



PROTECTING AID FUNDS IN UNSTABLE GOVERNANCE ENVIRONMENTS: TOWARDS AN INTEGRATED STRATEGY

Lisbon, 18-19 May 2010

Sedas Nunes Hall, Institute of Social Sciences, University of Lisbon

**The Tension between Aid Flows, State Capacity and Development
Needs**

João Fernandes, Director of OIKOS



cooperação e desenvolvimento

The Tension between Aid Flows, State Capacity and Development Needs

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First is First: The Reality of Aid

The 0, 7% GNP: a 45 Year's Old Target

- The donor governments promised to spend 0.7% of GNP on ODA at the UN General Assembly in 1970—some 40 years ago.
- The deadline for reaching that target was the mid-1970s.
- By 2015 (the year by when the Millennium Development Goals are hoped to be achieved) the target will be 45 years old.

What was to be the form of aid?

«Financial aid will, in principle, be **untied**. While it may not be possible to untie assistance in all cases, developed countries will rapidly and progressively take what measures they can ... to reduce the extent of tying of assistance and to mitigate any harmful effects [and make loans tied to particular sources] available for utilization by the recipient countries for the purpose of buying goods and services from other developing countries.

... **Financial and technical assistance should be aimed exclusively at promoting the economic and social progress of developing countries** and should not in any way be used by the developed countries to the detriment of the national sovereignty of recipient countries. Developed countries will provide, to the greatest extent possible, **an increased flow of aid on a long-term and continuing basis.** »

— International Development Strategy for the Second United Nations Development Decade, UN General Assembly Resolution 2626 (XXV), October 24, 1970, para. 45-47

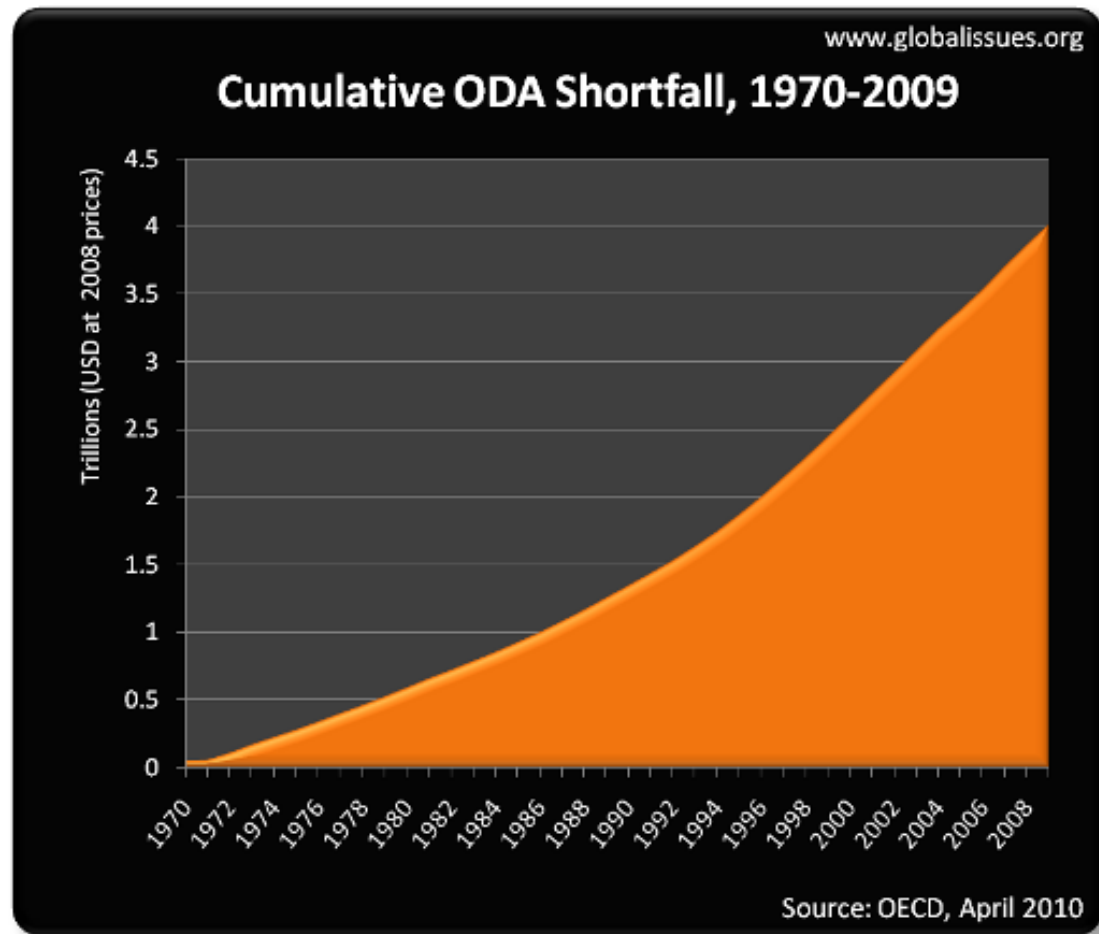
Almost all rich nations fail this obligation

- Even though these targets and agendas have been set, year after year almost all rich nations have constantly failed to reach their agreed obligations of the 0.7% target. **Instead of 0.7%, the amount of aid has been around 0.2 to 0.4%, some \$100 billion/year short.**
- Although rich countries have given an enormous **\$2.98 trillion dollars in aid since 1970**, the **accumulated total shortfall in their aid since 1970 (when the target of 0.7% was set) amounts to \$4.01 trillion** (at 2008 prices).

Source: Shah, Anup. "Official global foreign aid shortfall: \$4 trillion." *Global Issues*, Updated: 25 Apr. 2010. Accessed: 16 May. 2010.

<<http://www.globalissues.org/article/593/official-global-foreign-aid-shortfall-over-4-trillion>>

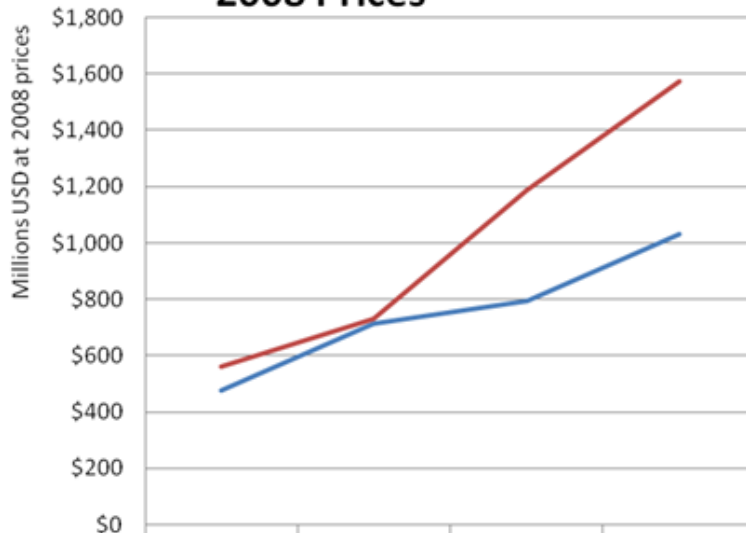
First is First: The Reality of Aid



First is First: The Reality of Aid

www.globalissues.org

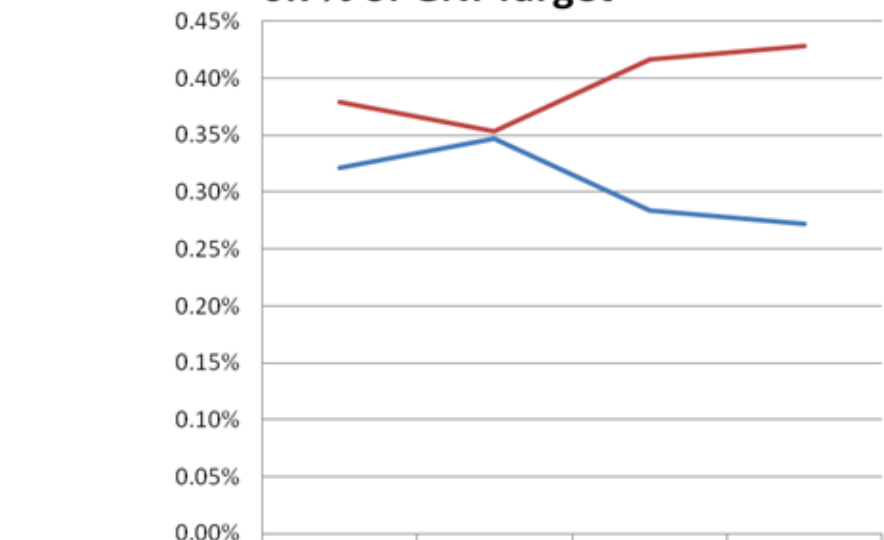
Gap between ODA Aid Given and ODA Aid Shortfall in US Dollars at 2008 Prices



Source: OECD, April 2010

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Gap between ODA Aid Given and ODA Aid Shortfall as Percentage of 0.7% of GNI Target



