Never richer, never meaner

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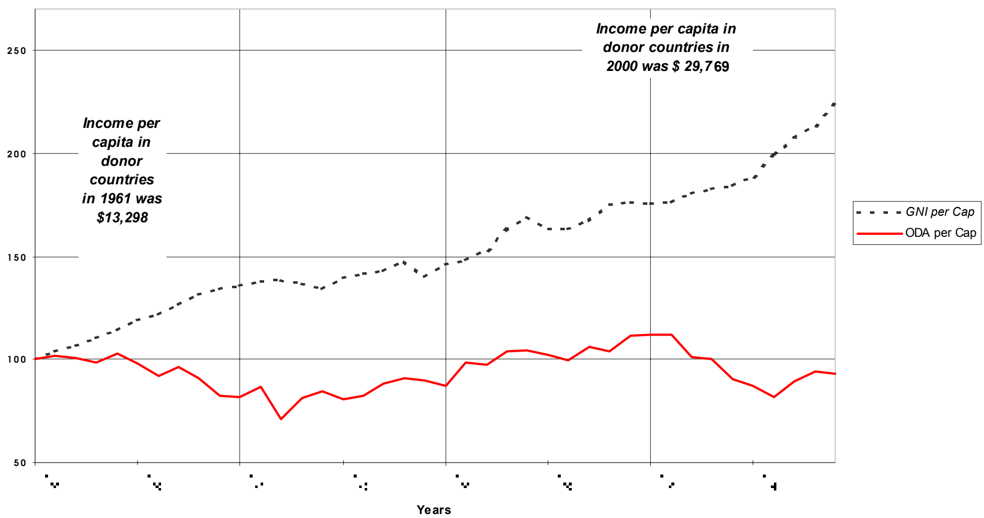
The world's donor countries arriving at the UN Financing for Development Summit in Mexico have never been richer. Wealth per person has more than doubled between 1961 and the year 2000. But the aid given per person is actually less than it was four decades ago. (See Graph 11)

The fall in aid has been most pronounced during the 1990's. Having peaked 10 years ago in 1992, the year of the Earth Summit in Rio, aid has declined in real terms by almost 12%. (See Graph 12)

Total aid from all 22 DAC donor countries in 2000 was US$53.7 billion, down 0.4% in real terms from 1999. Japan and the USA were the largest donors in cash terms, with Germany the UK and France also giving from US$4 billion to just over US$5 billion. (See Graph 13)

While donors from G7 countries with large economies show up towards the top of the list of aid donors in terms of volume, their performance looks much worse when aid given is measured as a share of donor GNI. (See Graph 14). Only five donors – Denmark, Netherlands, Sweden,

Graph 11. DAC Donors-richer but meaner
The gap between income and aid per capita
(at 1999 prices and exchange rates)



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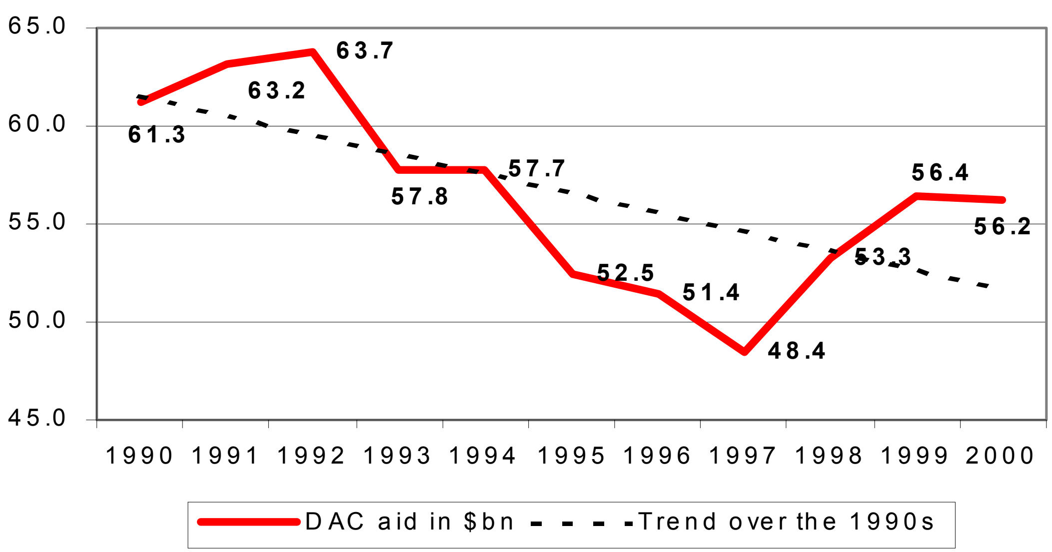
Norway and Luxembourg – meet the UN 0.7% target for aid as a share of national income, established in 1970[1] .

Countries such as the United States and Italy give a pitiful share of their wealth in aid. Most G7 donors have allowed their aid to decline as a share of their growing wealth over the last ten years. Even as the Financing for Development Summit approached, G7 donors allowed their aid to fall by 3% in real terms between 1999 and the latest available figures covering the year 2000. On average the G7 countries, Canada, France, Germany, Italy, Japan, the UK and the USA now give just 0.19% of GNI in aid – even lower than their 0.21% figure for 1999.

Looking at the long term trend in aid, (see Graph 15) donors go into the Ffd meeting never haven given less in aid. Through the 1980s donors managed to maintain aid at around half the UN 0.7% GNI target figure, and even a decade ago aid as a percentage of GNI was stable at 0.33%. But any optimism that the end of the Cold War would result in a new world order in which the fight against poverty was prioritised quickly evaporated, with aid declining sharply to an all time low of just 0.22% of DAC GNI. Optimism that a post September 11 world may result in a stronger commitment to reduce poverty and deprivation must be seen against this salutory background.

