Foreign Aid “101”

Global Classroom
Integrated Approaches to Sustainable Development Practice

John W McArthur
October 2009
What is “Aid?”
Two Main Types of Aid

• **Humanitarian aid**
  
  Given for emergency relief or to prevent or alleviate a humanitarian crisis
  
  • e.g. food aid, emergency shelter

• **Development Aid**
  
  Aims to address the economic, social, and political factors that contribute to long-term economic growth
  
  • e.g. primary education, health systems
What Counts as Aid?

• **Official Development Assistance (ODA)**
  Government aid for the purpose of promoting economic development and welfare in low- and middle-income countries. Resources given as either (1) grants or (2) loans with a minimum 25% grant component.

• **Private giving**
  Aid from the private sector (e.g. business), charities (e.g. Oxfam, CARE), and philanthropic foundations (e.g. Gates, Rockefeller, Soros) to aid recipient countries and projects and programs in recipient countries.
What Does Not Count as Aid?

• Military support

• Market-based flows
  – FDI
  – Portfolio investment
  – Export credits

• Remittances
Types of ODA Delivery Systems

• **Bilateral**
  Aid flows provided directly by a donor country to a recipient country (e.g. government to government)
  • OECD-DAC: Club of 23 “rich” countries
  • Emerging donors: Korea, China, Gulf States, etc.

• **Multilateral**
  International development-focused institutions with governmental membership that pool and disperse aid to recipient countries
  • e.g. ADB, AfDB, European Commission, World Bank, UNICEF, UNDP, WFP
How is ODA Directed?
Types of ODA Transfers

• Grants
  Transfers for which no repayment is required

• Concessional Loans (credits)
  Transfers for which repayment is required under terms beneficial to the borrower compared to a loan at market rates
  • e.g. Long-term, interest-free loans provided through IDA to low-income countries; loans provided to middle-income countries through IBRD

• Debt relief
  Partial or total forgiveness of the repayment of existing or outstanding loans; NOTE: not a “real” transfer
Forms of ODA

- **Project aid**
  Aid given for a discrete purpose (e.g. an irrigation project)

- **Sectoral aid/budget support**
  Aid directed to support a specific sector (e.g. education, health)

- **Technical co-operation**
  Grants to support advisory services for the implementation of a capital project (e.g. engineers to build a road)

- **International research**
  e.g. CGIAR
Many Aid Paths to Many Places

<table>
<thead>
<tr>
<th>Country</th>
<th>Grant equivalent of total ODA as % of GNI</th>
<th>Aid to Low-Income Countries as % of GNI</th>
<th>Aid by NGOs as % of GNI</th>
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</thead>
<tbody>
<tr>
<td>Australia</td>
<td>0.31</td>
<td>0.14</td>
<td>0.08</td>
</tr>
<tr>
<td>Canada</td>
<td>0.29</td>
<td>0.15</td>
<td>0.09</td>
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<tr>
<td>Denmark</td>
<td>0.83</td>
<td>0.49</td>
<td>0.03</td>
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<td>Germany</td>
<td>0.39</td>
<td>0.17</td>
<td>0.04</td>
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<tr>
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<td>0.55</td>
<td>0.35</td>
<td>0.16</td>
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<tr>
<td>Italy</td>
<td>0.21</td>
<td>0.09</td>
<td>0.00</td>
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<tr>
<td>Japan</td>
<td>0.31</td>
<td>0.12</td>
<td>0.01</td>
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<tr>
<td>Netherlands</td>
<td>0.86</td>
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<td>0.05</td>
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<td>Switzerland</td>
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<td>0.17</td>
<td>0.10</td>
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<tr>
<td>United Kingdom</td>
<td>0.48</td>
<td>0.29</td>
<td>0.02</td>
</tr>
<tr>
<td>United States</td>
<td>0.17</td>
<td>0.06</td>
<td>0.08</td>
</tr>
<tr>
<td><strong>TOTAL DAC</strong></td>
<td><strong>0.32</strong></td>
<td><strong>0.14</strong></td>
<td><strong>0.05</strong></td>
</tr>
</tbody>
</table>

Note: Data are averages for 2006-07

Source: OECD – DAC 2009
Conditionality of Aid

- **Untied**
  ODA for which the associated goods and services may be fully and freely procured in substantially all countries

- **Tied**
  ODA for which the goods and services must be procured in the donor country or among a restricted group of other countries but not all aid recipient countries (e.g. building a road with Caterpillar equipment and U.S. contractors)
### Bilateral ODA

