

***Reality of Aid 2002: An Independent Review of
Poverty Reduction and Development Assistance
Focus on Conditionality and Ownership
A Summary of Key Messages***

Aid: Increasingly Irrelevant in an Established Order that Tolerates Poverty

"Aid alone, in the absence of leadership to restructure global financial, trade and environmental relations, will never achieve the goal of poverty eradication. But turning the rhetoric of aid – ownership, empowerment, participation, gender equality, basic human needs – into action is a litmus test for the global community. Unless there is genuine reform in international governance, and a delinking of aid from vested interests and conditionality, aid will be seen as increasingly irrelevant – just part of an established order that tolerates poverty rather than a key element which can contribute to prosperity and security for all."

The Global North: Never Richer, Never Meaner

"The people living in greatest poverty in the world are having to pay the price of getting rich countries' economies in order. The total failure of the majority of rich countries to honour the commitments they have made to increase aid towards 0.7% in order to achieve the Millennium Goals for 2015 contrasts sharply with the growing wealth of OECD countries. This disparity can be summed up simply in the phrase "richer but meaner".

Our Common Challenge

"Arrested development and vast economic disparities that separate us all on the planet do not cause events like 11 September – but they set the stage for more than 40 conflicts on the planet today. Global peace will remain out of reach for everyone unless everyone has a share in the common future – and something to protect. Fundamental institutional reforms are needed to ensure that international organizations reflect the financial, political and security interests of all, not just those who are already rich and powerful."

Since September 11th, the world changed. A global coalition of mostly northern countries marshaled huge military and financial resources against terrorism. *Reality of Aid 2002* challenges these same leaders for an urgent political commitment to mobilize the resources and the cooperation required for the fight against global poverty.

The *Report* points to "the everyday terror experienced by communities devastated in conflict, mothers dying in childbirth, infants succumbing to malnutrition and diarrhea, young people dying of AIDS, families with no livelihoods" as "a human tragedy on an almost unthinkable scale."

More than 35 *Reality of Aid* writers and analysts represent NGOs from both donor countries and recipients in Asia, Africa and the Americas. They depict a profoundly disturbing assessment of the actual impact of donor approaches to meeting human needs, as well as these same governments role in controlling global finance, and advancing their narrow political and economic interest, despite pervasive rhetoric in developed countries in support of globalization for a fairer and more just world order.

The UN Financing for Development Conference: A Failure of Leadership

Writing prior to the March United Nations Financing for Development Conference in Monterrey Mexico (where *Reality of Aid 2000* will be launched internationally, NGOs in the Reality of Aid network called for strong leadership and new vision on the part of heads of government meeting in Monterrey.

Civil society organizations from around the world sought both specific new resources to achieve the International Development Goals and Targets (agreed by world leaders only 18 months ago at the UN Millennium Session). NGOs writing in *Reality of Aid 2002* are issuing a compelling call, not only for new donor resources for aid, but also for fundamental changes in North-South international cooperation that will see real global progress on human rights and poverty reduction.

But on all counts, the “Monterrey Consensus”, now agreed by all governments as the outcomes for the Conference, is a profoundly sterile document, lacking in vision for a renewed relationship between the rich developed countries and the global south, with no commitments to even a modest set of new proposals for poverty eradication and multilateral institutional reform. Progress on urgent commitments to improve health or education for the world’s poor remains in a shameful rhetorical limbo.

Despite some proposals from the UK, a few European nations and southern governments, northern governments for the most part hid behind the positions of the most obstructive international players. By rejecting out-of-hand any new proposals and opting for business-as-usual, the USA, in particular, is undermining four decades of progressive United Nations initiatives in support of comprehensive rights for the poor and the marginalized.

NGOs are deeply troubled by this retreat from multilateralism. In the words of *Reality of Aid 2002*, “north-south resource transfers are declining and northern-dominated global institutions are consolidating a system of highly unequal relations between countries”. Hope that the Financing for Development process would initiate meaningful north-south dialogue on these central issues for global peace has been betrayed.

Renewed multilateralism would require asking some hard questions about the nature of international cooperation and the place of developing countries in decisions that affect the livelihoods of their citizens. The practices of imposing policy and project conditionalities in aid relationships, through which donors exercise their power, is widely viewed and resented in the south, among civil society and government officials alike. *Realities of Aid* authors argue that these conditions not only advance the commercial, political and diplomatic interests of the North, they often deepen poverty and inequality.

Reality of Aid takes up this theme in its 2002 *Report* and sets out specific steps that the international community can take to shift from conditionality to partnership – putting well-meaning words into action.