Source: OECD, April 2010

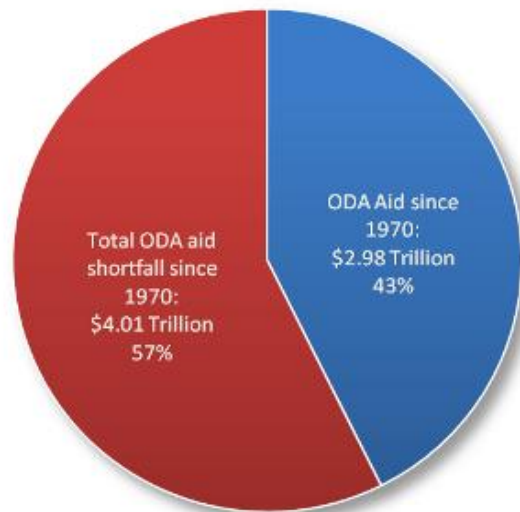
First is First: The Reality of Aid

Shortfall is more than what has been given so far

The total ODA delivered so far has been less than half of the agreed targets:
With total official foreign aid since 1970 (when the 0.7% target was set) being just over **\$2.98 trillion**, ***less than half of what has been promised*** has been delivered:

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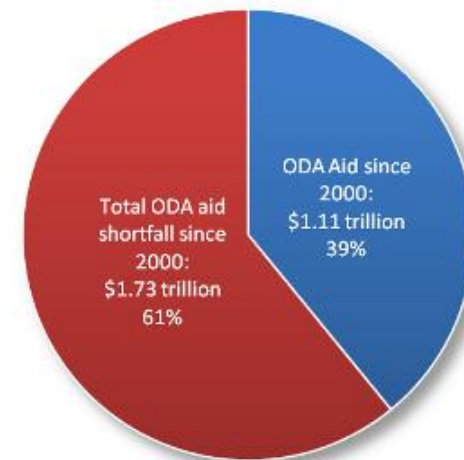
Comparing official aid given vs. shortfall
1970 - 2009, (USD Trillions at 2008 prices)



Source: OECD, April 2010

www.globalissues.org

Comparing official aid given vs. shortfall
2000 - 2009, (USD Trillions at 2008 prices)

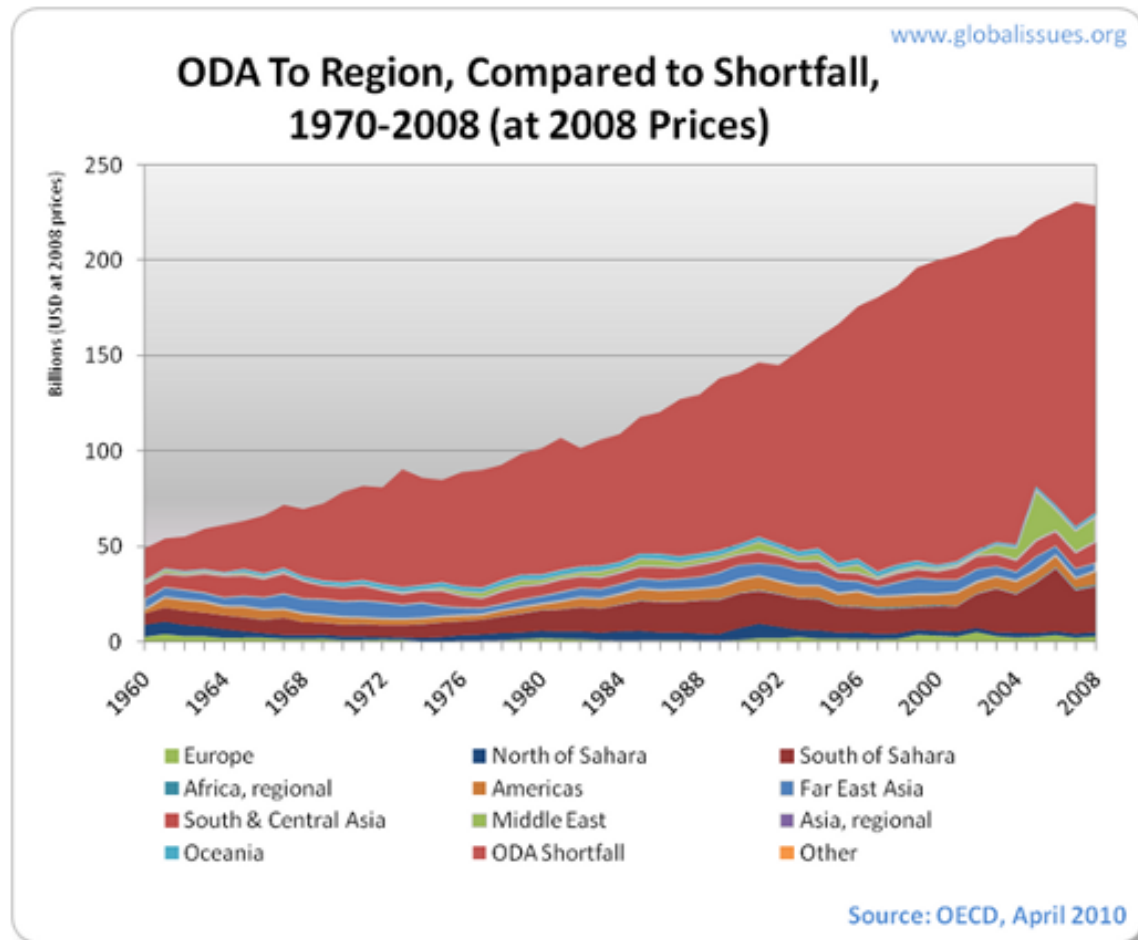


Source: OECD, April 2010

First is First: The Reality of Aid

And who gets what?

Since 1970, on average, Sub-Saharan Africa has received about **25% of actual ODA**:



First is First: The Reality of Aid

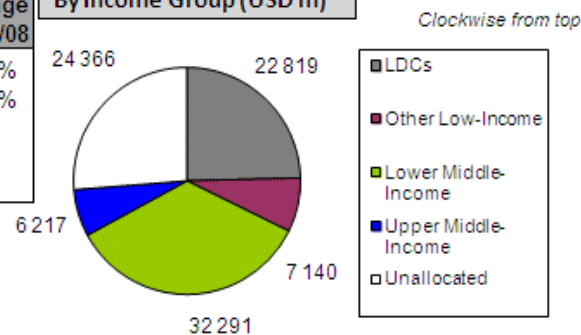
TOTAL DAC COUNTRIES

Net ODA	2007	2008	Change 2007/08
Current (USD m)	103 485	121 483	17.4%
Constant (2007 USD m)	103 485	115 632	11.7%
ODA/GNI	0.28%	0.31%	
Bilateral share	70%	71%	

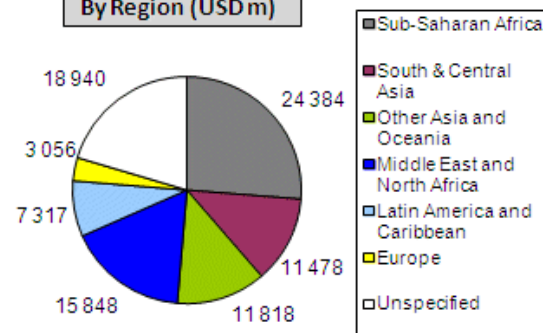
Top Ten Recipients of Gross ODA (USD million)	
1 Iraq	9 462
2 Afghanistan	3 475
3 China	2 601
4 Indonesia	2 543
5 India	2 263
6 Viet Nam	1 745
7 Sudan	1 743
8 Tanzania	1 603
9 Ethiopia	1 551
10 Cameroon	1 396
Memo: Share of gross bilateral ODA	
Top 5 recipients	22%
Top 10 recipients	31%
Top 20 recipients	43%

Gross Bilateral ODA, 2007-08 average, unless otherwise shown

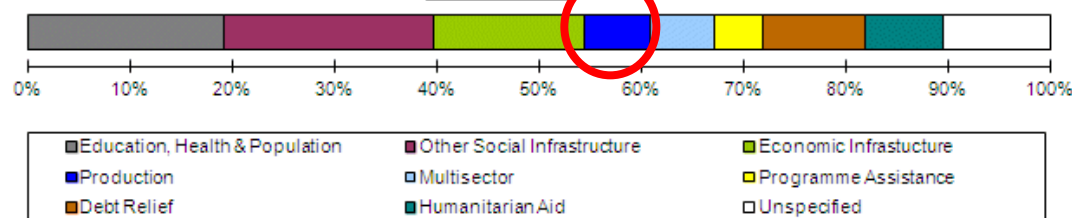
By Income Group (USD m)



By Region (USD m)



By Sector



Source: OECD - DAC ; www.oecd.org/dac/stats

First is First: The Reality of Aid

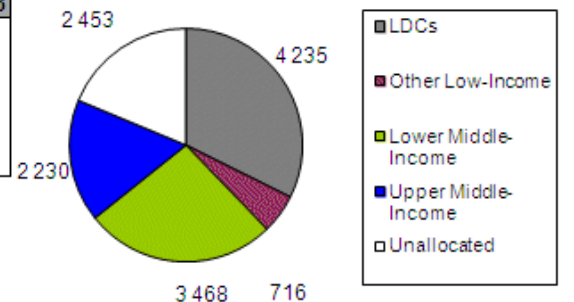
EC

Net ODA	2007	2008	Change 2007/08
Current (USD m)	11 634	14 757	26.8%
Constant (2007 USD m)	11 634	13 670	17.5%
In Euro (million)	8 499	10 231	20.4%

