Part VI
World Aid and Donor Reports

Shifting Trends: ODA, Global Security and the MDGs

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Major scaling up of aid

Led by a significant increase in aid from the US, the net amount of Official Development Assistance (ODA) from the Development Assistance Committee (DAC) increased to an all time high of $79.5 billion in 2004. Compared to the 2003 level, this figure represents a real increase (i.e., taking into account both inflation and exchange rate fluctuations) of 5.9%, or a modest year-on-year increase of $4.1 billion.

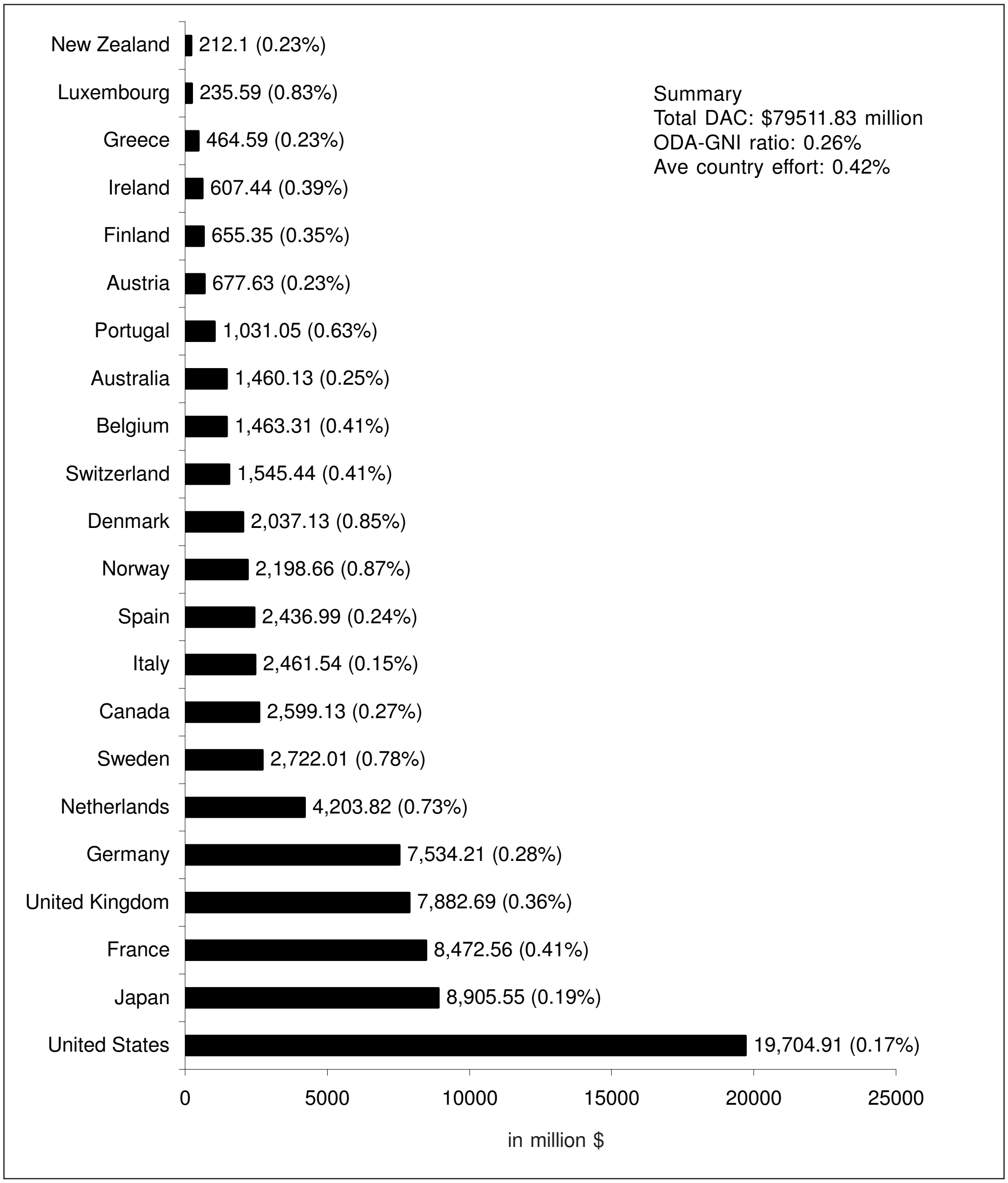
The 2004 figure continued the upward trend in DAC ODA since the late 1990s, but which greatly accelerated after the 9/11 attack on the United States (US). The remarkable addition of more than $20 billion in new resources for development assistance between 2001 and 2004 took place against the background of the US- led the "war on terrorism".

As in recent years, relative to other donor countries the US disbursed the largest quantity of aid in 2004 at $19.7 billion — an 18.3% increase over 2003. However, overall performance of US ODA has changed little. As measured by its capacity to give based on the wealth of its economy, US ODA was only a mere 0.17% of its Gross National Income (GNI), vying with Italy for last place among the 22 donor countries. (See **Graph 14.**)

Of course, even before the attacks in New York and Washington, the international community led by the United Nations (UN) had already made important commitments to increasing aid to help ease poverty in the South. The Millennium Declaration issued by the UN a year before 9/11, for instance, called on all countries to "spare no effort to free our fellow men, women and children from the abject and dehumanizing conditions of extreme poverty." In September 2005, the Special UN World Summit to review progress with respect to the Millennium Declaration reiterated the longstanding goal for the rich countries to devote 0.7% of their GNI to ODA.[i]

This chapter is based on figures available through the OECD DAC up to 2004. Preliminary figures for 2005 became available in April 2006 and a short analysis can be found in an addendum to this chapter.

Graph 14. ODA net disbursement & GNI ratio, by donor, 2004



Source: OECD-DAC

DAC donors provided a mere 0.26% of their GNI to ODA in 2004, up slightly from 0.25% in 2003. The 2004 performance of the G7 donors — the world's seven richest countries — was even worse at 0.22% of their combined GNI. Meanwhile, the average country effort[ii] for all DAC donors in 2004 was 0.42%, a little higher than 2003's 0.41 percent. Note that the average donor country effort has been sustained largely by five European donors that have consistently achieved or exceeded the UN target.[iii]

In December 2005, the UN General Assembly agreed that pledges made at the 2002 Monterrey Consensus on Financing for Development would be reviewed in 2008. The Monterrey Consensus did not only launch new aid commitments by several donors (the European Union, the US, and Canada), but also committed UN member states to the Millennium Development Goals (MDGs).[iv] These goals aspire to bring greater poverty focus to ODA in efforts to halve the proportion of people living in absolute poverty and hunger as well as to achieve several social development goals by 2015.

Since the Monterrey Consensus, a number of donors have made long overdue commitments to the timetable to achieve the 0.7% target. In May 2005, the European Council decided on a new EU collective target of ODA to GNI ratio of 0.56% by 2010, which would result in an additional €20 billion a year in ODA.[1] At the 8 July 2005 Gleneagles Summit of the G8, donors also agreed to increase aid to developing countries, which the OECD calculated would reach around $50 billion per year by 2010.[2] In September 2005, five donors stated their intent to reach 0.7% before 2015 while five European donors are planning to achieve 0.5% by 2010. Accepting these commitments at face value, the DAC expected overall DAC ODA/GNI ratio to reach 0.36% in 2010, finally exceeding the ratios attained during the 1980s.[3] (See **Table 15** and **Graph 15**)

While recording these impressive promises, even the DAC Secretariat has registered caution about the will of donors to meet their own targets. As noted by the OECD, the projected "aid boom" in 2005-2006 is primarily due to debt relief for Iraq and Nigeria, and emergency aid to countries hit by the Indian Ocean tsunami in December 2004. By 2007, when the huge debt relief operations are already complete, donors need to increase other forms of aid by around 10% yearly, or double the rate of recent annual increases, to achieve the commitments they made in 2005.[5] And while increased aid is welcome, a closer look indicates alarming trends in post 9/11 foreign aid flows.

Increasing aid is failing to close the gap

The international community has set some modest targets in the MDGs to be achieved by 2015 as measured against performance in 1990. The MDGs are important steps which would indicate progress in meeting the international community's commitments to economic, social and cultural rights. In the lead-up to the September 2005 UN World Summit, the UN Millennium Project estimated the additional financing gap needed to achieve the MDGs to be $46.6 billion for 2006, rising to $73.5 billion by 2015.[6]

Both UN agencies and international civil society organizations (CSOs) have issued ambitious calls for global finance that current commitments will certainly fall short of. Millennium Goal 8 calls on donors to commit to "more generous aid for countries committed to poverty reduction." Like the other MDGs, if measured against the bench-mark of 1990, declining aid in the 1990s created a major financing gap that recent increases have so far failed to make up for.

