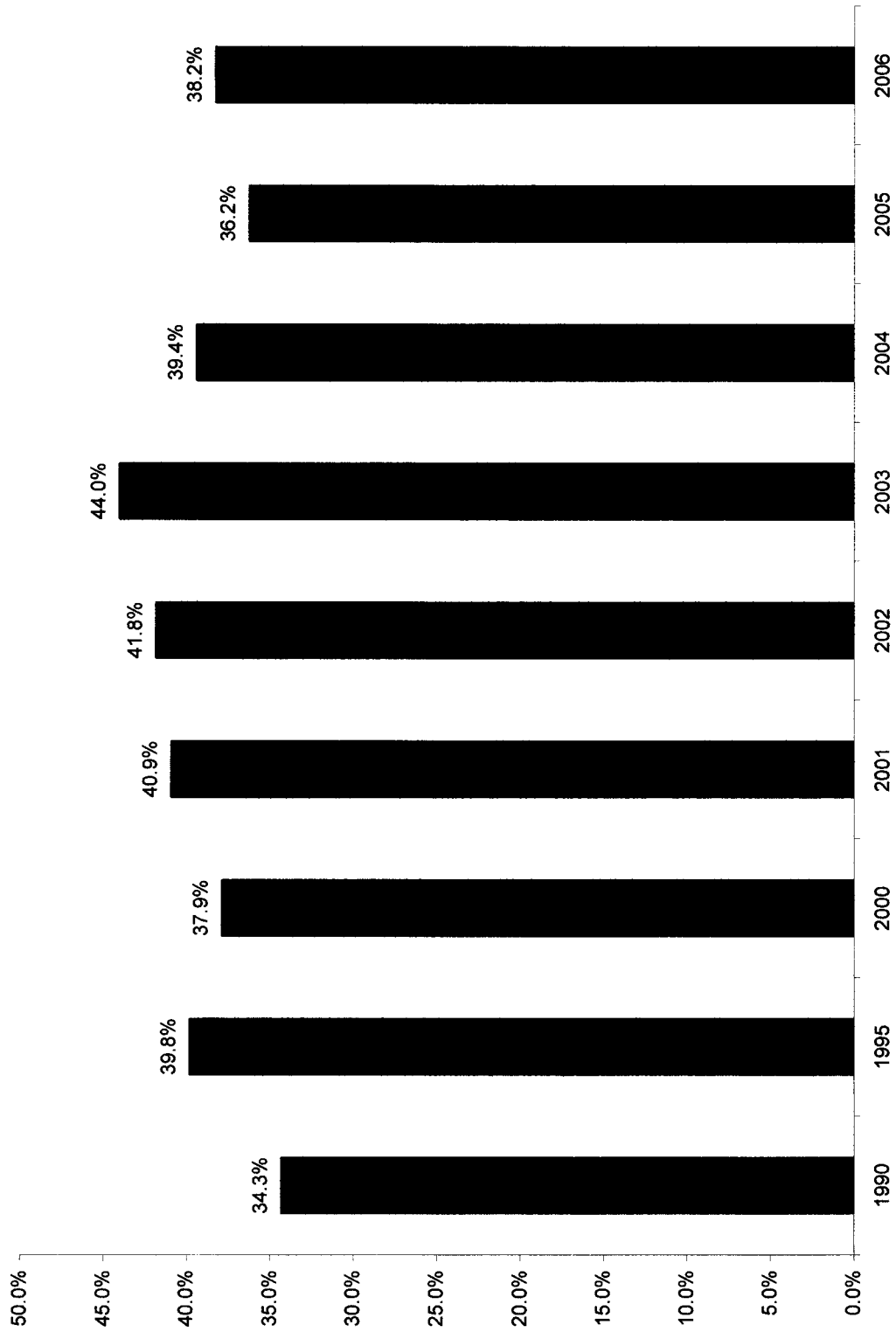
CHART 8
TREND IN COUNTRY PROGRAMMABLE AID AS A PERCENTAGE OF TOTAL BILATERAL AID, 1985 TO 2006



Source: OECD Stat Extract DAC1 and 5.

