Briefing note 2

Post-Monterrey development aid report card

After the Financing for Development summit, development assistance increased by 5 per cent. Monterrey pledges, if fulfilled, would entail a 31 per cent increase by 2006. But this still falls short of estimated Millennium Development Goal requirements. Proposals for ways to deliver more and better aid are under discussion.

At the heart of the Monterrey Consensus, adopted at the International Conference on Financing for Development in March 2002, was agreement that everyone involved in financial cooperation for development – donor governments, international institutions and recipient governments – would work to make official development assistance (ODA) more effective, and that donor governments would substantially increase the amounts of ODA.

A year and a half later, there is evidence that these were more than rhetorical commitments.

Following a decade of steady decline or stagnation, development assistance rose to $57 billion in 2002, up by 4.8 per cent from 2001 after taking inflation and exchange rates into account. As a share of donor countries' gross national income (GNI), ODA hit 0.23 per cent in 2002, from the record low of 0.22 per cent in each of the previous three years. The rise in ODA included increases by Canada, the European Union, Norway, Switzerland and the United States (see amounts in table below).

EU member countries pledged to increase their ODA to 0.39 per cent of GNI by 2006, as a step towards reaching the UN target of 0.7 per cent. This should result in an extra €9 billion annually from 2006 and beyond.

In the case of the US, whose aid was only 0.12 per cent of GNI in 2002, ODA would increase by $5 billion by 2006, under the auspices of a new Millennium Challenge Account. This would make for an increase of nearly 50 per cent over the 2001 level of just slightly above $10 billion. The funds would be available for use by developing countries showing a strong commitment to good governance, health and education as well as to promoting enterprise development and entrepreneurship. Earlier this year, the US Congress took steps to authorize an independent account for this purpose and appropriate funds for it in fiscal year 2004. The Administration has proposed an initial allocation to the Millennium Challenge Account of $1.3 billion for fiscal 2004, which is under discussion in Congress.

The prospect is that ODA worldwide will rise by some 31 per cent – about $16 billion a year – to a ratio of 0.26 per cent of GNI in 2006. This would be a significant gain, but would fall far short of the 0.33 per cent ratio that was consistently achieved until 1992.

Financing the future

It is estimated that an additional $50 billion a year in ODA above the 2000-2001 level of roughly $50 billion is required to meet Millennium Development Goal targets in the areas of health, education, access to water and reduction of extreme poverty. This calculation was arrived at by the World Bank and confirmed by a blue-ribbon panel appointed by UN Secretary-General Kofi Annan in the run-up to the Monterrey Summit and chaired by former Mexican President Ernesto Zedillo.

One way to narrow the difference is to widen the range of countries providing assistance. This process is already under way, as indicated in the Secretary-General's report to the General Assembly High-Level Dialogue on Financing for Development. Brazil, China, India, the Republic of Korea, South Africa and Tunisia are among the countries that have recently begun to provide development assistance.

Most of the funding, however, will have to be provided by the richest countries, given the size of their economies.

At its 22 September 2003 meeting, the joint International Monetary Fund and World Bank Development Committee requested the Bank, working with the Fund, to examine the merits of various policy options to raise ODA substantially. Options include a proposal of the United Kingdom, whereby funds would be borrowed on capital markets and repaid out of future aid budgets. The Bank is to report its assessment in April 2004.

Qualitative improvement

Another way to strengthen the impact of ODA, and to build political support for its deployment, is to improve its efficacy. The Secretary-General's report to the General Assembly finds progress on a bigger bang for each development buck on several fronts.

The first is focus. Donor country aid policies are concentrating more, not just on the poorest countries, but also on poor countries judged likely to better use their assistance, as evidenced by the design of their national poverty reduction strategies. They are also targeting aid to fulfil Millennium Development Goal targets. It is unclear so far, however, to what degree actual aid flows have or will follow the new policy priorities.

Another area of advance is in streamlining bureaucratic requirements and harmonizing the application and reporting procedures of all the donors and agencies operating in any one country. Strong commitments have been undertaken to do so, most recently at the High-Level Forum on Harmonization in Rome in February 2003, and some agencies have announced new policies on transparency and accountability.

The Rome meeting also noted that aid effectiveness sometimes is improved when provided in tandem with budget, sector or balance-of-payments support.

The practice of "tying" aid, one of the more egregious flaws in aid programmes, has come under attack. Tied aid in effect commits recipient countries to purchasing services and/or materiel from the donor country, whether or not these are the most appropriate or affordable. In some cases, this results in recipient countries repaying ODA loans after overpaying for services which do not fulfil the original objective, i.e., a net loss for the recipient and a gain for the donor's domestic businesses. The Development Assistance Committee of the Organization for Economic Cooperation and Development (whose members are the world's major donors) agreed in 2001 that tied aid is incompatible with effective partnership. So did the UN Conference on the Least Developed Countries, taking place in Brussels the same year. As a result, donors have untied several categories of aid to the least developed countries, but additional action is called for.

Status of ODA commitments and delivery in 2002 [a]

Countries that have reached 0.7%		ODA in 2002 ($ million)	ODA/GNI (per cent)
1. With timeframes to further reach 1%	• Luxembourg to reach 1% by 2005	143	0.78
	• Norway to reach 1% by 2005	1746	0.91
	• Sweden to reach 1% by 2006	1754	0.74
2. With no further commitments	• Denmark	1632	0.96
	• Netherlands	3377	0.82
Countries that have yet to reach 0.7%			
1. With timeframes to reach 0.7%	• Belgium to reach 0.7% by 2010	1061	0.42
	• Finland to reach 0.4% by 2007 and 0.7% by 2010	466	0.35
	• France to reach 0.5% by 2007 and 0.7% in 2012	5182	0.36
	• Ireland to reach 0.45% by 2002 and 0.7% by 2007	397	0.41
2. With timeframes only for interim targets	• United Kingdom to reach 0.4% by 2005-2006	4749	0.30
	Rest of EU Countries to reach 0.33% by 2006		
	• Austria	475	0.23
	• Germany	5359	0.27
	• Greece	295	0.22
	• Italy	2313	0.20
	• Portugal	282	0.24
	• Spain	1608	0.25
	Other countries:		
	• Australia to increase ODA by 3% (real terms) by 2002-2003	962	0.25
	• Canada to increase ODA budget by 8% annually so as to double its ODA by 2010	2013	0.28
	• Switzerland to increase ODA to 0.4% by 2010	933	0.32
	• United States to increase ODA to 0.15% by 2006	12900	0.12
3. With no timeframes for 0.7% nor interim targets	• New Zealand to review future level of ODA	124	0.23
	• Japan to review future level of ODA	9220	0.23

Source: "Implementation and follow-up to commitments and agreements made at the International Conference on Financing for Development," Report of the Secretary-General (A/58/216).

[a] Commitments and performance expressed in terms of percentage of gross national income (GNI) devoted to official development assistance (ODA).

Published by the United Nations Department of Public Information — DPI/2330B — October 2003