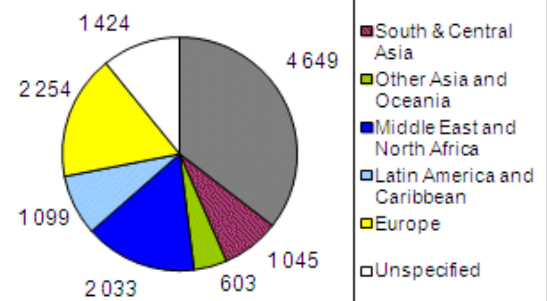
Top Ten Recipients of Gross ODA (USD million)	
1 Turkey	961
2 Palestinian Adm. Areas	602
3 Ethiopia	419
4 Morocco	402
5 Serbia	332
6 Afghanistan	328
7 Sudan	266
8 Egypt	229
9 Croatia	219
10 Uganda	210
Memo: Share of gross bilateral ODA	
Top 5 recipients	21%
Top 10 recipients	30%
Top 20 recipients	44%

Gross Bilateral ODA, 2007-08 average, unless otherwise shown

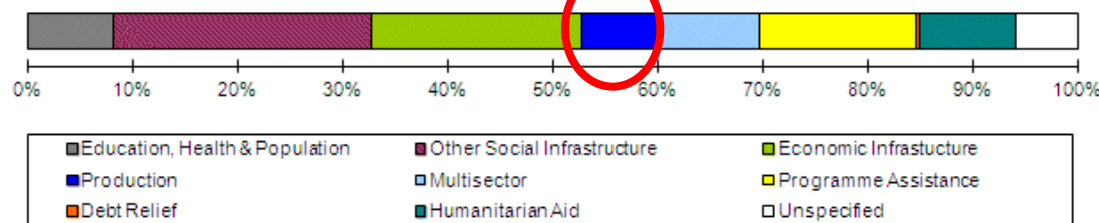
By Income Group (USD m)



By Region (USD m)



By Sector



Source: OECD - DAC ; www.oecd.org/dac/stats

First is First: The Reality of Aid

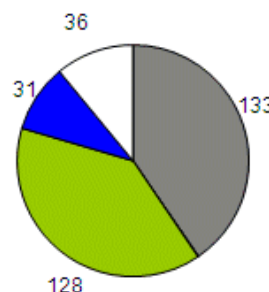
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Gross Bilateral ODA, 2007-08 average, unless otherwise shown

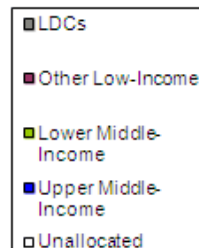
Net ODA	2007	2008	Change 2007/08
Current (USD m)	471	620	31.8%
Constant (2007 USD m)	471	576	22.4%
In Euro (million)	344	430	25.1%
ODA/GNI	0.22%	0.27%	
Bilateral share	57%	60%	

Top Ten Recipients of Gross ODA (USD million)	
1 Cape Verde	59
2 Morocco	48
3 Timor-Leste	43
4 Mozambique	24
5 Angola	19
6 Bosnia and Herzegovina	17
7 Guinea-Bissau	17
8 Serbia	16
9 Sao Tome & Principe	13
10 Afghanistan	12
Memo: Share of gross bilateral ODA	
Top 5 recipients	59%
Top 10 recipients	82%
Top 20 recipients	88%

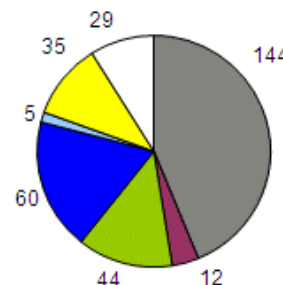
By Income Group (USD m)



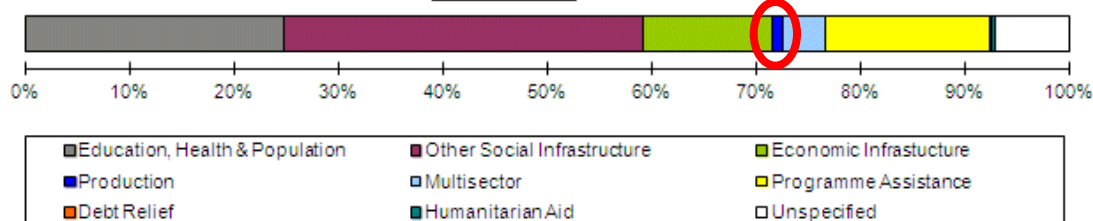
Clockwise from top



By Region (USD m)



By Sector



Source: OECD - DAC ; www.oecd.org/dac/stats

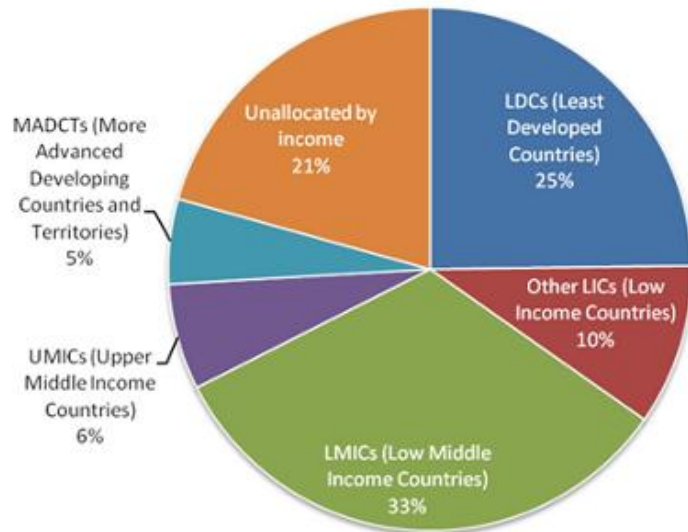
First is First: The Reality of Aid

When broken down by region over time it seems the poorest countries do not necessarily receive most of the aid:

Of the aid that has been delivered, **just under a quarter has gone to the poorest regions for all DAC aid since 1970:**

www.globalissues.org

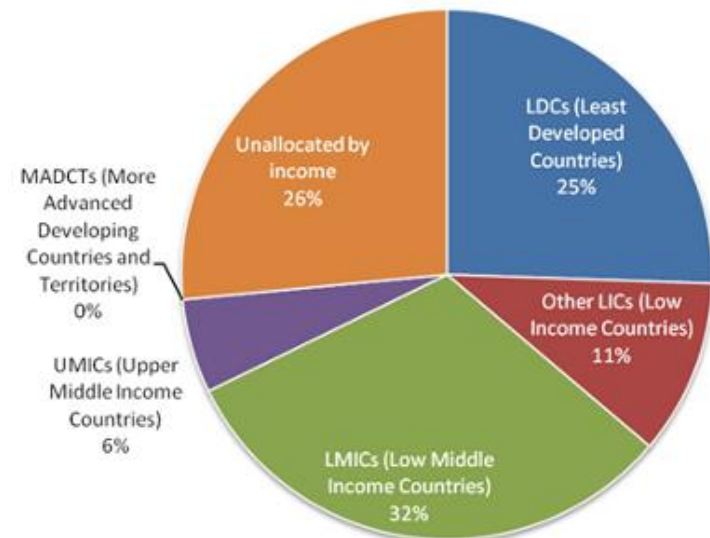
Average Portion of ODA Received, 1970-2008