Over the last decade, only five donors have managed to maintain or increase their aid as a percentage of GNI (see Graph 16). Sixteen DAC donors have let their aid decline (see Graph 17). Several DAC members have targets for increasing aid – Canada, Greece, Ireland, Sweden, Switzerland and the UK. But these commitments must be seen in their proper context. The UK is the largest donor committed to increases and it is making substantial progress. But even so, if current targets are achieved, it will still mean that UK aid as a percentage of GNI is well below the level achieved when the Labour government last left office in 1979. CCIC in Canada argues that Canadian aid is unlikely to rise above 0.30% – far below the level maintained from 1970 to the mid-1990s. Sweden plans to reach 0.81% of GNP in 2003 but it does not have a timetabled commitment to return to the previous level of 1% of GDP achieved in both 1982 and 1992. The Swiss NGO coalition notes the 'soft' nature of government commitments to make progress towards an interim target of 0.4% – which in any case is below the figure achieved in 1992. In September 2000 Ireland made a

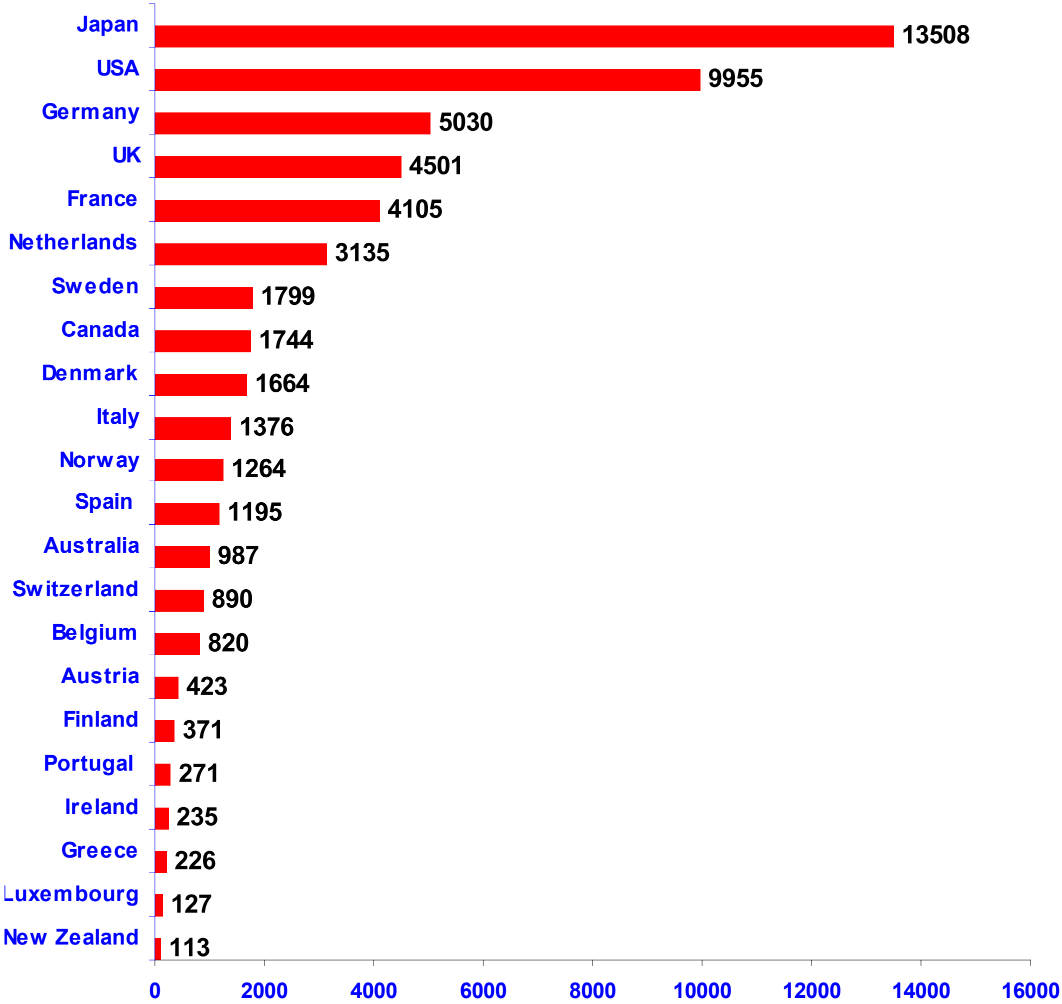
Graph 12. The fall in DAC aid $ billions real terms



commitment to the 0.7% target by 2007. But Reality of Aid 1994 noted a government commitment to 0.05% increases each year in order to reach 0.4% in 1997– but Ireland only achieved 0.31% in 1997 and its aid in 2000 is slightly lower at 0.30%. So while planned increases are welcome, there is a clear record of DAC governments failing to deliver on volume commitments, and many of the commitments are in any case to reach levels lower than those achieved at an earlier date. Perhaps the bleakest part of the picture approaching the Financing for Development Summit is the fact that five of the G7 donors – the USA, Italy, Germany, France and Japan – show no real sign of reversing the major declines that have occurred in their aid.

One of the excuses donors have used for allowing aid to fall is that there was an urgent need to cut budget deficits in OECD countries. But this argument does not accord with the facts for two reasons. First, there is little sign that as OECD countries get their economies back in shape they take action to restore aid. Second - and perhaps more

