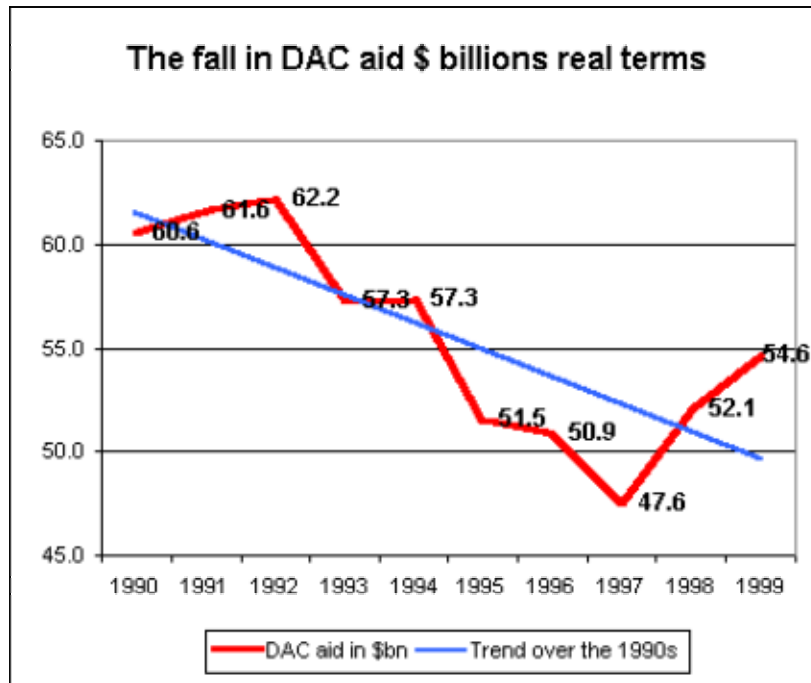


## Reality of Aid Reality Check - June 2000

The huge gap between rhetoric and reality in rich countries' attitudes towards the world's poorest billion people is being highlighted by non-governmental organisations in advance of two crucial international meetings – an OECD DAC donors meeting at the end of June to reach agreement on untying aid to least developed countries and the G8 meeting in Japan in early July.



In spite of fine words about playing a part in the elimination of absolute poverty, NGOs point to two areas where donor country actions betray a lack of political commitment:

- Failure of donors to restore aid volume - which fell by more than a fifth between 1992 and 1997.
- Failure to end the tying of aid - under which strings make aid conditional on the purchase by poor countries of goods and services from donor countries

### *Aid volume*

Preliminary figures on global aid covering 1999 suggest that aid has increased by almost 5% in real terms between 1998 and 1999. But as the graph above shows, this headline rise obscures the real picture.

In fact:

- Aid is now 12% lower in real terms than it was in 1992.

- The modest increase in DAC aid is more than accounted for by an increase in aid from Japan. \$1.5 billion of this increase results from exchange rate movements. But in addition, Japan increased its contribution to the Asian Development Bank by more than \$3 billion in response to the Asian Financial Crisis. These amounts have more to do with the vagaries of the international financial system than fighting absolute poverty. If it were not for these sums, DAC aid would have actually fallen in real terms between 1998 and 1999. When the amount allocated by donors to assist Kosovo refugees on Europe's doorstep is taken into account - the reduced aid that OECD donors can devote to achieving the international development goals shows how little political commitment there is to the long term fight against poverty.
- While Canadian aid increased by \$30 million between 1998 and 1999, Canada's ratio of aid to GNP dropped from 0.29% to 0.28% in 1999. Among the 21 donors, Canada also dropped to 12 th position in 1999 from 11th position in 1998.
- Although all donors except the United States and Switzerland have committed themselves to the UN 0.7% target for aid as a percentage of GNP, only 4 donors currently reach it.
- There are worrying signs that even the unfulfilled commitments of donors are weakening. The recent statement from DAC Ministers and senior officials talks of '*being guided*' by the UN target. Are they committed to it or not?
- More DAC donors reduced aid as a percentage of their wealth (GNP) than increased it between 1998 and 1999. Ten donors lowered their GNP%, just seven showed an increase.
- G7 donors called at their Cologne meeting for a progress report on poverty reduction - which will be presented at the July 2000 Okinawa summit. But it was the G7 that collectively led the way on aid cuts in the 1990s! As the DAC commented in its 1999 report '*the precipitate fall in ODA since 1992 is almost entirely due to cuts in aid from G7 countries*'.
- In 1999 four of the G7 donors cut aid as a percentage of GNP, two G7 members held it steady, and only Japan increased its GNP%. As the Reality of Aid report 2000 showed, the record of OECD countries over the last 30 years has been 'getting richer, getting meaner'. The G7 shows no sign of bucking this trend. Among G7 donors, France and Japan give less than 40 cents for every \$100, Canada, Germany and the UK between 20 and 30 cents for every \$100, Italy and the USA just 15 cents and 10 cents respectively for every hundred dollars.

