working paper

Rethinking ODA

Towards a renewal of Official Development Assistance

A Background Paper for the United Nations Financing for Development Process

by Jens Martens

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GLOBAL POLICY FORUM

HEINRICH BÖLL STIFTUNG

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This paper has been prepared in conjunction with a roundtable on *"The Future of ODA"* held on December 4, 2000, in Berlin by **Global Policy Forum**, **WEED**, and the **Heinrich-Boell-Foundation**. The paper provides background and recommendations for the intergovernmental negotiations of the United Nations International Conference on "Financing for Development," to be held in 2002. In particular, it addresses the agenda item "Increasing International Financial Cooperation for Development through, inter alia, Official Development Assistance". We are grateful to the participants of the roundtable who contributed to the development of this paper.

This paper is the second in a series of 4 background papers covering central issues of the Financing for Development agenda. The other papers are on:

- **Making Corporations Accountable**
- **Global Taxes for Global Priorities**
- **Governance of the International System of Development Finance**

INTRODUCTION

A growing number of critics around the world call for radical reform in Official Development Assistance (ODA). They have raised many serious issues that cannot be ignored:

First, critics point to the huge gap between the internationally agreed **quantitative ODA targets** and the donors' payment record. Clearly, there is a wide gulf between rhetoric and reality of assistance. In 2000 alone, developing countries lost about $116 billion because donors failed to meet the internationally agreed ODA target of 0.7 per cent of Gross National Product (GNP).

A *second* issue concerns the **definition and measurement of ODA**. Governments now use the term ODA to cover far more than the original OECD definition, sowing doubt about how much of today's ODA is "real" assistance. Many critics also find fault with the OECD criteria, which include not only government grants but also the full value of concessional loans with a grant element of at least 25 per cent. An alternative approach includes only the grant share of these loans, resulting in a significantly lower figure for what is called „Effective Development Assistance" (EDA). Some critics go farther still, questioning the logic of the 0.7 per cent Target itself. They insist that instead of basing the assistance target on the GNP of the donors, the UN should define need-based targets that take into account the development requirements of the recipient countries.

A third important issue is the **quality of assistance**, especially aid effectiveness. A 1998 study by the World Bank titled *Assessing Aid* triggered a recent round of debate on this topic. The study insists on a "good policy environment" as a precondition for effective development assistance. This has led to the controversial proposal that assistance should be selective - scarce ODA resources should be focused on those countries with both high poverty and economic policies approved by the Bank. A broader debate about "effectiveness" also touches on conflict-laden issues between the "ownership" of development programs by recipient countries and the "conditionality" imposed by donors. It includes a heated discussion about abandoning project funding in favour of programme funding and budget support. NGOs raise another issue, insisting that aid must be "untied" if it is to become truly effective and organized around recipient needs.

A fourth issue focuses on **fundamental questions** about the role and future of ODA. Many ask whether official capital flows still can have a perceptible impact on development, given economic globalisation and growing private foreign investments. Some ask whether ODA loans simply worsen the debt crisis. Other basic questions arise: Won't redefining development policy as "global structural policy," which Germany has done, result in a complete departure from traditional development assistance? Should development funds be used more for the provision of Global Public Goods in future, or would this be contrary to the interests of the countries in the South? There has already been talk of the "death" of traditional ODA. Some now pin their hopes entirely on new forms of resource transfer between North and South such as proposals for internationally harmonised taxes, above all a *Currency Transaction Tax or Tobin Tax.*[1]

Such wide-ranging discussion on the crisis of ODA and the need for reform is not new. In the late sixties, the Pearson Report spoke of an "acute crisis" in development assistance. Many times since then, critics have questioned the principles of development policy. In 1976, Julius Nyerere insisted that the entire concept of aid was wrong. While it mitigated problems, he said, it was not a successful means to overcome poverty throughout the world. And it had the fundamental flaw of reducing the poor to the status of beggars. [2]

A permanent bone of contention in North-South negotiations on all subjects has always been the level of aid or official resource flows. These discussions have now changed somewhat, because of fundamental changes in the global system. Western capitalism no longer faces a challenger from the East, transnational private investments have grown rapidly along with worldwide liberalisation and deregulation, and global problems have intensified (destruction of the environment, armed conflicts in and between states, HIV-Aids, etc.). Against this background, the critics have increasingly called for a new development paradigm – an entirely new framework for international development financing.

A number of governments and agencies have proposed "poverty eradication" as a new leitmotif for co-operation between North and South. Though the idea is scarcely new, it has quickly won a leading place in aid discourse. Only recently, Great Britain and Germany passed national action programmes to combat poverty,[3] the EU and the ACP

[1] See the WEED working paper by Wahl/Waldow, 2001, for more details.

[2] Taken from Ansgar Skriver: Das Konzept der Hilfe ist falsch. Wuppertal, 1977, p. 97.

[3] Cf. Bundesministerium für Wirtschaftliche Zusammenarbeit und Entwicklung (BMZ), April 2001 and UK Secretary of State for Interna-

states assigned poverty eradication a key role in their new partnership agreement (the Cotonou Agreement), and the World Bank is now making debt reduction measures for the highly indebted poorest countries (HIPC) conditional on their compilation of *Poverty Reduction Strategy Papers (PRSP).* In 1999, even the IMF renamed its *Enhanced Structural Adjustment Facility (ESAF)* a *Poverty Reduction and Growth Facility (PRGF)*. At the UN's Millennium Summit in September 2000, Heads of State and Government committed themselves to a number of International Development Targets to be reached by 2015, including halving the percentage of people living in absolute poverty, i.e. on less than one US$ a day.

This (new) development priority easily won a broad consensus. No one disagrees with eradicating poverty as long as it remains an empty concept, to be filled with miscellaneous political banalities. As soon as policy makers consider concrete measures and serious means to reach the goal, their consensus is be bound to end quickly. Inevitably a discussion about the (re-) distribution of resources would arise, a discussion bound to result in conflict. Norwegian scholar Else Øyen pointed this out in an essay on the policies of poverty alleviation:

> **No** *social problem can be reduced (and certainly not eradicated) without some kind of distribution or redistribution of economic, political or social resources.* **All** *kinds of distribution and redistribution have a built-in conflict potential, no matter how trivial the distribution or redistribution seems to be.*[4]

Therefore, poverty alleviation cannot be separated from a conflict over resources. This brings us back to the issue of financial flows between the North and the South and the future of ODA.

tional Development, December 2000.