Graph 13. Aid from DAC donors in 2000 in $



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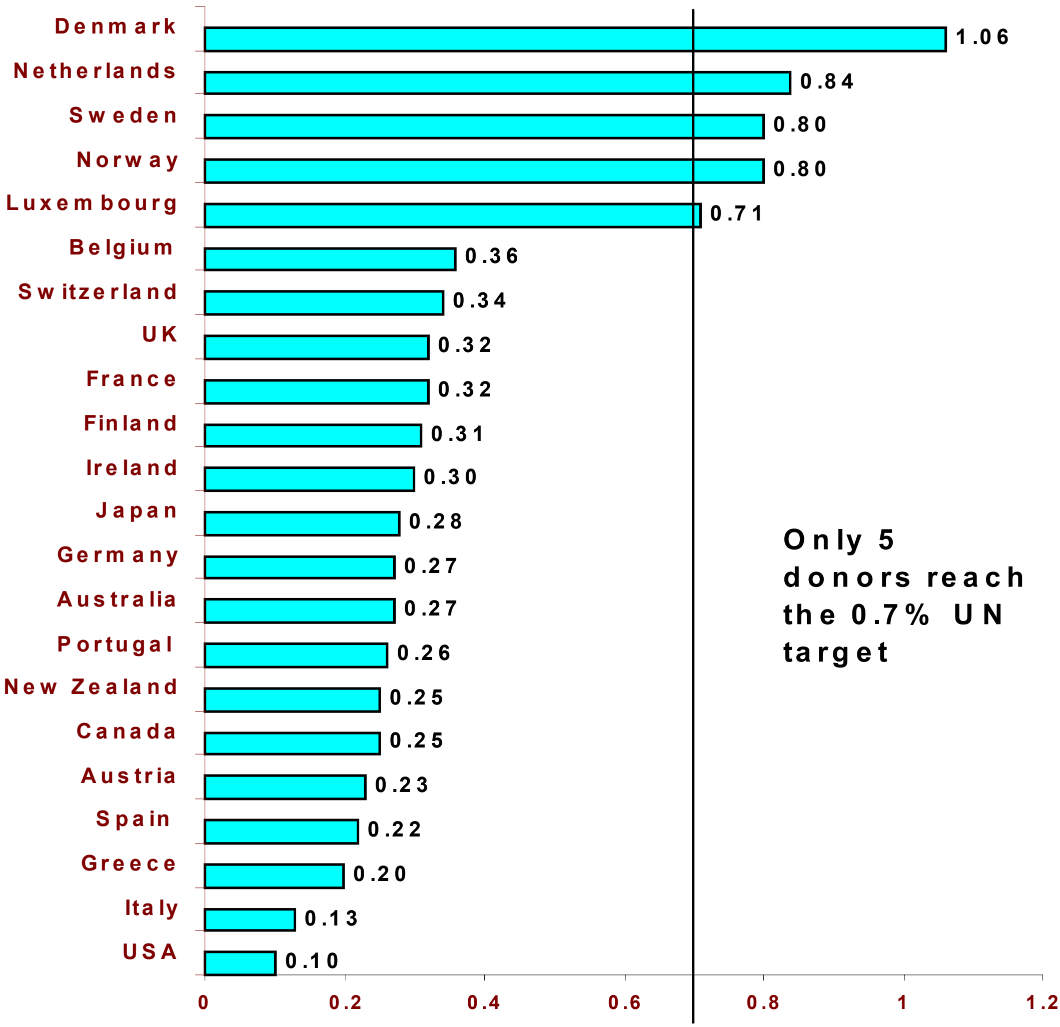
serious, is the evidence that aid as a share of central government spending has fallen from 0.82% a decade ago to 0.58% now (see Graph 18). In other words, aid spending has taken more than its fair share of cuts. Simply, the people living in greatest poverty in the world are having to pay the price of getting rich countries' economies in order.

The total failure of the majority of rich countries to honour the commitments they have made to increase aid towards 0.7% in order to achieve the Millennium Goals for 2015 contrasts sharply with the growing wealth of OECD countries. Graph 11 can be summed up simply in the phrase 'richer but meaner'.

At the level of policy statements, bilateral donors are highlighting the need to ensure that aid is directed to poverty reduction. But efforts to reduce the commercial and political priorities that have kept aid tied to donor interests are very slow – and most aid spending is still not focused on the sectors that are most likely to benefit those in greatest need (see Graph 19). Although 31% of

Graph 14. ODA as a percentage of DAC donors GNI 2000

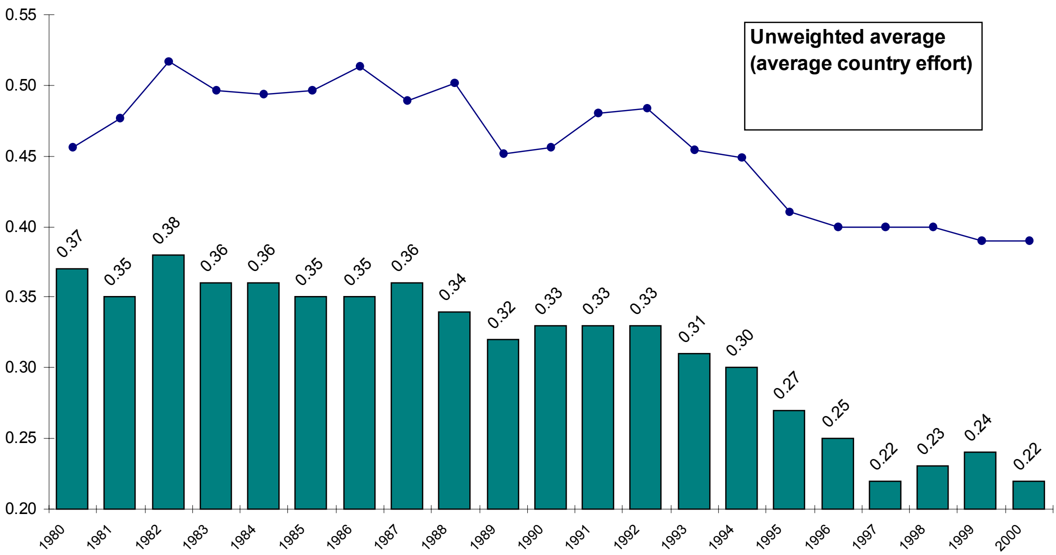


bilateral commitments in 2000 were for the social sectors, only 1.5% went to basic education and 2% to basic health – the kind of spending likely to benefit directly people living in poverty.

