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**Refining Effectuality of Development Aid:  
Donors' Malfeasances**

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# Refining Effectuality of Development Aid: Donors' Malfeasances

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## Abstract

International development assistance has worked to improve the lives of the poor in developing countries. Yet, greater and better aid is badly needed lest donors are to live up to the commitments of the Millennium Development Goals. This article examines ways for donors to refine their assistance within the international aid system. Research exhibits that aid is of poor impact due to: less deployment to the poorest countries because of geopolitical and commercial reasons; less allocation to investments that directly address poverty; high volatility which impedes development planning of recipient countries; conditionality to donor goods and services that are over-priced and render piecemeal institutional development of recipient governments; fragmentation of competitive donor objectives which hinders a concerted resolve to corroborate a recipient development strategy; and limited systematic evaluation and sharing of outcomes. Provided donors are to allocate and manage aid in a more effectual manner, thereby to attribute to the levered well-being of the poor, they thus need to tackle these malfeasances without hiatus.

## 1. Introduction

The world has become a better universe thanks to the endeavors of international development assistance. According to the World Bank (2002), over the past 40 years life expectancy at birth in developing countries has increased by 20 years- about as much as was achieved in all of human history prior to the middle of the 20<sup>th</sup> century. Over the past 30 years, adult illiteracy in the developing world has been cut nearly in half, from 47 percent to 25 percent. The number of people living on less than \$1 a day has fallen by 200 million over the past 20 years, even as the world's population grew by 1.6 billion. Moreover, growth rates in the developing world have accelerated more than doubling the income of the average person living in developing countries over the past 35 years.

Notwithstanding, a consensus is that there is no room for complacency about these accomplishments. More could have been done about the development of the Third World through international development assistance. To date, there is a dire call for an augmentation in both the volume and efficacy of aid to developing countries if the Millennium Development Goals (MDGs)<sup>1</sup> are to be achieved as pledged. As the World Bank (2004a:1) acclaims, "Meeting the Millennium Development Goals will require not just more aid, but aid that is used much more effectively than it has been in the past. Today, when development assistance is at one of its lowest

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levels- 0.22 percent of GDP vs. 0.5 percent 30 years ago- and far short from what is needed to meet the goals, the issue of effectiveness has increased in urgency.” In a similar vein, the Organization for Economic Cooperation and Development/OECD (2005a:1), donors of 90 percent of worldwide aid, corroborates this stance: “Aid can and must be used more effectively to provide healthier and more secure lives for the 1.1 billion people in the world who live on less than a dollar a day and to achieve the Millennium Development Goals.”

This paper examines ways of improving effectiveness of development aid from the angle of donors. First, it reviews the present trends of aid relative to the fight for fulfilling the MDGs. Then, such critical issues as allocation/selectivity, predictability, conditionality and fragmentation of aid will be elaborated. The final part of the paper draws conclusions and offers pertinent policy implications.

## **2. Current Trends of Aid in Relation to the Millennium Development Goals**

### **2.1. Does Aid Increase?**

Since the 2002 UN summit on Financing for Development in Monterrey, Mexico, donor countries have steadily increased official development assistance (ODA)<sup>2</sup> to developing countries. Development assistance increased by 5 percent in 2003, down from 7 percent in 2002. In 2003, OECD countries disbursed development aid of \$69 billion to developing countries, and the amount is expected to rise to about \$88 billion in 2006 (OECD, 2005b). That means ODA is expected to grow by nearly 30 percent between 2003–6 and could be up to over \$100 billion by 2010 if donors are to live up to their commitments.<sup>3</sup>

Yet, the current amount of global ODA still lags behind that of the early 1990s and before. ODA as a share of donors’ average gross national income (GNI) was only 0.25 percent in 2003 (and expectedly 0.3 percent and 0.32 percent by 2006 and 2010 respectively), which was merely three-quarters the level in the 1970s, 1980s and early 1990s, and only about half the extent in the 1960s (Oxfam International, 2005). At present, only five of OECD countries have achieved ODA stakes of 0.7 percent of GNI or more and only six have targeted specific dates for reaching that benchmark as required by the United Nations since 1970 (OECD, 2005b).<sup>4</sup>

Also, although aid grew by 117% over more than four decades, this does not imply that donor countries have become more generous, because over the same period donor countries have become very much wealthier. GNI per capita in donor countries has gone up by 152% from US\$11,303 in 1960 to US\$28,500 in 2002. By contrast, ODA per capita in donee countries has risen by less than 10% from US\$61 to US\$67 within the same timeframe (Randel, German & Ewing, 2004). In addition, this aid contribution is despicable if compared with the value of reverse flows from South to North, in the forms of ecological debts, unfair trade rules and financial flows, which stood at US\$710 billion in 2003 or 10 times official aid levels (ActionAid International, 2005). Of this value,

South-North financial transfers accounted for US\$210 billion, comprising the purchase of foreign exchange reserves by the South which far outweighed net equity flows- portfolio investment and foreign direct investment. Interest payments alone take US\$95 billion of developing countries' resources, almost three times their grant aid value. Regarding trade flows, tariff and non-tariff barriers, dumping and product standards cost an estimated US\$100 billion to developing countries, 50% more than total official aid (see Endnote 16 for the unjust trading system between the EU and the Third World). Finally, on ecological debts the rich world owed the poor nations around US\$400 billion in terms of the damage cost of carbon emissions. This rendering is based on the premise that carbon emissions from rich countries are a key factor in climate change, which is impacting heavily on poor countries through increasingly unpredictable weather and rising temperatures and sea levels (mostly in the forms of flooding and drought).