The decline in aid during the 1990s, due to drastic cuts in the aid budgets of the G7

Table 15. DAC simulation of 2010 ODA based on recent donor commitments As 14 November 2005

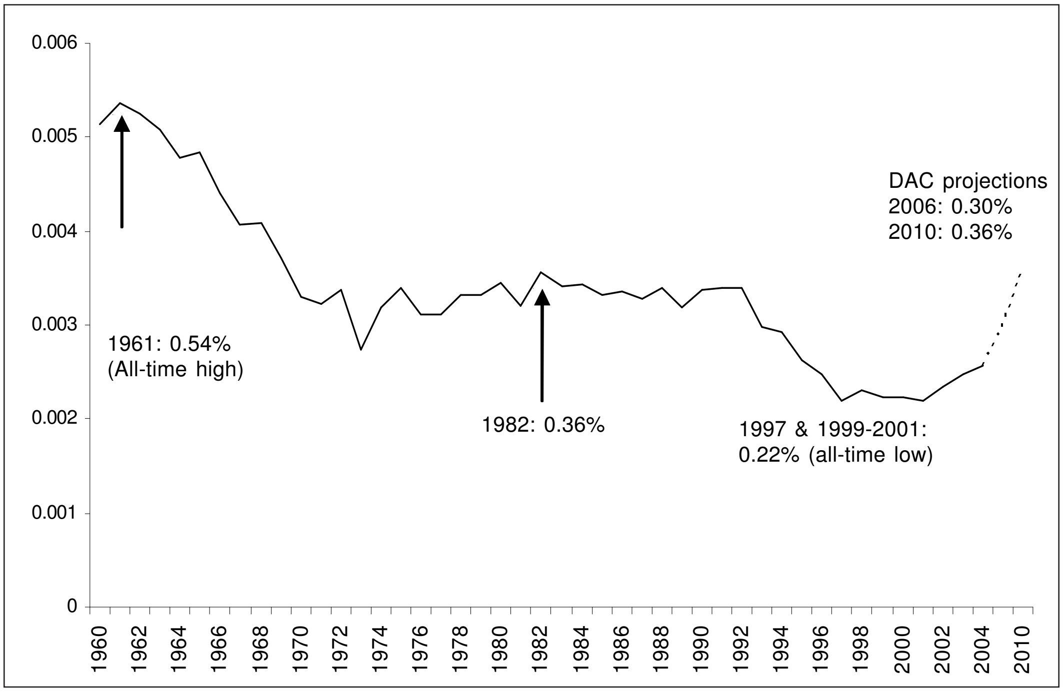
Donors	Actual 2004 GNI ratio	Commitment	Estimated 2010 net ODA ($ million)	Estimated 2010 GNI ratio
Above 0.7%				
Norway	0.87%	1% over 2006-2009	2,876	1.00%
Denmark	0.85%	minimum 0.8%	2,185	0.80%
Luxembourg	0.83%	1% in 2009	328	1.00%
Sweden	0.78%	1% in 2006	4,025	1.00%
Netherlands	0.73%	minimum 0.8% 2004-2007 /a	5,070	0.80%
0.7% target				
Belgium	0.41%	0.7% in 2010	2,807	0.70%
France	0.41%	0.7% in 2012	14,110	0.61%
Ireland	0.39%	0.7% in 2012	1,121	0.60%
United Kingdom	0.36%	0.7% in 2013	14,600	0.59%
Finland	0.35%	0.7% in 2010	1,475	0.70%
Spain	0.24%	0.7% in 2012	6,925	0.59%
0.51% target				
Portugal	0.63%	0.51% in 2010 /b	933	0.51%
Germany	0.28%	0.51% in 2010	15,509	0.51%
Austria	0.23%	0.51% in 2010	1,673	0.51%
Greece	0.23%	0.51% in 2010	1,196	0.51%
Italy	0.15%	0.51% in 2010	9,262	0.51%
Other targets				
Australia	0.25%	0.36% in 2010	2,460	0.36%
New Zealand	0.23%	0.28% in 2007-2008	289	0.28%
No specific targets				
Canada	0.27%	/c	3,648	0.33%
Japan	0.19%	/d	11,906	0.22%
US	0.17%	/e	24,000	0.18%
Switzerland	0.41%	/f	1,728	0.41%
Total DAC	0.26%		128,128	0.36%

Notes

/a Netherlands's ODA in 2004 was below its 0.8% target due to India's repayment of all its outstanding Dutch aid loans.
/b Portugal's ODA in 2004 was above trend due to exceptional debt relief for Angola.
/c Canada intends to double its 2001 International Assistance Envelope (IAE) level by 2010 in nominal terms.
/d Japan intends to increase its ODA volume by $10 billion in aggregate over the period 2005-2009.
/e DAC estimates $5 billion annual increase in ODA from 2005 based on Gleneagles G8 Commitments.
/f Switzerland's ODA will increase by 8% in nominal terms from 2005 to 2008.

Source: Taken from OECD-DAC Secretariat simulation of DAC members' net ODA Volumes in 2006 & 2010[4]

Graph 15. Long-term trend in DAC ODA-GNI ratio (1960-2004 with 2006 & 2010 projections)



Source of basic data: OECD-DAC

countries, resulted in cumulative real- term losses in aid to recipient countries of over $40 billion by 1999 (in constant 2003 dollars). Between 2000 and 2004, aid increases generated $42 billion cumulatively in new resources (over and above 1999), effectively canceling out the losses of the 1990s.[v] In effect, over the past fifteen years, there has been no new aid resources above the level reached in 1990, the year chosen as the benchmark for achieving the MDGs.

For individual donors, eight registered net losses for recipients during the 1990s compared to their aid level in 1990 (i.e., assuming it had stayed at this level for the decade). The US registered significant reductions in the 1990s with $35 billion lost to recipients during that period, while increases since 2000 have brought $22 billion in new aid resources. Japan, on the other hand, contributed $9 billion less up to 2004 than it would have if its 1990 level had continued to 2004.

Has the financing gap been reduced by the renewed focus on aid targets and timetables, and the commitments made in 2005 to achieve the 0.7 percent target? For several countries, the CSOs met these "commitments" with a high degree of skepticism. Even the DAC said that the commitment to raise ODA implies that "aid will be the most rapidly increasing element of public spending and given the pressures on public budgets in many OECD countries, delivering such increases will be a 'challenge'."[7] The pressure is expected to intensify starting 2007, which as noted earlier is the year when large debt relief operations propping up increased ODA figures will end.

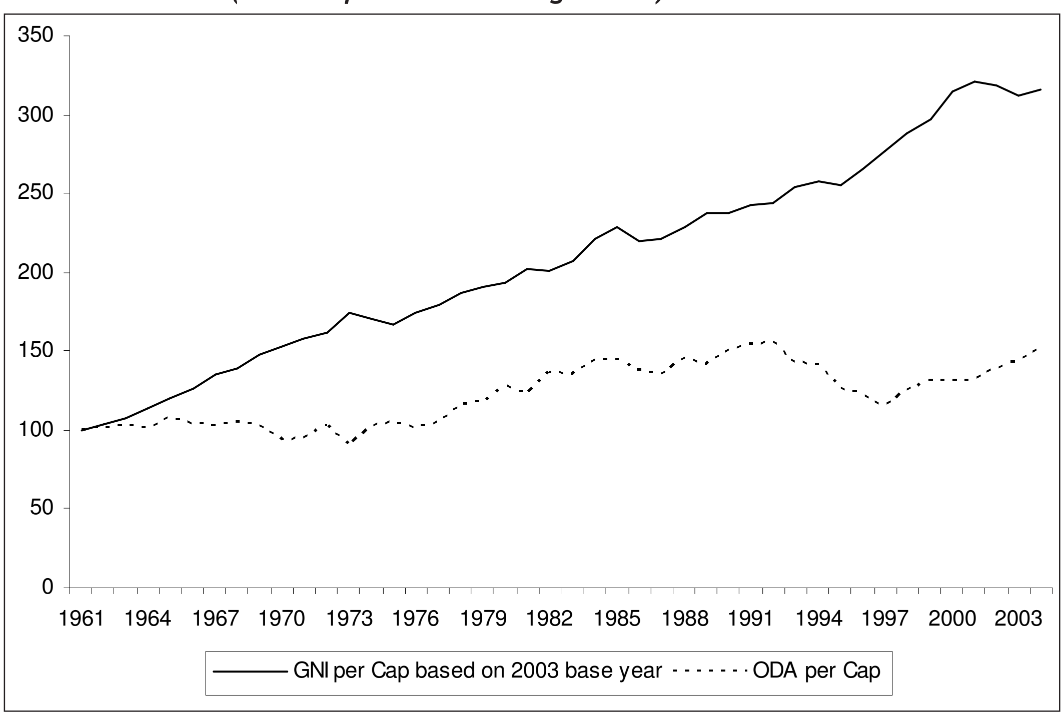
Ireland has already reneged on its 0.7% by 2007 commitment and pushed its target date to 2012. Japan, meanwhile, has effectively reneged on its $10 billion commitment made at the G8 Gleneagles meeting for new aid money for Africa to 2010.[vi]

On a more positive note, France, along with Spain, Brazil and Chile, has been leading the way in developing innovative mechanisms for funding development. France is due to implement this year (2006) a new small surcharge on commercial airfares, while the government of Norway is also considering support for a similar surcharge. In 2005 a number of donors led by the UK launched an International Financing Facility in support of the Global Alliance for Vaccines and Immunization (GAVI).[vii] While these innovative financing mechanisms are certainly welcome, the challenge is still to ensure the actual delivery of commitments to increase aid and reach the 0.7% target, and for additional resources from the new financing mechanisms to be maximized for poverty reduction in the poorest countries.

Donors have also failed to significantly close their "generosity gap",which according to Reality of Aid Reports has been growing since the mid-1990s. ODA per capita in donor countries had increased by 50% from $55 in 1961 to $83 in 2004. On the other hand, wealth per capita (GNI) in these same countries grew by about 230% from $9,887 to $32,462 during the same period. (See **Graph 16**).

Most donor countries that have so far failed to move towards the 0.7% target, can well afford to do so. The successful

Graph 16. GNI per capita versus ODA per capita in donor countries (In 2003 prices & exchange rates) 1961-2004



mobilizations in the 2005 Global Call to Action Against Poverty campaigns in many donor countries, as well as generous responses to the December 2004 tsunami, demonstrated that citizens are far more prepared to respond with generosity than their own governments.

New aid resources not maximized for poverty reduction

According to the Human Development Report (HDR) 2005, while international aid is one of the most powerful weapons against poverty, it has been underused and badly targeted. "There is too little and too much of what is provided is weakly linked to human development," the report said.[8]

Since the Millennium Summit in 2000, donors have made available $27 billion in new aid resources. But despite the commitment to "spare no effort" to reducing poverty, not all of this increase in aid has been available for poverty reduction goals. In part, this is due to massive aid resources targeting two countries – Afghanistan and Iraq, which cornered 37% of new aid resources from 2000 to 2004.[9]

Furthermore, donors have taken advantage of DAC criteria for what can be included in ODA to inflate their aid performance, while no actual benefits accrue to developing country partners. As the HDR 2005 noted, not all of the money counted as aid translates into transfer of resources. This has dire implications on the problem of financing gaps to achieve the MDGs, since bridging the gap means real money must be disbursed and used. It pointed out the case of debt relief, technical cooperation, and emergency assistance, which together comprised 90% of the $11.3-billion increase in bilateral aid between 2000 and 2004.

