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TOWARDS A NEW AID COMPACT

*Report of the Executive Committee on
Economic and Social Affairs of the United Nations*

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EXPLANATORY NOTE

The establishment of the Executive Committees to coordinate the work of the United Nations entities working in related areas was an important component of the reform process launched by the Secretary-General in early 1997. The purpose behind this was to secure greater effectiveness and coherence and thereby to enhance the usefulness of the Secretariat for the international community.

This report, "Towards a New Aid Compact", is the product of a collaborative and coordinated effort of the Executive Committee on Economic and Social Affairs¹ and presents a collective position of the United Nations Secretariat in the economic, social and related fields on one of the most pressing issues of the day. The report was brought to fruition by means of a Task Force created by the Committee and led by the Department of Economic and Social Affairs (DESA)

¹ The membership of the Committee comprises: Department of Economic and Social Affairs (DESA), Economic Commission for Europe (ECE), Economic and Social Commission for Asia and the Pacific (ESCAP), Economic Commission for Latin America and the Caribbean (ECLAC), Economic Commission for Africa (ECA), Economic and Social Commission for Western Asia (ESCWA), United Nations Conference on Trade and Development (UNCTAD), United Nations Environment Programme (UNEP), United Nations Centre for Human Settlements (HABITAT), United Nations Office for Drug Control and Crime Prevention (ODCCP), United Nations High Commissioner for Human Rights (OHCHR), United Nations Development Programme (UNDP), United Nations University (UNU), International Research and Training Institute for the Advancement of Women (INSTRAW), United Nations Institute for Training and Research (UNITAR), and United Nations Research Institute for Social Development (UNRISD).

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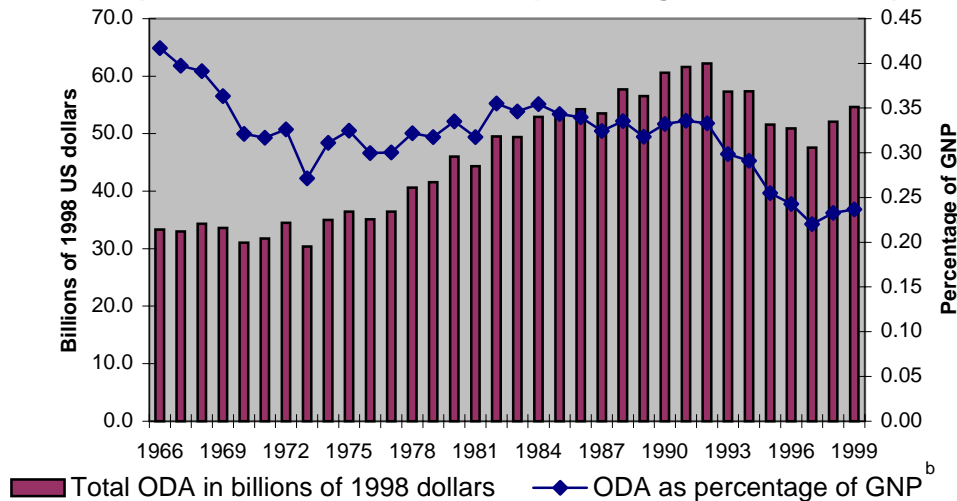
TOWARDS A NEW AID COMPACT

Report of the Executive Committee on Economic and Social Affairs of the United Nations 20 June 2001

"Development cooperation" has been at the centre of United Nations consideration of development for the past 40 years. It is a multi-faceted concept, but it has always included concessional financial transfers from the government budgets of developed countries for development assistance in developing countries. The world's Governments agreed in the General Assembly in 1970 to set a quantitative goal for the development assistance efforts of individual developed countries of 0.7 per cent of their gross national product (GNP). As a group, the developed countries have never achieved that goal, although total annual expenditures on "official development assistance" (ODA) rose for most of the past 40 years until 1992 (see figure 1). ODA levels then fell and, while they have since recovered partially, the outlook remains unclear.

This report addresses the need to improve the prospects for ODA. After a summary of the current situation in Section I, it reviews the reasons why people in the developed countries should want their Governments to make substantial aid transfers to developing countries (Section II). There remains a compelling case for aid. The difficulty is not so much in first principles, but rather in low confidence in the effectiveness of aid programmes. With the waning of foreign aid's main strategic purpose as a result of the end of the Cold War, attention is now focused on its effectiveness. Donor Governments are seeking to overcome "aid fatigue" by reforming their bilateral and multilateral assistance efforts, as discussed in Section III. Proposals to build on these efforts with

Figure 1: Total net ODA disbursements, 1966-1999^a
(Billions of 1998 dollars and percentage of Donor GNP)



Source: OECD, DAC International Development Statistics on-line database.

a: 1999 preliminary.

b: ODA as percentage of DAC members GNP.

deeper institutional reforms are offered in support of the call for increased aid flows in Section IV.

I. Basic facts on ODA flows

Despite the pessimism in several quarters about aid, total ODA remains on the order of \$55 billion a year.¹ Measurement and classification of government expenditures on ODA has been a long-standing concern of the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD), the main group of donor countries. DAC has sought for several decades to refine and oversee the measurement of ODA by donors and the data for each donor are now largely comparable and indicative.

ODA fell from 0.34 per cent of the GNP of DAC member countries in 1992 to 0.22 per cent in 1997, the lowest ratio ever (see table 1). Moreover, this includes the writing-off of uncollectable debt owed to donor Governments. The share of total ODA commitments used for debt restructuring has grown over the years with the result that the flow of resources aimed at development assistance has declined even more than the aggregate data suggest (see figure 2).

ODA flows rose in 1998 and 1999, bringing ODA to 0.24 per cent of donor GNP. The upturn was largely the result of increases in disbursements by Japan and special factors, such as assistance to Asian-crisis countries and countries impacted by natural disasters (for example, Hurricane Mitch), the international effort to assist refugees from Kosovo, and the bunching of payments to multilateral financial organizations. Prospects for further growth of ODA are uncertain.