From Words into Action: *Reality of Aid 2002* Proposals for Transforming Aid Relationships

NGOs writing in *Reality of Aid 2002* recognize that changing aid relationships alone will not reduce inequality and overcome poverty. These goals require wider reforms beyond foreign aid, in the rules that govern the global economy and its major institutions, as well as in leadership by government and civil society organizations representing the interests of those living in poverty.

Aid seen as increasingly irrelevant...

- Twenty-four developed countries control more than 70% of the voting power within the World Bank. The International Financial Institutions (IFI) want to ensure developing country 'ownership' of the IFI policies that IFIs and donors have declared would assure sustainable growth with poverty reduction, against much evidence to the contrary. In the words of one donor informant, "ownership exists when they do what we want them to do, but they do so voluntarily".
- Because of the way that aid is managed and accounted for, less than half can really be said to be under local control (funding donor country consultants, paying for refugees in donor countries, imputed student costs);
- In the 1990s, aid conditions expanded both in scope and ambition, not only to influence macro-economic policy, but also to micro-manage a wide range of developing country policies and institutions. The IMF attached an average of 114 conditions to loans to countries in Sub Saharan Africa in 1999.
- Despite many expressions of political concern over the impact of debt on the people living in greatest poverty, the trend in aid to Highly Indebted Poor Countries (HIPC) was actually downward during the past decade.

Never richer, never meaner...

- Wealth per person in donor countries has doubled since 1961, approaching \$30,000 in 2000, while their aid given per person is less than what it was 4 decades ago.
- The G7 donors, who seek to play a "leading role" in the global economy, give a pitiful share of their wealth in aid – 0.19% of their GNP in 2000, even lower than 0.21% in 1999.
- The poorest people in the world are paying the price of getting rich country economies in order. Aid spending cuts have been far deeper than other areas of government spending. Aid as a share of central government spending has fallen from 0.82% ten years ago to 0.58% now.

A Six-Point *Reality of Aid* Agenda for Transforming Aid Relationships

Most NGOs acknowledge the importance of aid as an essential financial instrument for international cooperation, with the *potential* to fight poverty and promote sustainable development. To enable these purposes, aid relationships, according to *Reality of Aid 2002*, require flexibility and sensitivity to the unique political, economic, social, cultural, ecological, and gender equality circumstances facing people living in poverty in each country.

Reality of Aid 2002 sets out a Six-Point Agenda for Transforming Aid Relationships.

1. Eliminate all types of conditions, unilaterally imposed by outside donors and creditors, for all forms of aid and for debt cancellation for the poorest countries.

- The IMF and the World Bank, which are controlled and governed by the United States, the European Union, and Japan, should no longer be the gatekeepers for international assistance.

2. Replace IMF/World Bank imposed Poverty Reduction Strategy Papers with truly home-grown poverty reduction plans as the guide for donor policy goals and interventions to reduce poverty.

- Effective aid accountable to poverty reduction goals requires donor respect support and commitment to evolving democratic participation in national developing country development strategies, within a time scale appropriate to each country's circumstances.

3. Cancel unconditionally all debts of the world's poorest countries, as a litmus test of the commitment of donor countries to economic justice and the elimination of poverty.

4. Develop fair and equitable mechanisms for determining priorities in promoting and financing 'global public goods' that do not divert resources from poverty elimination.

5. Fundamentally change bilateral donor aid procedures and practices to make southern ownership a central organizing principle of aid relationships.

- Reduce the reliance on donor country technical assistance.
- Untie aid to all developing countries without restriction, inclusive of food aid and technical cooperation, but accompany this policy with donor procurement policies that give priority to developing country small and medium enterprises.
- Implement changes in aid ministry policies and procedures that improve southern accountability, transparency in aid transactions, and responsiveness to local contexts.

6. Commit to specific multi-year steps in donor aid budgets to achieve, minimally, the UN target of 0.7% of GNP, with long-term stable and predictable resources for fulfilling the 2015 Development Goals, and ultimately the elimination of poverty.

Understanding the Six-Point Agenda

1. Eliminate all types of conditions, unilaterally imposed by outside donors and creditors, for all forms of aid and for debt cancellation for the poorest countries.

The IMF and the World Bank, which are controlled and governed by the United States, the European Union, and Japan, should no longer be the gatekeepers for international assistance.