[4] Øyen, p. 460.

The International Conference of the United Nations on Financing for Development, to be held in Mexico in 2002, offers governments an opportunity to grapple with this thorny question. Once they have reached an agreement on a minimum set of international development goals, they will have to reach a consensus on providing the resources. The current framework for the talks warrants a fundamental debate. The official agenda includes a discussion on "Increasing International Financial Cooperation for Development through, *inter alia*, Official Development Assistance." The following topics will be considered:

- Volume of Official Development Assistance
- Aid Effectiveness and Efficiency
- Global Public Goods and Services
- Other Innovative Sources of Financing

This paper, prepared as input to the FfD process, will consider current trends and debates on the quantity and quality of ODA and it will make a number of policy recommendations for the FfD Conference.[5]

[5] We will be publishing additional working papers on the other two thematic fields of "Global Public Goods" and "Innovative Sources of Financing" in the run-up to the FfD Conference and the Rio+10 Summit in 2002.

I. STAGNATION IN ODA

Official financial flows from the North to the South have fallen to a low level. According to the OECD, net ODA as a share of Gross National Product in the OECD countries was 0.22 percent in 2000 – the same level as the all-time low of 1997[6]. In absolute terms, ODA in 2000 stood at $53.1 billion, compared to $56.4 billion in the previous year (cf. Table 1).[7]

A small rise in 1999 didn't mark a fundamental change in the long downward trend of ODA. The 1998-1999 increase mainly resulted from a temporary increase in Japanese development assistance during the Asian financial crisis. Within a single year, Japanese ODA grew from $10.6 billion to $15.3 billion, but in 2000 it fell back to $13.1 billion.

Recently, some countries have announced that they will increase their ODA over the next few years, and they have set partial timebound targets to reach this goal. For example, in a *White Paper* on international co-operation, the UK government pledges to raise development co-operation performance to 0.33 percent of GNP by 2003/2004 and to continue to steadily increase it thereafter.[8] The Report of the UN Secretary-General to the Preparatory Committee (Prep-Com) of the FfD Conference also includes a call for a "defined time frame" for increases of ODA in real terms.[9] Even the Managing Director of the IMF, Horst Köhler, recently spoke in favour of a clear schedule to reach the 0.7 per cent Target. He called the present level a "scandal" and insisted that:

> *The UN goal has to be reached within ten to fifteen years. I regard this as a must. The political pledges to combat poverty ought to be measured against the yardstick of the 0.7 percent target. I am astonished that on the one hand, the advantages of globalisation are being increasingly recognised, while on the other, one fails to see recognition that the affluence of the industrialised countries cannot be secured without concrete solidarity with the poor parts of the world.*[10]

Stagnation in ODA has particularly grave consequences for the poorest countries, which rely especially on official financial flows.[11] Between 1988/89 and 1999 ODA flows to the Least Developed Countries (LDCs) dropped from $11.3 billion to $10.7 billion a year, while their share of total ODA flows fell from 24 per cent to 19 per cent in the same period.[12] This means that an ever-smaller share of the shrinking development funds flows to the countries that need them most. This trend obviously runs contrary to internationally proclaimed anti-poverty goals.

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[6] OECD press release from 25 April 2001.

[7] These figures represent the sum of bilateral ODA and the contributions to multilateral organisations (UN, EC, IDA and regional development banks), which are classified as ODA. In contrast, real ODA flows to developing countries in 1999 was just 51.3 billion US$. The difference was due to contributions ***to*** multilateral organisations comprising 18.5 billion US$, while ODA disbursments ***from*** multilateral organisations only amounted to 13.4 billion US$.

[8] UK Secretary of State for International Development, p. 84.

[9] UN Dok. A/AC.257/12, para. 92.

[10] Horst Köhler: „Panik hilft niemandem". In: DIE ZEIT, 22nd March 2001, p. 24.

[11] The net ODA share of the Gross National Product of all developing countries was just 0.6 % in 1998, but ODA is significantly more important for the national income of the poorer countries. Its share of GNP of the LDCs was 8.4 % in 1998, and in individual countries, it was even significantly higher (e.g. in Guinea-Bissau 50.5 %, Nicaragua 30.2 %, Mosambique 27.9 %, Laos 21.8 %) (cf. UNDP: Human Development Report 2000, Table 18).

[12] OECD 2001, Table 31.

Table 1. Total Net Resource Flows from DAC Member Countries and Multilateral Agencies to Aid