Most of the overall decline in flows of ODA has been the result of cut-backs by the major donors. Only Denmark, the Netherlands, Norway and Sweden achieve the United Nations target of 0.7 per cent of GNP; some countries informally set their flows relative to the average ODA share of GNP of DAC countries; others ignore the target. Italy, Portugal and the United Kingdom have pledged a long-term increase in their volume of ODA. Collectively, DAC Governments have pledged to make efforts to mobilize sufficient aid resources to achieve a set of agreed social outcomes in developing countries by 2015.

While the cutback in ODA has affected a broad swath of developing countries, it has hit Africa and Asia especially hard (see table 2). Net ODA disbursements from Governments and multilateral institutions to Africa fell by more than a quarter from \$25.1 billion in 1990 to \$18.5 billion in 1998), while flows to Asia dropped from \$19.5 billion to \$16.1 billion during the same period. Many of the least developed countries have suffered a severe decline, particularly in terms of ODA received per capita (see table 3). Seven countries in this group, all from Africa, recorded a drop of more than 50

¹ The value of the assistance to the recipient is somewhat less because some aid requires purchase in the donor country and the market value of that assistance to the recipient is usually overstated.

Table 1. Official development assistance by DAC member countries,^a 1992, 1997, 1999
(Millions of dollars and percentage of GNP)

	1992 ^b		1997		1999	
	Amount	Per cent of GNP	Amount	Per cent of GNP	Amount	Per cent of GNP
Australia	1 015	0.37	1 061	0.28	981	0.26
Austria	556	0.30	527	0.26	482	0.24
Belgium	870	0.39	764	0.31	753	0.30
Canada	2 515	0.46	2 045	0.34	1 721	0.28
Denmark	1 392	1.02	1 637	0.97	1 724	1.00
Finland	644	0.62	379	0.33	402	0.32
France	8 270	0.63	6 307	0.45	5 494	0.38
Germany	7 583	0.37	5 857	0.28	5 478	0.26
Ireland	70	0.16	187	0.31	241	0.31
Italy	4 122	0.34	1 266	0.11	1 750	0.15
Japan	11 151	0.30	9 358	0.22	15 302	0.35
Luxembourg	38	0.26	95	0.55	115	0.64
Netherlands	2 753	0.86	2 947	0.81	3 134	0.79
New Zealand	97	0.26	156	0.55	134	0.27
Norway	1 273	1.16	1 306	0.86	1 370	0.91
Portugal	293	0.35	250	0.25	274	0.25
Spain	1 518	0.27	1 234	0.24	1 374	0.23
Sweden	2 460	1.03	1 731	0.79	1 643	0.70
Switzerland	1 139	0.45	911	0.34	976	0.35
United Kingdom	3 243	0.31	3 433	0.26	3 279	0.23
United States	11 709	0.20	6 878	0.09	9 135	0.10
Total DAC	62 711	0.34	48 324	0.22	55 993	0.24
<i>Memorandum item:</i>						
Total, expressed in prices and exchange rates of 1997	63 237		48 324		

Source: OECD, DAC Statistical Reporting System, on-line databases.

^a Net disbursements by donors to developing countries and multilateral organizations.

^b Up to 1992, forgiveness of debt for military purposes was reported as ODA.

per cent in net ODA receipts per capita between 1990 and 1998; twenty countries saw a fall of between 25 per cent and 50 per cent, and 13 countries registered a decline of up to 25 per cent.

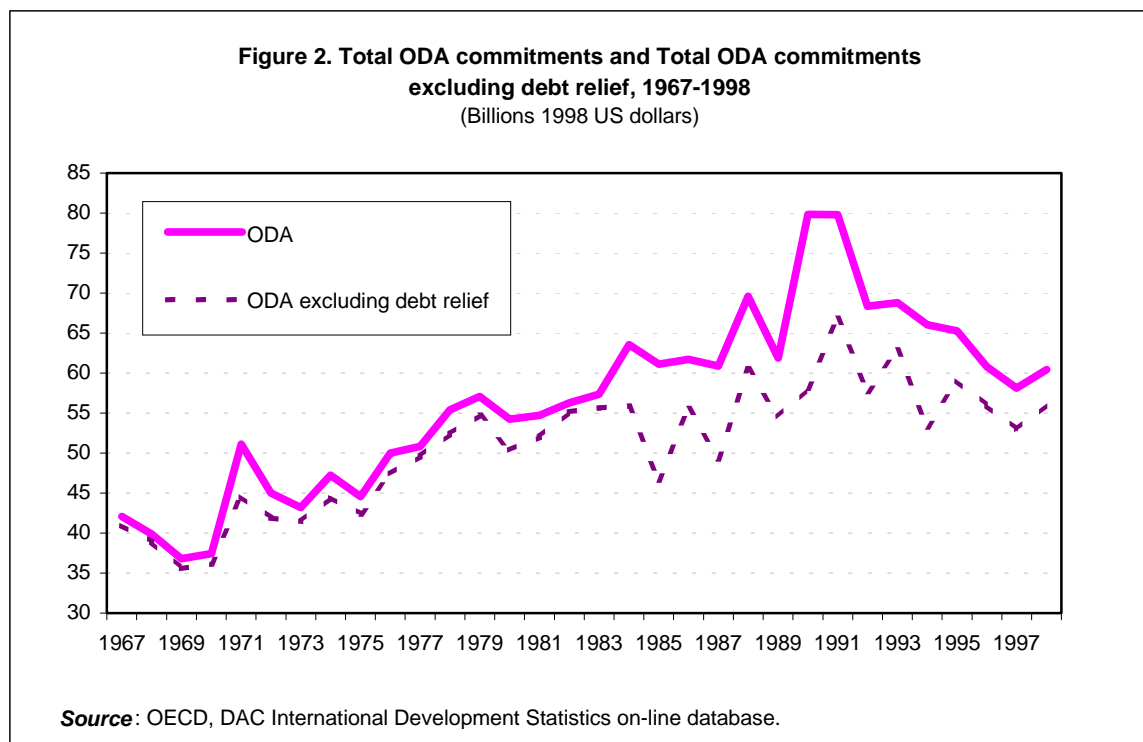


Table 2. Net ODA disbursements from governments and multilateral institutions to developing countries by region, 1990-1998
(Billions of dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Africa	25.1	24.7	25.0	21.5	23.5	22.1	20.7	18.7	18.5
Asia and the Pacific	19.5	21.1	21.2	19.2	22.9	20.6	20.8	16.1	16.1
Latin America and the Caribbean	5.3	6.0	5.6	5.6	6.2	6.9	8.2	6.3	4.6
Total ^a	57.3	60.5	60.7	57.1	61.3	60.4	58.6	50.3	51.8
<i>Memorandum items:</i>									
Least developed countries	15.9	15.9	16.5	15.0	16.2	16.5	13.5	12.6	12.1
Official aid to the economies in transition ^b	2.3	6.6	6.1	5.8	6.8	7.9	5.2	4.1	5.6