Source: OECD, April 2010

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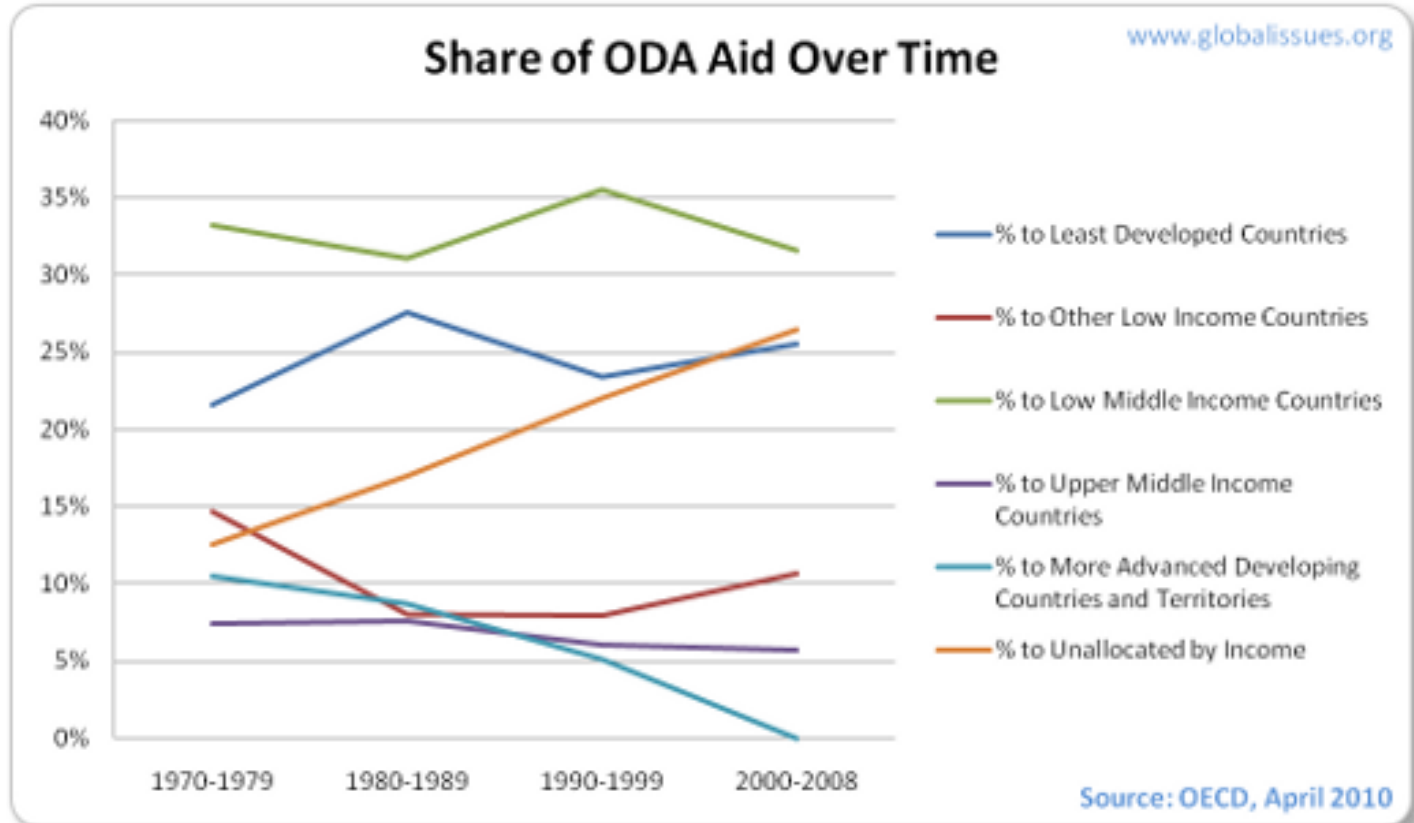
Average Portion of ODA Received, 2000-2007



Source: OECD, April 2010

First is First: The Reality of Aid

While aid to the wealthier developing countries has reduced somewhat, the portion going to the poorest countries has hardly changed. Most ODA aid does not appear to go to the poorest nations like we might naturally assume it would:



Are numbers the only issue?

The changing definition of Aid reveals a much deeper decline than what numbers alone can show

Donors are putting a broader interpretation on what constitutes ODA

- Debt relief;
- Subsidies on exports to developing countries;
- Food aid which disposes of agricultural surpluses resulting from government subsidies;
- Provision of surplus commodities of little economic value;
- Administrative costs of donor countries;
- Payments for care and education of refugees in donor countries;
- Payments to universities from donor countries hosting student from DC partner countries; and
- Technical co-operation grants which pay for the services of nationals of the donor countries.

First is First: The Reality of Aid

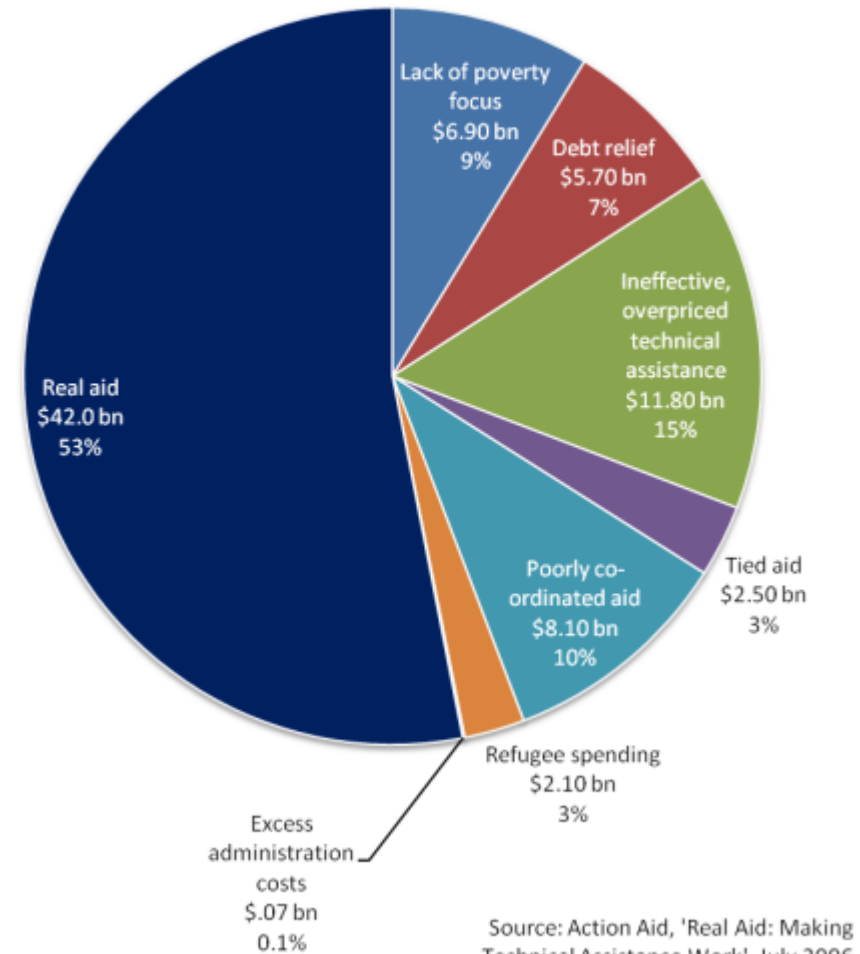
Technical Assistance and the Phantom Aid

The technical co-operation grants are also known as technical assistance. *Action Aid*, has been very critical about this and other forms of this broader interpretation which they have termed “phantom aid”:

«This year we estimate that **\$37 billion—roughly half of global aid—is “phantom aid”**, that is, it is not genuinely available to poor countries to fight poverty. »

— *Real Aid: Making Technical Assistance Work*, *Action Aid*, July 5, 2006, pp.5-6

Breakdown of Official Development Assistance for 2004 by area, billions of dollars, and total of ODA



Aid Money Often Tied to Various Restrictive Conditions

IPS noted that **aid tied with conditions cut the value of aid to recipient countries by some 25-40 percent**, because it obliges them to purchase uncompetitively priced imports from the richer nations.

IPS was citing a [UN Economic Council for Africa study](#) which also noted that just four countries (Norway, Denmark, the Netherlands and the United Kingdom) were breaking away from the idea of “tied aid” with more than 90 percent of their aid “untied”.

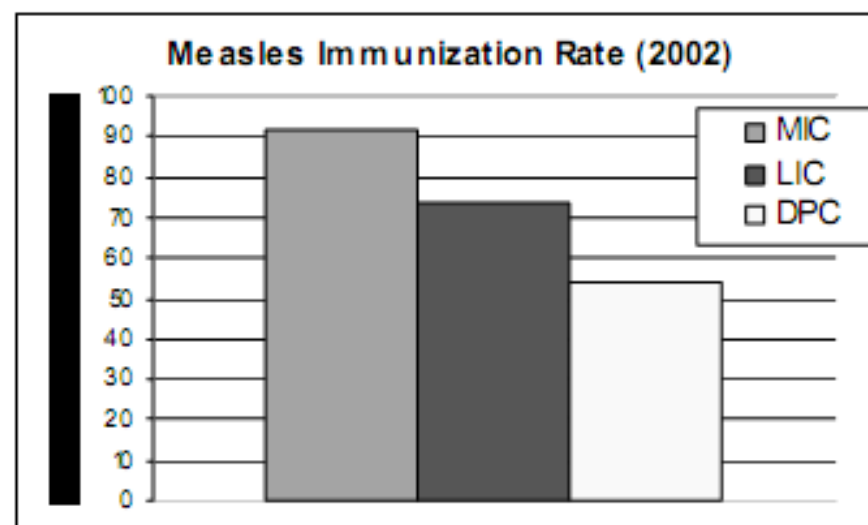
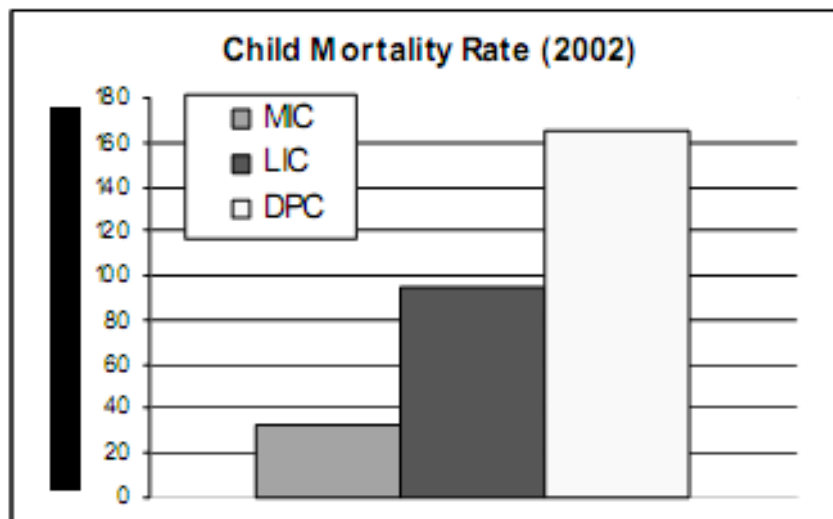
— Thalif Deen, [Tied Aid Strangling Nations, Says U.N.](#), Inter Press Service, July 6, 2004

2) Aid Flows to Forgotten States

Difficult partnership countries (DPCs) are countries with weak policies and institutions – some of the most difficult environments for aid programs, although they are also amongst the poorest countries.