OECD reporting arrangements allow donors to report the entire stock of debt reduction as aid in the year it is written off, thus raising the real value of debt relief since the real financial savings to the recipient country come in the form of reduced debt servicing. Furthermore, in cases where the debts were not being fully serviced, debt relief becomes in part an accounting operation. Technical cooperation, meanwhile, primarily employs experts from donor countries which may distort resource flows into priority areas for MDG financing. Emergency assistance is a response to financing requirements over and above those estimated for the MDGs.[10]

In addition, donors are also permitted to count as ODA support for refugees for their first year in a donor country, and to impute a value on education provided to students from developing countries studying in donor countries.

Based on *Reality of Aid* calculations, deducting new aid resources due to aid to Afghanistan and Iraq, debt cancellation[viii], and support for refugees in donor countries, only 25% (or $6.9 billion) of the $27 billion in new aid resources from 2000 to 2004 were available for poverty reduction or MDG programs. (See **Table 16**)

Aid to Afghanistan and Iraq

The wars in Afghanistan and Iraq have had a profound impact on the distribution of aid increases since 2001. Aid increases in the UK and the US alone have produced almost $22 billion in new aid resources since 2001. But these two countries disbursed more than $7 billion, or one third of their aid increases, just to Afghanistan and Iraq during this period.[11]

Since 2001, disbursements to Afghanistan and Iraq from all donors have accounted for $10 billion of the $27 billion in new aid resources available from all aid increases by all donors. During this period, donors committed $9.3 billion to these two countries, but at the time of writing these funds had not been disbursed.[12]

Table 16. Allocation of new donor aid resources, 2000-2004

Indicator	$ billion
Net new aid resources	27.0
Minus:	
New aid to Afghanistan & Iraq	10.0
Additional debt cancellation (net of average service)	9.6
Additional support for refugees in donor countries	0.5
New resources for potential use in poverty reduction/MDG programs over four years	**6.9**

Source: Reality of Aid calculations based on DAC Development Cooperation Report 2005 & DAC online aid data (constant 2003 dollars). Aid, adjusted for inflation and exchange rates, in each year is compared to aid in the year 2000. Similarly deductions are compared to amounts provided in the year 2000. Debt cancellation is net of an estimated average 7.3% annual benefit from the debt cancelled.

Destroy and Rebuild

A major portion of US aid to Afghanistan in 2004 went to the reconstruction of its roads, schools, water and power supply, health facilities, and government buildings, most of which, ironically, were destroyed by American bombs when the Bush administration declared war against the Taliban government in October 2001.In 2004, the US spent $720 million on non-security related aid for Afghanistan, of which 75% ($538 million) went to reconstruction activities while the rest went to humanitarian and quick-impact projects.[13] Meanwhile, the reconstruction of Iraq is considered the largest aid campaign of the US since the Marshall Plan of post-World War II. Between April 2003 and March 2004, the US has released $3.3 billion worth of aid for Iraq, of which a big part went to rebuild the schools, water and power supply, health facilities, and ports damaged during the US invasion.[14]

Debt cancellation

Reality of Aid calculations show that debt cancellation, the full value of which is counted by donors as ODA, accounted for $9.6 billion of the $27 billion in new aid resources between 2000 and 2004.[15] In fact, some of the donors with significant aid increases in 2004, such as Japan, Portugal, Austria and the UK, also reported debt cancellation that accounted for a high proportion of these increases.[16]

In November 2004, the Paris Club[ix] announced that it would reduce by up to 80% the nearly $40 billion owed to them by Iraq. The Bush administration alone cancelled 100% of Iraq's $4.1 billion debt to the United States. The first tranche of this cancellation will artificially and significantly increase DAC ODA figures in 2005 and 2006 by up to $16 billion, inflating overall DAC aid by more than 20 percent. For individual countries, the impact will be significant – the US (21%), Japan (45%), Germany (29%), the UK (13%), Italy (66%) and France (11%), according to French NGO Coordination Sud. Already, in 2005 debt cancellation represented more than 40% of French ODA.[17]

Following the July 2005 Gleneagles G8 Summit, some limited but welcome progress has been made on debt cancellation for the poorest countries. The most important gain perhaps was the recognition that the poorest countries required 100% debt cancellation. Unfortunately, this recognition comes with many strings attached. In September 2005, the governing bodies of the World Bank and the IMF approved a debt cancellation package for a select 18 developing countries that have completed their intensive HIPC (heavily indebted poor countries)[x] conditionalities with these institutions. This package covers approximately $40 billion in debt for the initial 18 countries (and with a further 20 countries possibly eligible in the future, this amount could increase), at a cost of more than $10 billion to donors over the next 10 years, all of which will be eligible as ODA.

In October 2005, Nigeria's creditors agreed to cancel $18 billion or 60% of Nigeria's outstanding debt. However, to receive this cancellation package, Nigeria had to agree to pay its creditors, the richest nations in the world, $12.4 billion[xi] in debt servicing arrears within the next few months, a sum far greater than the benefits from the September debt deal for Africa in the next decade. As EURODAD pointed out, "all this in a country where more than 80 million people live on less than US$1 a day. Nigeria's money must instead be used to improve education, healthcare and water for its citizens, not to subsidise wealthy countries".[18]

Donors will be counting significant additional amounts of debt cancellation as ODA in the next several years. CSOs have long called for comprehensive unconditional debt cancellation for more than 50 of the poorest indebted countries as a foundation for sustainable poverty reduction. Resources are available within the International Monetary Fund and the World Bank to cover a substantial portion of this cancellation.

Where donors contribute bilateral funds to pay off the full value of debt cancelled, only a small part of this cancelled debt each year relates to the annual savings by the indebted countries for the service payments that they were actually making at the time of cancellation. This latter amount is the real contribution to new resources for developing countries from debt cancellation. As it stands now, donors will be able to meet a major part of their commitments to future aid "increases" with little of these paper increases actually available to meet the needs of the poor. CSOs have long call for debt cancellation to be additional to ODA.

Support for refugees in donor countries

Donor government support to refugees from developing countries in their first year of in the donor country is also eligible for counting as ODA. Not all donors count this expenditure in their ODA, but overall this amount has been increasing for all DAC donors. Donors together charged $1.3 billion in 2003 for refugee support. Since 2001, donor allocations for this purpose in their total ODA have *increased* by $0.5 billion.

The future for aid increases

The Gleneagles G8 Summit in Scotland in July 2005 signalled an aid increase of $50 billion per year by 2010, with increased attention to urgent development needs in Africa. The September UN Summit acknowledged these aid increases, and world leaders renewed their commitment to meet the MDGs, with particular attention to women's human rights. It is important to note, however, that in spite of clear evidence that the MDG target on eliminating gender disparity in primary and secondary education by 2005 has not been met, donors did not make new additional commitments to reach the MDGs. The 2006 DAC Development Co-operation Report notes the collective failure shared by all countries to meet the 2005 target on gender equality.

We have already seen that at least some of these commitments for timetables to increase aid are very dubious. With a continued focus on the "war on terrorism" as well as large debt cancellations forthcoming for Iraq and Nigeria as noted above, there is a real danger that a significant part of the $50 billion in additional aid will not reach Africa and the poorest countries.

Aid increases in 2005 are likely to show the impact of natural disasters on aid allocations. The tsunami that hit parts of South and Southeast Asia on 26 December 2004 generated around $6.9 billion in bilateral and multilateral aid commitments.[19] The October 2005 earthquake that damaged the northern part of Pakistan also produced $5.8 billion in aid commitments from 75 bilateral and multilateral donors.[20] But the degree to which these pledges will be realized remains to be seen, given the notoriety of donors in falling short of their commitments.[xii]

Is the quality of aid improving?

CSOs joined together globally in 2005 in a Global Call to Action Against Poverty, mobilizing tens of millions of citizens in both the North and South to call on their leaders to take action against poverty.[xiii] In responding to this mobilization, leaders at both the 2005 G8 meeting and UN World Summit put rhetorical attention on both Africa and making progress for the MDGs with commitments that did not address the actual need for new resources. Through the DAC, starting in 2001 in Rome and leading to the Paris Declaration in 2005, donors have also set out a plan to reform aid practices, with self assessments as the basis for accountability to this plan. To what extent have donors made progress on these priorities and on improving the quality of their aid for poverty reduction?

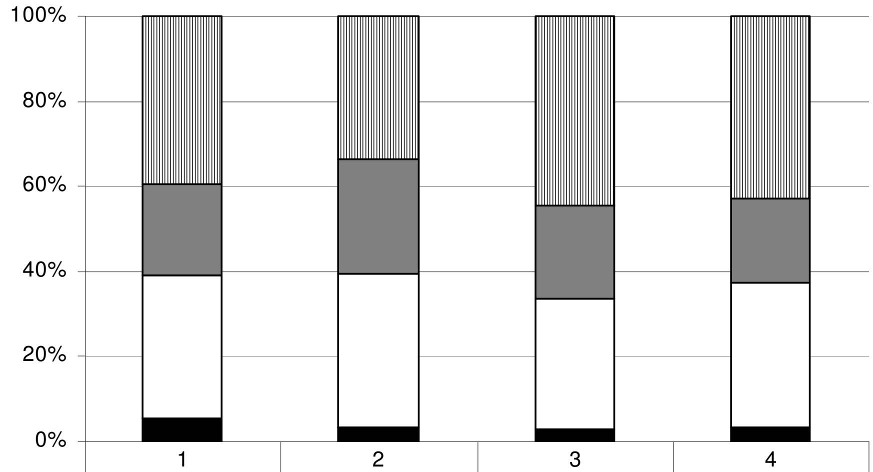
Allocation by region and income group increasingly favoring poor countries[xiv]

Since 2000, there has been an increasing focus in allocation of total DAC aid to least developed countries (LDCs). However, this has been mainly the result of a shift from other low-income countries (OILCs) to LDCs and overall, there was little change in the allocation of donor aid by income group since 1990. (See **Graph 17**).