Source: OECD, DAC Statistical Reporting System, on-line databases.

^a Including ODA disbursements to developing economies in Europe.

^b Not classified as ODA by DAC.

Table 3. Least developed countries: percentage change in net ODA receipts per capita between 1992 and 1998

Decline			Increase
More than 50 per cent	Between 25 and 50 per cent	Up to 25 per cent	
Burundi	Afghanistan	Bhutan	Angola
Democratic Republic of the Congo	Bangladesh	Burkina Faso	Cambodia
Equatorial Guinea	Benin	Cape Verde	Eritra ^a
Gambia	Central African Republic	Guinea	Haiti
Myanmar	Chad	Guinea-Bissau	Lao People's Democratic Republic
Somalia	Comoros	Liberia	Madagascar
Sudan	Djibouti	Maldives	Sierra Leone
	Ethiopia	Mali	Tuvalu
	Kiribati	Mauritania	
	Lesotho	Nepal	
	Malawi	Rwanda	
	Mozambique	Solomon Islands	
	Niger	Uganda	
	Samoa		
	Sao Tome & Principe		
	Togo		
	United Republic of Tanzania		
	Vanuatu		
	Yemen		
	Zambia		

Source: UN/DESA, based on OECD, DAC Statistical Reporting System, on-line databases; and UN/DESA, *Monthly Bulletin of Statistics* on-line.

^a For Eritrea, change between 1993 and 1998.

II. The case for aid

Over the past 40 years, developed countries have given almost \$2 trillion of assistance (measured in 1998 dollars). The question is whether these resources had the intended developmental impact. Some countries have graduated from needing assistance and there has been considerable global progress in terms of several social indicators. Nevertheless, the economic situation in many developing countries remains weak, especially in Africa where per capita incomes in many countries are lower than they were in 1960.

Many factors together have produced this spotty record. The domestic environment was more enabling of development for some countries than for others, and

the international environment provided widely varying opportunities and challenges for different countries (e.g., terms-of-trade losses swamped ODA inflows in many African countries during much of the period). In addition, donors frequently provided ODA as an instrument of their foreign policy to influence recipient Governments, particularly in the context of the Cold War. They also used it for national commercial gains, promoting donor country exports and foreign direct investment. But none of these considerations answers the question of whether donors should reduce ODA or should correct abuses and continue the ODA effort into the twenty-first century.

Aid as moral obligation

Moral arguments for foreign aid are part and parcel of the increasing focus on poverty in the developing countries. Inequality among countries is striking and on the rise. One sixth of the world's people receive more than three-quarters of world income while, in the poorest 61 countries, three-fifths of the world's people receive only 6 per cent of world income. Some 1.2 billion people live in extreme poverty, i.e., on less than \$1 a day. Seven of every 1,000 children die before age five in high-income countries, but more than 90 do so in low-income countries.

Public opinion surveys indicate that most people in developed countries find this situation unfair and disturbing. The questions are whether there is a moral obligation to respond, whether such a response should involve a transfer of resources from higher income to poor countries and, if so, the extent of such an obligation.

Most individuals acknowledge a moral obligation to relieve human suffering, in particular if they can visualize the suffering person and if relief can be provided at little personal cost. This obligation may appear most compelling when the suffering is closer to home, but it is universal and extends to all people, by virtue of our shared humanity. Acceptance of universal duties of humanity implies a minimum level of concern for individuals in foreign countries.

The corresponding obligations stem from the ability of individuals in higher income countries to prevent death and suffering of individuals in poor countries by an appropriate transfer of resources. In addition to the benefits resulting from the actions that might be taken, obligations also derive from the principle of respect for persons.

A moral obligation to make a foreign transfer also arises from a concept of justice, both corrective and distributive justice. The first refers to the rectification of past wrongs and the second to the redistribution of wealth or income according to some criterion of need or merit. Acting on the principle of corrective justice presents problems of quantification and of temporal validity. On the other hand, obligations based on distributive justice extend beyond national boundaries, a principle that has long been accepted within domestic communities. The assumption is that everyone in the world is a member of a scheme of social cooperation or, alternatively, that international economic interdependence creates benefits and costs which are unevenly distributed, calling for corrective action.

The acceptance of a moral obligation to transfer some resources gives rise to a need to define the extent of the duty. This depends on the moral basis of the obligation. Obligations of humanity may have different quantitative implications from those deriving from obligations of justice. The former may require the provision of minimal subsistence for all, while the latter could lead to the egalitarian principle of global "welfare" maximization, with resources being reallocated until the marginal "utility" of additional income for each individual is equalized.

While precise quantification is impossible, it is not necessary at present, given the low level of aid flows. ODA per capita from donor countries fell to an average of only \$62 a year in 1997-1998 from \$72 a decade earlier. Current ODA flows from many countries are well below what most people would accept as a moral obligation on the basis of the principles elucidated above.

This assumes, however, that donors, both governments and those they represent, have confidence in the efficacy of the development assistance they provide. Another moral obligation is for ODA recipients, as well as donors, to ensure the effective use of foreign taxpayers' money. This requires avoiding both wasteful utilization and illicit misappropriation of these resources, although it is not necessarily clear what standards should be applied in making such judgements.