Source: Dollar, D., Levin, V., (2005), *The Forgotten States: Aid Volumes and Volatility in Difficult Partnership Countries (1992-2002)*. Paper prepared for the DAC Learning and Advisory Process on Difficult Partnerships.

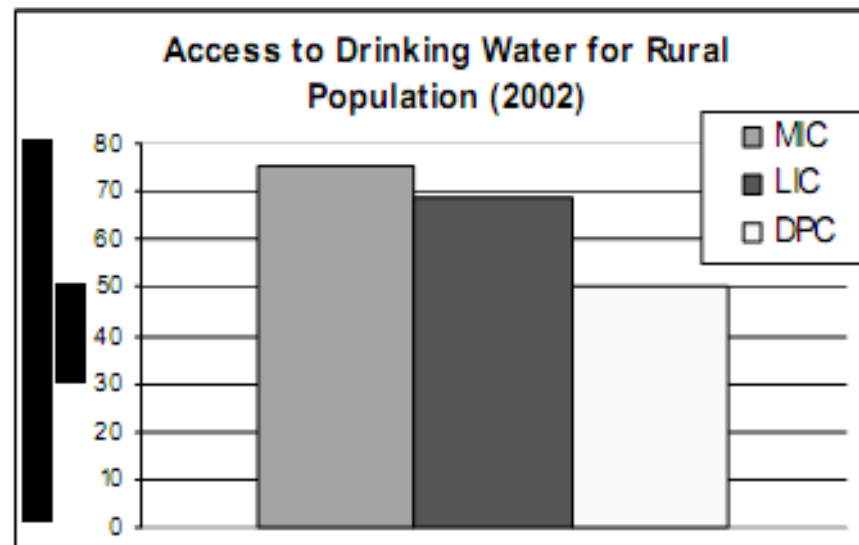
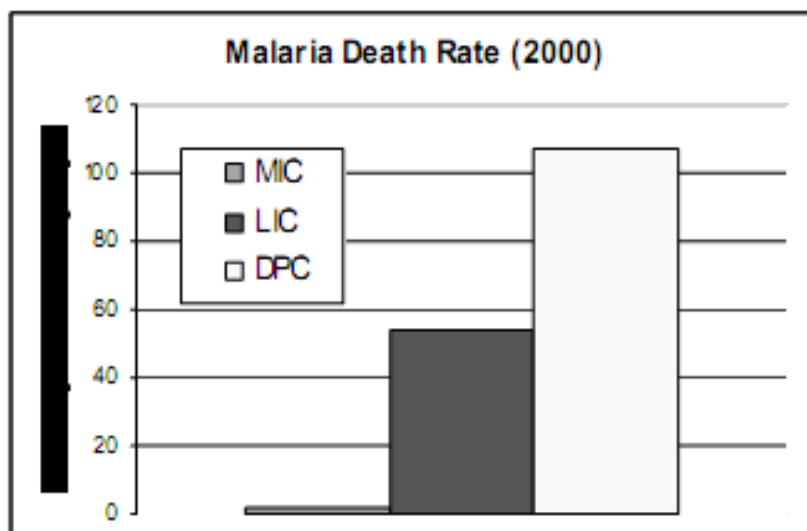
Comparison of Study Groups on MDG Indicators



DPC – Difficult Partnership Countries
LIC – Low Income Countries
MIC – Middle-Income Countries

2) Aid Flows to Forgotten States

Comparison of Study Groups on MDG Indicators



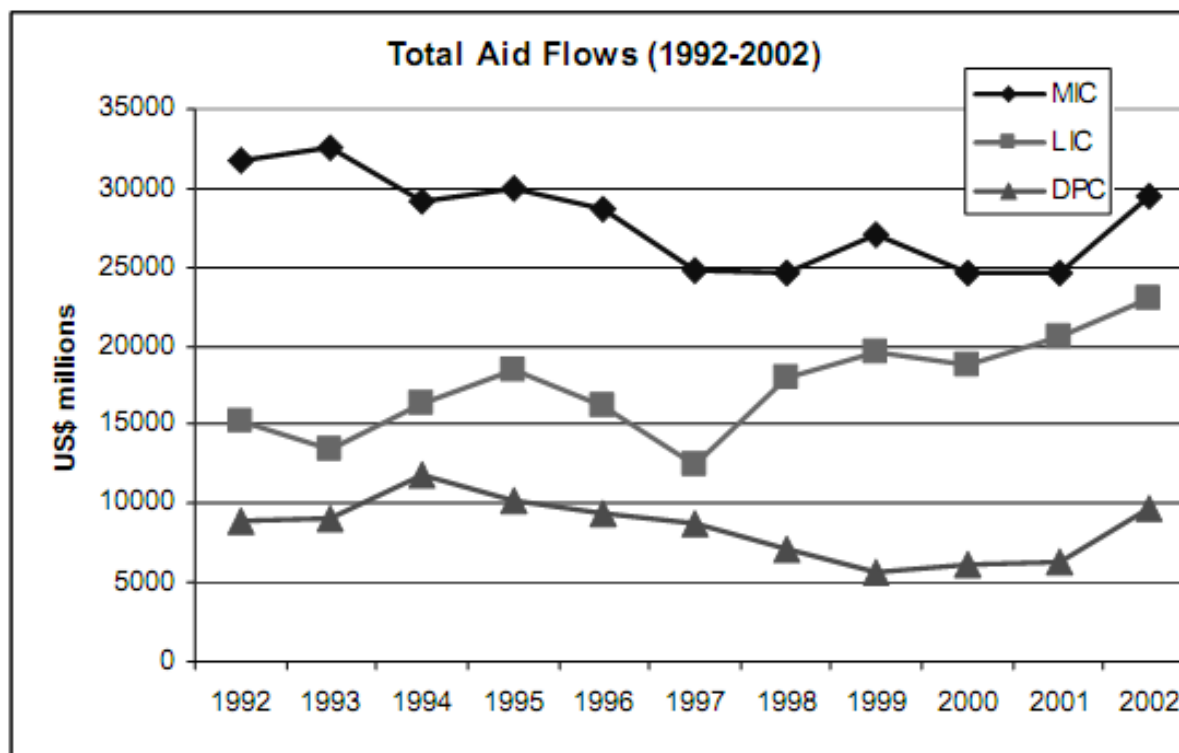
Source: Dollar, D., Levin, V., (2005).

2) Aid Flows to Forgotten States

Basic Comparative Analysis of Aid Allocation

How much have DPCs been receiving in aid in the last decade?

Disbursements of aid flows in the past 10 years have not tended towards this group of recipients. Not only has the largest amount of aid gone to middle-income countries, but the **gap between LICs and DPCs has widened recently**.



Source: Dollar, D., Levin, V., (2005).

2) Aid Flows to Forgotten States

Differences within the DPC Group

Table: Country Groupings based on Actual and Predicted Aid/Capita Levels (2002)

<i>Darlings</i>	<i>Orphans</i>
Cambodia	Burundi
Guinea	Central African Republic
Laos	Democratic Republic of Congo
Papua New Guinea	Republic of Congo
Sierra Leone	Niger
	Nigeria
	Sudan
	Togo
	Uzbekistan
<i>Small States: Darlings or Orphans?</i>	
Comoros	
Guinea-Bissau	
Solomon Islands	

- “Darlings” are those DPCs which received at least \$2.50 more in aid/capita terms than what was predicted
- “orphans” are those DPCs, which received at least \$2.50 less in aid/capita terms than what was predicted

What characteristics separate the “darlings” from the “orphans”?