	Current $ billion								Per cent of total		
	1992	1993	1994	1995	1996	1997	1998	1999 (p)	1992	1995	1999 (p)
I. OFFICIAL DEVELOPMENT FINANCE (ODF)	**78.3**	**82.4**	**84.5**	**87.6**	**73.5**	**75.3**	**88.4**	**84.9**	**49.1**	**33.0**	**34.2**
1. Official development assistance (ODA) (a)	58.3	55.5	59.6	59.1	55.8	47.7	49.7	51.3	36.6	22.3	20.7
of which: Bilateral	41.4	39.4	41.3	40.6	39.1	32.4	35.2	37.9	25.9	15.3	15.3
Multilateral	17.0	16.1	18.3	18.4	16.7	15.3	14.5	13.4	10.6	7.0	5.4
2. Official Aid (OA)	6.0	6.0	6.9	8.4	5.6	5.6	7.0	7.6	3.8	3.2	3.0
of which: Bilateral	5.2	5.2	5.5	7.1	4.0	4.0	4.5	4.7	3.3	2.7	1.9
Multilateral	0.8	0.7	1.3	1.3	1.5	1.6	2.5	2.9	0.5	0.5	1.2
3. Other ODF	14.0	21.0	18.1	20.1	12.2	22.0	31.7	26.1	8.8	7.6	10.5
of which: Bilateral	8.0	11.4	12.2	14.0	5.7	5.9	12.8	10.4	5.0	5.3	4.2
Multilateral	5.9	9.6	5.8	6.1	6.5	16.0	18.9	15.6	3.7	2.3	6.3
II. TOTAL EXPORT CREDITS	**1.0**	**-3.0**	**6.3**	**5.6**	**4.0**	**4.8**	**8.3**	**4.0**	**0.6**	**2.1**	**1.6**
III. PRIVATE FLOWS	**80.1**	**86.3**	**134.7**	**172.0**	**276.2**	**241.3**	**134.0**	**159.2**	**50.2**	**64.9**	**64.2**
1. Direct investment (DAC)	30.2	41.6	52.1	59.6	68.9	102.3	119.8	131.8	19.0	22.5	53.2
of which: to offshore centres	9.5	9.4	10.8	6.3	16.7	19.1	20.3	30.0	6.0	2.4	12.1
2. International bank lending (b)	34.6	4.8	32.1	76.9	86.0	12.0	-80.4	-75.5	21.7	29.0	-30.4
of which: Short-term	25.0	7.0	44.0	40.0	40.0	12.0	-74.2	-38.4	15.7	15.1	-15.5
3. Total bond lending	7.5	28.7	32.0	26.0	81.9	84.8	40.6	36.7	4.7	9.8	14.8
4. Other (including equities) (c)	1.8	5.5	12.5	3.5	33.8	37.0	48.4	59.4	1.1	1.3	24.0
5. Grants by non-governmental organisations	6.0	5.7	6.0	6.0	5.6	5.2	5.6	6.7	3.8	2.3	2.7
TOTAL NET RESOURCE FLOWS (I+II+III)	**159.4**	**165.7**	**225.5**	**265.1**	**353.7**	**321.4**	**230.8**	**248.0**	**100.0**	**100.0**	**100.0**
Memorandum items (not included):											
Interest paid by aid recipients (d)	-68.0	-64.5	-83.2	-112.3	-108.4	-118.4	-124.1	-115.2			
Net Use of IMF Credit (e)	0.8	3.3	0.6	15.6	0.3	14.4	18.8	-12.8			
Non-DAC donors (ODA/OA)	1.1	1.3	1.0	0.8	0.8	0.7	0.6	0.4			
For cross reference											
Total DAC net ODA (a)(f)	60.8	56.5	59.2	58.9	55.6	48.5	52.1	56.4			
of which: Bilateral grants	34.8	33.4	35.2	36.2	36.5	31.3	32.5	33.9			

a) Excluding forgiveness of non-ODA debt for the year 1992.
b) Excluding bond lending by banks (item III.3.), and guaranteed financial credits (included in II).
c) Incomplete reporting from several DAC countries (incl. France, the United Kingdom and the United States). Includes Japan from 1996.
d) Excluding dividends.
e) Non-concessional flows from the IMF General Resources Account.
f) Comprises bilateral ODA as above + **contributions to** multilateral org. in place of ODA **disbursements from** multil. org. shown above.
p) Provisional.

Source: OECD DAC 2001

2. THE MILLENNIUM TARGETS

On 8 September 2000 Heads of State and Government approved the Millennium Declaration at the United Nations in New York. The Declaration included a set of International Development Targets (cf. Box), most of which had been agreed at the World Conferences of the nineties and summarised by the Development Committee of the OECD in its 1996 Strategy Paper *Shaping the 21st Century*. The commitment by world leaders to these "2015 targets" lends important political weight to international development. National and international institutions can draw on these commitments to claim increased resources and backing for their efforts to combat poverty.

Unfortunately, a small number of quantitative development targets do not provide an adequate basis for development – for at least two important reasons:

A narrow understanding of development. A policy based on quantitative targets, especially in poverty alleviation and basic social services, may appeal to the public, but it suggests official withdrawal from a more comprehensive approach such as sustainable development. Targets do not necessarily affect structural issues like income distribution, nor do they address the broad economic and environmental conditions of development.

Critics especially dislike the main target – reducing by half the number of people whose income is less than $1 a day. On the one hand, the target is too weak, for even when met it would leave almost 900 million people in absolute poverty in 2015.[13] On the other hand, the $1 a day poverty threshold, introduced by the World Bank in 1990 and unchanged since, is itself very problematical. This indicator suggests that absolute poverty would be solved as soon as the income of all the poor has risen to $1.01 a day, a very dubious proposition, since more people every day live in expensive urban centers.[14]

The United Nations Millennium Targets

"We resolve further:

- To halve, by the year 2015, the proportion of the world's people whose income is less than one dollar a day and the proportion of people who suffer from hunger and, by the same date, to halve the proportion of people who are unable to reach or to afford safe drinking water.
- To ensure that, by the same date, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling and that girls and boys will have equal access to all levels of education.
- By the same date, to have reduced maternal mortality by three quarters, and under-five child mortality by two thirds, of their current rates.
- To have, by then, halted, and begun to reverse, the spread of HIV/AIDS, the scourge of malaria and other major diseases that afflict humanity.
- To provide special assistance to children orphaned by HIV/AIDS.
- By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers as proposed in the "Cities Without Slums" initiative." (UN Doc. A/RES/55/2, para. 19)

The North eludes Responsibility. The Millennium Targets refer almost exclusively to development initiatives in the South. This passes the main responsibility to governments of the South, a tendency evident in a joint booklet of the IMF, the OECD, the World Bank and the UN, titled *A Better World for All* which was released at the Geneva Special Session of the UN General Assembly on Social Development in June 2000. The publication caused outrage because it accused developing country governments of a "legacy of poor policies and poor performance,"[15] and it only mentioned the responsibility of the North, including the 0.7 per cent Target, in the small print.