In terms of the regional distribution of aid, the trend has been increasing allocation for Sub-Saharan Africa since 2000, rising from a low of 25.2% in that year to 32.6% in 2004, although it was still a little lower than the 34.2% the region had in 2003. But note that Sub-Saharan Africa's 2004 share to the total DAC aid was only marginally greater than it was in 1990, the year against which progress in achieving the MDGs is to be measured. (See **Table 17**).

Meanwhile, Africa North of the Sahara has seen a significant decline in its share of the DAC ODA pie— from 12.2% in 1990 to only 3.8% in 2004. Similarly, Far East Asia has seen its share of total aid decline from a high of 15.3% in 2000 to 7.5% in 2004. This was primarily due to declining aid to China and marginal increases or declines in ODA flows to other countries in the region relative to other regions (as aid has increased). Aid to south and central Asia, on the other hand, has remained constant despite large increases in aid to Afghanistan and Pakistan due to the "war on terror." Such increases were offset mainly by declining aid to India and zero growth in aid for other countries in the region.

Graph 17. Distribution of total multilateral and DAC country aid by income group (Selected years)



	1	2	3	4
LDC	39.4%	33.60%	44.60%	42.80%
OILC	21.6%	26.70%	21.70%	19.50%
LMIC	33.4%	36.30%	30.60%	34.20%
UPMIC	5.6%	3.30%	3.00%	3.30%

Source: OECD-DAC

Table 17. Distribution by region (DAC country and multilateral ODA)

Region	**1990**	**2000**	**2003**	**2004**
Africa - South of the Sahara	31.0%	25.2%	34.2%	32.6%
Africa - North of Sahara	12.2%	4.4%	3.1%	3.8%
North & Central America	4.9%	4.4%	3.6%	4.3%
South America	3.6%	4.7%	4.6%	3.9%
Far East Asia	12.0%	15.3%	8.8%	7.5%
South and Central Asia	10.7%	11.4%	11.7%	11.6%
Middle East	8.2%	4.6%	7.8%	9.7%
Europe	2.5%	7.4%	5.0%	4.6%
Oceania	2.4%	1.6%	1.2%	1.2%
Developing Countries Unspecified	12.5%	21.0%	20.0%	20.8%
Total	100.0%	100.0%	100.0%	100.0%

Source: OECD-DAC

A closer look at aid to Africa

Sub-Saharan Africa is a continent where absolute poverty continues to grow, where conflicts have killed millions of people over the past decade, and where the capacities of often undemocratic forms of governments have been weakened even further by decades of structural adjustment policies imposed by the World Bank, the IMF and major donors.

As shown in **Table 17,** total DAC aid to the region fell substantially during the 1990s, as the G7 donors drastically reduced their aid budgets, and only began to recover in 2000. **Graph 18** looks more closely at DAC country-directed aid[xv] (excluding multilateral assistance) to Sub-Saharan Africa. It demonstrates similar trends but when debt cancellation is excluded, a more dramatic picture is revealed. Only 21% of DAC country aid in 2004 was directed to Sub-Saharan Africa, well below the 24% reached in 1990, and only somewhat above the 18% low in 1999.

If one takes 1999 as the recent low point for aid to Africa, since then (up to 2004), DAC donors have made available $20.4 billion in new DAC country-directed aid to Africa. But again, debt cancellation accounted for a very significant portion of this amount. Around $9.7 billion, or almost half of these new ODA resources, was the recorded full face value of cancelled debt during this period, with an estimated net value to recipient countries of less than $1 billion.

Much of donor aid to Africa remains highly conditional on African governments' acquiescing to donor policy prescriptions and terms that undermine these governments' accountability to their citizens. The UK-sponsored Commission for Africa noted that aid to Africa "is accompanied by many onerous conditions that are often of dubious value," which have increased under IMF-World Bank approved PRSPs.[21] There is ample evidence showing how conditionalities weaken the effectiveness of foreign aid. As noted in the *Reality of Aid 2002 Report*, "conditionality defeats the objectives of development cooperation because it enhances the inequality in the aid relationship. In many cases, it is contrary to the objectives of development for the recipient country and it abets the lack of accountability, undemocratic governance, and even corruption."[22]

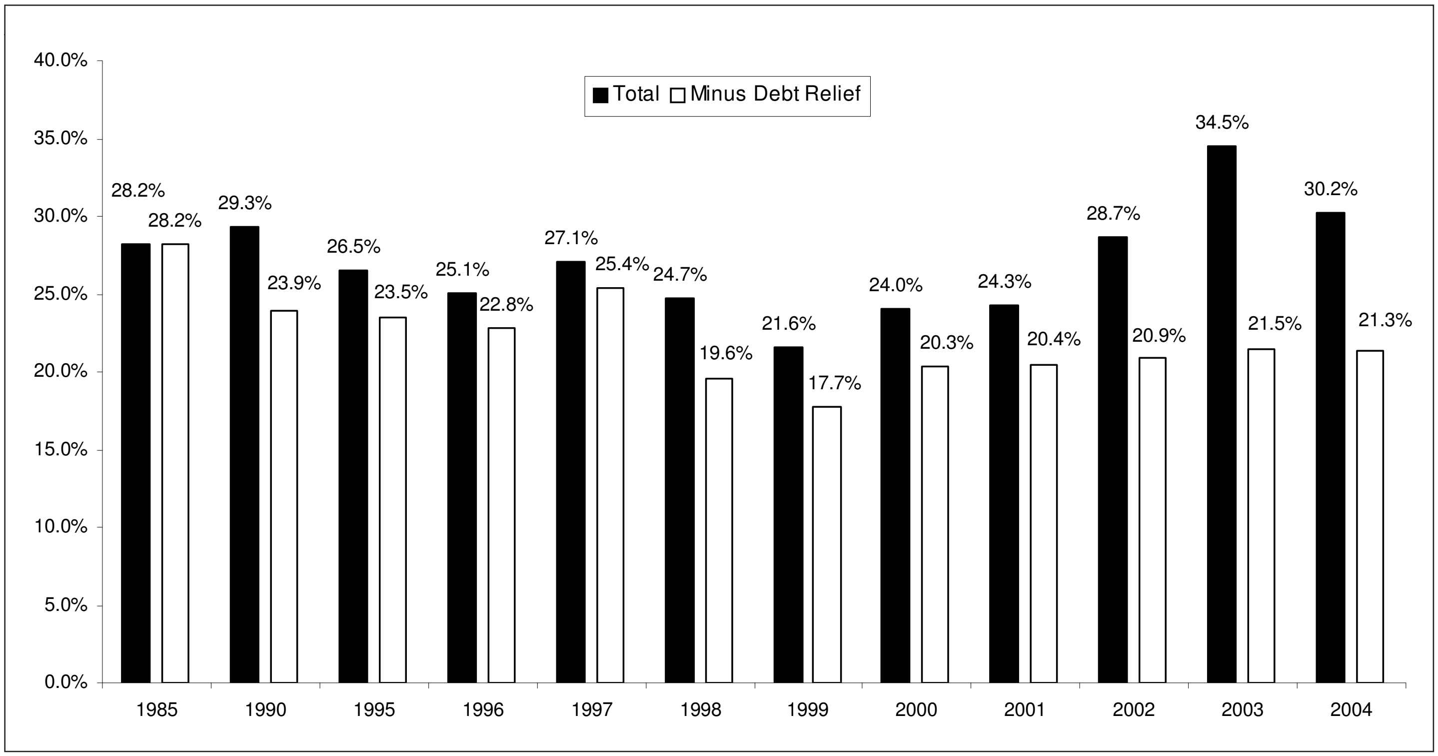
Many campaigners viewed as a positive signal the strong language used in the communiqué of the G8 Gleneagles Summit on developing countries' being allowed "to decide, plan, and sequence their economic policies."[23] While this is indeed a welcome development, CSOs campaigning on making foreign aid more effective must remain vigilant as donors have in fact ignored the issues of conditionality in the Paris Declaration agreed to only a few months earlier.

How much aid for the MDGs?

Despite widespread calls for the need to provide sufficient resources for the MDGs, there is no official aggregate measure of the degree to which donors are giving priority in their aid allocations towards the MDGs.