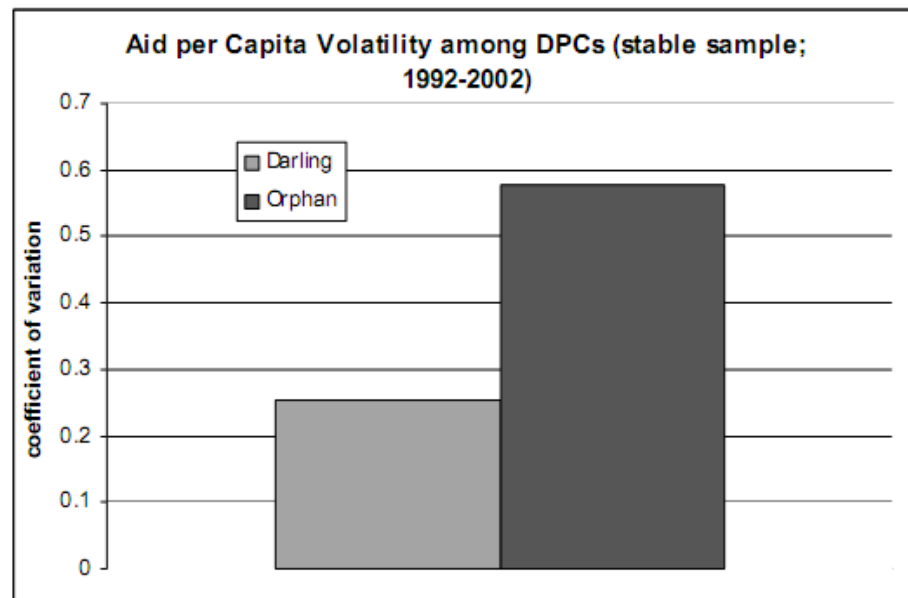
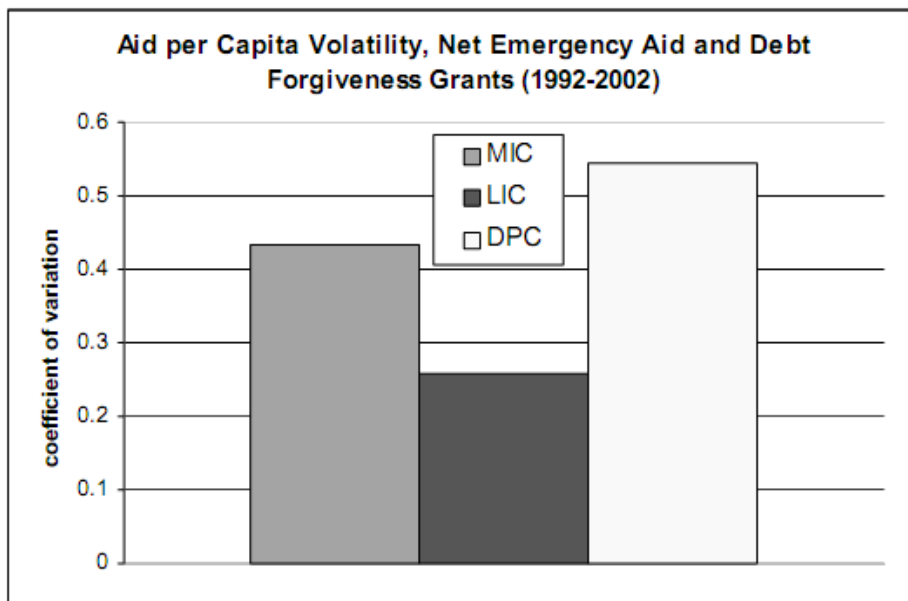
- One obvious characteristic of the “orphans” is that all except Uzbekistan are located in Africa, and the majority is francophone.
- Donors do take into account the institutional and policy environment in allocation aid among DPCs.
- Donors give significantly less aid per capita to DPCs with larger population size

Source: Dollar, D., Levin, V., (2005).

2) Aid Flows to Forgotten States

Comparative Analysis of Aid Volatility

High aid volatility makes budget policy more difficult in developing countries.



Source: Dollar, D., Levin, V., (2005).

3) 21st Century Aid: recognising success and tackling failure

Recognising Success

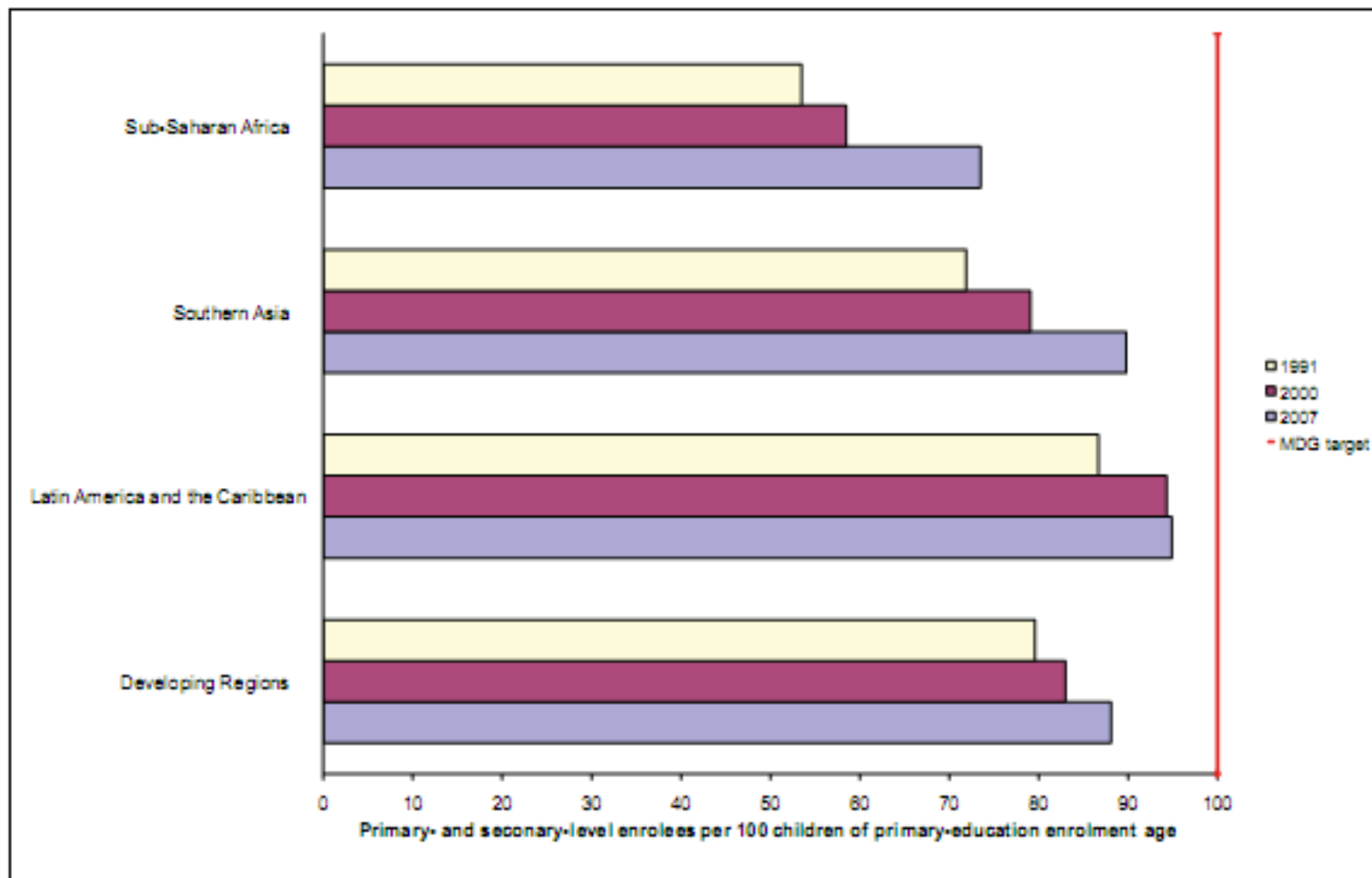
Where financing has been galvanised and aid delivered effectively, it has resulted in some **brehtaking successes** over the past decade:

- There are 33 million more children in the classroom, partly as a result of increased resources to developing country governments over the past decade resulting from aid and debt relief.
- There has been a ten-fold increase in the coverage of antiretroviral treatment (ART) for HIV and AIDS over a five-year time span.

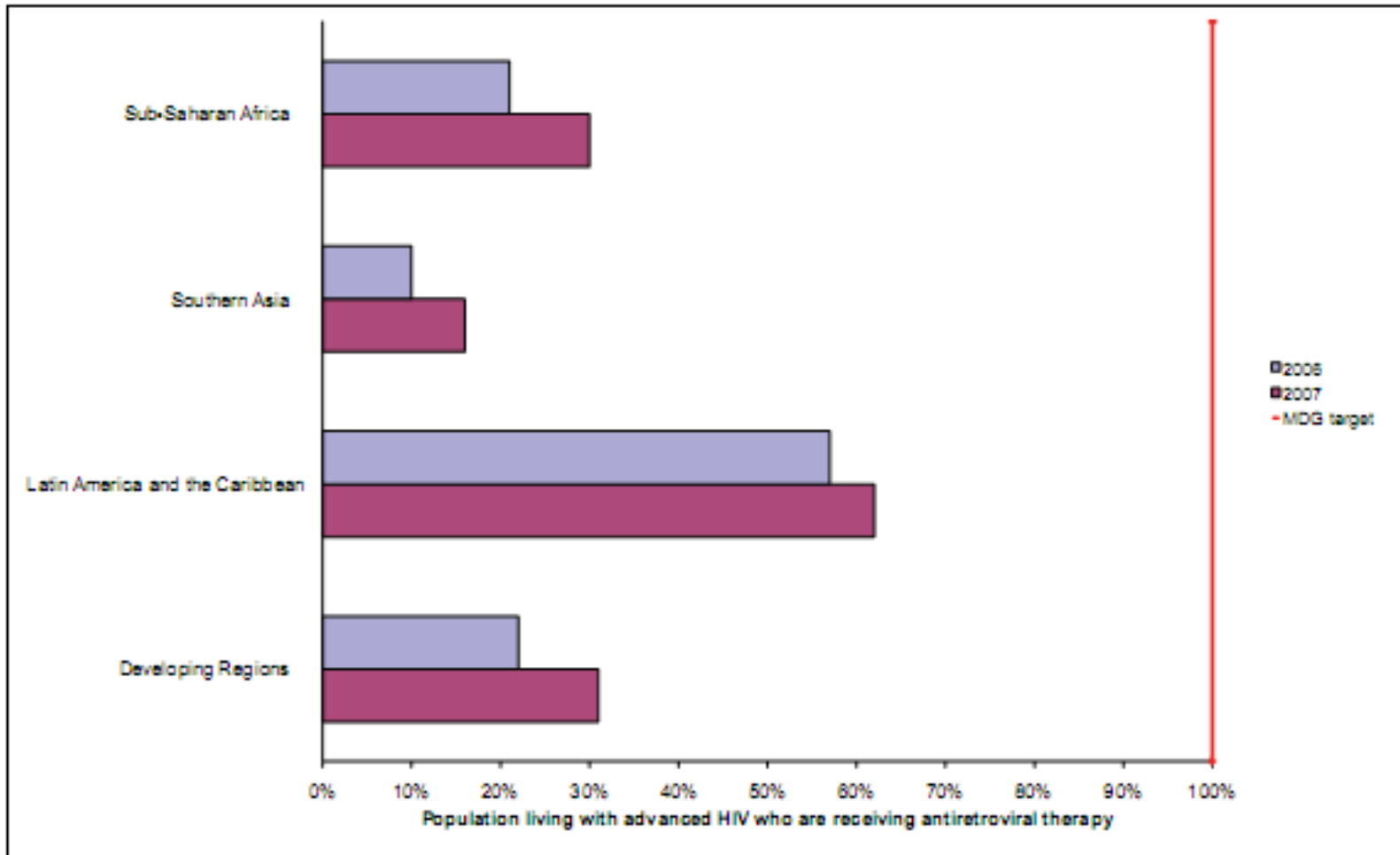
Source: Oxfam International, *21st Century Aid: Recognising Success and Tackling Failure*. Oxfam Briefing Paper n° 138, April 2010.