Moreover, the bulk of the proliferation in development assistance has been in the forms of debt forgiveness<sup>5</sup> and non-pecuniary assistance. For instance, debt relief and technical cooperation comprised two-thirds of the \$16.6 billion increase in OECD countries' ODA between 2001 and 2003, with \$5.9 billion allocated to debt cancellation and \$4.8 billion to technical cooperation (OECD, 2005b). Of the aid increase within this period, emergency/disaster relief and food aid also represented a significant portion, which was about 17 percent.<sup>6</sup>

Geopolitical strategies or global and regional security concerns of donors have boosted aid flows as well,<sup>7</sup> especially to recipient allies of donor countries in the anti-terrorism era. This aid tendency has been crucially driven by the 9/11 event in the United States.<sup>8</sup> OECD (2005b) reveals that assistance to Iraq was sharply higher at \$2.3 billion in 2003, up from \$0.1 billion in both 2001 and 2002 while Pakistan absorbed about \$2 billion of aid per annum in 2001 and 2002. Between 2001 and 2003 aid to Afghanistan nearly quadrupled, to \$1.5 billion, and development assistance to Jordan tripled. In addition, Bosnia and Herzegovina, Croatia, and Serbia and Montenegro continue to enjoy grandiose amounts of aid, averaging \$2.2 billion a year in 2001-3.

Multilateral ODA, comprising grants and concessional lending, has also risen in recent years (by 7 percent between 2001-3) (World Bank, 2005a). However, overall multilateral aid flows to developing countries have declined due mainly to debt repayments. Non-concessional lending by multilateral development agencies, mostly to middle-income nations, has variably decreased; with many governments less borrowing from the IMF, repaying on past crisis financing packages, and prepaying loans to the World Bank.

To sum up, in absolute terms aid has been on modest surge over the last couple of years. But, in terms of a portion to donor GNI aid has shrunk, and the majority of donors have failed to achieve the 0.7 share. The current aid level is paltry if contrasted against the donee-donor resource flows in terms of the ecological debts, discriminating trading system and financial flows. Moreover, further to geopolitical concentration, aid has chiefly targeted at debt write-off and technical and emergency

assistance rather than investments, long-term capacity and institutional scaffolding. Repercussions of these failures will be examined in the sections below.

## **2.2. Is Aid Sufficient to Reach the MDGs?**

There is broad agreement that current development assistance is inadequate and that substantially extra aid is needed to meet the MDGs. At the present volume of aid, OECD (2005a) asserts that the only goal of the MDGs likely to be met is that of halving the proportion of extreme poverty by 2015 in much of Asia and North Africa while Sub-Saharan Africa will not be able to attain that goal, nor those for gender equality, education, child health, or maternal mortality.

To accomplish the MDGs, the minimum annual increment in ODA must amount to \$50 billion (UN, 2001), with the increases provided in line with donee countries' absorptive capacity growth. Concretely, \$73 billion is needed in 2006, soaring to \$135 billion by 2015, to directly support the MDGs in low-income countries (UNMP, 2005). That is, financing the MDGs and other development needs in the Third World would require nearly tripling net ODA. In terms of the ratio of ODA to donors' GNI, this implies that the share will be up to 0.44 percent and 0.54 percent respectively in 2006 and 2015.

However, rocketing aid alone will not be sufficient to succeed in fulfilling the MDGs. How aid is allocated and delivered is as vital as its volume for achieving the MDGs. Efficiency and effectiveness of aid is contingent to both awarders and grantees. On the awardee side, scaling up of development assistance is correlated with their absorptive capacity. Research exhibits that aid is more effective in fostering growth and refining service delivery in countries constituting sounder policy and institutional environments (World Bank, 2005a).<sup>9</sup> This article, somehow, does not examine the bottlenecks to absorptive capacity of aid recipients.

The following section deliberates hindrances to efficacy of development aid from the grantor counter. Such critical issues as allocation/selectivity, predictability, conditionality and fragmentation will be contemplated against donors' mainstream practices.

## **3. Critical Constraints to Effectiveness of Development Aid: Donors' Pitfalls**

Aid proponents argue that donors can do more to lever aid effectiveness in bolstering development of donee countries. The mainstream practices of aid management by donors depict a wide array of issues worthwhile discussing. These issues comprehensively, but by no means exhaustively, institute allocation/selectivity, predictability, conditionality and fragmentation. These and other facets amount to what ActionAid International (2005) dubs elements of 'phantom aid', which profoundly impede the quality of aid. ActionAid International (2005:17) defines and computes 'phantom aid' shelled out by donors in 2003 as follows:

- “- not targeted for poverty reduction, estimated to be worth \$4.9 billion*
- double counted as debt relief, totaling \$9.4 billion*
- overpriced and ineffective Technical Assistance, estimated at \$13.8 billion*
- tied to goods and services from the donor country, estimated at \$2.7 billion*
- poorly coordinated and with high transaction costs, estimated at \$9 billion*
- too unpredictable to be useful to the recipient- lack of data prevents an estimate*
- spent on immigration-related costs in the donor country; totaling \$1.5 billion*
- spent on excess administration costs; totaling \$0.4 billion.”*

These amounts represent that in excess of 60 percent of assistance is ineffectual, with real aid accounting for just \$27 billion, or only 0.1 percent of donor GNI. Therefore, to enhance aid effectiveness donors must take these bottlenecks into serious account within their aid system. Some of these ‘ghost’ items will be discussed below.

### **3.1. Is Aid Allocated Adequately to Least Developed Countries?**

According to the World Bank (2005a), donors are allocating more aid to countries with better policies and institutions and to poorer countries. Donors employ the policy selectivity index, which measures the elasticity of aid relative to the quality of recipients’ policies and institutions based on the World Bank’s Country Policy and Institutional Assessments, and the poverty selectivity index, which calculates the elasticity of aid with respect to recipients’ per capita income, to determine any volume of assistance to be disbursed. But a number of large donors are not very selective on these dimensions, peculiarly in technical assistance, thereby undermining the overall quality of aid.<sup>10</sup> For instance, low-income countries are allocated less aid than decided by their policy and institutional environments and poverty levels. UNDP (2004) asserts that only 40 percent of aid is directed to low-income countries, despite the distressing actuality that they account for over three quarters of the global populace living in poverty. Concerning the poorest sub-Saharan Africa, where the MDGs are furthest off-track, only one third of aid goes to the region. OECD (2005b) also indicates that the European Union channels virtually three quarters of its aid to middle-income countries,<sup>11</sup> and three of the top five Japanese aid recipients are middle-income nations as well. Even the International Development Association of the World Bank is mandated to disburse at least half of its resources to Africa regardless of need or effectiveness (as the severity of poverty is more adverse and institutional and policy environments are more favorable in other regions, such as Asia).