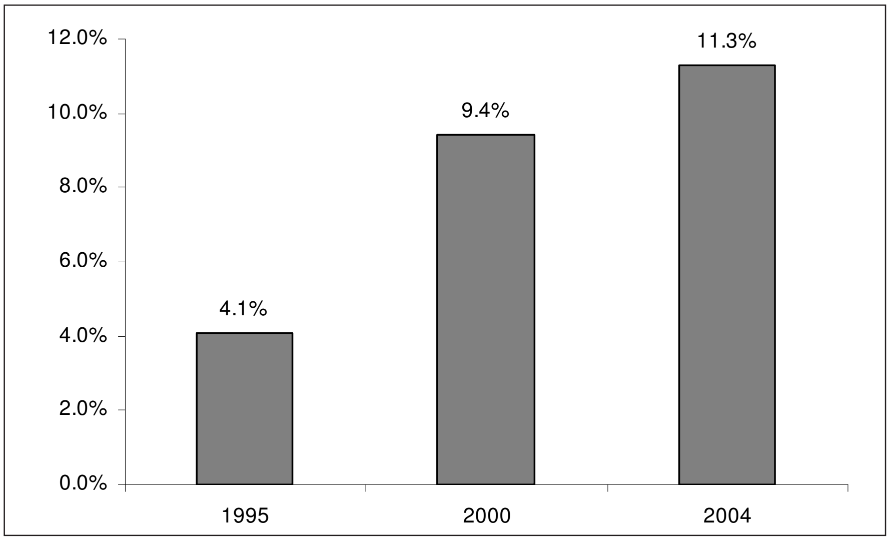
Reality of Aid has calculated a proxy from DAC statistics, which is based on (incomplete) donor reports on the purposes of their aid. This proxy, the targeting of selected purposes related to MDGs in low income countries,[xvi] indicates that there has been significant improvement over the past 10 years and modest increases in "MDG-related" ODA since 2000. In 1995, a mere 4.1% of DAC aid to low income countries targeted the selected indicators for the MDGs. By 2000, this percentage had increased to 9.4%, and by 2004 the percentage targeting these sectors reached 11.3 percent. This more recent modest growth in targeting is not unexpected given the earlier indications that very little of the aid increases since 2000

Graph 18. Total DAC ODA to Sub-Saharan Africa



Source: OECD-DAC

Graph 18. Targeting MDG purposes by DAC donors in low income countries (% of aid allocated to all purposes)



ROA computation based on OECD-DAC data

have been available to increase donor programming for MDGs. (See **Graph 19**).

Technical assistance

Reality of Aid looked at levels of donor-directed technical assistance as an indicator of the degree to which aid is owned and directed by developing country partners (our study did not include multilateral aid, which also has a technical assistance component). While the share of technical assistance in country-directed aid was declining in the 1990s, since 2000 it has come back to its 1990 high of more than 40% of total DAC country-directed ODA. (See **Graph 20**).

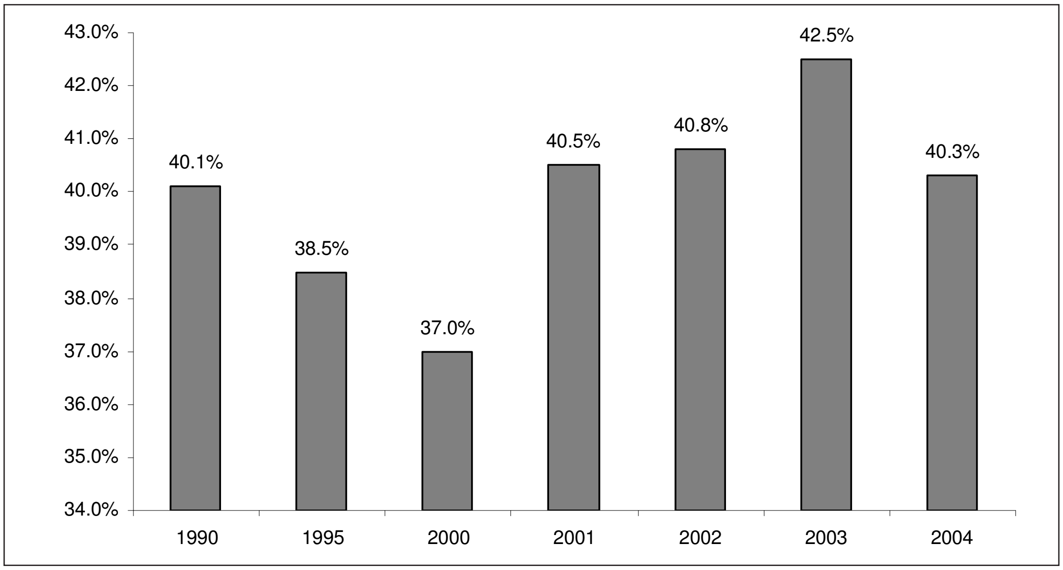
A study by the United Nations Development Program (UNDP) highlights the fact that at the end of the 1990s, four large bilateral donors accounted for two- thirds of technical cooperation, with Japan and the United States devoting between 40% and 50% of their ODA to technical assistance.[24]

The Chair of the DAC, Richard Manning, in a recent report on technical assistance and capacity development, notes that:

> *"Technical assistance and capacity development are by no means synonymous…. Too often efforts have focussed on upgrading the skills of individuals without paying attention to improving the performance of the organisations in which they work, let alone the broader institutional context in which organisations themselves exist. This can lead to frustration of the trained individuals and minimal impact on the organisations."*[xvii]

To date, technical assistance is not taken into account when donors report on their levels of tied aid. A large part of technical assistance goes to support highly paid consultants from donor countries, over

Graph 20. Percentage of Technical Assistance to Country-Directed ODA (excluding debt cancellation) 1990,1995,2000-2004



Source of basic data: OECD-DAC

whose mandates or terms of reference, developing country partners have little or no say. These consultants assure that donor policies and approaches are fully integrated into developing country strategies, including many of the PRSPs that are intended to guide donors with developing country-determined priorities.

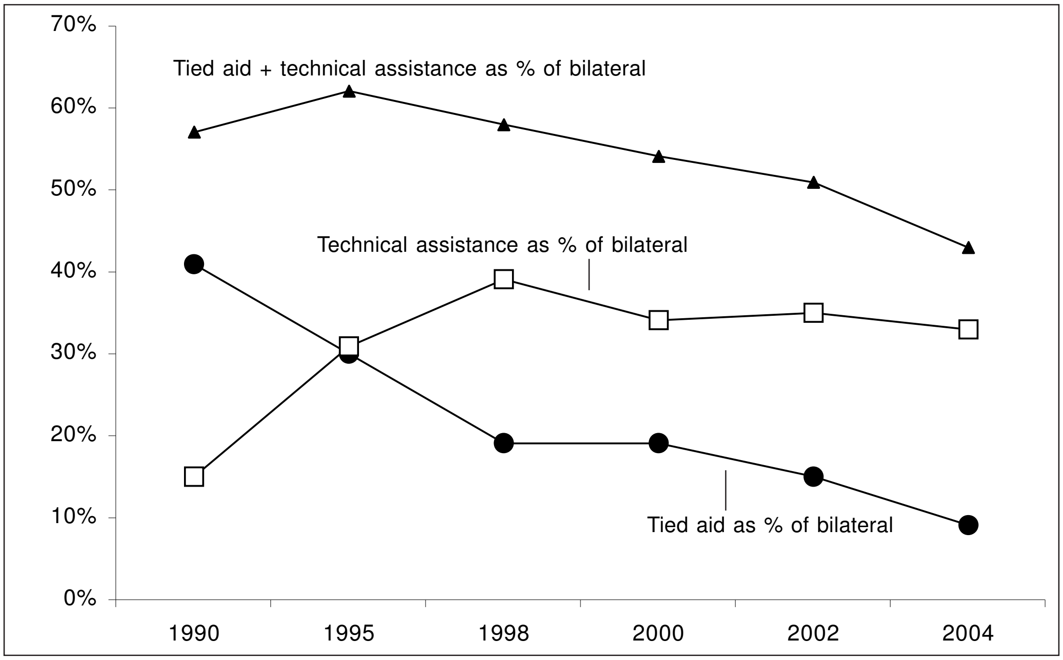
Declining tied aid?

According to the latest DAC figures, donors have significantly improved the tying status of their bilateral aid. Overall tying has declined from 41% in 1990, to 19% in 2000, to a low of 9% in 2004. This advance in untying of bilateral aid is due in part to increased use of budget support mechanisms by donors in recent years (which comes tied to a range of policy conditionalities, but not purchases of goods and services in the donor country). But more important has been the DAC agreement to fully untie aid for the least developed countries and the commitment by the UK and several other donors to 100% untie their bilateral aid.

Nevertheless, there are several important qualifications that have to be made to this progress. First, four countries continue to not report the tying status of their aid – Finland, Italy, Luxembourg and the United States. Bilateral aid from these countries made up almost one-third of bilateral aid in 2004. The Centre for Global Development's 2005 Commitment to Development Index puts US tied aid at 72%, a figure that would considerably increase the overall DAC average for tied aid. Austria, Canada, Spain, Australia, New Zealand and Greece continue to report high levels of aid tying.[25]

In addition, not all bilateral aid is counted in the DAC members' reporting of tied aid. Under DAC rules both technical assistance and food aid are not included in the calculation. In recent years, technical

Graph 21. Trends in bilateral tied aid (Selected years)



Source of basic data: OECD-DAC

assistance has made up at least one third of bilateral assistance for those countries reporting their aid tying performance. (See **Graph 21**).

Based on studies that conclude that technical assistance is "highly tied" to donor country providers, Reality of Aid assumes that at least 80% of technical assistance is tied. If technical assistance and food aid are then included in the measurement of the tying of bilateral aid, the fall in aid tying is nowhere near as dramatic as the DAC figures initially lead one to believe. Aid tying under these assumptions has fallen, but by only 35% from a high of 56.2% in 1995 to 36.5% in 2004. In addition, the DAC estimates that tying raises the cost of project goods and services by 15 to 30 percent on average.[26]

A separate estimate cited in the HDR 2005 shows that "tied aid reduces the value of assistance by 11%-30% and tied food aid is on average 40% more costly than open market transactions." Furthermore, the report pegged the current overall losses of developing countries due to tied aid at $5 - $7 billion. Low-income countries collectively lose $2.6 - $4 billion; Sub-Saharan Africa, $1.6 - $2.3 billion; and the least developed countries, $1.5 - $2.3 billion.[27]

Aid under the management of developing country partners

The March 2005 Paris Declaration on Aid Effectiveness states that developing country "ownership" over development strategies supported by donor aid is a defining principle guiding donor practice. Donors committed to "respect partner country leadership and help strengthen their capacity to exercise it." In 2004, donors provided $54.4 billion in bilateral aid, which should make a substantial contribution to the capacities of developing countries to implement their development priorities. Unfortunately much of this bilateral aid never goes beyond the donor country or its development agency, and is largely unavailable for long term development programming *under the control of developing country partners*.