3) 21st Century Aid: recognising success and tackling failure

Fig.: Increases in primary and secondary net enrolment rate



Source: Oxfam, 2010.

3) 21st Century Aid: recognising success and tackling failure**Fig.: Increases in treatment for those living with HIV**

Source: Oxfam, 2010.

3) 21st Century Aid: recognising success and tackling failure**Make all policies work for development; don't dilute the poverty focus of aid**

Aid financing alone however, will not be enough to end global poverty and inequality. **Reform of the global economy** is needed to **promote long-term sustainable investment** in developing countries to lift the poorest people out of poverty. Reforms could include **fairer trade rules** to permit **greater access to life-saving medicines** or to **stabilize the price of food**. Reining in tax havens would permit developing countries to manage their domestic finances and oblige businesses to pay their fair contribution. Upholding **global standards for decent working** conditions could help poor people to raise themselves and their families out of poverty.

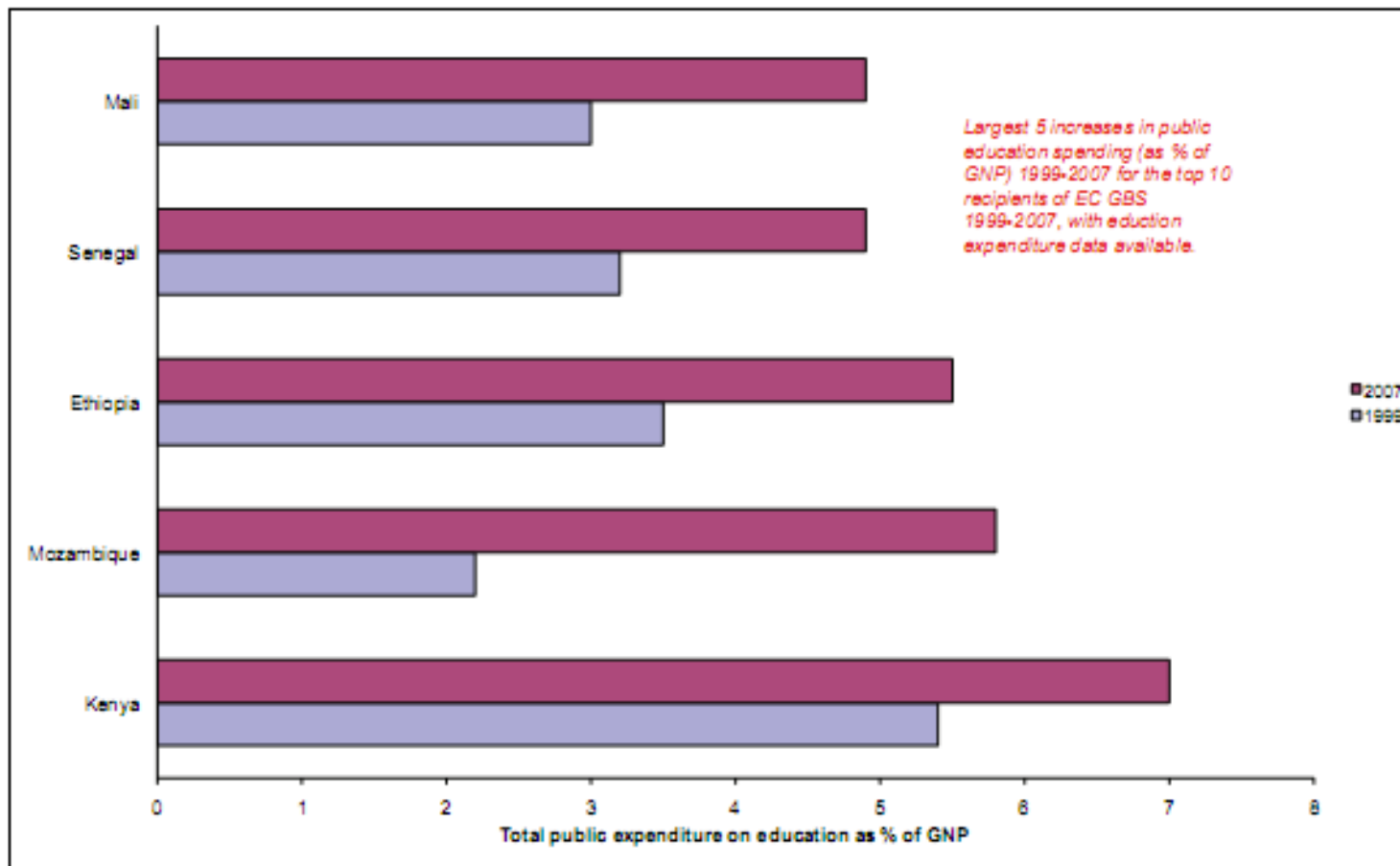
Aid can play a vital role in contributing to systemic reforms, but only if it is given for the right reasons, and does not have its goals sabotaged by other, non-development policies.

Source: Oxfam, 2010.

3) 21st Century Aid: recognising success and tackling failure

Make Aid it predictable, put it in the budget

Fig.: Budget support increases spending on education



Source: Oxfam, 2010.

3) 21st Century Aid: recognising success and tackling failure**Aid without onerous conditions, aid that is transparent**

The use of 'conditionality' – linking aid disbursements to conditions to induce policy change, particularly on economic policies such as trade liberalisation, elimination of subsidies or privatisation – has been the subject of intense debate. Much evidence indicates that **donors often attach far too many conditions to their aid, and frequently the wrong type of conditions**, obliging developing countries to follow identikit policies of economic reform that may not address their particular situations.

Transparency is another crucial aspect of good aid. To help citizens pressure their governments to be open and transparent, **donors need to be clear about what they provide, and when.** Aid transparency is particularly important for budget transparency in countries which receive high levels of aid.

Transparency also goes hand in hand with predictability in that it enables governments to plan, prioritise, and communicate their spending decisions to the public.

Source: Oxfam, 2010.

3) 21st Century Aid: recognising success and tackling failure**Countering the argument that aid fuels corruption**

Corruption persists because there is both supply and demand for it, but donors can do much to address the supply side. In 2004 the World Bank estimated that over 60 per cent of multinational corporations paid undocumented bribes in non-OECD countries to procure contracts – and this has nothing to do with aid.

Regulating international tax practices to reduce the availability of hideaways for stolen assets is an integral part of tackling corruption. Donor governments could fully implement the **UN Convention Against Corruption** and the **OECD Anti-Bribery Convention**.