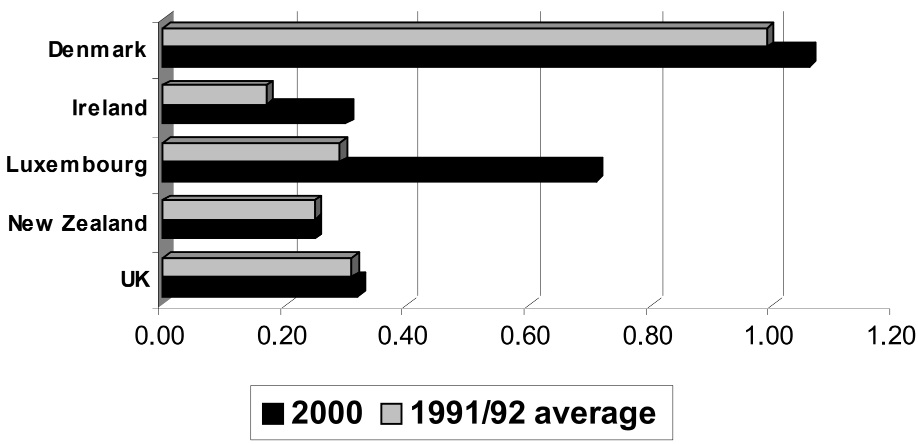
As national reports from OECD countries in this *Reality of Aid* explain, several donors are talking of the need to concentrate aid on fewer countries but the distribution of spending by country is still skewed by donor interest. Most of the world's poorest people live in South Asia and Sub Saharan Africa. But as Graph 20 shows, well under half of world aid, only 42%, went to these regions in 2000.

Graph 21 shows how aid is allocated to different income groups. One positive achievement on aid

Graph 15. Aid from all DAC donors as a percentage of GNP: the long term trend



Graph 16. Aid as a % of GNI now and a decade ago -- donors who are giving more in 2000



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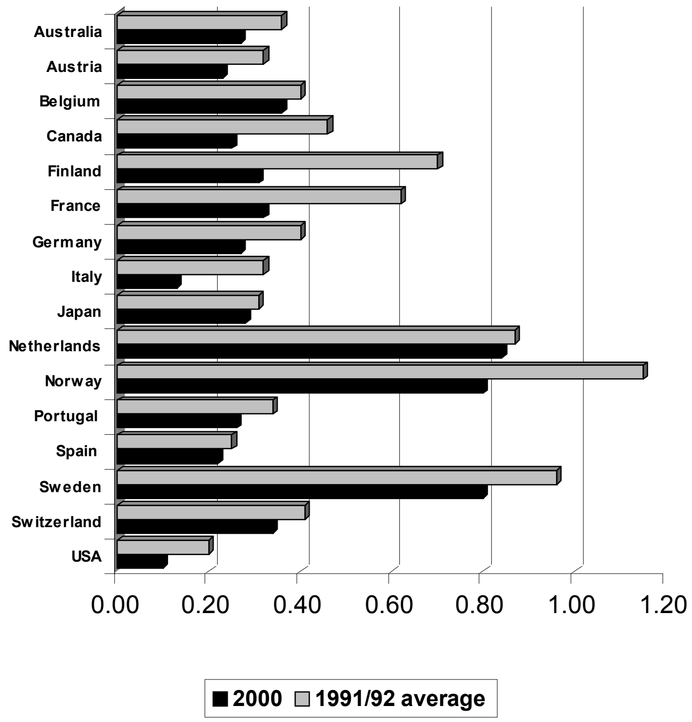
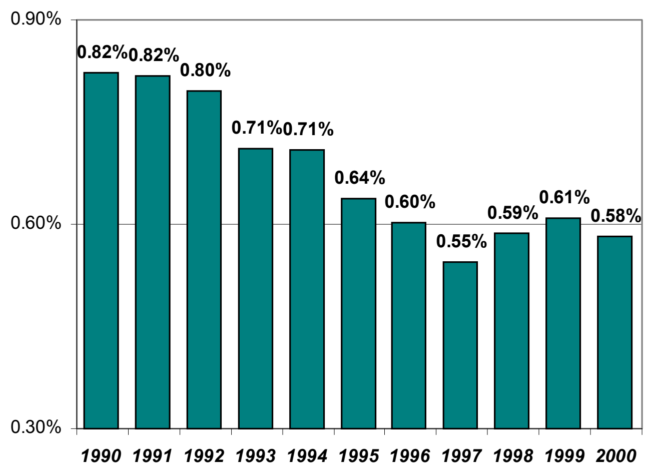
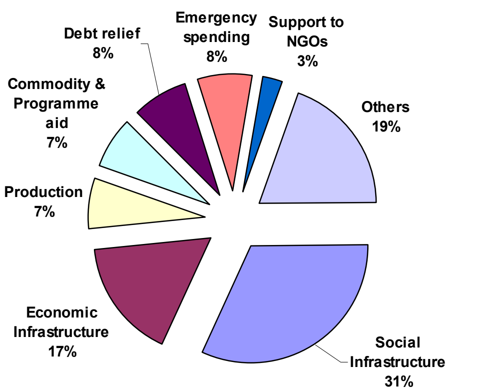
Graph 17. Aid as a % GNI now and a decade ago - donors who are giving less in 2000



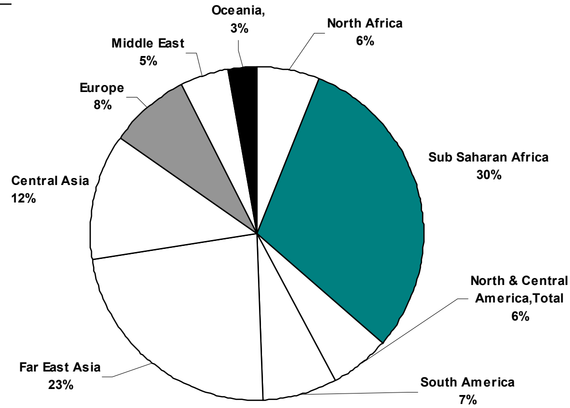
Graph 18. ODA as a percentage of donor government expenditure



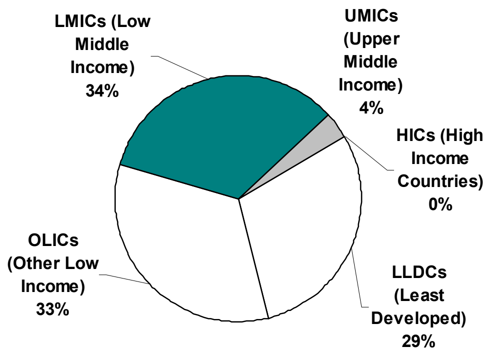
Graph 19. DAC bilateral aid commitments in 2000: which sectors were given priority?