Table 18 assesses bilateral aid for 2004 and 2000 for trends in those components that have little or nothing to do with the capacities of developing countries to implement their own strategies. A large component of this aid takes the form of technical assistance, which as noted above, remains predominantly tied to donor country consultants. These consultants are contracted by the donor agency and are accountable to this agency for their work, irrespective of the terms of reference for a particular consultancy. The bottom line is that in 2004 slightly less than a third of bilateral aid, only 32%, was available to developing country counterparts as a resource that *they* could potentially allocate to meet their development needs. What's more, this share of bilateral has dropped from 39% in 2000. Irrespective of long-standing donor rhetoric on the central importance of "local ownership", developing country partners in 2004 have at their disposal almost 20% less in the proportion of bilateral "under their control".

War on terror remains chief priority

While donors grudgingly commit new resources to ODA to fund the MDGs, money is readily available to fund military and strengthened security for counter-terrorism. The United States is the most unwilling among the donors to make concrete future pledges for the global fight against poverty

Table 18. Net bilateral ODA available to developing country partners under "local control" (In $ million)

Indicator	2004	2000
Total Bilateral Aid	54.4	36.1
Less		
Technical Cooperation	16.9	12.1
Refugees in Donor Countries	2.1	1.4
Imputed Student Costs	1.9	0.7
Debt Forgiveness (1)	6.6	1.9
Cost of Tied Aid (@15%)	0.5	0.7
Emergency Relief	5.1	2.2
Administration Costs	4	3.1
Net bilateral ODA available to developing countries under their local control	17.3	14
Percentage of Total Bilateral Aid	32%	39%
Net of debt service benefit from cancellation at 7.3%		

Source of basic data: DAC Development Statistics Online (accessed January 2006 even as it continues to spend tens of billions of dollars to finance its military operations in Iraq, Afghanistan, and other regions.

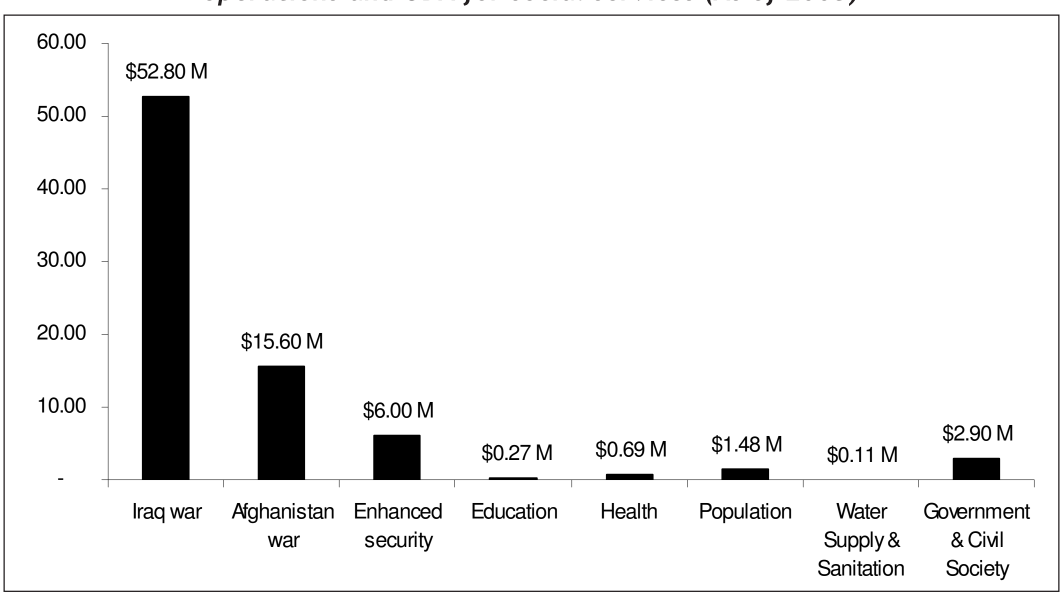
The United States representative at the 2005 UN Summit, for instance, reportedly lobbied to delete in the action agenda "every one of the 35 specific references to the MDGs", including the UN target of 0.7% ODA-GNI ratio and other "concrete obligations for the implementation of commitments."[28]

Simulations made by the DAC Secretariat show that the performance of US ODA will not improve between 2006 and 2010, remaining at 0.18% of its GNI by 2010. To meet the G8 Summit commitment to Africa and other donors, much of the load will have to be carried by European Union donors, which promised to increase ODA from the 2004 level of 0.35% of GNI in 2004 to a projected collective average of 0.56% in 2010.

Meanwhile U.S. military and security/ anti-terrorism budgets have been expanding considerably. Based on the latest available comparative data in 2003, the U.S. spends 76 times more for its war in Iraq compared to its total ODA for health; 196 times more compared to education, and 480 times more compared to water supply and sanitation, all critical sectors for achieving the MDGs.[xviii] (See **Graph 22**).

While the U.S. military budget greatly exceeds that of all other industrial countries, these latter countries still devote considerable resources to their military. Global military spending in 2004 for the first time exceeded $1 trillion. The combined military budgets of the DAC donors far surpass, by factors of 100s, investments in MDG priorities to reduce global poverty.

Graph 22. Comparative average US monthly spending for military operations and ODA for social services (As of 2003)



Sources of basic data: US Congressional Research Services; OECD-DAC

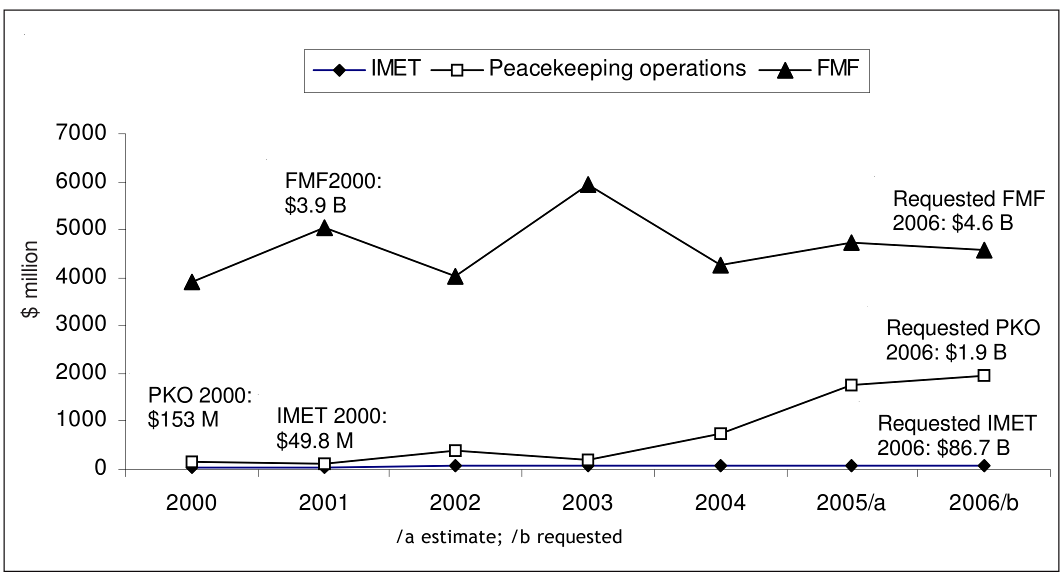
War and military spending continues to dwarf what donors spend for development aid. US ODA in 2004, for instance, is merely 4% of what it spent for its military during the same year, while the UK's ODA is only 17% of its military spending. The US budgetary allocation for the war in Iraq alone is $212 billion. "Operation Enduring Freedom" in Afghanistan has cost well over $100 billion to date. For the UK, the Chancellor of the Exchequer put the total cost of UK operations in Afghanistan and Iraq at UK £4.4 billion, in excess of the annual budget of DFID in recent years.[29]

The US aid budget, along with several other donors such as Australia and Denmark, is devoting increasing resources to counter-terrorism. CSO colleagues from the United States point out in their chapter that "in 2005 USAID invested $887.5 million or 7.2% of its budget, towards counter-terrorism" which "represents a nearly seven-fold increase over 2004." Beyond the use of US ODA, "a study of 47 low-income, poorly performing states carried out in 2002/03 found that those countries that were considered major US allies in the 'war on terror' received 90% of the military and police aid provided by the US to that group of countries between 2000 and 2004."

Foreign Military Assistance is also on the rise. In 2005, for instance, the US State Department agreed to resume its International Military Education and Training (IMET) and its Foreign Military Financing (FMF) for Indonesia.[30]

Overall, major US military assistance programs have seen significant increases since 2000. Based on the requested budget of the US State Department for 2006, FMF growth between 2000 and 2006 is pegged at 17%; IMET, 74%; and Peacekeeping Operations (PKO), a whopping 1,180

Graph 23. Trends in US military aid, By program 2000-2006



Compiled by ROA from figures cited in US State Department, Federation of American Scientists, & US aid Greenbook sites percent. US PKO provides voluntary support for international peacekeeping activities (as opposed to the US share of UN-assessed peacekeeping operations, which is financed elsewhere)[xix] (See **Graph 23**).

Another alarming development is the move of the US Congress allowing the Pentagon to spend as much as $200 million of its own budget to aid foreign military forces. Foreign policy specialists warn that this could lead to growth of a separate military assistance effort not subject to the same constraints applied to foreign aid programs that are administered by the State Department. Such constraints are meant to ensure that aid recipients meet certain standards, including respect for human rights and protection of legitimate civilian authorities. Reports indicate that this is just the start of more "reforms" in US aid policy as the Pentagon and the State Department are now setting their sights on a "more ambitious" overhaul of foreign assistance rules to give the US "more flexibility."[31]

As the world aid trends illustrate, a lot of work still needs to be done to make development aid truly for poverty reduction in the poorest countries. The long-standing issues of quantity and quality of aid, as well as new challenges such as the danger of resources being diverted from poverty reduction activities by post-9/11 security concerns, have combined to put the global campaign against poverty, as represented by the MDGs, at serious risk.