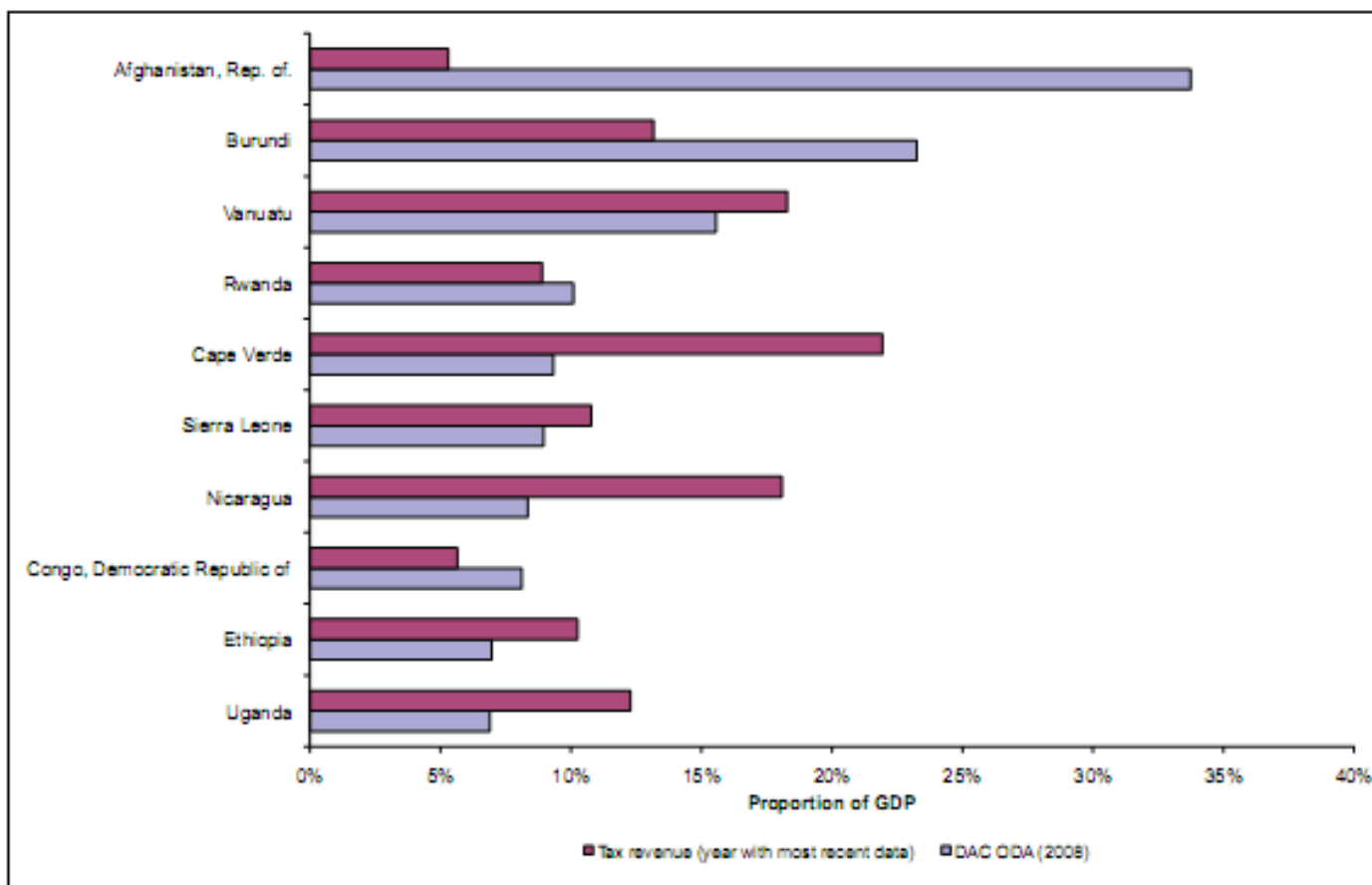
Challenging corruption also means **tackling demand** for it. There are numerous ways to do this, and **aid has an important and catalytic role to play** in many of them. Independent **audit institutions, parliaments**, and an **independent press** are essential for creating accountable, **participative societies**, where it is much harder for corruption to flourish

Source: Oxfam, 2010.

3) 21st Century Aid: recognising success and tackling failure

Countering the argument that aid undermines accountability and tax collection

Fig.: Tax levels in top ten per capita aid recipients



Source: Oxfam, 2010.

Useful Recommendations

- Ensure aid is **channelled to help support active citizens** and build effective states as a pathway to reducing poverty and inequality.
- Ensure that all aid is **aimed at meeting poverty reduction** goals, including supporting developing country governments to deliver strong, effective public services.
- Ensure that aid supports **diverse forms of financing** to contribute to development.
- Dramatically **improve the predictability of aid**, by providing it on a three-year rolling basis or longer; by increasing the proportion of aid that is general budget support where possible and by sector support where general budget support is not an option.
- **Reduce administrative delays** and minimise the difference between what is committed and what is disbursed.

Source: Oxfam, 2010.

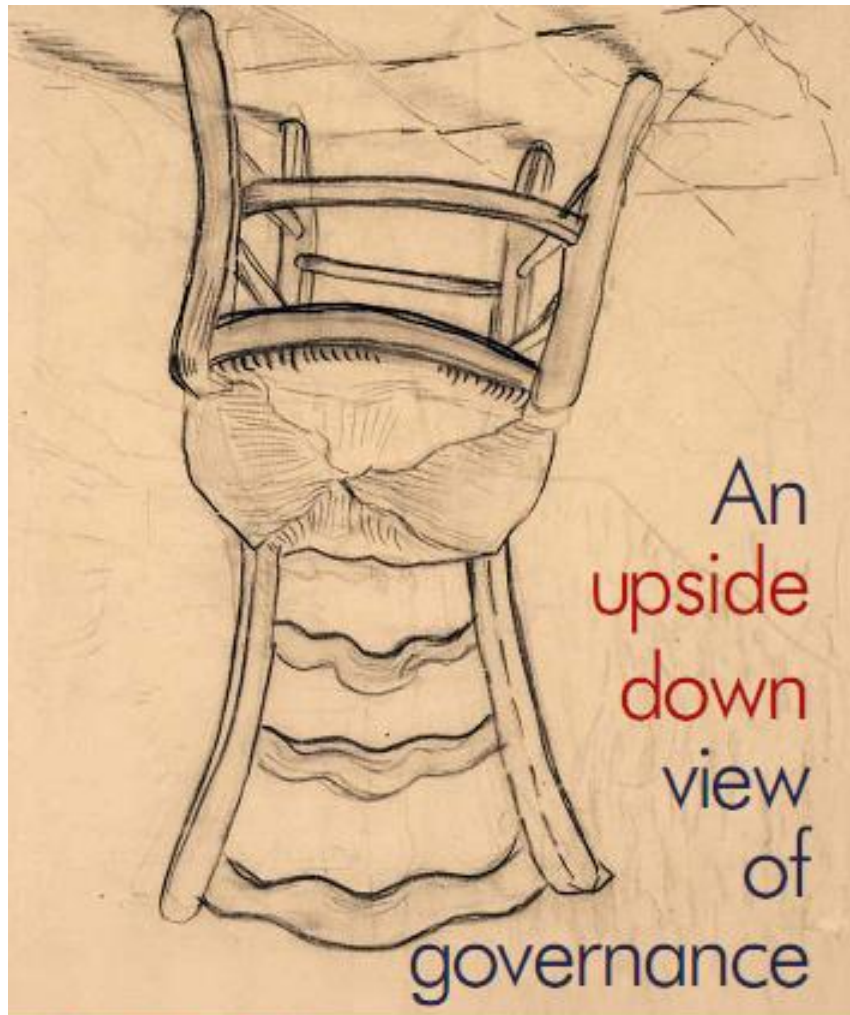
3) 21st Century Aid: recognising success and tackling failure

Useful Recommendations

- **Deliver aid through a mix of models**, including increasing budget support wherever possible, and ensure that a percentage of aid flows are channelled to civil society organisations, to enable people to better hold their governments to account.
- **Make aid transparent** by ensuring timely and accurate disclosure and dissemination of information on financial decisions, conditions, negotiations, and procedures.
- **Untie all aid**, including food aid and technical assistance, and give preference to local procurement in developing countries when they are purchasing services and goods.
- **Give at least 0.7** per cent of GNI in aid by 2015 and set out how this target will be reached, with legally binding timetables.

Source: Oxfam, 2010.

4) Turn the Picture Upside Down



The key to making progress in the short-to-medium term may not be direct external intervention to orchestrate and support rules-based reform, but more indirect strategies to shift or influence the incentives and interests of local actors.

Source: Institute of Development Studies, *An upside down view of governance*. London, 2010.

4) Turn the Picture Upside Down

The research suggests **a list of questions** that seem particularly salient in **understanding causes of bad governance** and identifying ways of supporting **more constructive bargaining between public and private actors**.

- What is shaping the interests of political elites? (Sources of revenue are likely to be critical.)
- What is shaping relations between politicians and investors, and might they have common interests in supporting productive investment?
- What might stimulate and sustain collective action by social groups to demand better services?
- What informal local institutions are at work, and how are they shaping development outcomes?
- Where does government get its revenue from, and how is that shaping its relationships with citizens?

Source: Institute of Development Studies, 2010.

4) Turn the Picture Upside Down

This paper has argued that donors cannot make significant progress in improving development outcomes and aid effectiveness without changing their mental models of how development happens.

For example they could do much more to:

- **Value country knowledge** and invest in acquiring it;
- empower local actors at all levels through good-quality research and support for data collection and policy analysis;
- play a role in facilitating local dialogue and debate;
- Prioritise action on things that external actors can directly influence, and that are fundamental to shaping elite interests in poor countries. In particular, they should prioritise a small number of strategic global initiatives that are central to **regulating global financial flows**, oil revenues and the narcotics trade;
- Ensure they are alert to ways in which all their actions can impinge (positively or negatively) on opportunities for **constructive state-society bargaining**. Issues around tax reform and aid dependency are particularly salient and are already on the DAC agenda;

Source: Institute of Development Studies, 2010.

4) Turn the Picture Upside Down

- Reassess their strategies for supporting civil society, extending engagement to a broader range of actors, who may not share a conventional view of governance and development but who have overlapping interests, for example in promoting economic growth;
- Overall, **show less concern with micromanaging aid, and much more with the political dynamics that influence its effectiveness.**

Source: Institute of Development Studies, 2010.

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