In response, many NGOs demanded binding commitments and a more balanced allocation of responsibilities in combating poverty. The international NGO network Social Watch proposed a legally binding **Anti Poverty Convention**. The convention would incorporate the international development targets and it would also define the responsibility of the North in reaching the targets, including provision of the necessary financial means. The convention would be based on existing legal instruments such as the International Covenant on Economic, Social and Cultural Rights. The International Council on Social Welfare (ICSW) follows a similar approach with its proposed **Anti Poverty Pact**. The ICSW sees a politically binding agreement, rather than a legally binding instrument, as more practically feasible.[16] At the June 2000

13 Cf. IMF et. al., p.7.

14 There are more detailed critiques of the 1 $/day indicator in Kanbur/Squire, pp.4 and Vandemoortele, pp. 4.

15 IMF et al., p. 22.

16 Cf. ICSW, pp. 18.

Special Session on Social Development, Germany's development minister Heidemarie Wieczorek-Zeul advocated such an approach. In a speech a few months earlier, she had called for reducing the gap between poor and rich by a "reliable international financing mechanism". She said:

> *Countries that are demonstrably promoting reforms benefiting human development ought to be able to count on support that the international donor community has made a binding – and I stress, a binding – commitment to give.*[17]

Little now remains after such urgent official statements and calls for action. The only proposal still standing is an **Anti Poverty Campaign** to collect and disseminate information on progress made, and resource requirements for, the Millennium Targets.[18]

A recent study on the 20/20 initiative estimated the funds required to implement some of the international Development Targets[19]. According to the study's calculations, $206-216 billion a year would be required to provide a minimum of basic social services (primary education, basic health care and food, reproductive health, drinking water supply and sanitation). Governments actually spent about $136 billion towards the end of the nineties, leaving a yearly gap of $70-80 billion.[20] To narrow the gap, governments would have to redistribute their budgets – both in the developing countries and the ODA budgets of the industrialised countries – in accordance with the 20/20 guidelines.[21] However, industrialised countries are far from the goal. An OECD survey concludes that bilateral and multilateral funds for basic social services in 1997 and 1998 accounted for a mere 11 per cent on average of ODA flows assignable to sectors. German ODA allocated just 11 per cent to basic social services in this period as well, placing the country at the lower middle of all OECD states.

[17] BMZ Press Release 10/2000 of the 12th February 2000.

[18] In the Action Programme of the Special Session of the UN General Assembly on Social Development in Geneva, the governments announced a world-wide campaign against poverty (UN Doc. A/RES/S-24/2 of the 15th December 2000, para. 155), in the context of the FfD negotiations, the UN Secretary General proposed a campaign for the Millennium Development Targets (UN Doc. A/AC.257/12 of 18 December 2000, para. 91).

[19] Cf. UNDP et. al., 1998.

[20] UNDP et. al., p. 21.

[21] The 20/20 Initiative calls on donor countries to spend at least 20 % of ODA and the recipient countries at least 20 % of their government expenditure on providing basic social services.

3. THE MEASURE OF ASSISTANCE

Broadning the Definition of ODA

Not only did official resource flows from the North to the South decline considerably over the nineties, but they were also used for an ever widening range of tasks. The low level of development expenditure on basic social services and shrinking ODA funds for the poorest countries suggest that ODA is flowing increasingly into other sectors and regions. This leads us to ask what the label "ODA" actually now covers and how much of what countries declare as "development assistance" really fits the original meaning of the OECD definition.

Kunibert Raffer of the University of Vienna shows how governments have brought a variety of public expenditures under the rubric of ODA over the past two decades, enabling them to considerably weaken the traditional OECD definition. Raffer demonstrates that donor governments have included the cost of development administration, education costs for students from the South, emergency and disaster aid (which grew rapidly throughout the nineties), and cancellation of debts.[22] Governments also classified financial assistance for the countries of former Yugoslavia as ODA,[23] and they included government spending on refugees during the first year after their arrival in one of the donor countries.

The United States even tried to classify military debt cancellations as ODA, proposing its cancellation of Egyptian military debt after the 1991 Gulf War. However, the OECD Development Assistance Committee ruled that military assistance would continue to be excluded from the definition of ODA, "in deference to concerns expressed over public opinion impacts."[24]

By labelling more and more fields of activity "Official Development Assistance," governments have masked the drastic decline of ODA. According to Raffer's calculations ODA flows between 1990 and 1994 would have been 35 to 42 per cent lower if the original definition of ODA had been strictly applied.[25]

The OECD refers to financial assistance for the Central and Eastern European countries and six of the New Independent States of the former Soviet Union as Official Aid (OA), a sum that is not part of ODA. So if a government raises its development assistance budget, it is not necessarily increasing ODA – a subtle detail that is frequently overlooked. When the UK government raised its target of development assistance to 0.33 per cent of GNP by 2003/2004 it referred not to ODA but to Development Assistance as a whole, i.e. to the sum of ODA and OA.[26]

Trans-border issues such as environmental and public health problems have added another set of expenses to traditional ODA budgets. Today, governments are allocating a growing share of official development funds not for specific national development requirements of the countries in the South but to finance **Global Public Goods (GPGs)** such as the protection of the ozone layer, staving off global financial crises or promoting international security. According to reliable estimates, governments are spending at least 15 per cent of ODA on providing GPGs rather than for development assistance in the narrower sense.[27] For this reason, Inge Kaul (UNDP) and others have proposed that a distinction be made between conventional Development Assistance (ODA (C)) and a new budget item, ODA (G), for the financing of Global Public Goods.[28] She urges that governments make ODA (G) funds available from other budgets (environment, health, etc.) or that the funds be raised via innovative financing mechanisms.

In sum, the term ODA refers to an increasingly wide range of tasks, and as a result far fewer resources are available for core development purposes.

From ODA to EDA?

The World Bank has produced a fundamental critique of the OECD definition of Official Development Assistance.[29] The OECD classifies as ODA all public grants awarded to developing countries as well as loans with a grant element of at least 25 per cent. Charles C. Chang and associates question this approach in a World Bank paper. They argue that by putting grants and loans on a par the OECD overrates the loans' aid content. Although the loans only contain a grant element of 25 per

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[22] Cf. Raffer, September 1999, p. 3.