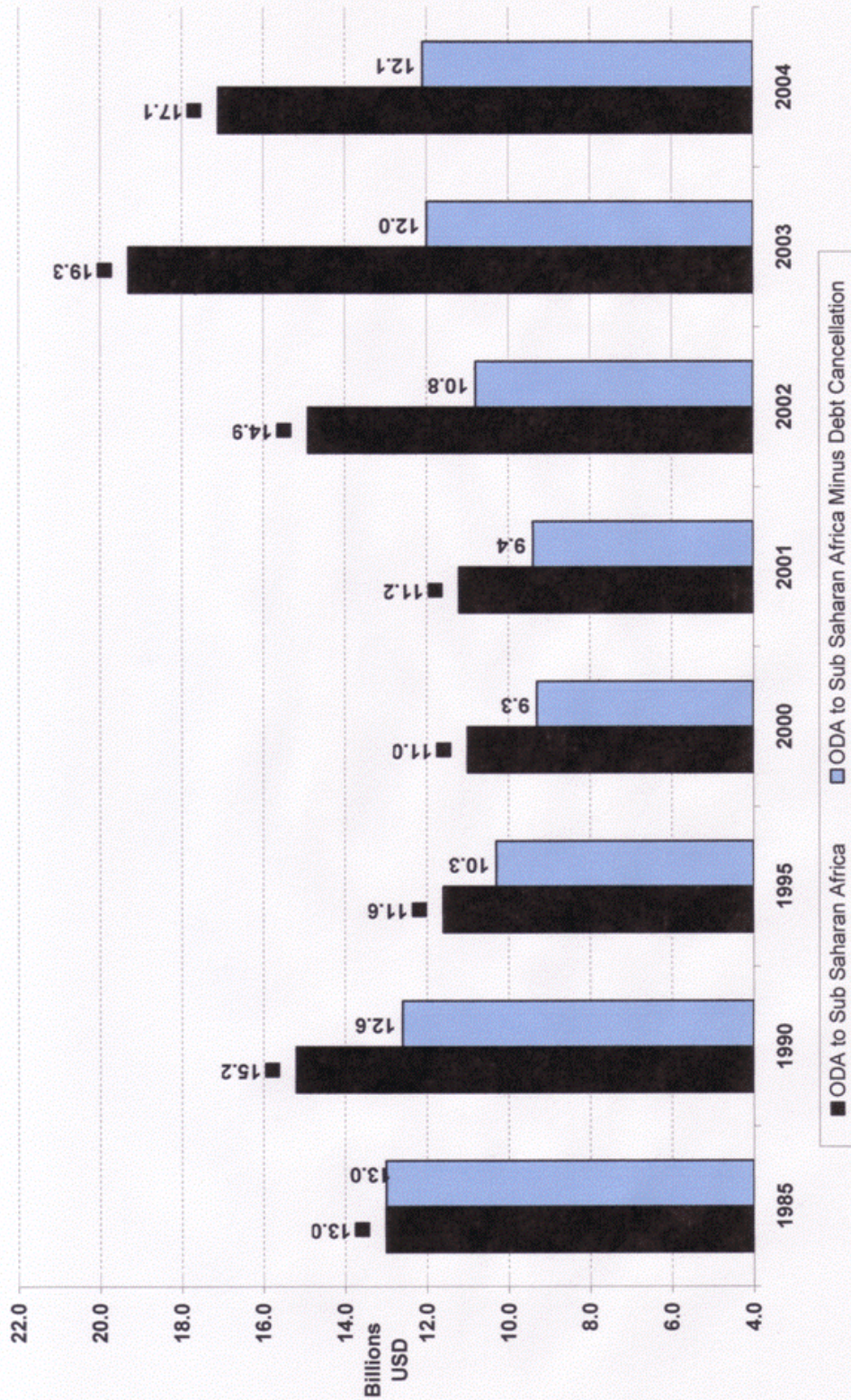
Notes: Country Programmable Aid is Bilateral Aid, Less Debt Relief Grants, Imputed Student Costs, Support for Refugees in Donor Countries, 80% of Technical Assistance, 15% Cost of Tied Aid, Humanitarian Assistance and Donor Administration Costs.