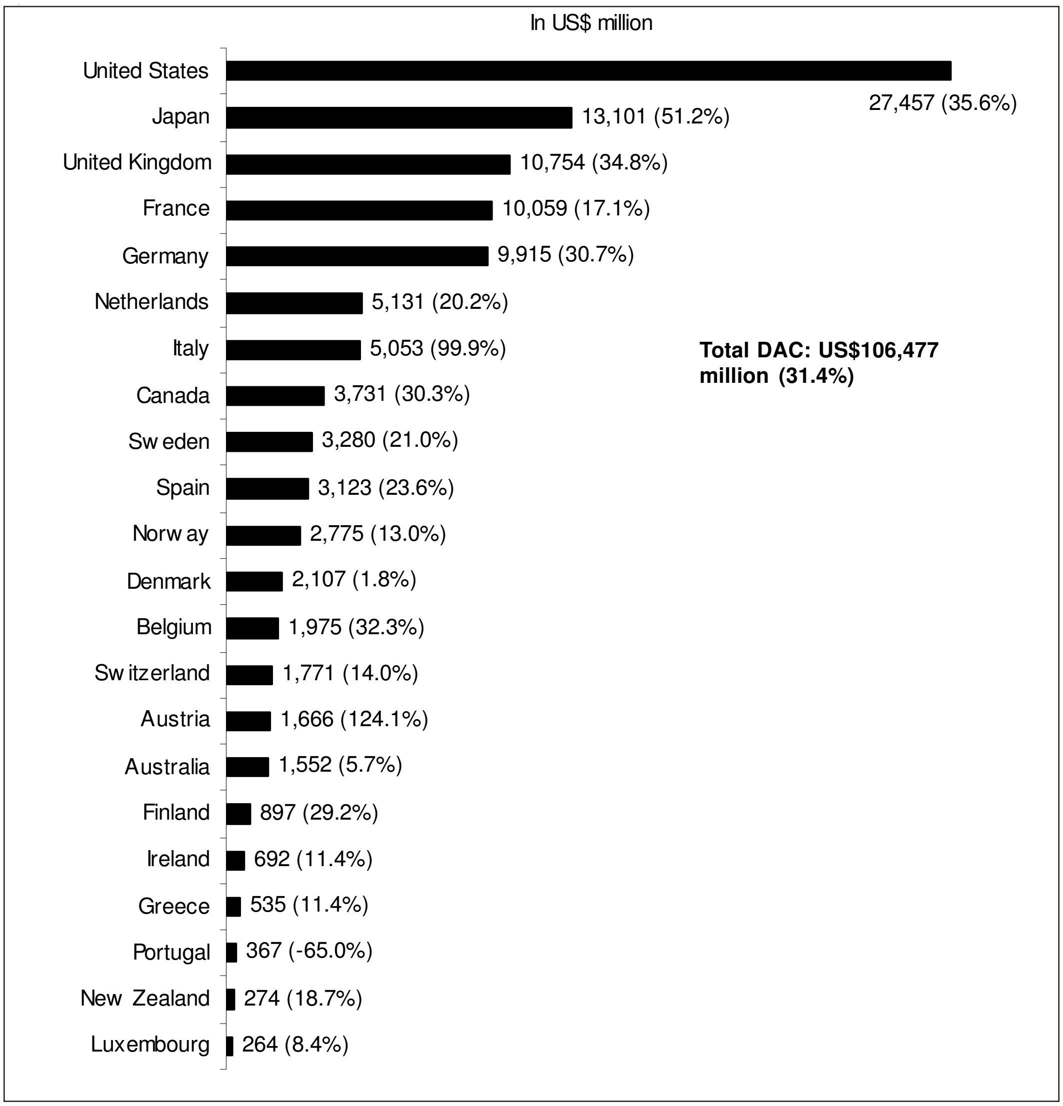
While the role of ODA is only one component of the global campaign to fight poverty and achieve the MDGs, given the importance of structural issues, such as the need for fair trade, for regulated investment and more democratic international financial institutions, a commitment of pro-poor aid resources by the rich countries can play a crucial role. With current pledges to meet specific targets up to 2015, donors have begun to recognize their obligations for new resources. However, without equal attention to the quality of their aid to ensuring that aid serves the needs of the poorest people, and not the needs and priorities of donors, its effectiveness on easing poverty in the South will be severely limited.

Artificial increases: *Debt relief pushes ODA to exceed the US$100 billion mark in 2005*

As this report of the Reality of Aid goes to press, the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) released the preliminary figures on Official Development Assistance (ODA) for 2005 on April 4, 2006. This section was included to update the discussion in the World Aid Trends chapter on ODA volume and ODA as a percentage of donors' gross national income (GNI). It also updates the discussion on the contentious debt relief grants, considering that these substantially contributed to the overall increase in net ODA in 2005.

Following an unusual 400%-increase in debt relief grants, ODA from DAC donors reached an unprecedented US$106.5 billion in 2005. In real terms, this amount is 31.4% higher than its level in 2004. Eighteen of the 22 DAC donors registered a double-digit growth rate in ODA led by Austria (124.1%); Italy (99.9%); Japan (51.2%); the United States (35.6%); and the United Kingdom (34.8%); while only Portugal posted a decline (-65%). (See **Graph 24**).

Graph 24. 2005 net ODA from DAC donors and change in real terms from 2004 (Preliminary data)



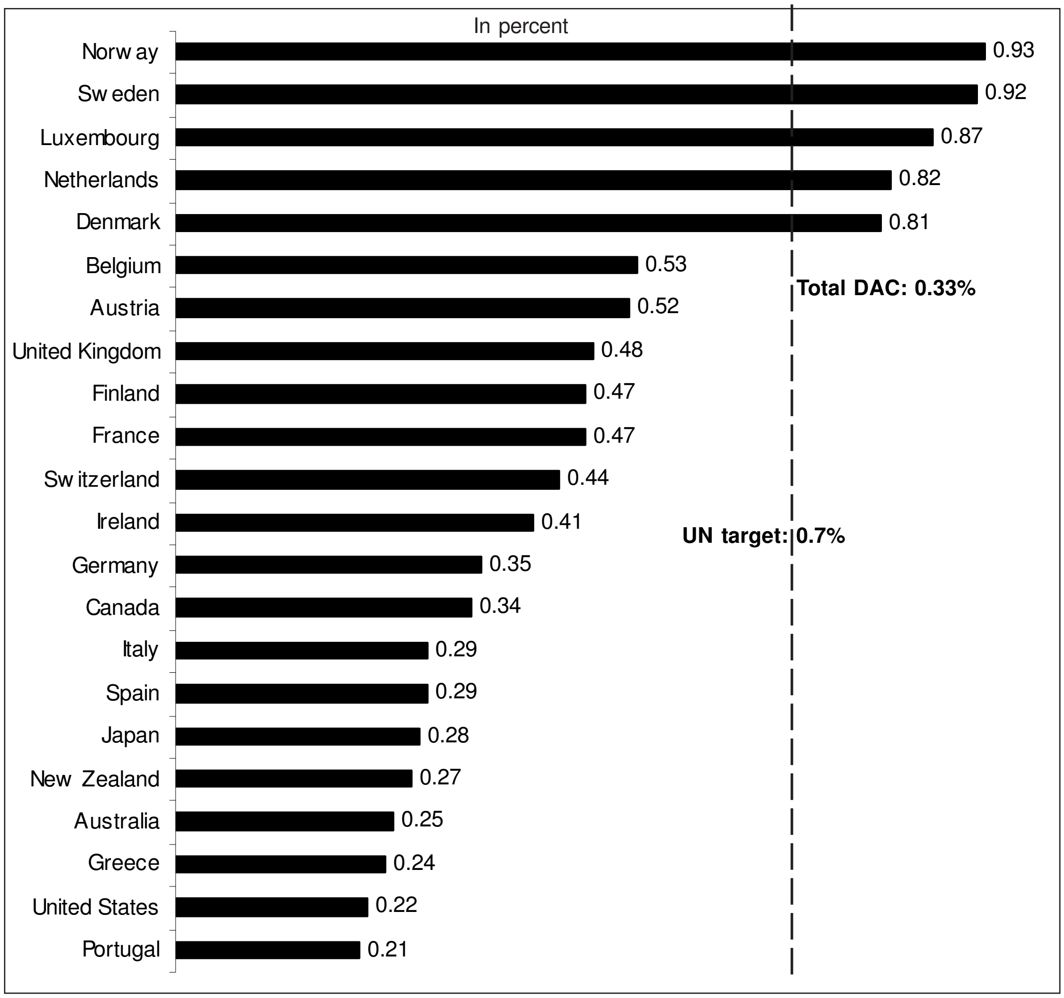
Source: OECD-DAC

In spite of these substantial increases, only Denmark (0.81%); Luxembourg (0.87%); Norway (0.93%); the Netherlands (0.82%); and Sweden (0.92%), as in previous years, met the UN target for ODA of 0.7% of GNI. Collectively, DAC donors' ODA represented 0.33% of their combined GNI in 2005. (See **Graph 25**).

Furthermore, the gap between the wealth of DAC donors and what they allocate for ODA continues to widen as major donors led by the US continue to spend tens of billions of dollars for the war on terror campaign. Such priorities indicate that available resources are not being fully maximized for the global campaign against poverty and for reaching the MDGs.