[23] One of the reasons why the German government's development budget has grown from 7.102 billion DM (target 2000) to 7.427 billion DM (target 2001) is because in 2001, it contains funds for the Stability Pact on South Eastern Europe to the tune of 200 million DM that was entered as a different item last year (General Finance Administration – departmental budget 60).

[24] Raffer, September 1999, p. 9.

[25] Raffer, September 1999, p. 6.

[26] Cf. UK Secretary of State for International Development, para 282 (Footnote 18).

[27] Cf. UN Doc. A/AC.257/12, para. 108 and Worldbank, 2001, p. 111ff. In a survey, Kunibert Raffer even arrives at the result that at least 40% of ODA has been used for GPGs over the last few years (Raffer, August 1999, p. 15).

[28] Cf. Kaul et al.,1999, p. 495. ODA(C) = ODA(Country).

[29] Cf. Chang et al., 1998.

cent (and only represent such partial costs for the donor), they count as 100 percent "aid." On the other hand, loans with a grant element below 25 per cent drop out of the ODA definition altogether. Chang and associates also object to the way governments calculate the grant element, with a fixed interest rate of ten percent being taken as a reference value rather than the actual interest rate. All this distorts estimates of real development assistance and it tends to overstate the aid flows.

The Bank experts suggest a new approach to measurement of Official Development Assistance that they call Effective Development Assistance (EDA). EDA consists exclusively of grants and the grant *shares* of government loans, which are calculated on a basis of the actual interest rates. In a comprehensive empirical survey of official finance transfer to 133 developing countries between 1975 and 1995, Chang and associates concluded that the traditional measurement of net ODA has overstated the real assistance flows by 25 to 30 per cent over the last few years.[30]

Farewell to the 0.7 % Target

Given the weaknesses of the current definition of ODA, is it sensible to stick to the 0.7 per cent Target as a guideline for North-South official resource flows? After all, the goal was set in 1970 for a clearer set of development tasks, in a smaller number of countries and in far more favourable conditions of the world economy (better terms of trade for the developing countries, smaller foreign debts, more stable exchange rate systems, etc.). In present conditions, we should raise the target and remove many tasks from the ODA definition, particularly the financing of Global Public Goods. Governments would have to define an entirely separate target for them.

In fact, we should be even more fundamentally sceptical towards the 0.7 per cent Target. The Target takes the Gross National Product of the "donor countries" as the basis of assessment. Though the Target has established itself over decades, no acceptable justification exists for this particular percentage or this basis of assessment.[31] The Target can only claim justification from its political symbolism as a sign of solidarity of the rich countries with the South. Instead of propping up this worn symbol, we should look for a new and more valid basis for aid. The level of transfer of official funds to the South should increasingly depend on a need-based approach, based on the real financial requirements of the recipients. It may prove complicated to quantify such requirements, but there are already estimates for certain areas of need, such as costs for the world-wide provision of basic social services (see above). A needs-based assessment of the necessary North-South transfer would be one of the first tasks of an international Anti Poverty Campaign. This would likely result in a financing target considerably above 0.7 per cent.

[30] Chang et al., p. 18.

[31] Roger Riddell argues in a similar way, p. 3.

4. AID EFFECTIVENESS

Focus only on the Good Performers?

In 1998, the World Bank set off a broad debate about ODA when it published the report ***Assessing Aid. What Works, What Doesn't, and Why.*** The authors argued that aid only succeeds in a "good policy environment." They concluded that development assistance should focus on low-income countries with good political conditions and, above all, sound economic management, to reduce poverty effectively.

It seemingly makes sense to focus aid on the poorest countries, making recipients' needs the crucial determinant rather than donors' political and strategic self-interest. It also seems sensible to use the funds where they will have the greatest positive impact. Still, the strategy of greater selectivity in development assistance and above all a selection based on "poor country" and "good policy" has serious weaknesses:

- If donors were to concentrate funds on low-income countries and favourable political conditions, they would exclude poor regions of less poor countries and people living in poor countries under "poor" political conditions. For humanitarian reasons alone, it seems objectionable to use such criteria.
- Evidence suggests that ODA effectiveness does not mainly depend on the quality of policies in the recipient country. Rather, recent studies suggest the primacy of external conditions and the vulnerability of these countries to exogenous shocks.[32] This suggests that ODA is most effective when reducing the negative effects of a in a difficult environment.
- There is also the question of how "good" policy is defined and who might make the decision. At present, the power of evaluation lies not with the recipient country but rather with the World Bank. The Bank assesses Good Economic Policy by referring to its Country Policy and Institutional Assessment (CPIA),[33] which comprises 20 components in four categories: macroeconomic policies, structural policies, public sector management and social inclusion. According to these criteria, a policy is regarded as "good" if, among other things, the monetary, fiscal and exchange rate policy creates stable conditions for the economy, the trade, fiscal and sector policies offer good production incentives, the public sector management effectively supplements private initiatives and the participation of all social groups is ensured. These criteria appear to be the neo-liberal "Washington Consensus" with the superficial addition of "including social groups." Such selection criteria would function as aid conditions, just as loan agreements do, adding pressure on governments to adopt the Bank's standard economic prescriptions. According to the Bank, recipient countries would benefit from these conditions, whether their citizens want them or not. The Bank rejects alternative economic policy approaches and priorities, nor does it give weight to a democratically-based development strategy, where citizens feel participatory *ownership* in the development process.[34]
- The Bank's selection criteria ignore a number of factors that influence the effectiveness of ODA, notably income distribution in the recipient country and the overall quantity of aid. ODA has a considerably stronger impact on poverty alleviation in countries where income is relatively equally distributed than those where it is a highly unequal. Surveys by the Overseas Development Institute (ODI) demonstrate that, given relatively equal income distribution, economic growth of 10 per cent will result in a poverty reduction of nine per cent, compared to just three per cent if there is a highly unequal income distribution.[35] The volume and continuity of development assistance also influences its effectiveness. A road construction project will suffer considerably if inadequate funds are provided for maintenance once the road building is completed. Basic education projects will similarly show little efficiency if the government must terminate them ahead of schedule due to cuts in development assistance. When Northern governments talk about raising "effectiveness" to compensate for cuts in development assistance they are misleading the public.