As indicated in Section 2.1, the bulk of the hike in development assistance crystallizes donors’ geopolitical concerns (i.e., to their strategic allies). Moreover, only a minimal amount of the increase is available in cash and more flexible forms (i.e., for program and project assistance) to satisfy countries’ financing needs for the MDGs. For example, bilateral ODA for program and project assistance increased only by \$0.6 billion between 2001-3 (OECD, 2005b). This sort of aid accounted for just a quarter of bilateral ODA in 2003, down from a third in 2001 and below the 60

percent average of the 1980s.

Furthermore, donors are allocating less aid to essential social development facets.<sup>12</sup> On average EU donors, to exemplify, contribute just around 6 percent of their overall assistance to basic education, primary health care, and water and sanitation (ActionAid International, Eurodad & Oxfam International, 2005). The aid share for these basic social services, specifically, of Portugal, Sweden and Italy is extremely low- 3.03 percent, 2.79 percent and 0.57 percent; despite the evident fact that these sectors are critical to enable healthy, skilled populations to take advantage of economic opportunities- laying the foundations for equitable economic growth which could lift millions out of poverty. Worse, Woods et al. (2004) and The Reality of Aid Management Committee (2006) attest that OECD donors have altered the criteria of ODA to include aid that advances their national security interests rather than poverty eradication, undercutting assistance for human development goals. Disbursements for activities for military aspects of peace operations or for the prevention of terrorism have increasingly been counted as portions of ODA. This trend of “securitization of ODA” can be illustrated by Japan’s new ODA Charter which incorporates “the prevention of terrorism” in the principles of its ODA implementation, thus making the Charter more fine-tuned to the US-led approach to global security policy (Kiyokazu, 2004 & 2006). For instance, in 2006 Japan’s ODA was reduced to 759.4 billion yen, but a budget for antiterrorism was established with an allocation of seven billion yen.

This less deployment of aid to the neediest countries and modalities underlies some donor rationale. Nonetheless, the current paradigm of aid allocations is reflective of the subordination of development goals to vested geopolitical and commercial priorities by donors,<sup>13</sup> as will be more elaborated in the sections to follow.

### **3.2. Do Donors Predictably Disburse Aid?**

Aid predictability (and volatility) is measured by the gulf between aid commitments and its actual disbursements under scheduled frameworks agreed by donors and donees. Volatile or unreliable aid flows can undermine budget management and constrain development of medium-term expenditure frameworks, which are at the core of Poverty Reduction Strategies of recipient countries. Donees are forced to cutback spending and/or increase taxes due to aid shortfalls (Gemmell & McGillivray, 1998).

In terms of reliability, donors’ performance has been worse since the 1990s. Aid has become more volatile in association with fiscal revenue or GDP of awardee countries (Bulir & Hamann, 2005; World Bank, 2005b).<sup>14</sup> Furthermore, the vacuum between aid commitments and its genuine disbursements has remained vast, particularly for the poorest countries- which are granted only roughly half of pledged aid. For example, actual disbursements of program aid to Africa fall short of projections by 14 percent, and by 26 percent for project aid.

Exacerbating the shortfalls, much of aid arrival is not timely. Oxfam International (2005)'s survey reveals that in 25 percent of programs, aid disbursements arrive half to one year late, while for the EU only 14 percent of aid is channeled as scheduled. Most belated disbursements are due to administratively cumbersome procurement procedures of donors, which culminate in prolonging of development schemes. In Ethiopia, Italy's 1999-2001 aid program is still being executed owing to tardy procurement arrangements (ActionAid International, 2004). Analogously, late and incomplete releases of aid have resulted in huge parcels of Zambia's education strategy unimplemented. Donor conditionalities lead to postponement or suspension of aid as well. To exemplify, a \$90 million loan to Ethiopia remained undistributed in the final quarter of 2004 due to a condition imposed by the African Development Bank (ActionAid International, 2005).

In addition, donors seldom unravel their budgeted and actual disbursements. In Zambia, over three quarters of aid agencies do not notify the government about actual aid disbursements, making it extremely hard to effectively plan finance. In Tanzania, 20 out of 39 donor agencies do not disclose project/program expenditures to the government (Oxfam International, 2005).

As a consequence of aid volatility, recipient countries are forced to discount donor commitments based on preceding disbursements (ActionAid International, 2005). For instance, Ethiopia discounts African Development Bank loans by 80 percent and EU aid by 75 percent at the inception of the fiscal year, while Uganda counts only 50 percent on donor commitments. Still, this does not help much with donees' long-run planning and budgeting for development goals for donors indicate pledges just within the one-year timeframe.

### **3.3. How Much Aid is Conditioned?**

In 2001, OECD donors commenced to realize the adverse repercussions of tied aid and recommended unconditioning all categories of assistance, excluding technical cooperation and food aid, to the least developed countries. Yet, huge amounts of their current bilateral ODA continue to be conditioned. According to the World Bank (2005a), technical assistance (TA), accounting for above a third of bilateral ODA, is largely spent on source-country expertise. Food aid, excluding humanitarian assistance, is mostly tied as well. Worse, one fifth of assistance to Heavily Indebted Poor Countries (HIPCs) in Africa remains formally stringed.

