DEVELOPMENT ASSISTANCE

Discouraging trends

Official development assistance – in the form of grants and soft loans – is no longer the main source of foreign income for most middle income countries, but it still is for the poorest. Since 1997, developing countries have transferred more financial resources to developed countries (to cancel debt commitments) than they have received in ODA. At the same time, assistance from donor countries as a percentage of their GDP has fallen.

Social Watch Research Team[1]

Selected indicators:

- Official Development Assistance from the countries belonging to the Development Assistance Committee of the Organization for Economic Cooperation and Development and from multilateral organizations (% of GNI)

International cooperation plays an important role in countries' progress towards economic and social development and in the struggle against poverty.

In this sphere financial assistance is vitally important, and it has a big influence on how some of the most disadvantaged countries will develop in the future. Contributions from developed countries through international cooperation can be vitally important for nations that have limited resources to be able to provide for the economic, social and cultural rights of their citizens. In fact, in this sense, this kind of cooperation is an international instrument to promote human rights.[2]

The developed countries have made commitments that are an expression of their political will and that quantify assistance to the poorer countries. In recent years, there have been government commitments to allocate a fixed proportion of their resources to ODA. In Commitment 9 of the final declaration of the 1995 World Summit on Social Development in Copenhagen, it was agreed that the donor countries would allocate 0.7% of their Gross National Income (GNI) to official development assistance (ODA).

According to the Organization for Economic Cooperation and Development (OECD), ODA consists of grants and loans with very soft financial conditions[3] made by public institutions in the developed countries with the aim of promoting economic development and well being in developing countries.[4]

However, official assistance and development are currently under debate because of the broad trends that have emerged in flows of official finance. In recent years there have been three main trends in global net flows into the developing countries:[5]

- Official flows of resources have become relatively less important and private sources of finance for development have been growing. The latter mainly consist of direct investment, which tripled between the 1990-1994 period and 2000-2004. There has also been a considerable increase in remittances sent by emigrants to their countries of origin, which more than doubled in the same period from USD 40 billion to USD 99 billion.[6]
- Official net flows have been highly volatile and have tended to decrease. ODA grew between 1970 and 1990 but since then it has been shrinking. The annual average between 1990 and 1994 was USD 52 billion, but between 2000 and 2004 it was only USD 36 billion.
- The modalities of private and official flows of resources have been changing. In the private sphere foreign direct investment and share acquisitions have been gaining ground over debts contracted with private banks and on capital markets. Direct investment is considered to be more stable and a better long term prospect than contracting debts with private international creditors.

Official sources of finance have been reducing the amounts they lend, but grants have increased from an annual average of USD 9.5 billion in the 1970s and 1980s to USD 31 billion per year in the 1990s. The underlying logic of this is that middle-income countries would seek more of their finance in capital markets and that ODA would be increasingly channelled to the poorest countries, especially those in sub-Saharan Africa.[7] Only in this region and in Southern Asia, where the poorest countries on the planet are found, have official flows exceeded private finance since the 1990s.

In recent years financial flows to developing countries have tended to be channelled through new instruments, and as a consequence ODA, as it was originally defined, is no longer the main source of foreign finance for most middle-income countries. But this does not apply to the poorest countries, where official assistance still amounts to over 7% of GNI.

It was noted above that private flows account for an increasing share of total finance for development at the expense of official flows, but this does not apply uniformly across the globe. These private flows of foreign direct investment are mostly going to a limited number of emerging countries, and to

Goal 8 of the Millennium Development Goal (MDGs) involves promoting a global partnership for development. This means the richer countries have made a firm commitment to giving development aid, and the countries that receive this aid have a responsibility to channel it into social development. The contribution needed from the international community to reach the MDGs is in fact far more than the set target of 7% of GNI in the donor countries. ■

1 The members of the Social Watch Research Team are listed in the credits at the start of this book.

2 The International Charter on Economic, Social and Cultural Rights (CESCR).

3 At least 25% should be donated, and loans have very low rates of interest (around 1% per year) and very long repayment periods (30 to 40 years).

4 Official Development Assistance (ODA), grants or loans to countries and territories in Part I of the DAC List of Aid Recipients (developing countries) which are: (a) undertaken by the official sector; (b) with promotion of economic development and welfare as the main objective; (c) at concessional financial terms [if a loan, having a grant element of at least 25%]. In addition to financial flows, technical co-operation is included in aid. Grants, loans and credits for military purposes are excluded. For the treatment of the forgiveness of loans originally made for military purposes, see Notes on Definitions and Measurement below. Transfer payments to private individuals (e.g. pensions, reparations or insurance payouts) are in general not counted.