See attached tables & graphs on 1999 ODA.

### ***Rhetoric on partnership meets reality of aid tying***

The key theme of OECD donor statements since 1996 has been partnership. The emphasis is on encouraging local ownership. Yet donors have done little to reduce the conditions attached to aid, even where those conditions have nothing to do with reducing poverty and everything to do with self-interest.

- On 20 June 2000, DAC donors have the chance to reduce the most blatant form of aid conditionality - aid tying - under which funds are provided on condition that goods and services are procured from the donor.

- Aid tying is estimated to reduce the real value of aid by 25%
- Tied aid is a blatant example of commercial interest overriding the interests of poorer countries
- A failure of OECD countries on June 20 to agree even the limited steps proposed on reduced aid tying to Least Developed Countries would expose donor rhetoric on partnership as pure hypocrisy.

### *The reality of aid and poverty*

Powerlessness and exclusion are at the heart of poverty both for people and countries. Rich countries are generous with prescriptions for alleviating poverty: adjustment, liberalisation, good governance, globalisation: developing countries being urged to adopt one new orthodoxy after another. But as aid levels and lack of action on tying show, OECD donors show little interest in addressing growing global inequality. The 32 richest people in the world together own more wealth than the total income of South Asia, where 40% of the poorest people in the world live.

Aid is not a substitute for action to address the structural causes of poverty.

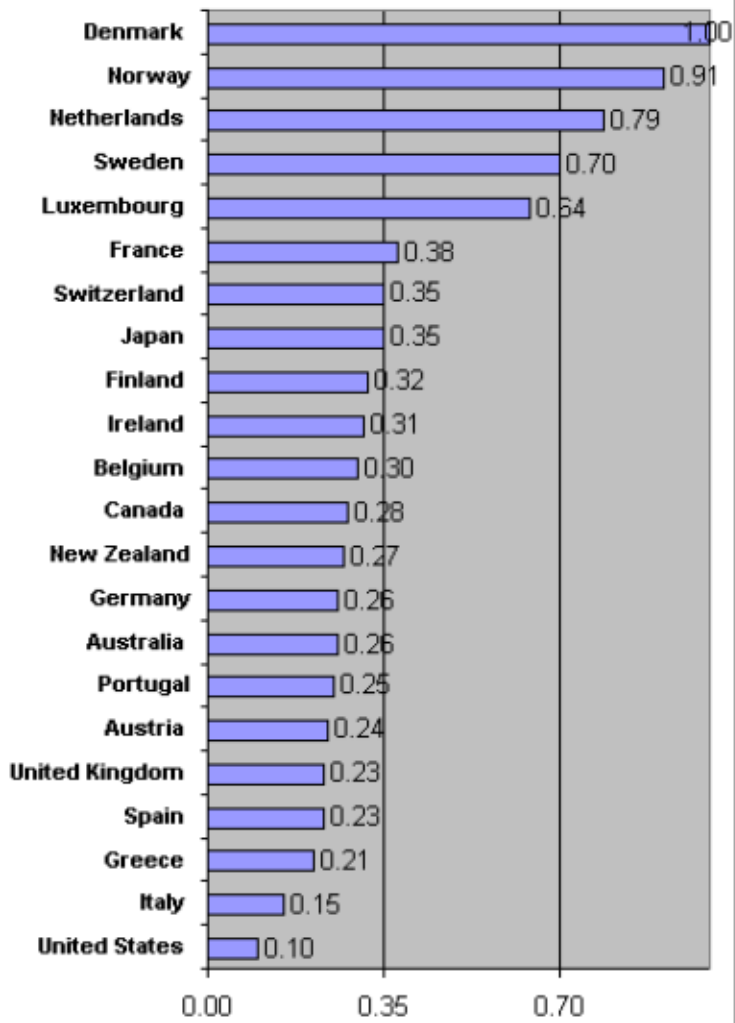
But aid can bring direct benefits to poor people and it is one indicator of OECD commitment to a more equitable world.