ActionAid International (2005) estimates that 40 percent of aid, excluding food aid and TA, is tied to the procurement of goods and services from the donor country. Tied aid inflates procurement costs by \$5 billion annually. Tying increases costs by 25 percent, meaning that 20 percent of tied aid is phantom aid. This is equivalent that \$2.7 billion- or roughly 4 percent of global aid flows- are wasted through conditionality. For example, 96 percent of yen 64 billion Japanese project aid to Vietnam in 2003 solely or partially involved Japanese firms. In Cambodia, a USAID-funded healthcare NGO was conditioned to purchase oral rehydration salts from US companies at four to



five folds the local market value. OECD (2004) evinces that untied food aid can reach up to 50 percent more beneficiaries than does tied aid. Aryeetey et al. (2003) also ascertain that untying project aid yields sizable savings- between 11-25 percent; while Jepma (1991) estimates the savings at between 15-30 percent.<sup>15</sup>

In addition, aid is strongly induced by business/trade objectives. ActionAid International (2005) cites an example of the US Emergency Plan for AIDS Relief to developing countries which purchases only US-branded drugs, not other cheaper generic medicines, and thereby saves far fewer lives than aimed. Another vivid instance is Japan's Country Assistance Program for Vietnam, which allocates 86 percent of its aid to large-scale infrastructure (and only 6 percent to social development) in favor of its export market development and foreign direct investment in the country.<sup>16</sup> A more macro exemplification is the increased recourse to aid as a deliberate trade tool. In the entire words of Rogerson, Hewitt and Waldenburg (2004:25):

*“If rapid trade reform, especially the dismantling of agricultural subsidies, is not on the cards, there is still the possibility of substantial volumes of aid being proposed as a ‘sweetener’ or transitioning device, offsetting some of the costs of adjustment in the South but also in the North. Trade policy itself could become more bilateral, of course, if multilateral trade negotiations stalled and bilateral free trade agreements (FTAs) became the order of the day. EU aid, for example, has a long history of being an adjunct to a regional FTA, rather than an end in itself. Sometimes this trade-to-aid perspective has indirect effects. For example, the stated goal of the EU’s Mediterranean aid programme is to smooth the transition for the 12 partner countries to increased competition from the EU under an FTA. ‘Industrial modernisation’ therefore features high in the list of co-operation priorities, prioritizing more vocational and technical, but not general, education. For several of the recipient countries, and in an MDG perspective, general education could address more urgent needs and prove to have greater spread effects.”<sup>17</sup>*

The most ineffective stringed aid is TA. In 2003, \$18 billion or over a quarter of global aid was earmarked as TA, which involved hundred thousands of expatriate consultants (ActionAid International, 2005). In Africa alone, for instance, TA offers employment to 100,000 alien experts (World Bank, 2000). According to ActionAid International (2005), TA is not effective within the international development system for three vital reasons. First, most of it is colossally tied to donor-country firms. Even where it is untied, competition in tenders and contracts is piecemeal. For example, 25 of the 34 largest UK TA contractors are British, and none is from a developing country. Second, TA is enormously overpriced. A prime example is the amount of between \$50-\$70 million- about the wage bill for the 160,000-strong public sector- that Cambodia salaried to 700 international advisors in 2002, meaning they earned 200 times more than their local counterparts. In Vietnam, the monthly pay of foreign experts ranges between \$18,000 and \$27,000 whereas that of local ones is only \$1,500-\$3,000. Third, TA is donor-driven, foreclosing pre-determined policy options, and

often leads to inappropriate or irrelevant support. A case in point here is TA on trade jointly provided by the World Bank, IMF and World Trade Organisation which pushes for privatization blueprints, the mainstream conditionality of these mega-institutions.

As well, TA is inefficient and, like other aid modalities, ill-harmonised. There is widespread duplication/overlap of TA because of limited coordination and utilization of analytical, diagnostic and capacity-building work by donors (Oxford Policy Management, 2003). For example, there are 60 separate TA projects of 23 different donors assisting Vietnam's accession to the WTO (Government of Vietnam, 2004). There is great duplication in country analytic work such as poverty assessments, public expenditure reviews, governance and investment climate assessments, and fiduciary analyses sponsored by donors (OECD, 2003b). Authors of these reports frequently are unaware of recent studies on the same topic in the same country funded by a different donor (Easterly, 2003).

ActionAid International (2005) estimates that around half of TA does not enhance recipient countries' institutional capacity or quality, or improve their management and absorption of resources.<sup>18</sup> More broadly, premised on the above pitfalls, 75 percent or \$13 billion of TA is characterized as 'phantom' aid. Untying of aid therefore substantially multiplies its effectiveness in terms of greater and better aid to recipient countries.<sup>19</sup> Even though donors continue to make progress on untying aid, no specific target has been set for such achievement (OECD, 2005d).

### **3.4. Are Donors in Effective Concert to Deliver Aid?**

Donors' aid to developing countries remains excessively fragmented. The grade of fragmentation, evaluated by shares of individual donors in overall aid flows, was at 68 in 2003<sup>20</sup> (World Bank, 2005a). Ninety official donors, plus the recent entrants of 10 new members of the European Union, are currently dispensing aid worldwide- each with their own systems, procedures and priorities.<sup>21</sup> This growth in aid agencies is however disproportionate to the surge in aid, with assistance most fragmented at both country and sector levels in the poorest region, sub-Saharan Africa. Although 60 percent of bilateral aid to this sphere is delivered to merely 10 countries, on average a recipient caters to 25 variable donors per annum. Specific examples include over 40 bilateral and multilateral donors operating in Ethiopia and 20 agencies involving in the Zambian education sector.<sup>22</sup>

Moreover, donors carry out far many missions to monitor compliance with conditions. For example, typically the World Bank makes a mission to Senegal a week (OECD, 2004), and Ethiopia hosts several donor missions on a weekly basis, in which Japan conducts four appraisal missions before a project is approved (ActionAid International, 2005). Put another way, an African donee annually is toured over 1,000 times by donors and submits 10,000 quarterly donor reports.