Graph 20. Where was aid from DAC donors spent in 2000?



Graph 21. Share of Aid to the Poorest Countries 2000



distribution is that since 1998, High Income countries no longer receive any official development assistance. But more effort is still needed to target aid towards those regions that need it most. The Least Developed Countries (LLDCs) receive only 29% of global aid allocable by income group.

Other Low Income Countries, including India, receive one third of aid spending. In both cases the share is less than that received by the world's Middle Income Countries (LMICs and UMICs).

The Africa section in this Reality of Aid report explains why African countries would prefer not to depend on aid that is highly conditional – but how the need for external assistance remains in the face of debt, lack of finance for basic rights, such as education, and newer threats such as HIV/AIDS. But Graph 22 shows that aid in recent years has fallen well below the levels maintained during the early 1990s. The recent World Bank Strategic Partnership with Africa Report, *Africa at the Millennium*, noted the 'Africanisation of global poverty' since the late 1980s. But aid to Sub-Saharan Africa over the last four years has been lower than any year since 1984.

As Graph 23 shows, despite the efforts of the Jubilee Coalition and many expressions of political concern over the impact of debt on the people living in greatest poverty, the trend in aid to HIPC Countries was actually downwards during the decade to the year 2000.

The world's Least Developed Countries include the very poorest nations, such as Sierra Leone, Niger, Mali and Burkina Faso. Thirty two of the 35 countries in the lowest category of UNDP's Human Development Index are LLDCs. On average, 15% of children born in LLDCs do not survive to their fifth birthday[2]. During the 1980s, aid per person in LLDCs was steady at around US$33. But during the 1990s this figure fell by more than a half so that now people in LLDCs receive an average of just US$20 a year each from people in rich countries whose income

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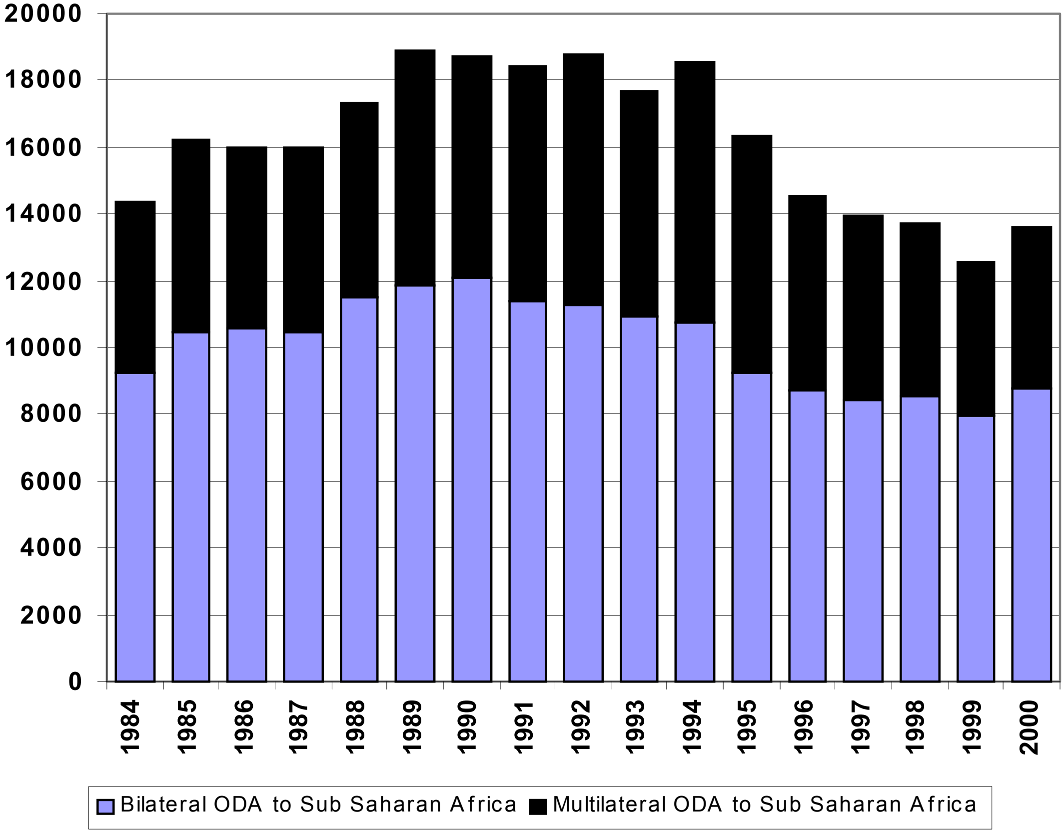
Graph 22. Total ODA to Subsaharan Africa 1984-2000 in real terms $ millions



per capita in 2000 was approaching US$30,000 (see Graph 24).

Graph 25 shows the relative wealth of low-income, middle-income and high-income countries, and how this has changed during the last two decades. Wealth in low-income countries, including India, has grown almost imperceptibly during the last 20 years. By comparison, high-income countries, including all DAC donor countries, have seen their income grow rapidly over the same period.

There is an enormous difference between household income in low-, middle- and high-income countries. In 1999, household income (measured as the amount people spend on food, goods, services and housing) per person living in high-income countries was US$16,055. In middle-income countries it was $1,226 and in low-income countries it was just $296 dollars. (See Graph 26)

Since the 1960s, the share of aid given multilaterally has grown from around 13% to about one third of global aid. (See Graph 27)

In theory, multilateral aid should be less tied to donor interests. But in recent years the rise in conditionality imposed by the IMF and World Bank has been accompanied by the falling share of multilateral aid channelled through the UN. Graph 28 shows the stagnation in spending through the UN compared to the growing funds channelled through the EC and the Development Banks.