- If DAC donors had maintained aid as a percentage of GNP at the level of the 1980's - aid in 1999 would be \$22 billion higher.
- If all DAC donors had achieved the UN target, aid would be \$163 billion -almost 3 times its current level.
- Western European Countries spent almost \$200 billion on military expenditure in 1998. The USA and Canada together spent \$260 billion the same year. This is 8 times total global aid in 1999.
- The cost of ensuring universal access to basic social services (basic health, education, water and sanitation) has been estimated at an annual \$46 billions.
- The total debt of 52 of the world's poorest countries has a face value of \$354 billion. The entire debt could be wiped out at a total cost to the rich world's taxpayers of around \$71 billion.

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The table and graphs below are based on the DAC High Level Meeting Press Statement which you can see or download via <http://www.oecd.org/dac/htm/meetings.htm>

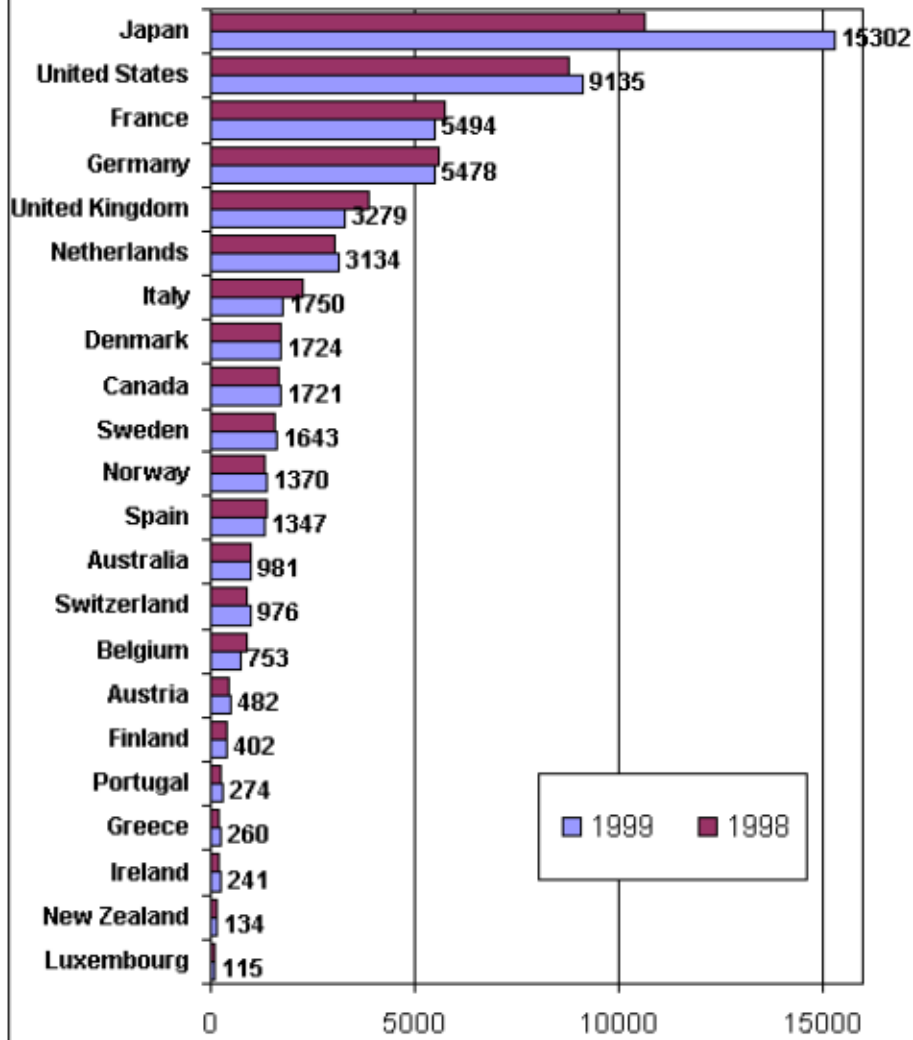
### DAC aid in 1999 as a % GNP



**PRELIMINARY ESTIMATES OF NET OFFICIAL DEVELOPMENT ASSISTANCE FLOWS IN 1999**

| Country                | 1999 \$m | GNP % 1999 | 1998 \$m | GNP % 1998 | Real Percent change 1998 to 1999 |   |
|------------------------|----------|------------|----------|------------|----------------------------------|---|
| Australia              | 981      | 0.26       | 960      | 0.27       | -1.6                             | Real terms fall, GNP% down                        |
| Austria                | 482      | 0.24       | 456      | 0.22       | 9.6                              |   |
| Belgium                | 753      | 0.30       | 883      | 0.35       | -11.6                            | Real terms fall, GNP% down                        |
| Canada                 | 1 721    | 0.28       | 1 691    | 0.29       | 0.2                              | GNP% down   |
| Denmark                | 1 724    | 1.00       | 1 704    | 0.99       | 2.7                              | Exceeds UN target and most generous DAC donor     |
| Finland                | 402      | 0.32       | 396      | 0.32       | 4.9                              |   |
| France                 | 5 494    | 0.38       | 5 742    | 0.40       | -0.5                             | Real terms fall, GNP% down                        |