The shortage of harmonization among donors is partially due to the fact that they are concerned

about making their own efforts visible and attributing swift and tangible outcomes. Knack and Rahman (2004:2) clearly state that “Donor countries all have their own commercial and security objectives, and their aid agencies additionally have the objective of maximizing aid budgets, which requires satisfying key domestic constituencies in parliament and among aid contractors and advocacy groups. This latter objective often requires making the results of aid programs visible, quantifiable, and directly attributable to the donor’s activities- even when doing so reduces the developmental impact of aid.” In other words, donors engage in these practices to increase the visibility of their efforts and the short-term appearance of success for their individual projects at the expense of coherent policy making and capacity building in the recipient country’s public sector. As in Cambodia, donors financed and produced three separate strategic plans, all presumably home-grown: the 2<sup>nd</sup> Socio-Economic Development Plan (SEDPII) by the Asian Development Bank; the National Poverty Reduction Strategy (NPRS) by the World Bank; and the MDG Strategy by the UNDP (ActionAid International, 2005). These three official documents yield some variability and contradiction, confusing the government on policy and strategy orientation in implementation of its development investments.<sup>23</sup>

The scattering of donor schemes consequently incurs high administrative and financial transaction costs for recipients. Manning (2004) estimates the annual number of aid transactions at 35,000 worldwide, of which 85 percent have a value below \$1 million. A preliminary assessment by ActionAid International (2005) puts the transaction costs at \$9 billion or 13 percent of the global aid. Concretely, Knack and Rehman (2004) stipulate that high fragmentation renders unfavorable implications for aid quality in a number of ways: high transaction costs for recipients as more time and resources are devoted to meeting donor requirements; too many tiny projects, with consequent limited feasibilities for scale economies; and smaller or narrower donor stakes in overall country outcomes.

To address these loggerheads, donors should limit the number of countries of their focus and delegate greater authority to lead donors with better comparative advantages, where appropriate. Only 21 percent of donors across 14 countries delegate cooperation, and less than 8 percent of donor missions are conducted jointly (OECD, 2005b). Moreover, donors should employ more recipient countries’ systems, rather than establish parallel systems, to channel and manage their aid. On average, only 29 percent of donors’ projects are managed using partner systems and procedures (for financial reporting, disbursement, procurement, audit, monitoring and evaluation). Among them, 23 percent utilize partner systems for environmental impact assessments and 33 percent for procurement.

Furthermore, donors should base their aid programs more on the needs and priorities identified in recipient countries’ national development plans/strategies, rather than on their individual incohesive objectives. To illustrate this paradox, the following paragraphs from ActionAid International (2005:45) are worth wholly citing:

*“Tellingly, the recent OECD-DAC Survey on Harmonisation and Alignment found no evidence that PRSPs had forced donors to adjust their own aid response. For some donors, ‘alignment’ means changing the PRSP to suit donor priorities rather than the other way round. Japan’s Country Assistance Plan for Vietnam, for example, notes that ‘as the PRSP did not make any reference to the contribution of...large-scale infrastructure development to poverty reduction, Japan took an initiative in reviewing the PRSP so that it would address this point.’*

*In some cases such as Cambodia, PRSPs have even been written by aid-financed foreign consultants, making ‘ownership’ little more than a donor fiction. The World Bank and IMF’s own recent evaluations are also critical, highlighting the reluctance of donors to discuss genuine policy alternatives and the failure of Bank and Fund loan programmes to read across to the PRSP.”*

Finally, aid agencies should place greater emphasis on results in their development programs. More systematic and coherent monitoring and evaluation should be carried out to better ascertain the quality and impact of aid. Where appropriate, donors should conduct joint assessments of aid efficacy so that results can be shared in a more efficient and effective manner among themselves. A majority of donors fail to share analytical work and aid conditions amply and openly. In Ethiopia, for example, only 11 of 23 bilateral donors reveal information on aid quality and frequently the information provided is considerably incomplete (OECD, 2005f).

To sum up, donors’ malfeasances in harmonizing their multiple operations, aligning their policy instruments to recipients’ development strategies and capitalizing on recipients’ existing policy making processes have rendered costs relative to benefits within the aid system. Recipient governments divert scarce time and resources from identifying and implementing local policy priorities to satisfy numerous demands imposed by donors; assistance fails to tackle the root bottlenecks to growth and poverty reduction; and bureaucracy and conditionality further burdens the huge transaction costs. Ultimately, these loggerheads undermine the quality of public administration of donees to manage aid effectively in the long run. Despite the ongoing high-level harmonization initiatives by aid agencies, there remain grounds for skepticism that political and bureaucratic exigencies of donors will be trumped by demands for improved aid effectiveness.

## **5. Conclusions**

International development assistance has made great strides in advancing life quality in the Third World, as manifested in the refinements in the chief indicators of human development over the past decades. Still, empirics-based evidence pinpoints to spacious room for betterments within the global aid architecture lest the MDGs and other development ends of developing countries are to be reached. This quest for improvements seems to fall on donors themselves rather than on donees.

Recent research indicates that donors can do more to ameliorate grassroots poverty by restructuring their aid delivery modalities and mechanisms. This article has surfed through some of the mainstream impediments to aid quality and efficacy from the angle of donors. First, the analysis unveils that donor resources actually available to poor countries remain a minimal proportion of absolute aid commitments. Second, quite too often poor people's aspirations and priorities are figured as an afterthought within the present aid channel, thereby minimizing its potential impact on economic growth and poverty reduction. To assist progress on the MDGs, donors ergo should both rise up and reallocate aid to ensure that the poorest countries receive more funding by balancing poverty reduction and vested geopolitical and commercial objectives.

Concretely, donor agencies need to increase project and program aid which directly tackles grassroots poverty in the long term, by decreasing other typologies of aid such as technical assistance to the greatest extent possible. Donors are necessitated, moreover, to commit aid within a longer timeframe and deliver it in a more transparent and foreseeable manner to enable recipient countries to plan with greater efficiency and efficacy. Aid must be fully unconditional provided it is to render better quantity and quality. Resources, both human and material, in grantee countries should be exhaustively tapped in procurements of goods and services within the aid delivery and management system prior to out-sourcing them to the donor country or a third country. Particularly, TA must be purchased locally to the most probable degree and focus on boosting capacity rather than on completing a gap or co-opting for a pre-set policy agenda. Furthermore, donors should deliver and manage aid in a concerted mode to reduce transaction costs and beef up effectiveness. Ways to better focus on recipients and sectors and to delegate more authority to the field and peer donors of greater comparative advantage principles deserve farther attention. More usage of recipient procedures, processes and systems and more cohesive alignment of aid schemes to recipient development strategies and priorities need to be committed by donor agencies. Finally, strengthening the focus on outcomes, both tangible and intangible, in aid programs and sharing lessons learnt in a more systematic way are critical to augment development effectiveness. In sum, donors need to commit beyond the indicators set forth in the "Paris Declaration on Aid Effectiveness".<sup>24</sup>