Rights-based approaches to development

The case for ODA can also be based on a "rights-based" approach to development, which seeks to integrate human rights into a development framework by emphasizing the promotion of freedom, well-being and dignity of individuals and the centrality of the human person as a subject of the development process. The argument is based on the principle that all human beings have certain inherent rights and that governments must uphold and facilitate the enjoyment of these rights, among which is the right to development.

In this context, development is seen as a process in which all human rights and fundamental freedoms can be fully realized. Within this view, there is a two-way relationship between poverty and human rights: poverty is itself a denial of human rights, but a shortfall of human rights makes it more difficult, in general, to reduce poverty. The policy agenda that is drawn from the rights-based approach is similar to the focus on poverty reduction and sustainable human development that has been increasingly emphasized by the international community (see below).

The primary responsibility for implementing the right to development rests with individual states. Governments are, first of all, responsible for giving effect to the right to development within their own borders. However, states collectively also have a responsibility to remove obstacles to the enjoyment of the right to development and to formulate international policies to realize that right. Given the financial and human resource limitations of developing countries, the acceptance of the right to development obliges higher income countries to work in partnership with developing countries to

promote the enjoyment of that right. This has direct implications for ODA volume and use.

In this regard, the Commission on Human Rights has recently considered an approach to international cooperation that works towards the progressive realization of the right to development, starting with giving effect to three basic rights -- to food, primary health care and primary education -- within a specified time period. In addition to their basic nature, the choice of these rights was influenced by the goals of the Food and Agricultural Organization of the United Nations, the World Health Organization and the United Nations Children's Fund, which speak directly to a human rights perspective.

Several other developments have taken place in the implementation of this right within the United Nations in recent years. The United Nations Development Assistance Framework (UNDAF) takes into account the norms and standards of human rights law. The Committee on Economic, Social and Cultural Rights is promoting the implementation of those rights through its general comments and its reaction to reports by individual Member States. At the same time, major donor agencies, including the British, Canadian, and Swedish agencies, and the donors meeting together as the Development Assistance Committee have reformulated their programmes with the aim of promoting the right to development more effectively.

Developed countries' self-interest in development

In addition to the arguments that development assistance is necessary on moral and human rights grounds, there are further reasons for developed countries to support the economic development of developing countries.

First is a concern for security in developed countries. Countries that do not enjoy significant and sustained development, including the broad participation of all domestic population groups, are prone to violent internal conflicts. In some countries in Africa, for example, poor economic performance or inequitable development has exacerbated internal tensions and diminished the capacity to respond to them. Equally, the violent troubles in developing and transition economies on other continents might have been avoided or kept to smaller proportions if the countries in question had not also fallen into severe economic crises. Such conflicts politically destabilize the country itself but also the region and possibly others. Foreign incursions, floods of refugees, and terrorism and crime spill from one country to another with increasing ease and frequency. Security is therefore a global phenomenon: all suffer the consequences of a breakdown in security, regardless of where it occurs. Citizens in developed countries recognize their vulnerability to the spread of violence that originates in crisis countries and to the consequences of violence arising from conflicts in faraway countries in which they seem to have no part.

Considerations of economic self-interest also support a call for development assistance. Economic development transforms poor economies into more promising international economic partners. For example, as a result of the burgeoning trade and

investment flows and rapid economic growth in South-East Asia over the past decade, developed countries enjoyed rapid growth of their exports of goods, services and capital to those countries, as well as the benefit of imports from them. Increased human security and well-being in developing countries also reduces pressures for large-scale migration and the accompanying social and environmental stresses in developed countries. In sum, development benefits not only people in poor countries but also those in higher income countries. Enlightened self-interest is an additional important reason for supporting development through ODA.

ODA and global public goods

An increasingly globalized world makes more compelling the need to address cross-border problems and global externalities, such as control of epidemic diseases, environmental protection, and conflict prevention and peace-keeping. These concerns can be addressed effectively only through international cooperation among countries. This realization has led to a substantial broadening of the development cooperation agenda, beyond its traditional focus on assisting low-income individuals and promoting the sustained expansion of developing economies towards actions pertaining to common global concerns.

In the 1990s, donors saw a greater need to undertake these broader endeavours and a rising share of aggregate ODA flows was used for such “global” activities. There has been some dispute whether all these activities should be categorized as "development assistance", but donors were prepared to finance them through budget allocations because, even more than most traditional ODA activities, their "public good" nature meant that they served donors' self-interest directly. Donors benefit by assisting developing countries to contribute to the provision of “global public goods”.

Global public goods reach across borders, generations, or population groups. The mechanisms that are used to provide public goods within a nation or community are not readily available at the global level: there is no international public authority to raise global taxes to pay for a global activity and there is therefore an under-provision of global public goods. Even if there were voluntary agreements among nations to jointly pay for a global public good, some countries might lack the resources and/or technical capacity to meet their obligations. In these cases, it is more effective for the international community to help poor countries in meeting their commitments than to bear the costs of the resulting global public “bads”. Such support also encourages developing countries to participate, which they might otherwise find difficult, and thus helps to legitimize the global public goods agenda.

III. Donor response to "aid fatigue"

The preceding section demonstrates that, for a variety of reasons, international public transfers from developed to developing countries to help boost the development process continue to be justified. Despite this, there is "aid fatigue": there is a widespread

belief in donor countries that the aid process does not function effectively or fails to achieve its intended purposes of enhancing development and reducing poverty. The donor reaction has been to revamp the aid process.

Differentiating among recipient countries

One response of the donor community has been to increasingly focus its attention on the lowest income countries. Gross domestic product (GDP) per capita in the least developed countries was 8.5 per cent lower in 1998 than in 1980, while GDP per capita in South and East Asia was 150 per cent higher. A disproportionate part of the decline in output per capita in low-income countries took place in Africa, although there have since been encouraging developments in a number of cases. From 1996 to 1998, 11 African countries enjoyed annual rates of growth of GDP per capita of 3 per cent or more, compared to 8 countries from 1991 to 1995. In the latter period, these faster growing countries accounted for some 25 per cent of the population of Africa, twice the average share in the earlier period.