CHART 9
PERCENTAGE OF TECHNICAL ASSISTANCE IN TOTAL DAC BILATERAL AID
(EXCLUDING MULTILATERAL ODA AND LESS DEBT CANCELLATION)



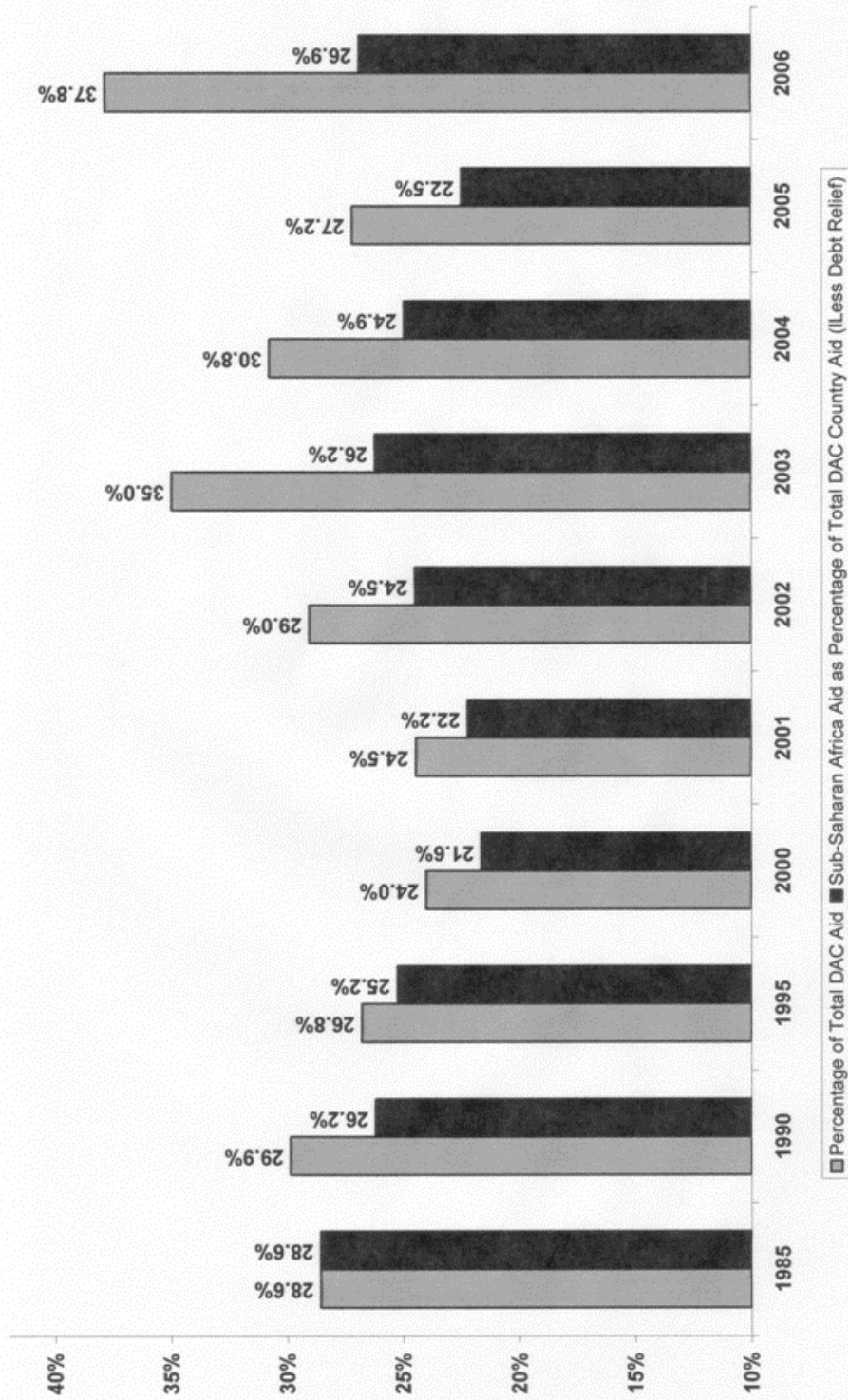
Source: OECD Stat Extract DAC1.