To conclude, aid policy should crystallize the soaring realization that mitigating poverty and human deprivation is the most effective approach of bolstering long-term peace and security, the ultimate ends of development.<sup>25</sup> Aid should not be provided on a purely charitable basis or 'granted with one hand and taken away with the other', but on an imperative precedence of impartial and equitable development shared by both the North and the South. This requires equal standing and reciprocal accountability garnered by both donors and donees within the global aid regime.<sup>26</sup> Failure to focus strategically and imbalanced power dynamics within partnerships culminate in ineffectualness of aid and subsequently compound the world's fragile peace and security, as evidenced in the nowadays' 'terror-ridden' universe.

## Notes

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<sup>1</sup> In September 2000, at the UN General Assembly world leaders adopted the Millennium Development Goals, which within targeted timeframes aim to: eradicate extreme poverty and hunger; achieve universal primary education; promote gender equality and empower women; reduce child mortality; improve maternal health; combat HIV/AIDS, malaria and other diseases; ensure environmental sustainability; and foster a global partnership for development (UNMP, 2005). Subsequent to this, donors have pledged to focus more on poverty, improve aid effectiveness and strengthen North/South partnerships in pursuit of the goals.

<sup>2</sup> ODA is broadly defined as resource transfers by official agencies that are “administered with the promotion of the economic development and welfare of developing countries as its main objective”, or are loans with a concessional grant element of at least 25% for this purpose (OECD-DAC, 2001).

<sup>3</sup> At the 2005 G-8 summit, the most industrialized nations have committed to rising aid to Africa from the current \$25 billion annually to \$50 billion by 2010 and up to \$3 billion per annum over the next three years to Palestine (G-8, 2005a). Yet, aid critics argue that this incremental amount is far insufficient to lift Africa out of poverty by the set timeframe (CNN, 9 July 2005).

<sup>4</sup> They respectively are: Denmark, Luxembourg, the Netherlands, Norway and Sweden; and Belgium, Finland, France, Ireland, Spain and the United Kingdom. However, at the 2005 G-8 summit the European Union (EU) aggregately has pledged to reach 0.7 percent ODA/GNI by 2015 with a target of 0.56 percent by 2010. The EU will double its ODA between 2004 and 2010 from \$34.5 billion to \$67 billion. At least 50% of this increase should go to sub-Saharan Africa (G-8, 2005a). Individually, Germany and Italy have undertaken to reach 0.51 percent ODA/GNI in 2010 and 0.7 percent in 2015; France 0.5 percent in 2007, of which two thirds for Africa (representing a doubling of ODA since 2000) and 0.7 percent in 2012; the UK 0.7 percent by 2013 and a double of bilateral assistance to Africa between 2003-4 and 2007-8. The US proposes to double aid to Sub-Saharan Africa between 2004 and 2010. Japan intends to increase its overall ODA volume by \$10 billion over the next five years. Canada will twice its international assistance from 2001 to 2010, with aid to Africa doubling from 2003-4 to 2008-9. Finally, Russia has cancelled and committed to cancel \$11.3 billion worth of debts owed by African countries, including \$2.2 billion of debt relief to the Heavily Indebted Poor Countries (HIPC) Initiative.

<sup>5</sup> Donors counted debts written off to recipient countries as aid to them, thereby swelling the amount of commitments made. The G-8 members lately have pledged to wipe out \$40 billion in debts that 18 poor countries- 14 of them in Africa- owe international financial institutions (G-8, 2005a). However, they will not include it in their aid commitments to the debtee governments.

<sup>6</sup> This particularly applies to the 50 Least Developed Countries, whose most of the ODA upsurge over the past four years was in the form of debt relief and emergency and reconstruction aid (OECD, 2005e).

<sup>7</sup> Empirically, Round and Odedokun (2004) confirm that aid effort, defined as the generosity ratio or the proportion of GDP offered as aid, of bilateral donors over the last three decades is significantly correlated with donors' motive and strategy of 'military adventurism', as evidenced in the rises in the share of military expenditure in donor income and in

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the stake of military staff in donor labor force. Also, the association between aid effort and political polarization and fractionalization of donors is positive, suggesting that aid is subject to satisfying vested interests of diverging political factions of donor governments. Macrae et al. (2004) specifically reveal that official humanitarian aid, which is supposed to be impartial and neutral, is politicized as well. Donors have been much more involved in humanitarian decision-making and operations and much less willing to delegate full responsibility to UN, Red Cross and NGO actors for identifying needs and planning responses. In other words, donors have mounted earmarking of contributions, tightened contractual and managerial regimes to handle donor-agency partnerships, and employed more non-conventional humanitarian agencies to deliver assistance, including the military and private contractors. Strikingly, this bilateralization of humanitarian aid militates against distribution of resources in proportion to need; rather it highly concentrates on the visible emergencies in which donors perform a prominent military and political role.