<table>
<thead>
<tr>
<th></th>
<th>Partially Untied</th>
<th>Partially Untied</th>
<th>Tied</th>
<th>Total</th>
</tr>
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<tr>
<td>Canada</td>
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<td>0.1</td>
<td>25.4</td>
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<tr>
<td>France</td>
<td>92.6</td>
<td>-</td>
<td>7.4</td>
<td>100</td>
</tr>
<tr>
<td>Germany</td>
<td>93.4</td>
<td>-</td>
<td>6.6</td>
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<tr>
<td>Greece</td>
<td>42.3</td>
<td>10.4</td>
<td>47.4</td>
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<tr>
<td>Italy</td>
<td>59.8</td>
<td>7.9</td>
<td>32.2</td>
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<td>Japan</td>
<td>95.1</td>
<td>-</td>
<td>4.9</td>
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</tr>
<tr>
<td>Norway</td>
<td>99.9</td>
<td>-</td>
<td>0.1</td>
<td>100</td>
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<tr>
<td>Portugal</td>
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<td>11.0</td>
<td>30.9</td>
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<td>Sweden</td>
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<td>-</td>
<td>-</td>
<td>100</td>
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<tr>
<td>United Kingdom</td>
<td>100.0</td>
<td>-</td>
<td>-</td>
<td>100</td>
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<td>United States</td>
<td>68.5</td>
<td>-</td>
<td>31.5</td>
<td>100</td>
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<tr>
<td><strong>TOTAL DAC</strong></td>
<td><strong>84.6</strong></td>
<td><strong>0.2</strong></td>
<td><strong>15.2</strong></td>
<td><strong>100</strong></td>
</tr>
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</table>

Source: OECD – DAC 2009
System Efforts on Aid Quality

2005 Paris Declaration on Aid Effectiveness set key principles

- **Ownership** - Developing countries set their own strategies for poverty reduction, improve their institutions and tackle corruption.
- **Alignment** - Donor countries align behind these objectives and use local systems.
- **Harmonisation** - Donor countries coordinate, simplify procedures and share information to avoid duplication.
- **Results** - Developing countries and donors shift focus to development results and results get measured.
- **Mutual Accountability** - Donors and partners are accountable for development results.

2008 Accra Agenda for Action then emphasized

- **Predictability** – donors will provide 3-5 year forward information on their planned aid to partner countries.
- **Country systems** – partner country systems will be used to deliver aid as the first option, rather than donor systems.
- **Conditionality** – donors will switch from reliance on prescriptive conditions about how and when aid money is spent to conditions based on the developing country’s own development objectives.
- **Untying** – donors will relax restrictions that prevent developing countries from buying the goods and services they need from whomever and wherever they can get the best quality at the lowest price.
Some Famous Aid Successes

• Korean post-war support; Mozambique post-war support
• Green Revolution in South Asia
• Eradication campaigns against smallpox, guinea worm, polio
• Debt relief … and education improvements
• AIDS treatment post-2001
• Malaria control
ODA for Health:
Major Success Since 2000

2000: Launch of GAVI Alliance
   - Supported by Gates, UN, World Bank, private sector

2002: Launch of Global Fund to Fight AIDS, TB, Malaria
   - Developing countries submit plans for independent technical review and funding

2003: “3 by 5” target for AIDS treatment
   - WHO set ambitious 2005 delivery target

2003/2005: USA programs for AIDS, Malaria
   - Bilateral program anchored in performance targets
The Lift-Off Since 2000 in Global Financing for Health (yet still only 1/3 of recommended levels)

Aid for Health and Population

Source: OECD Development Assistance Committee
Number of Patients on ARVs in Sub-Saharan Africa

Source: UNAIDS 2009
Key Elements of Success

• Clear performance targets
• Known technologies
• Adequate finance
• National and Global mechanisms for achieving scale
• Auditable and accountable systems
What Aid Has Been Promised?
Quick History of 0.7

1969  Pearson Commission: 0.7% Public+ 0.3% Private

1970  UN General Assembly Resolution

2002  Monterrey Consensus
      “We urge developed countries that have not done so to make concrete efforts toward the target of 0.7 percent of gross national product (GNP) as ODA to developing countries.” (para 42)

2005  EC-15 commitments for 0.7 by 2015

Today we are the first generation in which the world can afford to halve extreme poverty within 0.7 envelope
CURRENT GLOBAL INVESTMENTS

Net ODA in 2008 - as a percentage of GNI

As % of GNI

UN Target 0.7
Average country effort 0.47

Source: OECD – DAC 2009
Net ODA in 2008 - amounts

Source: OECD – DAC 2009
How to Interpret All These Numbers?
Sources: USG 2009; WDI 2009; calculations
### Average ODA per capita of donor country in 2006-07 ($2006)

<table>
<thead>
<tr>
<th>Country</th>
<th>ODA per capita</th>
<th>Country</th>
<th>ODA per capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>107</td>
<td>Japan</td>
<td>74</td>
</tr>
<tr>
<td>Austria</td>
<td>188</td>
<td>Luxembourg</td>
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<tr>
<td>Belgium</td>
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</tr>
<tr>
<td>Italy</td>
<td>61</td>
<td>United States</td>
<td>74</td>
</tr>
</tbody>
</table>

**TOTAL DAC** 112

Source: OECD DAC 2009
United States Aid to Africa in Context

Source: NYS Comptroller (multiple); ONE 2009
Most Important Aid Questions

- Which programs have worked well and which have not?
- What lessons do the successes have?
- How can the successes be scaled and replicated in other areas?
- How much aid is needed to achieve that scale?
To Study The Numbers in Detail

www.oecd.org/dac/stats/data
Thank you!