

Briefing note 2

Post-Monterrey development aid report card

After the Financing for Development summit, development assistance increased by 5 per cent. Monterrey pledges, if fulfilled, would entail a 21 per cent increase by 2006. But this still falls short of estimated Millennium Development Goal targets. Progress is being made, but more and better aid are still needed.

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

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

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

EU member countries pledged to increase their ODA to 0.39 per cent of GNI by 2006, as a step towards the UN target of 0.7 per cent of GNI per country. This would result in an extra \$2 billion annually from 2006 and beyond.

In the case of the US, which was only 0.12 per cent of GNI in 2002, a 20 per cent increase to \$5 billion by 2006, under the auspices of a new Millennium Challenge Account, this would mark for an increase of nearly 50 per cent over the 2001 level of just slightly above \$10 billion. The funds would be available for use by developing countries showing a strong commitment to good governance, health and education, as well as to promoting economic development and entrepreneurship. Earlier this year, the US Congress took steps to authorize an independent account for this purpose and appropriate funds for it in fiscal year 2004. The Administration has proposed an initial allocation to the Millennium Challenge Account of \$1 billion for fiscal 2004, which is under discussion in Congress.

The prospect is that ODA worldwide will rise to a ratio of 0.26 per cent of GNI in 2006. This would be a significant gain over the 0.23 per cent ratio that was consistently achieved until 1992.

Financing the future

It is estimated that an additional \$50 billion a year in ODA above the 2000-2002 level of roughly \$50 billion is required to meet Millennium Development Goal targets of health, education, access to water and reduction of extreme poverty. This calculation was arrived at by the World Bank and confirmed by a blue-ribbon panel appointed by UN Secretary-General Kofi Annan in the run-up to the Monterrey Summit and summit.

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

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

At its 22 September 2003 meeting, the joint International Monetary Fund and World Bank Development Committee requested the Bank, working with the Fund, to examine the merits of options to raise extra substantial ODA resources. It also approved the United Kingdom, whereby funds would be borrowed on capital markets and repaid out of future aid budgets. The Bank is to report its assessment in April 2004.

Qualitative improvement

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

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

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

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

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

Status of ODA Commitments and delivery in 2002

Countries that have reached 0.7%

ODA in 2002 ODA/GNI

(\$ million)

1. With timeframes to further reach 1%

- Luxembourg to reach 1% by 2005
- Norway to reach 1% by 2005
- Sweden to reach 1% by 2006

143 0.70
1746 0.71
1764 0.74

2. With no further commitments

- Denmark
- Netherlands

1032 1637 0.70
3377 0.82

Countries

1. With timeframes to reach 0.7%

- Finland to reach 0.7% by 2010 and 0.4% by 2007
- France to reach 0.5% by 2007 and 0.7% in 2012
- Ireland to reach 0.45% by 2002

1061 0.43
466 0.55
5182 0.36
397 0.41

2. With timeframes only for interim targets

- United Kingdom to reach 0.4% by 2005-2006

1117 0.50

Rest of EU Countries to reach 0.53% by 2006

- Austria
- Greece
- Italy
- Portugal
- Spain

475 0.23
295 0.22
2313 0.20
282 0.24
1608 0.25

Other countries:

- Australia to increase ODA/GNI by 3% (real terms) by 2002-2003
- Canada to increase ODA budget

1302 0.25
2013 0.28

- Switzerland to increase ODA to 0.4% by 2010
- United States to increase ODA to 0.15% by 2006

933 0.32
12900 0.12

3. With no timeframes for 0.7% nor interim targets

- New Zealand to review future level of ODA
- Japan to review future level of ODA

124 0.23
9220 0.23

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

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