<sup>8</sup> In October 2003, OECD endorsed a policy statement on development cooperation which primarily deals with the prevention of terrorism: “Development cooperation ... has an important role to play in helping to deprive terrorists of popular support and addressing the conditions that terrorist leaders feed on and exploit” (OECD, 2003A:11). This strategic shift in international development assistance has led to many ‘anti-terrorism’ programs in developing countries. For instance, Australia provides bilateral counter-terrorism assistance to Indonesia and the Philippines and a ‘Peace and Security Fund’ for the Pacific Island Countries, and contributes to an Asia-Pacific Economic Cooperation (APEC) fund for anti-terrorism capacity building (Spillane, 2004). All these funds are included in its formal aid account. More explicitly, following the terrorist attacks of September 11, 2001, the US has proliferated its foreign aid to influence developing country policies and safeguard its citizens from terrorism. As the USAID (2004:7) precisely states in its White Paper: “The relevance of US foreign assistance to US national security and the call for greater aid effectiveness are key drivers of strategic reform.” For a similar militarization or securitization of Japanese assistance, see Kiyokazu (2004). Most recently, with the terrorist attacks in London on the second day of the G-8 summit on 7 July 2005, the most developed countries have vowed to intensify their efforts on counter-terrorism, committed to augment the political will and capacity of other states to combat terrorism through their Counter-Terrorism Action Group (G-8, 2005b). This trend of international assistance has worried development actors in a sense that substantial resources and endeavors are diverted away from the fight against grassroots poverty within the already-overstretched global aid volume. Put another way, the post-9/11 aid environment, stressing early and major support to previously failed or failing states, could further encourage bilateral aid spending for purposes only vaguely linked to poverty outcomes.

<sup>9</sup> A 1998 World Bank research stipulates that recipient countries must reform economic policies and institutions so as to succeed in growth and poverty reduction via aid flows (World Bank, 1998). It is contended that countries that profit the most from aid by reaching the highest growth rates possess strong economic policies (defined as low inflation, fiscal balance or surplus and trade openness) and high-quality institutions (identified as rule of law, effective public bureaucracy and piecemeal graft). Following suit, for instance, America through its “Millennium Challenge Account” disburses aid only to countries that unravel refinement in combating corruption, proliferating health and education standards, or advancing economic freedom (chiefly conceptualized as strong property rights, low regulation, and free fiscal, monetary and trade policies) (Schaefer & Schavey, 2002).

<sup>10</sup> Burnside and Dollar (2000) empirically unfold that aid has generally not been targeted at ‘good policy’ countries

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although donors categorically articulate that aid is effective in sound policy environments but ineffectual otherwise. Conversely, aid is skewed towards recipients with poor policy performance in lieu of geopolitical and commercial motives, which is by and large ineffective (Boone, 1996; UNMP, 2005). In addition, aid flows are distorted due to historical and colonial/cultural ties. This messy aid landscape renders donor-darlings and donor-orphans, with only transitory links to sustained development performance. Rogerson, Hewitt and Waldenburg (2004:22) ascertain that “Millions more can be sprung from poverty if aid is focused on countries with high levels of poverty and *existing* (i.e., not promised) adequate pro-poor policies and institutions” and if aid is ushered in gradually with improving performance and graduated only slowly for the best performers.

<sup>11</sup> EU aid allocations are not pro-poor as they heavily concentrate on moderately wealthy low-performers of its neighbors rather than on poorer countries, for instance, in South Asia. For instance, Greece disburses merely 6 percent of its total aid expenditure to low-income countries; while those of Spain, Austria and Finland are only 13 percent, 15 percent and 24 percent respectively (ActionAid International, Eurodad & Oxfam International, 2005).

<sup>12</sup> At the 1995 World Summit for Social Development, international donors committed to spending 20 percent of their aid on basic social services. But hitherto, among EU donors only the Netherlands approaches the target, allocating 19 percent of its ODA to basic education, primary health care, and water and sanitation (ActionAid International, Eurodad & Oxfam International, 2005).

<sup>13</sup> Killick (2004:5) asserts that “...major elements in the new aid agenda may not be well-based empirically. This is partly because of inadequate knowledge, but particularly because the evidence often conflicts with political preferences (of donors). As a result, it is likely that large amounts of aid resources are being misdirected.” He pinpoints this stark mismatch between pragmatism of aid and institutional choices of donors in the modalities of debt cancellation, policy conditionality and program assistance. Specifically, he states that donors should not divert more aid into debt relief as it fails to generate additionality to normal and previously planned flows of development assistance and it inefficiently redistributes to the most indebted countries. Moreover, donors should recall their reliance on conditionality in pursuit of policy alteration in recipient countries since it fails to render local ownership of reforms and it reinforces poor policy performance as preceding non-compliance is not effectually disciplined with future credits. Furthermore, donors should not expand program assistance premised on a preassumption that program aid entails less transaction costs than conventional discrete development projects since this hypothesis needs to be empirically validated in a systematic manner and certain evidence evinces otherwise. Yet, donors’ policy stipulations do not seem to align with the empiricism of evidence and consequently their political and institutional stakes appear to stand in staunch contrast to the most effective utilization of scarce aid resources. It is interesting to note that the issue of ‘*Realpolitik*’ in aid occurs among donors themselves as well, as in the case of post-conflict reconstruction in Iraq where non-coalition members were initially excluded from bidding for the largest US-funded aid component but were nevertheless expected to make parallel contributions of their own (AP, 10 December 2003).

<sup>14</sup> Among African recipients, according to OECD (2005e), volatility is lower in more stable countries and higher in those more fragile. A substantial number of recipients experience year-to-year ODA variations averaging 10-20 percent, but the figure can rise to 50 percent or more for recipients suffering conflict or unrest. The problem is most acute in aid-dependent countries with low international reserves, where donors are unsure about government commitment and



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capacity to reform.

<sup>15</sup> Similarly, OECD (2005e) admits that tying raises the cost of many goods, services and projects by 15-30 percent on average; implying that tied aid reduced the value of total bilateral aid by \$5-7 billion in 2002, excluding the indirect costs associated.

<sup>16</sup> In fact, Kawai and Takagi (2004) indicate that Japan's ODA is being pressured to be deducted and deployed as a more effective diplomatic tool in more explicit pursuit of its own economic and political benefits. On an international basis, Japan exercises restrained willingness to disburse its ODA in multilateral partnerships as it bilaterally strives for enhanced visibility and political leverage. All in all, Japan's ODA falls short of transparency and efficiency and is wasteful, in terms of poverty amelioration in recipient countries. To refine the effectiveness and quality of its aid, Kawai and Takagi (2004) suggest Japan adopt a strategic approach to assisting economic development and poverty alleviation in low-income countries in greater coordination with other stakeholders in the international development community. In specific, aid needs to be emphatic on institution strengthening and economic reform, even for hard infrastructure schemes. Japan should offer more 'ideas' for institution development and policy reform in recipient countries rather than a huge sum of financial resources for hard economic infrastructure. Doing so, Japan will be able to shift from its status quo as a 'quantity' spender to a 'quality' partner in development.