Some observers argue that faster-growing economies provide opportunities for ODA to be productive in nurturing development and that donors should focus their efforts in such countries, cutting back in countries with less effective policies and performance. It is also hoped that continued development success in these leading countries might have a demonstration effect on policy makers in other countries.

Meanwhile, legislatures in most donor countries have been subjecting their bilateral ODA programmes to greater scrutiny, partially because most governments were under a general imperative to reduce fiscal deficits in the 1990s, but also because of concern about the allegedly modest accomplishments of their ODA on the ground.

As a result of this examination their aid strategy, many donors have concluded that their efforts were often spread too thinly over too many agencies, activities and countries. To improve aid administration, some donor countries have reorganized their aid agencies. For example, Sweden reduced its development cooperation agencies to two—one to handle long-term cooperation with the poorer developing countries and the other to manage aid activities in the industrial and infrastructure sectors. The United States overhauled the Agency for International Development, simplifying its structure and focusing on sustainable progress in the areas of economic growth, population and health, environment and democracy. The European Community simplified the organizational structure of its aid programme and developed an overall policy statement to guide assistance, raise management efficiency and increase coordination with member States. The Canadian International Development Agency built a more coherent approach to aid management internally and externally, involving, on the one hand, more interaction with other Government departments and, on the other hand, developing mechanisms whereby participants from donor and beneficiary countries could more effectively formulate activities collectively. Norway placed greater emphasis on increased policy dialogue with aid recipients, as well as on the gradual transfer of responsibility for planning and implementation of programmes to local counterparts.

The role of non-governmental organizations

Donor efforts to improve aid effectiveness involved reviewing relations with their development partners, as well as reforming their own operations. One concern was the extent to which recipient governments had the capacity to manage their aid effectively. Reports about aid falling into the wrong hands or going into unintended activities damaged the case for recipient governments as the main vehicle for administration and disbursement of aid. Partly in response, some donors looked to non-governmental organizations (NGOs) as potentially more reliable and low-cost channels for delivering assistance, particularly to the poor. After rising from \$600 million in the middle 1980s, ODA flows channelled directly through NGOs have remained relatively constant at about \$1 billion a year since 1990 (see table 4). In the light of declining total ODA flows (see table 4), however, the increasing share allocated to NGOs is a positive reflection of donor government confidence in NGO capacity to manage foreign aid.

Table 4. Net flows of ODA to direct recipients and intermediaries, 1990-1998
(Billions of dollars)

	1990	1991	1992	1993 ^a	1994	1995	1996	1997	1998
DAC	54.5	58.6	62.7	56.5	59.2	58.9	55.4	48.3	51.9
Bilateral recipients	37.7	42.2	42.2	38.4	40.3	39.5	38.1	31.3	34.1
Intermediaries	16.8	16.4	20.5	18.1	18.9	19.4	17.3	17.0	17.8
Multilateral institutions	15.8	15.4	19.6	17.2	17.9	18.3	16.3	16.0	16.8
NGOs	1.0	1.0	0.9	0.9	1.0	1.1	1.0	1.0	1.0
Non-DAC	6.0	1.4	1.7	1.5	1.4	1.1	1.3	1.0	0.9
Bilateral recipients and NGOs	0.2	1.2	1.2	1.1	1.0	0.8	0.8	0.6	0.6 ^b
Multilateral institutions	5.8	0.2	0.5	0.4	0.4	0.3	0.5	0.4	0.3
Total	60.5	60.0	64.4	58.0	60.6	60.0	56.7	49.3	52.8

Source: OECD, *Development Cooperation: Report of the Chairman of the Development Assistance Committee (DAC)*, Paris, various issues.

^a From 1993, forgiveness of debt for military purposes was not reported as ODA, but as "Other Official Flows".

^b Preliminary.

This notwithstanding, NGOs also have limitations as effective conduits for ODA. Studies by Nordic authorities, for example, found that several NGO projects funded with their aid had limited the participation of host countries. A number of NGOs were chided for not being accountable to the communities they served. Still others have been criticized for an apparent lack of transparency in some aspect of their operations, failing, for instance, to provide partner communities with financial information regarding their joint activities. While some NGOs have increased their competence in project management over time, the involved communities did not seem to acquire those skills as fast or to the same degree as the NGOs.

NGO actions, like those of official agencies, are guided by their governing bodies and their success in raising funds, in their case primarily from private donations. With such backing, NGOs can be vigorous and effective advocates for a particular view of the development process or for a particular aspect of development. This is simultaneously their strength and their weakness: as private voluntary organizations they can supplement and even influence, but they cannot supplant the broader responsibilities of official institutions.

Multilateral institutions and multiple channels

Another alternative to purely bilateral aid is assistance provided through multilateral organizations. One advantage of multilateral institutions is that they should be able to avoid pursuing any non-developmental objectives of donor and recipient governments better than bilateral agencies. Moreover, multilateral institutions gain from economies of scale and scope, becoming, for example, repositories of considerable technical expertise and development experience. Aid contributions to multilateral institutions have been roughly maintained in the 1990s, suggesting that bilateral donors are also increasingly seeing the relative advantages of multilateral assistance.

Different multilateral institutions with essentially the same member governments have different "personalities". The policies supported through assistance programmes by any multilateral institution reflect not only the institution's mandate but also its governance structure, both in terms of the allocation of the voting power that approves aid projects and in terms of the ministries from which country representatives are drawn.

Different multilateral agencies sometimes argue for different types of assistance programmes and different supporting domestic policies. For instance, the social agencies of the United Nations system with field activities have been at the forefront in seeking to protect and extend social expenditures during times when developing countries in which they were active were undergoing internationally supported macro-economic adjustment programmes. In particular, analysis by UNICEF in the 1980s led to the call for "adjustment with a human face".