Reality of Aid 2002 documents dozens of imposed conditions attached to loans for developing countries from the World Bank and the IMF; bilateral donors are increasingly conditioning their own assistance programs to developing country compliance to World Bank and IMF conditions. Such conditions, setting out macro-economic policy goals, public sector reform or trade liberalization, often undermine the ability of developing country governments to determine their own strategies for addressing poverty. *Reality of Aid 2002* quotes one donor informant to the effect that “ownership exists when they do what we want them to do, but they do so voluntarily”.

Reality of Aid recommends that donors and developing country partners negotiate conditions for resource transfers based on shared values and commitment to directing resources for the benefit of those who are socially excluded. The question of who decides is fundamental to determining a fair and equitable process for such negotiations, shifting the balance in the highly unequal north/south power relations in current aid decision-making.

2. Replace IMF/World Bank imposed Poverty Reduction Strategy Papers with truly home-grown poverty reduction plans as the guide for donor policy goals and interventions to reduce poverty.

Effective aid accountable to poverty reduction goals requires donor respect, support and commitment to evolving democratic participation in national developing country development strategies, within a time scale appropriate to each country’s circumstances.

Reality of Aid 2002 points to several examples of home-grown strategies for reducing poverty, such as Uganda’s Poverty Action Plan. Authentic ownership of these strategies requires sufficient time needed to consult and reach social consensus, rather than externally determined timetables. There is mounting evidence that the Bank/Fund PRSP process is deeply flawed and is the antithesis of domestically rooted and owned poverty strategies.

Whatever their flaws in terms of broad-based participation, domestically driven processes strengthen accountability of developing country governments with their citizens. Their motivation is rooted in domestic political processes and popular pressures. They are effective because they do not have stringent external financing conditions hanging over them. They are an essential foundation for engaging donors on a more equal footing.

3. Cancel unconditionally all debts of the world's poorest countries, as a litmus test of the commitment of donor countries to economic justice and the elimination of poverty.

Reality of Aid 2002 points to the recognition by the High Level Panel on Financing for Development of the continued desperate situation of many of the highly indebted poorest countries and its recommendation to take actions beyond recent HIPC agreements. The Panel also strongly urged the establishment of mechanisms for financing debt cancellation beyond ODA, to avoid merely redistributing aid among poor countries.

The World Bank HIPC Initiative is no answer to unpayable debt and its impact on poverty. According to OXFAM, Tanzania will remain with unsustainable debt after the latest HIPC debt reduction, even accepting the exaggerated growth economic projections by the World Bank's and IMF's own economists. Two thirds of countries now receiving debt relief still spend more on debt servicing payments than on health and half spend more on debt than primary education and health combined!

Debt cancellation must be unconditional and quick in order to contribute to the achievement of the International Development Goals. Accountability for the use of the resources released is the responsibility of citizens of developing countries, not donor governments. Civil society organizations should be facilitated by donors to hold their governments accountable. New loan agreements must be the result of transparent negotiations, with meaningful parliamentary oversight in the respective donor country.

4. Develop fair and equitable mechanisms for determining priorities in promoting and financing 'global public goods' that do not divert resources from poverty elimination.

While dialogue and resources to finance global public goods (infectious disease, financial stability, climate change, peace and security) are important ends in themselves, they are neither a substitute nor a pre-condition for policies and programs to end poverty. *Reality of Aid* authors suggest that creating a local environment where citizens can exercise their rights to health, education and a sustainable livelihood is often a pre-condition to achieving global goals.

Setting priorities and policy options for achieving global public goods within the multilateral system has been largely the prerogative of northern governments and institutions. The interests of many developing countries have little voice in the international institutions for determining global public goods – in discussions of international financial architecture for example – and yet they are called upon to participate as 'full' members of the international community. Without substantial and deeply rooted reform of the mandates and governance of multilateral institutions, particularly the IFIs, but also the WTO and the UN, there will be no fair and just approach to these concerns in which all of humanity has a stake.

Financing for global public goods cannot come from declining aid resources, but should be accounted by donors separately and in addition to aid directed to those living in poverty. Civil society organizations from around the world are proposing sources for alternative finance through small taxes on the global commons, or on capital transactions (Tobin Tax).

5. Fundamentally change bilateral donor aid procedures and practices to make southern ownership a central organizing principle of aid relationships.

- **Reduce the reliance on donor country technical assistance.**

Technical assistance currently makes up a quarter of total development aid and is tied almost exclusively to donor country consultants. Reliance on consultants from donor countries undermines local capacity, often fails to appreciate local conditions, and are high cost activities reducing resources available for local partners to direct to poverty reducing activities. Several reports in *Reality of Aid 2002* document the “bad deal” of imported technical cooperation in Indonesia and Nepal, where inappropriate advice has left the country paying for poorly designed projects and programs long after the consultants have left.