CHART 10(A)
AID TO SUB-SAHARAN AFRICA: LONG TERM TRENDS
(BILLIONS OF US \$ AT 2003 PRICES)



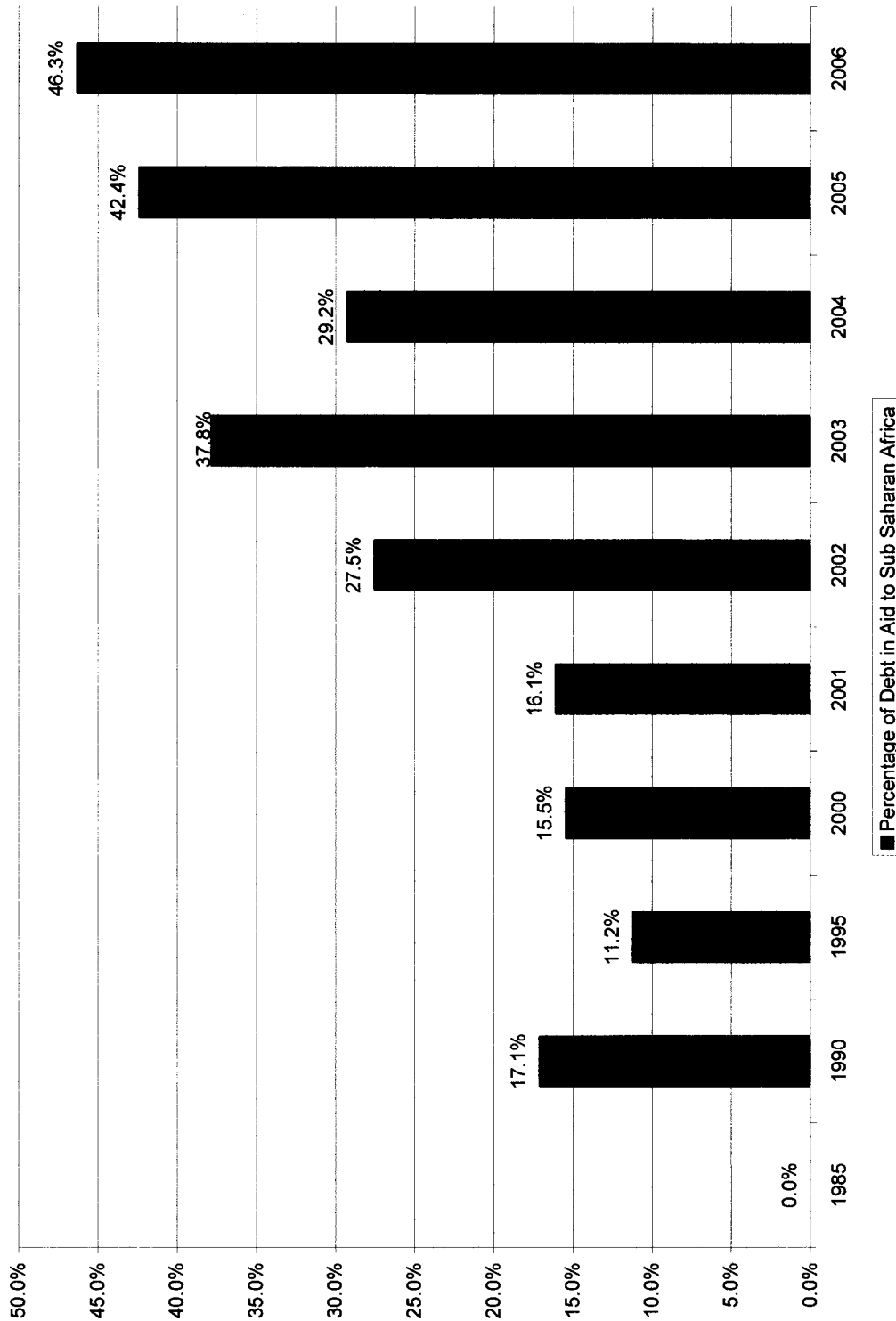
Source: OECD Stat Extract DAC1.

CHART 10(B)
DAC COUNTRY AID TO SUB-SAHARAN AFRICA AS PERCENTAGE OF TOTAL AID FROM DAC COUNTRIES
(EXCLUDING MULTILATERAL AID)
(2005 CONSTANT US \$)



Source: OECD Stat Extract DAC1.

CHART 10(C)
PERCENTAGE OF DEBT IN DAC COUNTRY AID TO SUB-SAHARAN AFRICA
(EXCLUDING MULTILATERAL AID)



Source: OECD Stat Extract DAC1.