The independent goals and strategies of donors, in the absence of a strong management and policy formulation capacity on the part of the receiving government, often complicate the recipients' task of implementing a comprehensive national

development strategy. In many of the poorest countries, where aid finances a large proportion of development activities, a multiplicity of aid programmes, if uncoordinated, can work at cross purposes and impede aid effectiveness. It can also impose heavy reporting requirements on recipients.

In recognition of this, the international community has sought to promote the overall coherence and efficiency of international assistance to a country and to deliver assistance through coordinated programmes jointly agreed with recipient Governments. The leadership role in this coordination function is frequently taken by the Bretton Woods institutions, in particular the World Bank, often within a macro-economic programme established with the International Monetary Fund (IMF). In many cases, the World Bank also takes the lead in bringing donors to a country together through the "Consultative Group" mechanism in order to jointly commit to an assistance programme. For least developed countries, the United Nations Development Programme (UNDP) usually convenes donors in a comparable process of "Round Tables".

As part of his 1997 programme for reform, the Secretary-General established the United Nations Development Assistance Framework (UNDAF). As endorsed by the General Assembly, this is the "country-driven, collaborative and coherent" planning framework for the development operations of the United Nations system at the country level. Recognizing the need to improve the coordination of its own programmes with those of other donors in each aid-receiving country, the World Bank introduced the "Comprehensive Development Framework" as a coherence-enhancing device in 1999.

As a complement to these processes and recognizing that the political responsibility for domestic coordination of development assistance lay with the aid-receiving countries, the international community is assisting recipients to strengthen their capacity to take charge of international aid programmes. For many years, national capacity building has been at the heart of the assistance strategy of UNDP and continues through the development of UNDAF. It is also reflected in many of the programmes of technical cooperation undertaken by the Specialized Agencies of the United Nations system and increasingly by the World Bank as well.

However, this international effort to improve policy coherence, managerial control and operating efficiency of official development assistance has limits. Development is a complicated and differentiated process and a particular approach or a single institution should not determine the kinds of development policies that are supported. It would not serve development to efficiently rush headlong in the wrong direction on development policy.

It is therefore important to continue to have a variety of multilateral aid institutions, as well as a multiplicity of bilateral donors. A large number of donors is likely to mean more resources for development, as well as more options for supporting development cooperation. At the same time, pluralism among donors needs to be complemented by an ability on the part of recipient countries to select bilateral and multilateral programmes that best advance their national development strategies.

Authorities in developing countries should also have the capacity to develop their own project proposals and the opportunity to present them to potential donors. Capacity-building for programme and project development, appraisal, choice and oversight in developing countries is crucial to development.

The renewed focus on poverty eradication

Although ODA remains a heterogeneous mixture of expenditures disbursed by a variety of donors and institutions, the attention of donors has increasingly focused on the social aspects of development, especially the eradication of poverty. In particular, the World Summit on Social Development held in Copenhagen in 1995, struck a responsive chord in the donor community and in the global public domain and most donors have sought to refocus their aid policies on poverty eradication. Most of the arguments for development assistance elaborated in the previous section support the notion of establishing poverty eradication as the primary goal of ODA. Moreover, a development strategy that seeks to speed the integration of poor people -- women and men, rural and urban residents -- into the economic mainstream is a promising strategy for successful development.

Despite this new focus and despite donor reforms, the reallocation of expenditures by donors, in particular bilateral ODA, has been limited so far. Bilateral ODA commitments for the social sector peaked in 1995, declined annually until 1997 and recovered slightly in 1998 (see table 5). However, as overall commitments have fallen, the *share* of the social sector within the total has risen, reaching 30 per cent in 1998 (see figure 3). This notwithstanding, ODA for basic social services accounted for only 10 per cent of the total.

One of the vehicles for intensified cooperation to emerge from the Social Summit was the "20/20 initiative". Its aim is to promote a reciprocal commitment by participating aid-receiving and donor countries to increase their investment in basic social services from current levels to the indicative level of 20 per cent of their budgetary expenditure and of their ODA, respectively. The 20/20 initiative has evolved from an easily recognized set of targets to a more detailed partnership framework for interested Governments, multilateral organizations and NGOs, fostering not only increased and improved spending but also better monitoring of both inputs and outcomes.

The focus on poverty is also now being given greater attention by the Bretton Woods institutions. As a result of lobbying by a number of NGOs, especially from within the "Jubilee 2000" campaign, the "heavily indebted poor countries" (HIPC) initiative was enhanced by offering increased relief of debt in exchange for greater poverty reduction expenditures. In September 1999, the Interim and Development Committees agreed to incorporate "poverty reduction strategies" into IMF programmes supported by the Fund's concessional lending arm for low-income countries. To emphasize the change, the Enhanced Structural Adjustment Facility (ESAF) was renamed the "Poverty Reduction and Growth Facility" (PRGF). For an organization established to manage the international exchange rate system, this is a new mandate. Poverty reduction has also become an intensified focus of the International Development Association (IDA), the concessional lending arm of the World Bank.

Table 5. Bilateral ODA commitments received by developing countries, by sector, 1990-1998
(Billions of dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Social infrastructure and services	13.0	11.2	12.4	12.6	13.8	16.4	14.9	12.5	12.9
Economic infrastructure and services	8.3	12.2	8.0	9.6	10.8	12.7	11.5	10.0	7.7
Production sectors	6.9	6.2	8.1	5.8	5.3	5.7	6.5	4.6	4.0
Debt relief ^a	13.5	7.3	3.7	5.0	5.8	3.9	2.8	3.8	4.1
Emergency assistance	1.1	2.7	2.8	3.2	2.7	2.8	2.5	2.0	2.7
Administrative costs of donors	1.9	1.6	1.7	1.7	2.3	2.6	2.5	2.4	2.5
Support to NGOs	0.6	0.7	0.9	0.6	0.5	0.5	0.4	0.7	0.7
Other ^b	12.6	15.1	12.4	11.0	9.4	9.1	8.6	6.8	8.7
Total	57.9	57.0	50.0	49.5	50.6	53.7	49.7	42.8	43.3
<i>Memorandum items:</i>									
Education, health, population and water supply (percentage of total)	16.7	15.1	18.1	19.1	20.6	22.5	23.3	22.3	21.6
Basic social services ^c (percentage of total)	n.a.	n.a.	n.a.	6.7	7.5	10.1	11.2	10.0	10.1