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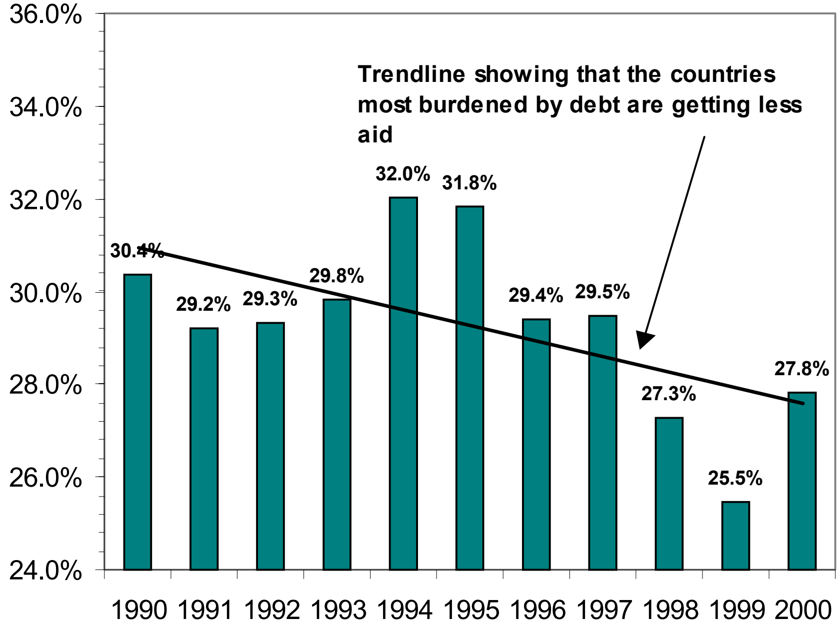
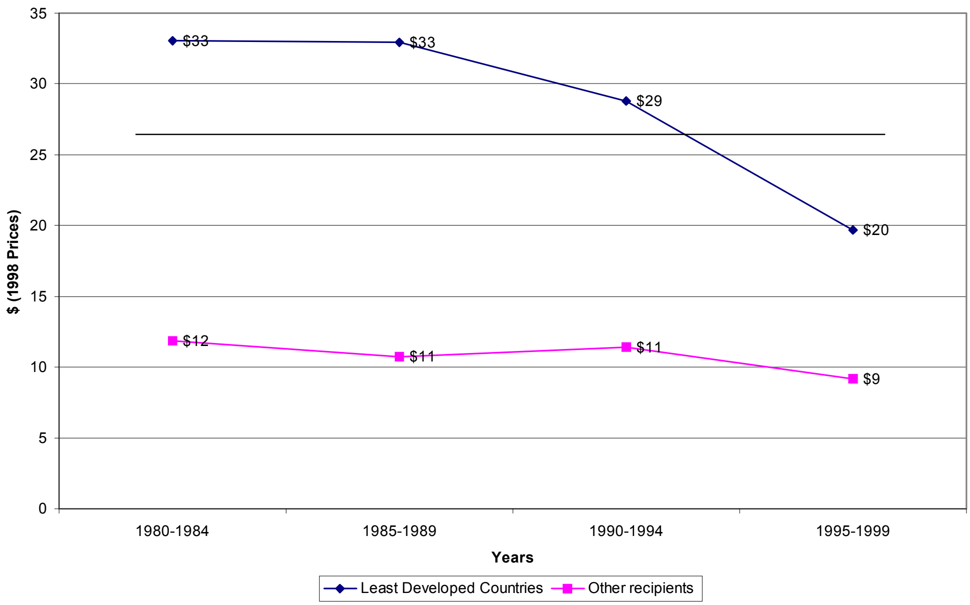
Graph 23. ODA to HIPC as a share of Total ODA



Graph 24. Aid per capita to the Least Developed Countries falls more steeply than aid to other recipients



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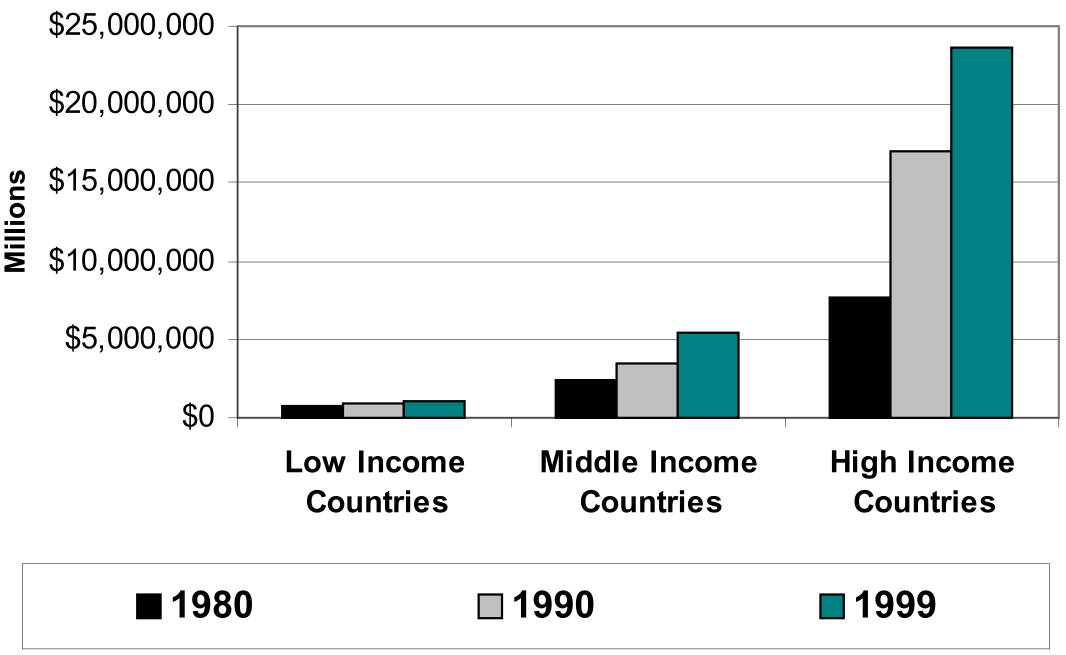
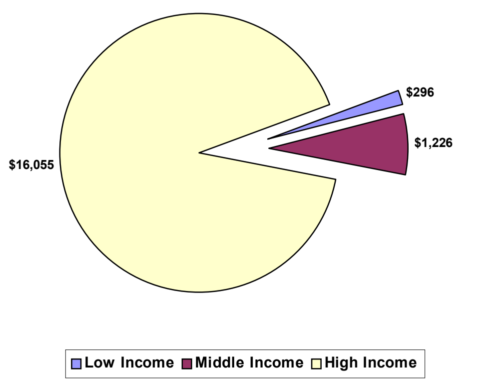
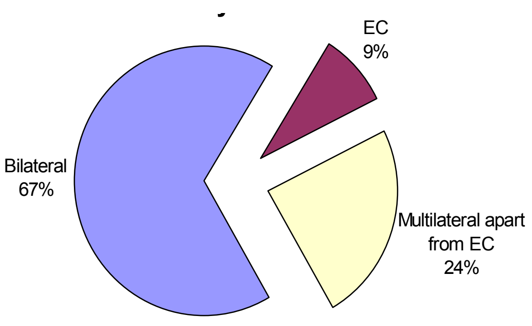
Graph 25. Relative wealth of different country income groups- and how their wealth has change over 20 years