| Germany                | 5 478    | 0.26       | 5 581    | 0.26       | 1.4                              |   |
| Greece                 | 260      | 0.21       | 179      | 0.15       | 46.3                             |   |
| Ireland                | 241      | 0.31       | 199      | 0.30       | 22.8                             |   |
| Italy                  | 1 750    | 0.15       | 2 278    | 0.20       | -20.8                            | Real terms fall, GNP% down                        |
| Japan                  | 15 302   | 0.35       | 10 640   | 0.28       | 26.2                             | Exchange rates and Asian crisis account for rise. |
| Luxembourg             | 115      | 0.64       | 112      | 0.65       | 5.9                              | GNP% down   |
| Netherlands            | 3 134    | 0.79       | 3 042    | 0.80       | 6.1                              | GNP% down but exceeds UN target                   |
| New Zealand            | 134      | 0.27       | 130      | 0.27       | 4.1                              |   |
| Norway                 | 1 370    | 0.91       | 1 321    | 0.91       | 0.5                              | Exceeds UN target                                 |
| Portugal               | 274      | 0.25       | 259      | 0.24       | 8.1                              |   |
| Spain                  | 1 347    | 0.23       | 1 376    | 0.24       | -0.8                             | Real terms fall, GNP% down                        |
| Sweden                 | 1 643    | 0.70       | 1 573    | 0.72       | 8.1                              | GNP% down but exceeds UN target                   |
| Switzerland            | 976      | 0.35       | 898      | 0.32       | 11.9                             |   |
| United Kingdom         | 3 279    | 0.23       | 3 864    | 0.27       | -15.6                            | Real terms fall, GNP% down                        |
| United States          | 9 135    | 0.10       | 8 786    | 0.10       | 2.5                              | Least generous DAC donor                          |
| TOTAL DAC              | 55 993   | 0.24       | 52 068   | 0.23       | 4.9                              |   |
| Average Country Effort |          | 0.39       |          | 0.39       |                                  |   |

### DAC donors 1999 aid volume \$



Reality Check ends