More and more rich countries have decided to concentrate their shrinking development funds on a limited number of countries. In 2000, the German government published a list of 70 partner countries to which its development assistance would in future be restricted. Ireland went even further, declaring just six African countries as priority partners. As this trend spreads, there is a danger that some "model countries" may be

[32] Cf. Guillaumont/Chauvet, p. 24ff.

[33] Cf. Collier/Dollar, p. 5.

[34] Cf. Gunning, p.11.

[35] Quoted by Fues, 2000, p. 9.

inundated with assistance while others remain empty-handed.

Ownership vs. Conditionality

In light of past failures of donor-dominated projects, most development strategists emphasize self-determination and self-responsibility as key success criteria. More and more in recent years, discussions have centered on o*wnership* of the development process. There is widespread agreement that the countries affected should at last be in the "driver's seat." World Bank President Wolfensohn's proposal for a *Comprehensive Development Framework (CDF)* and the World Bank's *Poverty Reduction Strategy Papers (PRSP)* are seen as examples of this new thinking.

In practice however, little has changed. The donors wield their traditional power. They show hardly any readiness to give up conditions they set themselves for the allocation of funds. In its 2000/2001 *World Development Report*, the World Bank itself quotes a study on the relations between the donors and African recipient countries with the words: *"In spite of some improvements, donors still tend to dominate the project cycle and pay inadequate attention to the preferences of the government or project beneficiaries."*[36]

A plethora of donor-driven micro interventions focus on implementing individual projects. Funds are conditional on constantly new requirements and reporting duties, resulting in alienated beneficiaries and considerable transaction costs. At one point, the Health Ministry of Mozambique had to deal with 405 projects of foreign donors, while Tanzania had more than 2,000 projects from 40 different donors at the beginning of the nineties.[37]

[36] World Bank, 2000, p. 193.
[37] Examples taken from World Bank, 2000, p.193.

In order to improve ownership and co-ordination of the development projects, the UN Secretary-General's report to the second session of the FfD PrepCom insists that recipient countries must be the chief architects of their development programmes and that the countries also assume the leading role in donor co-ordination.[38] The Secretary General also calls for more flexibility in providing ODA, explicitly referring to co-ordinated budget support and joint sector programmes as examples.[39]

The original director of the 2000/2001 World Development Report, Ravi Kanbur, calls for a more radical reform of development co-operation. In joint essays with Todd Sandler he criticises the existing practice of project-driven development assistance:

> *What is needed is a more radical approach in which donors really do cede control to the recipient country government, advancing their own perspective on development strategy through general dialogue with the country and with each other rather than through specific programs or projects. The tying of money to specific projects, policy reforms, or procurement contracts should end.*[40]

Kanbur and Sandler call for recipient countries to formulate their own development strategies, programmes and projects (in close consultation with their own population, but also in dialogue with the donors). Donors would subsequently provide the funds required by contributing to a "**common pool.**" This scheme would not permit tying funds to certain programmes or control by donors of individual projects (also see the box on untying aid). Detailed aid conditions would end.

[38] UN Doc. A/AC.257/12, para.99.
[39] UN Doc. A/AC.257/12, para.102.
[40] Kanbur/Sandler, 1999[a].

Untying Aid

Tying "aid" to certain suppliers of goods or services is a special type of conditionality. Part of ODA is only provided on condition that the money be used to buy goods (such as medical equipment, water pumps or construction machinery) or services (e.g. consultants) in the donor country and/or from a certain firm. According to studies by ActionAid (Chinnock 1998 and Chinnock/Collinson 1999), untying aid could result in overall savings of around 30 per cent. According to the OECD, just 16.2 per cent of bilateral ODA approvals were still wholly or partially tied in 1999. But these figures do not include funds for technical co-operation, which account for more than 25 percent of ODA and most of which are tied.

Untying aid would have to go hand in hand with the promotion of local enterprises in the South on the basis of targeted procurement. ActionAid says:

Instead of unfairly supporting commercial interests in the North and reinforcing Southern dependence on Northern development inputs through aid tying, aid procurement can and should be directed to play a direct role in assisting commercial and wider development in the South, and in enhancing local ownership of development projects. (Chinnock/Collinson, p.9).

One of the consequences of this demand is that all attempts to liberalise government procurement in the framework of the WTO should be rejected. In the meantime, the UK Government has announced that it will untie all aid beginning 1 April 2001.

Though the Kanbur strategy appears at first to be an advance, conditionalities would continue to exist de facto within its framework and might even have worse consequences. Rich governments would still make decisions whether to give assistance to a particular poor country and how much to contribute to the common pool. Such judgement would depend on assessments of the development strategy of the recipient country. If the donor regards the strategy as "good", it will provide a large volume of funds, while if it views the strategy as "bad,", it will tend to spend the money on another recipient. This leads us back to the issue of "good policy" and the selectivity of aid. In the common pool approach, selectivity could have particularly far-reaching consequences, since it would not only relate to a project or a sector but to a country's entire development strategy. This would defeat one chief objective of the new approach, that of strengthened o*wnership* of the recipient countries. Although they could take the driver's seat, the donors would keep the ignition key and determine how much gasoline would be put into the tank (in addition they would continue to decide the traffic regulations).

Two solutions to this problem have been proposed. One suggests that conditionalities requiring a certain *policy* be abandoned and that ODA instead be linked to outcomes-based or performance-based conditions.[41] The government would then be free to determine policy, as long as it fulfilled its performance condition, for example, to reduce poverty. However, there are two arguments against this approach. First, the performance results are not entirely under the government's control. They depend in large measure on external conditions (markets, terms of trade, etc.), over which a government has little influence. And second, results can only be measured after a considerable lapse of time, postponing judgements long into the future. So de facto, outcomes-based or performance-based conditioning of assistance will tend to be based on the policy of the recipient country.