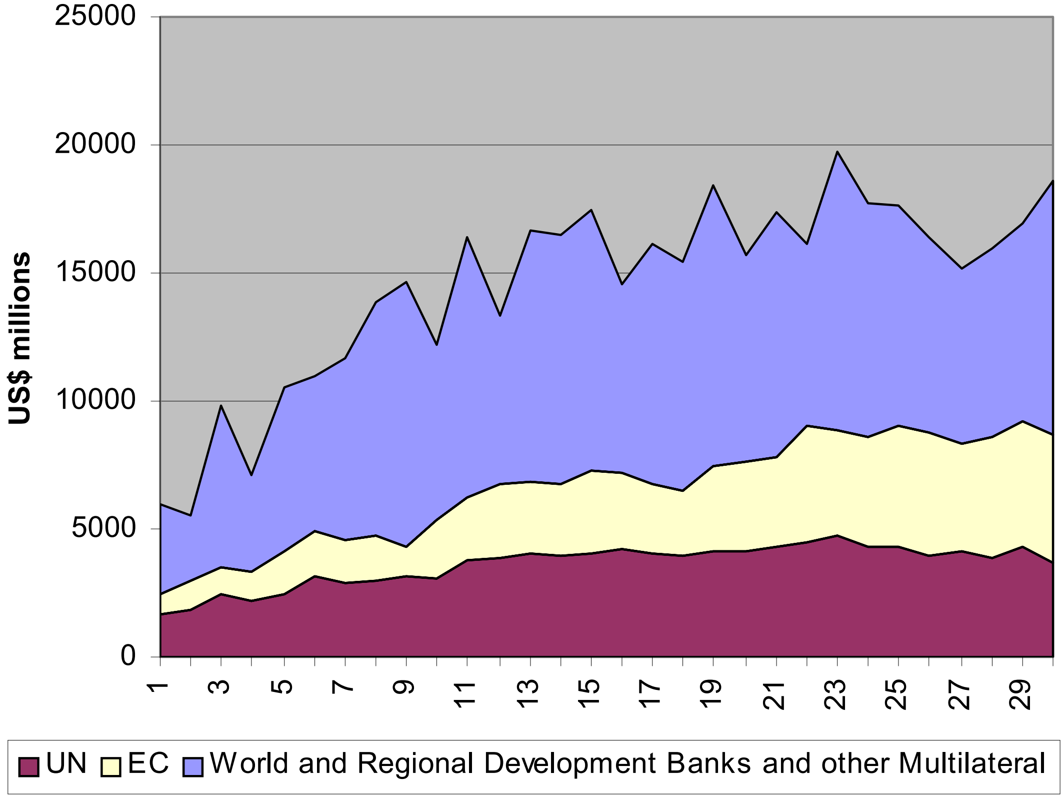
Graph 26. Household consumption $ per capita 1999



Graph 27. How much aid was spent bilaterally in 1999?



Graph 28. Multilateral ODA through the World Bank, UN and EC in real terms



Of course the influence of developing countries within the UN is much stronger than within the Bretton Woods Institutions, where the voting power is heavily skewed in favour of developed countries. (see Graph 29 and 30) Each country that is a member of the IMF has 'basic voting rights' of 250 votes plus voting rights based on its capital subscription or quota. Since the Bretton Woods Conference in 1944, quota-based voting rights, reflecting economic strength, have grown, but basic voting rights have remained the same. This means that the relative weight of basic voting rights has declined from 15% of the total to just 2% – substantially eroding the influence of the majority of smaller, economically weak countries. G7 and EU countries, with 14% of the world's population, control 56% of IMF Executive Board votes.

Through the 1990s, both aid and military spending by rich countries declined, but aid declined faster. Graph # shows how much more money most OECD countries spend on arms and the military than they spend on aid. Every donor except Denmark spends at least twice as much on the military as they spend on aid. The UK spends eight times as much, France nine times as much, Italy 15 times as much, Greece 23 times as much and the USA 33 times as much. Government is said to be about making choices, and it is clear that the OECD chooses military spending over poverty reduction every time.