Worse, a substantial portion of the increases in ODA in 2005 may be considered paper increases, as suggested in the world aid trends chapter." Total debt relief grants in 2005 (primarily for Iraq and Nigeria) reached US$22.9 billion, which accounted for 21.6% of DAC donors' ODA. The UK, which posted an impressive 34.6%-increase in ODA, would have registered a 1.7% decline if its debt relief grants were not added. The same scenario applies to Germany, which would have seen its ODA fall by 9.8% instead of rising by 30.7 percent. Overall, net ODA from DAC donors would have only increased by a much lower 8.7% instead of 31.4% if aid had not been

Graph 25. ODA/GNI ratio of DAC donors, 2005 (Preliminary data)



Source: OECD-DAC

Table 19. Share of debt relief grants to net ODA from DAC donors, 2005 (Preliminary data), Amount in $ million

Donors	Net ODA	Debt relief	Debt relief as % of net ODA	% change (2004-2005) without debt relief grants
Australia	1,552	9	0.6%	6.1%
Austria	1,666	901	54.1%	9.0%
Belgium	1,975	471	23.8%	17.2%
Canada	3,731	455	12.2%	17.8%
Denmark	2,107	20	0.9%	0.8%
Finland	897	150	16.7%	11.6%
France	10,059	3,199	31.8%	0.0%
Germany	9,915	3,573	36.0%	-9.8%
Greece	535	-	-	11.4%
Ireland	692	0	0.0%	11.4%
Italy	5,053	1,680	33.2%	40.0%
Japan	13,101	3,553	27.1%	12.1%
Luxembourg	264	-	-	8.4%
Netherlands	5,131	410	8.0%	16.6%
New Zealand	274	-	-	18.7%
Norway	2,775	25	0.9%	12.6%
Portugal	367	3	0.8%	-65.1%
Spain	3,123	498	15.9%	13.7%
Sweden	3,280	53	1.6%	20.3%
Switzerland	1,771	224	12.6%	0.1%
United Kingdom	10,754	3,699	34.4%	-1.7%
United States	27,457	4,073	14.8%	16.2%
Total DAC	106,477	22,995	21.6%	8.7%

Source: OECD-DAC

Annex 1. Summary of DAC ODA net disbursement (1990-2004)

Year	Amount (In $ million)		Year-on-year change			
			In $ million		In percent	
	Current	2003 prices	Current	2003 prices	Current	2003 prices
1990	54,263.85	64,919.97				
1991	58,301.30	67,334.98	4,037.45	2,415.01	7.44%	3.72%
1992	62,358.31	68,069.60	4,057.01	734.62	6.96%	1.09%
1993	56,147.85	62,708.35	-6,210.46	-5,361.25	-9.96%	-7.88%
1994	58,820.01	62,802.86	2,672.16	94.51	4.76%	0.15%
1995	58,779.71	56,599.08	-40.3	-6,203.78	-0.07%	-9.88%
1996	55,591.43	56,055.47	-3,188.28	-543.61	-5.42%	-0.96%
1997	48,464.56	52,451.00	-7,126.87	-3,604.47	-12.82%	-6.43%
1998	52,086.85	57,537.35	3,622.29	5,086.35	7.47%	9.70%
1999	53,233.23	57,836.80	1,146.38	299.45	2.20%	0.52%
2000	53,749.49	60,916.70	516.26	3079.9	0.97%	5.33%
2001	52,435.37	62,053.32	-1,314.12	1,136.62	-2.44%	1.87%
2002	58,291.98	66,218.66	5,856.61	4,165.34	11.17%	6.71%
2003	69,085.25	69,085.25	10,793.27	2,866.59	18.52%	4.33%
2004	79,511.83	73,152.03	10,426.58	4,066.78	15.09%	5.89%

Source: OECD-DAC

inflated by the total face value of debt cancellation in this year. (See **Table 19**). It is expected that large debt cancellations will continue to affect the aid figures for 2006 and possibly 2007. As these are one-off increases, they bring into serious question the commitments of major donors to meet their aid targets in 2010.

Notes

[i] This target was set by the UN General Assembly Resolution on International Development Strategy for the Second UN Development Decade approved on 24 October 1970. For the text of the resolution, please visit http://daccessdds.un.org/doc/RESOLUTION/GEN/NR0/348/91/IMG/NR034891.pdf?OpenElement.

[ii] The average country effort refers to the average ODA to GNI ratio of the 22 OECD-DAC donors. This is different from the ratio of the combined ODA to the combined GNI of the OECD-DAC donors. Thus, the average country effort in 2004 of the OECD-DAC donors was 0.42% while their combined ODA to GNI ratio was 0.26 percent.

[iii] The five donors include: Denmark (0.85%), Luxemburg (0.83%), Netherlands (0.73%), Norway (0.87%), and Sweden (0.78%).

[iv] The MDGs include: (1) Eradicate extreme poverty and hunger, (2) Achieve universal primary education, (3) Promote gender equality and empower women, (4) Reduce child mortality, (5) Improve maternal health, (6) Combat HIV/AIDS, malaria, and other diseases, (7) Ensure environmental sustainability, and (8) Develop a global partnership for development. For more details about the MDGs, please visit http://www.un.org/millenniumgoals/index.html.

[v] "New aid resources" is the cumulative net difference in aid each year compared to a reference year. For example new resources since 2000 is calculated by comparing aid (in 2003 dollars) for each year (i.e. 2001, 2002, 2003, and 2004) to the amount provided by that donor in 2000. For some donors there have been net additions of aid, while for others there have been negative amounts. The latter is subtracted from the former to give the net new aid resources for these four years.

[vi] According to the Japanese *Economic and Financial Affairs*, August 2, 2005, "the final outcome [of a dispute between the Ministries of Foreign Affairs and Finance] has been that the extra US$ 10 billion would not be an additional ODA, but would cover cancellation of the Iraqi debt and rescheduling of debt service by the Tsunami affected countries such as Indonesia and Sri Lanka instead. As to the ODA to Africa, Japan will increase 1.6 billion for the coming three years. However, this would be taken from the grant aid to other areas." See http://www.choike.org/nuevo_eng/informes/3208.html.

[vi] GAVI is a public-private partnership that brings together governments from rich and poor countries, vaccine manufacturers, NGOs, research institutes, UNICEF, WHO, Bill and Melinda Gates Foundation, and the World Bank. Through the Vaccine Fund, GAVI provides financial resources to countries to purchase vaccines and other supplies, and to support operational costs of immunization. *For more details, please see the GAVI website at* http://www.vaccinealliance.org/General_Information/About_alliance/index.php.

[viii] From 2001 to 2003, debt servicing by the low income countries averaged 7.3% of their total outstanding debt stock in these years (World Bank, Global Development Finance 2005, Volume 2, electronic edition). This proportion is assumed by Reality of Aid to be an approximation of the benefit of debt cancellation provided by donors in any given year.

[ix] The Paris Club is an informal group of financial officials from 19 of the world's richest countries, which provides financial services such as debt restructuring, debt relief, and debt cancellation to indebted countries and their creditors. Its members include Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, Norway, Russia, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

[x] HIPC are a group of the world's poorest countries which are the subject of an initiative seeking to bring their external debt to "sustainable levels" subject to their government meeting a range of economic

and performance targets. The HIPC initiative was initiated by the IMF-World Bank in 1996 and is widely criticized for having strict criteria for inclusion and conditionalities that include far-reaching economic reforms along neoliberal lines.

xi According to the Paris Club, the amount ($12.4 billion) represents regularization of arrears of $6.3 billion and a balance of $6.1 billion. *For more details on Nigeria's debt cancellation, please visit the Paris Club website* (http://www.clubdeparis.org/en/news/page_detail_news.php?FICHIER=com11297988840). But international civil society argues that the Paris Club has no legitimate claim to this money since Nigeria already paid off more than what it originally borrowed due to huge build-up of interest under oppressive regimes. *To see the full statement, please visit the EURODAD website* (http://www.eurodad.org/articles/default.aspx?id=671).

xii Donors seem to use even emergency aid to serve certain economic and political interests, and thus weaken the effectiveness of the relief effort, as noted by the Reality of Aid in its report on the relief operation in the tsunami-hit countries. For a more detailed account, please see *Post-Tsunami Issues and Challenges*, Reality Check, June 2005 accessible at http://www.realityofaid.org/rchecknews.php?table=rc_jun05&id=1.

xiii For more details of this initiative, please visit http://www.whiteband.org.

xiv LDCs and other low-income countries (OLICs) refer to countries with a per capita GNI of less than $745 in 2001. Lower middle-income countries (LMICs), meanwhile, include countries with a per capita GNI of between $745 and $2,975. Upper middle-income countries (UMICs) refer to countries with a per capita GNI of between $2,796 and $9,205 while high-income countries (HICs) are countries with a per capita GNI of more than $9,206.

xv "Country directed aid" is derived from the DAC's online statistical database. It is less than bilateral aid as some bilateral aid is directed to regional programs and not assigned by country.

xvi For this calculation Reality of Aid used the DAC purpose codes for basic and primary education, primary health care, basic nutrition, STDs and HIV/AIDS and basic drinking water and sanitation, for the years 1995, 1998, 2000, 2002, and 2004. Total aid for these purposes in low-income countries (where the need to target MDGs is presumable greatest) is then compared with the total aid for that year, for all DAC countries, *which has been reported by the donor for any purpose*. Please note that because of incomplete reporting, these percentages are not percentages of total DAC aid in a given year. It is the overall trend in the annual percentages for poverty related purposes that is relevant, not the absolute percentage.

xvii Get DAC reference from home page (http://www.oecd.org/department/0,2688,en_2649_33721_1_1_1_1_1,00.html) Feb 6 document.

xviii US military spending data based on the report *The Cost of Iraq, Afghanistan, and Enhanced Base Security since 9/11* by the US Congressional Research Service published on 7 October 2005.

xix IMET, FMF, and PKO are three of the major military assistance programs of the US. The Federation of American Scientists (FAS, www.fas.org) defined these programs as follows: IMET is a grant program established by the US Congress as part of the Arms Export Control Act of 1976. IMET grants enable foreign military personnel to take courses from approximately 150 US military schools. FMF refers to funds appropriated by Congress to foreign governments to purchase American-made weapons, services, and training.

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