A second strategy would be to drop conditionality altogether in the long term. Instead of unilaterally conditioned assistance, binding arrangements could be made leading to a quasi automatic transfer of resources the level of which would be based on clearly defined development indicators. In a study on new approaches in development co-operation, Keith Griffin and Terry McKinley take up this notion and advocate a global safety net, to be made available to the poorer countries on the sole basis of population and income. Their summary program proposes that:

> *Combining a progressive international income tax levied on eligible donor countries with a negative international income tax applied to eligible recipients would produce a scheme for funding and disbursing foreign aid that is transparent, fair, automatic, predictable and inexpensive to administer. The present system of foreign aid has none of these virtues - and it is also ineffective.“*[42]

Such reliable ODA flows would ease long-term development planning in the countries of the South. Development financing would then be accomplished along the lines of financial compensation among the Länder in Germany and the Structural Funds of the European Union.[43]

It could be argued that an automatic funding system of this kind could be abused by corrupt élites. In order to prevent this, all countries participating in the compensation system should unanimously agree on a set of political and social minimum standards that would have to be fulfilled by all parties. Such commonly agreed criteria would have a different quality from the one-sided conditionality definitions set by the donor countries.

The problem of Loans

Loans restrict ODA effectiveness because recipients have to replay them in the medium or long term.[44] Even if the rate of interest and repayment conditions are well below market levels, these funds are only temporary aid. In the end, more money flows back into the coffers of the rich countries than they originally spent on assistance. The debtor country will almost always end up with a larger debit side of its balance sheet. So any increase in loan-based development assistance also implies an increase in the foreign debt of the recipient countries.

Foreign loans, from governments or private sources, do not always have a negative impact, though. They may make good sense under a limited set of conditions:

- Borrowers should not use the funds for consumption (such as petroleum imports) or for unproductive assets (such as arms expenditure), but only for highly profitable investments whose yields can cover debt servicing.
- Since borrowers must usually make repayment in foreign currency, projects must produce (directly or indirectly) the necessary foreign exchange, usually by additional export income.
- At the level of the economy as a whole, the project must sufficiently improve the recipient country's balance of payments that the borrower can not only meet interest payments but also

[41] Cf. e.g. Gunning, p.12.

[42] Keith Griffin/Terry McKinley, p. 25.

[43] A similar proposal was made by the South Centre, p. 81.

[44] In Germany, the Federal Government at least started to give non-repayable grants to the LDCs in 1978. In addition, since 1997, it has been possible to pay a further 25 % of financial co-operation funds to non-LDCs as grants for projects to combat poverty, to establish a social infrastructure, for environmental protection and for loan guarantee funds.

pay off the principal of the loan. Here, possible secondary effects of investments on the balance of payments must also be taken into consideration (increased imports of raw materials, primary products, spare parts, and the like). Countries can sometimes offset such secondary imports, by consciously building up local production.

- Finally, the loan repayment may be threatened by fluctuations in exchange rates, and especially by local currency devaluation. Since such loans extend over long periods, they are especially vulnerable to unforeseeable currency instability at a future time.

These criteria are necessary but by no means sufficient conditions for the compatibility of foreign loans with development. Even a highly profitable investment that will also yield the required foreign currency (e.g. a chemical factory or a petroleum refinery) can prove detrimental to a country's sustainable development because of its negative social or environmental impact. Moreover, regardless of how sensible the project may be, every foreign loan increases the need to earn additional foreign currency, adding to the country's long-term dependence on international trade and international capital markets.

By these criteria, the biggest problem arises with foreign loans for developmentally sensible projects that do not yield a sufficient rate of profit or produce sufficient foreign exchange. This applies to loans for basic social services but also to loans for environmental protection, capacity building, infrastructure and support for agricultural production that is not export-oriented. ODA should only be provided for these purposes in the form of grants.

POLICY RECOMMENDATIONS

The members of the UN broadly agree that Official Development Assistance (ODA) fills a vital need. Of course, a number of other policy instruments can help fight poverty and promote sustainable development, including debt cancellation, improved trade conditions and reform of the international financial system. Countries will usually draw the majority of their development funds from domestic resources, both public and private. Under certain conditions, private international capital investments can also make a positive contribution to development.

Public ODA transfers remain essential. If governments have blind faith in private capital and the free market, they will probably achieve only negative or at best disappointing results. Private investment cannot provide solutions for social protection, health, education, cultural development, environmental care, and conflict prevention. Governments and international agencies need far more public funding if they are to provide such vital national and global public goods.

Global agreements on poverty eradication and sustainable development contrast dramatically with the downward trend in ODA, the weakened definition of ODA and donors' tying of funds to political and economic conditions. Though leaders of rich countries have made pledges at world conferences and signed generous summit declarations, they have spent less and less of their budgets on development. Further, they have tied their assistance to more and more conditions and insisted that the aid be used for a growing number of tasks in an increasing number of countries.

The UN Conference on Financing for Development must seek to reverse these trends and create a fundamentally new political framework for Official Development Assistance. The following issues should be considered by the Conference:

1. **Millennium Targets for ODA**
Governments have declared their intent to reach vital international development goals by 2015. The targets will remain illusory if governments make no commitments for financing. In the absence of binding targets for transfer of resources, the 0.7 per cent ODA Target stands as the main symbol of donors' commitment. Governments should therefore agree on a **time frame** (with time-bound intermediate targets) to implement the **0.7 per cent Target** within the next ten years.

2. **A Global Development Partnership Agreement**
In order to overcome ODA recipients' dependency relationship with donors, the international community should develop new forms of contractual relations between North and South. The agreement between the EU and the ACP countries may serve as a model here, though it is scarcely ideal. Such an agreement could produce more reliable assistance and it could ease development planning in the countries of the South. In the long term, rich countries might make binding arrangements for a quasi-automatic transfer of resources. This might take the shape of a **global country financial offset**, with a level of funding based on commonly-defined development indicators, replacing entirely the current unilateral definition of performance drawn up by donors.