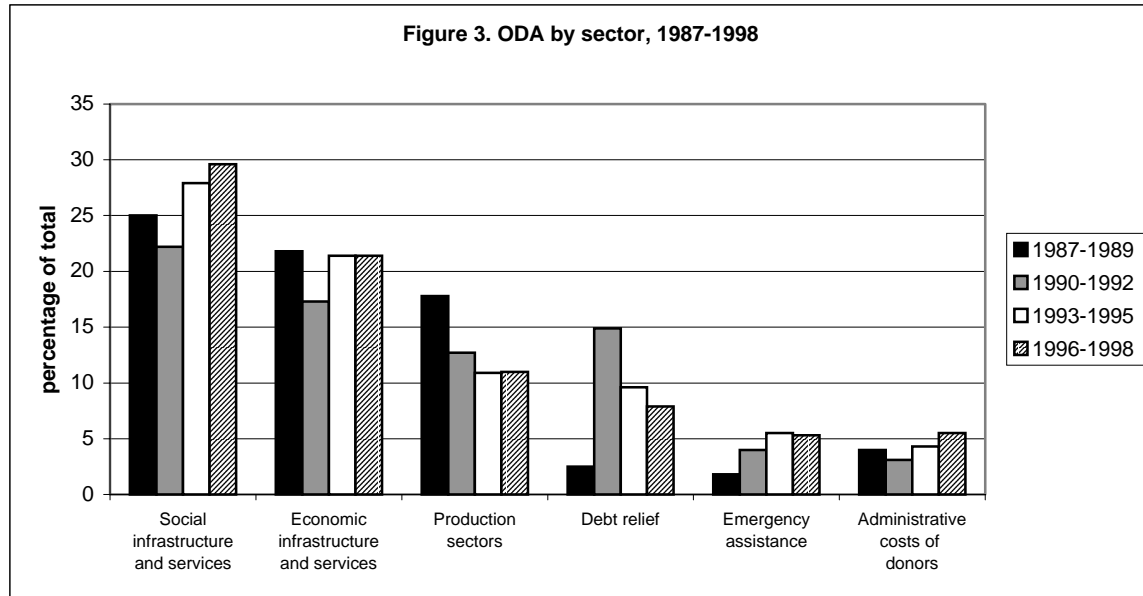
Source: OECD, DAC Statistical Reporting System, on-line databases.

^a From 1993, forgiveness of military debt has only been reportable as "Other Official Flows".

^b Including multisector, general programme assistance and unallocated ODA.

^c Including basic education, basic health, population programmes and water supply and sanitation. Disaggregated data for 1990-1992 are not available.

Together, IMF and the World Bank have introduced a new process to implement the greater focus on poverty reduction. Low-income countries—HIPCs first, but ultimately all countries borrowing from the PRGF and IDA—have to prepare "Poverty Reduction Strategy Papers" (PRSPs) in collaboration with the Fund and Bank. The papers are to be "country-driven", with emphasis on the participation of "civil society" in national dialogues that lead up to adoption of the PRSPs by the recipient government.



Source: OECD, DAC Statistical Reporting System, On-line Databases.

Although the views of all relevant stake-holders are to be taken into account, the PRSPs are likely to be influenced by the fact that they have to be approved by the Executive Boards of IMF and the World Bank in order to obtain balance-of-payments financing from the IMF and development support from the World Bank (and probably from bilateral donors, as well). In the past, some recipient governments have signed agreements that they would not be able, or did not intend, to implement fully, sometimes with the implicit recognition of the donor. The same may occur with the PRSPs. How these tensions are resolved will be a key determinant of the future of ODA.

The politics of aid

As indicated above, one reform strategy of bilateral donors has been to reduce the number of countries to which aid is given. Most donors are seeking to be significant players in some countries, rather than small players in many countries. Having larger resources to deploy in a country gives a donor's views more weight in negotiating programmes with a recipient and with the multilateral institutions in the country. This raises the donor's impact on the ground and the results of more intensely programmed assistance can serve as a showcase for the donor's aid principles, possibly influencing other members of the donor community. This implies that, within the bounds of cooperation in the DAC and among multilateral institutions, donors are competing in their efforts to influence policy-making in recipient countries.

At the same time, the donor community has pursued a reform strategy that seeks jointly to focus donor efforts more effectively and to build capacity for beneficiary-designed development policies that ODA donors would support. Donors have observed that there has often been limited implementation and maintenance of aid programmes after the initial phase of heavy donor involvement. Donors have also become increasingly

aware of the weaknesses in the conventional donor/recipient relationship. All donor/recipient beneficiaries, it is thus now stressed, should "own" their development programmes and strategies (as some have always done). All should have the capacity both to design their own proposals for aid programmes and to choose their partners from among interested donors.

"Ownership" and "partnership" have been advocated for decades. Equally long-lived is donor insistence on international oversight of the national development programmes that they are supporting, in particular through the monitoring of policy reforms negotiated with the multilateral institutions (conditionality), as well as standard auditing concerns. Despite the present emphasis on "ownership", there is hesitancy on the part of donors to cede control of aid programmes to recipients until they are confident that recipients' freely-made decisions would mimic those that the donors would make.

At the bottom of these questions of influence and control is a matter of limited trust in the face of budget intricacies and politics. At every level of government in every country, authorities seek to evade spending constraints. Budget offices are in constant contests with executive departments, administrations with legislatures and, by the same token, aid donors with recipients. On top of these considerations, corruption, unmentionable as recently as five years ago, is now explicitly considered to be a major impediment to development and an obstacle to development cooperation. In this light, assurances that aid will not fall into the wrong hands or be used for illegal purposes are being demanded by donors and are increasingly being provided by recipients.