Undoubtedly developing country institutions, particularly in the poorest countries, require assistance for improving their capacity to manage their own development processes. The fragile capacities of developing country ministries in many of the poorest countries is often a result of two decades of cuts, reorganisations and privatisations initiated by IMF-imposed conditions for structural adjustment loans. Rebuilding, or creating and sustaining the requisite capacities in southern development institutions necessitates long-term engagement initiated by these institutions, not one-off donor-initiated ‘capacity-building’ exercises or a substitution of foreign consultants to produce results and reports on a donor-prescribed timetable. Above all, recipient countries and partners need to be able to decide for themselves the terms and use of technical cooperation.

- **Untie aid to all developing countries without restriction, inclusive of food aid and technical cooperation, but accompany this policy with donor procurement policies that give priority to developing country small and medium enterprises.**

Donors have at long last acknowledged that aid given on condition that the resources are spent on donor country goods and services represents poor value for money (increasing costs by 15-30%) and often distorts the content of aid programs away from the intentions of the beneficiaries. Often the assistance most appropriate to local circumstances (and at a fraction of the cost) can be found locally or from other developing countries.

Untying aid alone will not necessarily enable developing countries to capture the socio-economic benefits of untied resources. Donors must fulfil their agreement at the 2001 LDC III Conference to increase the proportion of goods and services sourced in the recipient LDC or from other developing countries. The implementation and procurement for donor programs is currently monopolised by a northern development industry. Liberalising the aid procurement regime so that these firms may bid on contracts throughout the North may improve cost effectiveness of aid, without materially affecting developing country resources and capacities for tackling poverty.

- **Implement changes in aid ministry policies and procedures that improve southern accountability, transparency in aid transactions, and responsiveness to local contexts.**

Donor coordination with southern government ministries in **sector-wide approaches** for health or education are important new initiatives, but donors must avoid depoliticising development by orienting recipient government debate on policy directions within meetings of unaccountable specialized ministry and donor staff. To assure that sector programs will take account of specific local contexts and contribute effectively to poverty reduction, *Reality of Aid* authors encourage donors and governments to ensure the significant and timely participation of people living in poverty, through their representative organisations, local governments and NGOs.

Positive efforts for **aid coordination** by bilateral donors must relate in the first instance to the expressed priorities of developing countries, and not policy prescriptions emanating from the Bank and the Fund, nor the donor's own preferred policies and programs. Flexibility and respect for a multiplicity of views on policy directions is essential for tackling poverty successfully.

Northern NGOs are also challenged in this *Reality of Aid Report* to give priority to **horizontal and downward accountability** to the people in whose name resources are harnessed. More systematic coordination between NGOs at the regional level is also required.

Donors increasingly stress **the power of knowledge** in effecting change but pay little attention to the importance for people affected by change to know about the services to which they are entitled, and the funding that has been allocated in their name. With the exception of circumstances that might put a project partner in jeopardy, donors could do much more to **make their aid transactions transparent**, providing predictable and reliable public financing. Currently in many developing countries, ministries of finance are not even informed of aid transfers after they have happened.

The Reality of Aid calls upon the donor community to systematically review their **procedural practices**. They must take account of the need for transparent long-term collaboration, based on dialogue and the humility that comes from listening. Donor timetables and development programs must rely much more on local knowledge, participation, and local level decision-making. Flexible modalities for contracts are essential to strike a balance in aid relationships between the need for parliamentary accountability in the North and new forms of accountability to those living in poverty in the South.

6. Commit to specific multi-year steps in donor aid budgets to achieve, minimally, the UN target of 0.7% of GNP, with long-term stable and predictable resources for fulfilling the 2015 Development Goals, and ultimately the elimination of poverty.

Not only has aid for long term development diminished in the 1990s (see the accompanying Facts and Figures), donors have agreed to expand the definition of aid – to include expenditures on refugees, imputed costs for students studying in the donor country, and debt relief. *Reality of Aid* calculates that a mere 31% of bilateral aid in 1998 was actually available to pursue priorities in developing countries for poverty reduction.

The Experts Panel for Financing for Development calculates that additional aid totaling \$68 billion annually is required to achieve a partial list of the International Development Goals. *Reality of Aid 2002* emphatically suggests that this is affordable. Achieving the 0.7% target would provide an additional \$100 billion.