3. **A Need-Based ODA Target**
The international community should consider the financial needs of the recipient countries, not a percentage of the Gross National Product of donor countries, to set the level of official resource transfer from the North to the South. In the international Anti Poverty Campaign, the United Nations should first consider what national and international resources would be needed to attain the agreed Millennium Targets. It could then define new financial targets to supplement the 0.7 per cent Target. Here, estimates of costs for the world-wide provision of basic social services offer good reference points.

4. **New and Additional Funds for Global Public Goods**
Human survival depends on adequate financing of Global Public Goods such as protection of rainforests, care of the oceans, restoration of the ozone layer, and protection of worldwide public health. These Goods should not be financed out of the budget for Official Development Assistance, further reducing scarce resources for national development tasks. We must finance Global Public Goods by new and additional means and we must separate such spending from ODA in official statistics. The funds should come from the budgets of relevant national ministries, such as the Environment Ministry, the Health Ministry and so on. New global financial instruments, such as interna-

tionally harmonized taxes and fees, can also contribute funds. Proposals of this type include a Currency Transaction Tax (CTT), an international shipping tax, a tax on airplane fuel and an international CO_2/energy tax. New and broader sources should be tapped to raise funds for the **Global Environment Facility (GEF)** in the 2002 replenishment round.

5. Boosting Local Ownership in Development Strategies

To improve ODA, we must overcome the dominance of the donors in project design and conditionality. The governments and people of the developing countries must gain control of their own development strategies. This means that donor governments must shift from project-based finance to programme and budget financing. The FfD Conference should consider setting up ***Common Pools*** for this purpose. Donors would pay funds for a given country into a common pool. The recipient government would make use of the funds in accordance with democratically-determined development priorities. This would mean donors abandoning control of projects and detailed conditionality.

6. Untying Aid

When a donor ties aid, it places special conditions on recipients' use of the funds, a tactic that serves only the commercial interests of firms in the donor county. Recipients could use ODA much more effectively if tied aid were eliminated. The FfD Conference should resolve to abolish all forms of aid tying within two years. At the same time, the Conference could support local companies in the South by mandating targeted procurement and rejecting attempts to promote the liberalisation of government procurement under the WTO.

7. Donor Performance Indicators

Measures of ODA effectiveness usually focus on the recipient country. We must also take a closer and more critical look at donor countries' development policy and performance. Donor priorities and practices have a crucial influence on the success of development projects. For this reason, the FfD Conference should consider introducing new performance indicators for aid donors, such as:[45]

- the discrepancy between the real volume of ODA and the internationally agreed guidelines (0.7 per cent Target, 20:20 Initiative, etc.).
– percentage of a country's development funds that is spent in the developing countries themselves;
– percentage of untied ODA;
– percentage of ODA that is not spent ad hoc but in the framework of more long-term agreements and development plans;
– percentage of ODA funds that support recipient country priorities or are spent with full local coordination;
– percentage of a country's ODA that is spent in the form of program and budget support (as opposed to project financing).

8. Grants Not Loans

To break the vicious circle of indebtedness, rich countries should provide Official Development Assistance in the form of **grants**. This applies in particular to investment spending that yields neither adequate rates of profit nor sufficient foreign currency. Above all, it applies to basic social services, environmental protection, capacity building and agricultural production that is not for export.

[45] The following list is based on a similar proposal for „donor performance indicators" that refers specially to development co-operation with LDCs. It is contained in the draft version of the Action Programme for the LDCs for the decade 2001-2010 (UN Dok. A/CONF.191/IPC/L.4 of the 15th December 2000), para. 56.

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Global Policy Forum

A group of citizens from several countries founded **Global Policy Forum** in December 1993 to monitor global policy making at the United Nations. At a time of rapid globalization, when nation states are weakening, the founders of **GPF** wanted to promote a more open, accountable and democratic policy process at the global level. Seeing the UN as the most open and universal institution, they sought to make it more responsive to citizen concerns, and so to foster democracy, social justice, human rights and mutual solidarity.

GPF is based in New York City and has consultative status at the UN. It has addressed issues primarily in three areas:

- **Security Council** - so as to strengthen international peace and human security
- **UN Financial Crises** - so as to insure resources for the UN's many important programs
- **Social and economic policy** at the global level so as to win greater rights, equality and social justice

GPF also has substantial programs on:

- **NGOs** - especially to improve NGO access at the United Nations,
- **Global Taxes** - to provide resources for global policy programs
- **Sanctions** - to develop a more effective and humane policy tool to enforce international law
- **Financing for Development** - to create a global financial system that responds to human needs.

Heinrich Boell Foundation

The **Heinrich Boell Foundation**, which is associated with the German Green Party and has its headquarters in the heart of Berlin, is a legally autonomous and intellectually open political foundation. The **Heinrich Boell Foundation** is a federally-organized national foundation, whose 16 state foundations cooperate in carrying out regional educational work.

The foundation's foremost task is political education in Germany and abroad with the aim of promoting informed democratic opinion, socio-political commitment and mutual understanding. In addition the foundation supports artistic and cultural as well as scholarly projects, and cooperation in the development field. The political values of ecology, democracy, solidarity and non-violence are our chief points of reference.

In its international collaboration with a large number of project partners - currently some 130 projects in 56 countries - the foundation seeks to strengthen global ecological and civil action, intensify the exchange of ideas and experiences, and keep alive peoples's sensitivity to change.

The **Heinrich Boell Foundation's** academic department or „Studienwerk" would like to become a workshop for the future, which supports particularly gifted students and scholars, encourages work of socio-political relevance, and overcomes the disciplinary boundaries between discourses.

World Economy, Ecology & Development Assoc. (WEED)

WEED was founded in Germany in 1990 to increase public awareness on the root causes of world poverty and global environmental destruction. **WEED** collaborates with national and international networks and facilitates dialogue between organisations in the North and South. Political dialogue and confrontation with decisionmakers in administration, parliament and the various national and intergovernmental organizations are further elements within our strategy towards a socially equitable and ecologically sustainable North-South policy.

Some of the issues that **WEED** addresses include:

- **International Financial Markets, IMF and World Bank, International Debt Crisis**
- **Trade and Investment Policy**
- **Reform and Democratization of the UN-System**
- **European North-South-Policy**