IV. Building more effective partnerships

In addition to being a moral imperative, ODA continues to have a key role to play in the development process, particularly in low-income countries and in reducing poverty. If governments are to achieve the goals for 2015 agreed at the global conferences of the 1990s, at the Special Session of the General Assembly of June 2000 in Geneva and at the Millennium Summit of the General Assembly in September 2000, and if sustained and sustainable economic growth is to become the norm in all developing countries, substantially larger amounts of official development assistance (ODA) will be needed. Moreover, as manifested in these various international declarations, the case for ODA speaks to the values, beliefs and interests of the people in donor countries and their legislators. Yet, the mixed track record of 40 years of development aid, especially among many of the countries still receiving it, has soured many donors on maintaining, let alone increasing, their aid efforts. Although bilateral and multilateral development agencies are taking steps to make their aid programmes more efficient and responsive to the needs of developing countries, this will not obviate the need for an increased volume of ODA, particularly for the poorest countries and segments of the population. At the same time, this quantitative goal needs to be complemented by further institutional reforms to increase transparency and dialogue at the bilateral and multilateral levels.

Recommendations

- **Recommendation one** is that, as part of the effort to reduce poverty and achieve the other goals enshrined in the Millennium Declaration, individual donor countries whose ODA is less than 0.7 per cent of GNP should make every effort to increase their ODA to that level by a specified date and, within that amount, to allocate 0.15 - 0.2 per cent of GNP to the least developed countries. Above all, such countries should ensure that there are no reductions in their future ODA flows; other donor countries should endeavour to do likewise.
- **Recommendation two** is that an ODA “users club” should be established. The role of the ODA “users’ club” (perhaps with regional chapters) would be for members to help each other to strengthen national capacities to select and use aid more effectively, to evolve standards for their own aid operations, and to develop proposals to present to donors.² Such an arrangement would contribute to strengthening countries’ ownership of their aid processes. DAC could invite users’ club members to DAC meetings and to participate in DAC reviews of donors.

This proposal should raise transparency and build confidence within recipient governments. However, even more is required in open societies, as reflected in the growing interest in the international community in bringing "civil society" into the aid relationship. Governments and multilateral organizations are increasingly sensitive and responsive to public opinion. Bringing more of the aid relationship into the open would serve as "discipline" for raising the commitment of donors and recipients, strengthening mutual confidence and ensuring greater aid effectiveness. For some governments, this would entail a further step towards public accountability and transparency. Political ownership of aid programmes by recipient governments is more likely if there is genuine public debate of the programmes.

- **Recommendation three** is for an acceleration in the process of opening up international (donor) reviews of recipients' development programmes, including Consultative Groups and Round Tables. All these meetings should take place in the recipient countries and be open to observation by non-official stakeholders, including the domestic and international press. A United Nations forum should review practices in various types of aid consortia meetings and parallel events for non-state actors and make recommendations regarding standards for openness and public participation.

² Commonwealth Finance Ministers agreed at their meeting in Malta, 19-21 September 2000, to consider establishing a similar forum, namely one comprised mainly of HIPC countries, to “submit reports, on a regular basis, to the IMF and World Bank, on the progress in implementing the Initiative and, when necessary, suggest changes to the Initiative based on the experience of forum members”.

In addition to strengthening the coherence and political commitment to ODA programmes at the country level, it is also important to realize global development goals and commitments at the sectoral level, most of which emanated from the United Nations conferences of the 1990s. There are already mechanisms for review and appraisal of progress towards realizing these commitments, primarily the reviews of the outcomes of the conferences in the General Assembly. The most difficult discussions in these reviews are whether financial resource mobilization has met explicit or implicit expectations. The discussions have deeply frustrated many countries. A mechanism in which donors and recipients would have more confidence—and which could thus be more effective—is needed.

- **Recommendation four** is that the United Nations, building on the on-going resource mobilization efforts of the United Nations system, including those of the funds and programmes, establish a mechanism at which international experts would discuss the national and international resource costs of implementing the programmes of action of the United Nations conferences. The object of the mechanism would be to identify the most urgent funding needs (for example, to remove critical bottlenecks) and funding opportunities. Participants might be drawn from the United Nations system, including the UN funds and programmes and the World Bank, and other organizations and institutions. The mechanism could report jointly to the Secretary-General and the President of the World Bank, who would place the findings before their respective policy-making bodies for action.

Finally, there is concept and measurement of ODA. The content of ODA expenditures has changed over time. This might be seen in part as a statistical issue, but it is also a policy matter. The international community should not lose sight of the long-standing agreement that ODA be primarily to promote the development of the developing countries.

- **Recommendation five** is that the United Nations give guidance at a political level on what should be included and excluded from the concept of ODA. ODA should be exclusively for development purposes. Expenditures that involve concessional funding but that are not of a developmental nature and are primarily not ODA should not be included in ODA.

One such case is emergency humanitarian assistance. It should not be counted as ODA, nor should funds for humanitarian aid come at the expense of ODA programmes or out of their budgets. Similarly, the practice of classifying debt forgiveness as ODA should be reconsidered. The argument that debt forgiveness frees for developmental purposes resources that would otherwise be used to repay a debt obligation assumes that the debt is serviceable. If the debt is already non-performing (as is frequently the case if it is being forgiven), debt forgiveness is only an accounting exercise: it does not result in additional resources and therefore should not be considered ODA.

Another example is international public financing of global public goods in developing countries. Some of this expenditure (for example, on health education and disease prevention) enhances national development prospects and should be included in ODA. However, the developing country production of those global public goods whose supply is not part and parcel of development should not be financed from, or classified as, ODA. Instead, donors should make their contributions to global public goods from other categories of financing. Above all, the principle of additionality should be respected, whereby new goals should be funded by additional resources.

The overarching aim is to protect ODA funds from being allocated to valuable but different types of international cooperation. The DAC implicitly agreed to this principle when it decided that assistance to economies in transition would be treated separately in its statistics. This may not have affected the level of expenditures by donor governments in the transition economies, but the statistical treatment made ODA expenditure patterns transparent and highlighted the difficulties into which ODA had fallen. Further clarity of this sort is warranted in its own right and should be helpful in rebuilding a strong global constituency for additional financial resources for official development assistance.