For the past 20 years, donors have pressed developing countries to cut already inadequate public services and implement other policy changes with extraordinary political cost. At the same time, northern donor governments have proved unwilling to take even tiny amounts of political pain or risk at home to enhance their contribution to development cooperation. The *Reality of Aid* calls on donor governments to invest in vigorous public engagement to build political will and citizen pressure to meet the UN target of 0.7%.

Aid alone, in the absence of leadership to restructure global financial, trade and environmental relations, will never achieve the goal of poverty eradication. But turning the rhetoric of aid – ownership, empowerment, participation, gender equality, basic human needs – into action is a litmus test for the global community.

Unless there is genuine reform in international governance, and a de-linking of aid from vested interests and conditionality, aid will be seen as increasingly irrelevant - just part of an established order that tolerates poverty rather than a key element which can contribute to prosperity and security for all.

What are the Facts?

“Richer but Meaner”:

- Wealth per person in donor countries has doubled since 1961, approaching \$30,000 in 2000, while their aid given per person is less than what it was 4 decades ago.
- Not only do the facts betray decades of donor commitments to a more egalitarian world, *Reality of Aid 2002* confirms that “the poorest people in the world are having to pay the price of getting rich country economies in order”. While many OECD countries have now balanced their public finances, aid spending cuts have been far deeper than other areas of government spending. Aid as a share of central government spending has fallen from 0.82% ten years ago to 0.58% now.
- Aid has fallen by almost 12% since its peak 10 years ago in 1992, the year of the Earth Summit in Rio. Donors go into the Financing for Development Conference having never given less in aid, steadily declining from around half of the UN target of 0.7% of their GNP in the 1980s, to 0.33% in the early 1990s, to an all time low of 0.22% in 2000.
- The G7 donors, who seek to play a “leading role” in the global economy, give a pitiful share of their wealth in aid – 0.19% of their GNP in 2000, even lower than 0.21% in 1999.
- During the past decade only 5 donors have managed to increase their aid, while 6 donors (Canada, Greece, Ireland, Sweden, Switzerland and the UK) have plans to increase aid. While welcoming these increases, *Reality of Aid 2002*, notes that “there is a clear record of DAC governments failing to deliver on volume commitments, and many of the commitments are in any case to reach levels far below than those achieved at an earlier date.”

Aid Spending Skewed by Donor Interests and Away from the Poorest:

- While several donors are talking about the need to concentrate on fewer countries, the evidence is the distribution of spending by country is still highly skewed by donor interest. Only 42% of aid went to South Asia and Sub-Saharan Africa where most of the world’s poorest people live and the Least Developed Countries received only 29% of aid in 2000.
- During the 1980s aid per person in the Least Developed Countries was approximately \$33. During the 1990s this figure has fallen by more than half.
- The G8 countries meeting in Naples in 2001 and Kananaskis later this year have made Africa a priority on their agenda. Yet the *Reality of Aid 2002* points out that “aid to Sub-Saharan Africa over the last 4 years have been lower than any year since 1984”!

Rising IMF / World Bank Conditionality and Falling Multilateral Aid Channeled through the United Nations:

- The rise in conditionality imposed by the IMF and World Bank has been accompanied by a falling share of multilateral aid channeled through the UN. While the latter have stagnated, funds channeled through the European Commission and the Development Banks have grown.
- Power in the Bretton Woods Institutions is heavily skewed in favour of developed countries. The G7 and European Union countries, with 14% of the world’s population, control 56% of the IMF Executive Board votes. Developing countries have become increasingly marginalized as quota-based voting rights for the rich have grown since 1944, while basic rights remained the same. According to *Reality of Aid 2002*, “this means that the relative

weight of basic voting rights [available to developing countries] have declined from 15% of the total [votes] to just 2% -- substantially eroding the influence of the majority of smaller, economically weak countries”.

- While the international community rallied around the debt campaign of the Jubilee Coalition, with political expressions of concern over the impact of debt on the poorest, the trend in aid to Highly Indebted Poor Countries was actually downward during the decade to the year 2000.
- Despite a rhetorical donor consensus on the importance of “local ownership” for effective aid results, *Reality of Aid 2002* points out that “progress towards fostering local ownership is obstructed by the fact that the majority of aid spending is effectively beyond the control of southern government”. NGOs calculate that less than half can be said to be accessible to local control.

OECD Countries Choose Military Spending over Poverty Reduction Every Time:

- Every donor except Denmark spends at least twice as much on the military as they spend on aid. The UK spends eight times as much, France nine times as much and the USA 33 times as much.