This year's *Reality of Aid* report has referred to the consensus that aid is likely to be most effective if it is controlled by local communities and if southern governments are responsible for developing and

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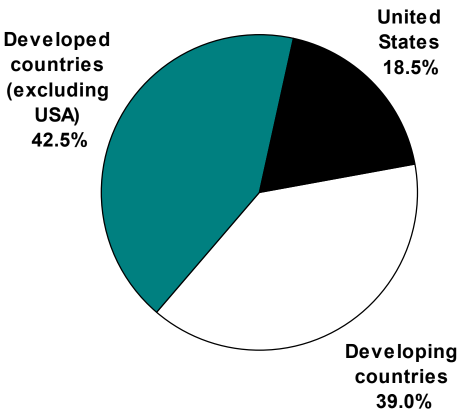
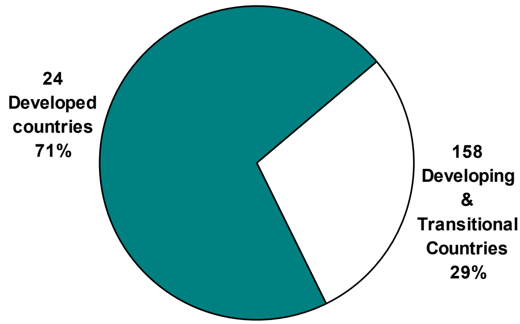
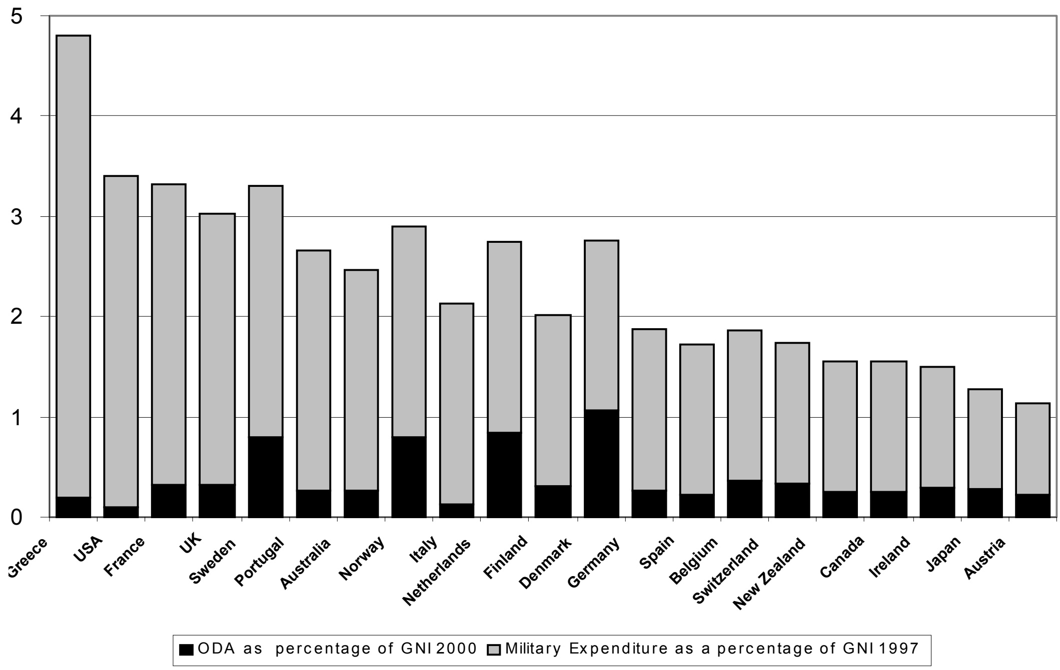
Graph 29. Voting power within the IMF



Graph 30. Voting power within the World Bank

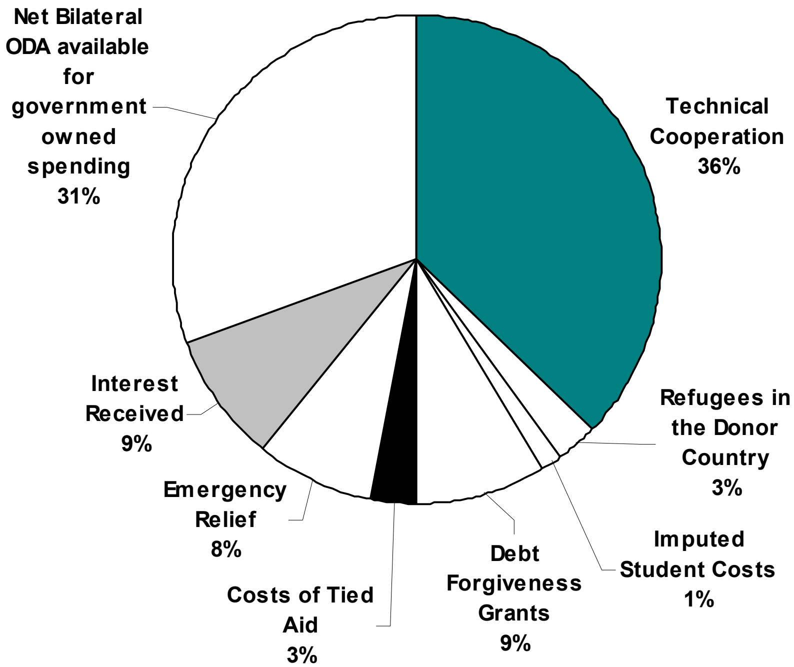


Graph 31. ODA and military expenditure as a percentage of donor countries' GNI, most recent year available



Graph 32

A lot of aid is spent on donor priorities and never leaves the donor country



and implementing policies and programmes to reduce poverty. But progress towards fostering local ownership is obstructed by the fact that the majority of aid spending is effectively beyond the control of southern governments. Because of distortions in the way that aid is managed and accounted for, less than half can really be said to be under local control – as Graph 32 illustrates. A lot of aid in practice is spent within the donor country – for instance funding consultants under technical cooperation and paying for refugees in donor countries and imputed student costs.

Taking the recent record of donors on aid spending, together with such commitments as they have made in advance of Financing for Development, there must be grave doubt that donors are prepared to provide their share of the funds needed to achieve the Millennium Development Goals. This unwillingness to share in the global effort to reduce absolute poverty is especially evident amongst the majority of G7 donors, who are the best able to afford the resources and it seems, least willing to do so.

Notes

1 The Pearson Commission Report recommended the 0.7% GNP target in 1969, and the target was adopted by the UN in 1970.