5 Economic System of Latin America and the Caribbean (SELA) (2005). *La Ayuda Oficial para el Desarrollo en América Latina y el Caribe: contexto y perspectivas.*

6 Since the mid 1990s the amount of remittances received by the developing countries as a whole has exceeded ODA.

7 The main agencies in the United Kingdom, the Netherlands and Canada, among other donor countries, have indicated that ODA will be concentrated more and more in the lowest-income countries.

COMMITMENTS MADE INDIVIDUALLY BY SOME EU COUNTRIES:		
Belgium		0.7% 2010
France	0.5% 2007	0.7% 2012
Sweden	1% 2006	
Spain	0.33% 2006	0.5% 2008
United Kingdom	0.47% 2008	0.7% 2013

specific sectors within those countries. In fact, between 2000 and 2004, some 65% of these flows went to just five countries, namely China, India, Brazil, Russia and Mexico.

ODA flows changed direction after the 1997 crisis in Asia. The developing countries as a group transferred more financial resources to the developed countries (to pay off debt commitments) than they received, so their net balance was negative. In 2004 the balance ceased to be negative. Some developing countries were able to build up financial reserves thanks to favourable prices for their exports, and they used part of these resources to pay off their foreign debts or at least to make advance payments.

Between 2000 and 2004 ODA increased by around USD 12 billion, but when the figures are analyzed as a percentage of GNI in the donor countries it emerges that the trend is for proportionally less assistance to be given. In this period ODA amounted to only 0.25% of GDP, which falls far short of the 0.7% agreed by the donor countries in the 1960s and is also well below the 0.5% that was paid during that decade.

In 2004 the only countries that exceeded the United Nations target of 7% of GNI were Denmark, Luxembourg, the Netherlands, Norway and Sweden. In 2004 the average for the countries of the European Union went up from 0.35% in 2003 to 0.36%, but some nations in the bloc are still below the 0.33% that the EU set for its members after the Monterrey Summit in 2002, and even further below the 0.39% that was fixed as the target for 2006.

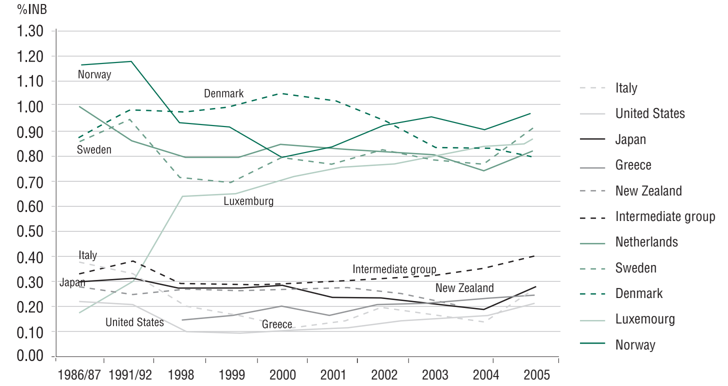
An evaluation of development assistance cannot be confined only to quantifying the funds involved. There is growing concern about the quality of this assistance, that is to say its efficacy, transparency and the real impact that it makes. To improve these dimensions, evaluation tools are being brought into play that allow much better follow up on what is really achieved.

A review of the 2000-2004 period shows that the increases in ODA at that time were in the areas of increased technical cooperation (46%), debt forgiveness for the poorest countries (32%), contributions to multilateral organizations (21%) and emergency aid (15%). At the same time there were decreases in other areas, such as loans and other grants (-14%).

Variations in ODA 2003-2004:

CONSIDERABLE INCREASES	%	REASON
Austria	22.0	Mainly through forgiving debt
Greece	13.1	Increase in technical cooperation and emergency aid
Canada	12.2	Ceased to receive repayments from India
Luxembourg	10.5	Increased cooperation with regional development banks
Portugal	187.5	Forgiving big debts owed by Angola
Spain	14.5	Contributions to international organizations
United Kingdom	8.8	Forgiving debt and increasing assistance for programmes and projects
New Zealand	8.2	Includes a considerable increase in grants to organizations in the South Pacific
SLIGHT INCREASES		
Denmark	3.5	
Finland	5.9	
France	4.3	
Australia	2.3	
Ireland	2.2	
Sweden	1.4	
DECREASES		
Belgium	-30.3	A fall from 2003, when the Democratic Republic of the Congo was granted considerable debt relief
Italy	-9.7	Due to less debt forgiveness
Netherlands	-4.0	Due to India's repayment of assistance loans
Switzerland	-3.0	
Norway	-2.9	

CHART 1. Net ODA payments at current prices and exchange rates (% of GNI), 1986-2005*



* Evolution of the five countries with highest and lowest contributions in 2004, and average value for countries with middle-level contributions.

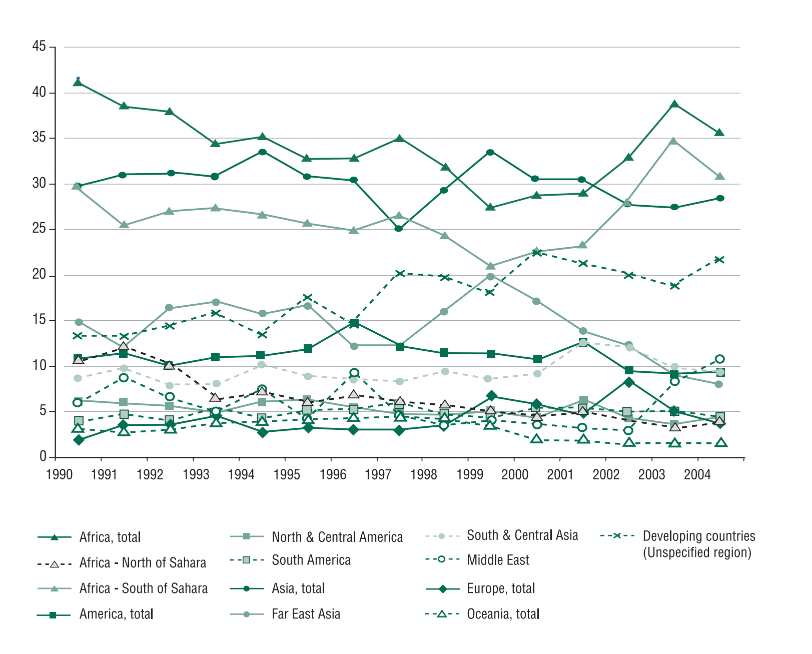
The commitments made at Monterrey meant an increase from the 2004 figure of 0.25% to 0.30% in 2006. It would seem that this proportion will increase, since the G8 (the seven most industrialized countries plus Russia)[8] announced in September 2005 that they would assume the cost of forgiving the debts that 40 countries have with multilateral organizations.

According to estimates made by the Development Assistance Committee of the OECD, annual OECD contributions will rise by USD 50 billion between 2004 and 2010, and reach USD 130 billion in 2010, which would amount to 0.36% of GDP in that year. In relative terms this is just half of what the donor countries committed themselves to in the 1960s.

The World Bank announced recently that the Multilateral Debt Relief Initiative (MDRI) came into force on 1 July 2006, and this would forgive the debts that some of the poorest countries in the world have with the International Development Association. This Association, under the aegis of the World Bank, is to grant some USD 37 billion in debt relief over the next 40 years, which is additional to the approximately USD 17 billion in relief that the Association is already committed to under the Heavily Indebted Poor Countries Initiative (HIPC).

According to the World Bank, countries that have 'graduated' from the HIPC Initiative would be able to opt for additional relief from their debt burden. In the first stage nineteen countries would enjoy total cancellation "of debts that satisfy the requirements" (Benin, Bolivia, Burkina Faso, Cameroon, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Tanzania, Uganda and Zambia). The other heavily indebted poor countries would have to meet the requirements of the programme to be able to accede to the debt cancellation mechanisms.[9] ■

CHART 2. Evolution of destination of ODA (1990-2004)



8 At the 2005 G8 Summit in Gleneagles in Scotland, these countries committed themselves to cancelling the debts of the most indebted countries in the world, most of which are in Africa. The International Development Association of the World Bank, the International Monetary Fund and the African Development Fund will forgive the debts of countries that have 'graduated' (that is, that have reached the 'culmination point') of the HIPC initiative. In March 2006 the donors agreed on a financial package for the MDRI which involves additional funds so as to ensure the flow of new resources for the fight against poverty. Compensatory financial assistance that is given during the period and covers cancelled loans is based on solid commitments that have already been made, and the donors are taking additional measures in the countries of origin to meet the need for supplementary financing in the period.

9 Cf. Wilks, A. and Oddone, F. "Forever in your debt?" in this Report.