<sup>17</sup> Worse, the international trade system is unfair for poor countries, at least from an 'altruistic' perspective. ActionAid International, Eurodad and Oxfam International (2005:12-14) illustrate unjust trading between the EU and the developing world as to the aspects of agriculture, textiles and patents; in which strict rules and safeguards limit the possibilities for poor countries to gain access to European markets. They call for EU states to "end the dumping of subsidized agricultural products on poor countries' markets, give poor countries access to their own markets, and adopt development-coherent trade policies, acknowledging the right of poor countries to protect their agricultural markets...in the interests of ensuring food security and in defense of rural livelihoods." Moreover, the EU continues to maintain trade barriers against exports of clothing and textiles from developing countries, thus depriving them of jobs and foreign exchange. The EU rules that, to qualify for exports to its markets, the fabric as well as the clothing must be produced locally. As a result, poor countries which need to import fabric are obliged to pay duty on most of their exports. On the issue of trade patents, "The way in which WTO patent rules drive up the price of vital medicines in the developing world is perhaps the most shocking illustration of the way in which trade policy is often subordinated to corporate interests, at the expense of the public good. The rules, enshrined in the WTO's patent agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), also push up the price of seeds, textbooks, software, and other knowledge-intensive goods that are essential for development. At the same time, the TRIPS agreement offers no protection to the traditional knowledge and biological assets of the developing countries."

<sup>18</sup> Even when TA does build capacity of government personnel, it often leads to brain drain/turnover of the public servants to donor agencies themselves or NGOs; with the most talented, ambitious and best-trained most likely to leave. This adversely poaches the scarce human resources of recipient governments, compounding the already limited capacity of their administrations (Knack & Rahman, 2004). In Kenya, for example, of twenty government economists receiving Master's level training in a donor-funded capacity building project between 1977 and 1988, fifteen worked for aid agencies or NGOs directly, or for their projects by 1994 (Cohen & Wheeler, 1997). For ineffectuality of TA to aid-

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intensive Cambodia, see Godfrey et al. (2002).

<sup>19</sup> Advocates of tied aid argue that untying aid (and standardizing and coordinating donor procedures and processes) would not necessarily lead to an upsurge of the real resources to recipients as political support for aid in donor countries might drop in response. Yet, one EC-commissioned study reveals that the perceived advantages of tied aid, such as upped public support in donor countries, are not demonstrated in reality (Outterside et al., 2004).

<sup>20</sup> Donor fragmentation ranges from 0-100; higher values imply more fragmentation.

<sup>21</sup> Among these include over 40 bilateral agencies of which 23 DAC members, 15 UN entities and 20 global and regional financial institutions. Some new aid mechanisms (such as the US Millennium Challenge Account, the Global Fund to Fight AIDS, TB and Malaria, and the International Financing Facility) have also been established, as a consequence of perceived deficiencies in the existing ones. Notwithstanding, many new aid institutions “are often seen as having little impact but struggle on in a diminished form through patronage ties, inertia, non-transparent funding formulas, and by eschewing any controversy that could tip political opinion towards outright closure” (Rogerson, Hewitt and Waldenburg, 2004:12). In general, the aid system today “is riddled with imperfections, inertia and bureaucratic ‘intrapreneurship’, and has developed a distinct, sheltered bureaucratic culture outside the mainstream of donor (and sometimes recipient) government administrations” (ibid).

<sup>22</sup> Acharya et al. (2003) compute that the median number of official donors in recipient countries in 2000 was 23.

<sup>23</sup> Both the government and donors intend to unify these multiple national strategies into the next five-year Socio-Economic Development Plan for 2006-2010. Yet, the government is imprecise regarding which document is the guiding strategy.

<sup>24</sup> In March 2005, at the OECD High Level Forum donor and donee countries postulated twelve indicators for enhanced aid effectiveness concerning ownership, alignment, harmonization, results and mutual accountability (OECD, 2005d). However, aid proponents concede that the indicators fall short of addressing the donor pitfalls within the international aid regime (see ActionAid International, 2005).

<sup>25</sup> In the wake of the terrorist attacks in London, British Prime Minister Tony Blair identified contemporary terrorism's underlying causes as deprivation/poverty, lack of democracy and ongoing conflict in the Middle East (AP, 9 July 2005). This recognition is considerably substantial in his vivid declaration: "Probably with this type of terrorism the solution cannot only be the security measures...Ultimately what we now know, if we didn't before, is that where there is extremism, fanaticism or acute and appalling forms of poverty in one continent, the consequences no longer stay fixed in that continent, they spread to the rest of the world."

<sup>26</sup> This is self-evident in Chambers et al. (2001:1)'s terms: “The new language of aid and development implies shifts in control and in the distribution of power, yet the gap between what is said and what is done is widening.” Specifically, they point to the ‘hypocrisy’ of aid agencies in the following areas:

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- **Empowerment** implies power to those who are subordinate and weak, but the usual practice between levels of hierarchy is control from above. Aid agencies impose conditionalities at the same time as they preach empowerment.
  - **Accountability** between partners is two-way up and down the aid chain, but in practice accountability downwards is rare and weak.
  - **Ownership** implies national and local autonomy but this is limited by aid agencies' influence on policy, human rights and governance, whether this influence is exerted directly on governments or indirectly through citizens and civil society.
  - **Partnership** implies collegial equality but aid agencies with funds often call the shots...
  - **Transparency** implies information shared between partners, and accessible in the public domain, but aid agencies and governments often keep budget details and other information about decision-making confidential...

For aid agencies to enable changes in power and relationships and to practice trust, accountability and partnership meaningfully, Chambers et al. (2001) call for congruence and consistency between personal behavior and attitudes, organizational norms and procedures, and development objectives and philosophy within the aid chain. That is, changes in embedded dominating behavior and control-oriented institutional cultures of donors are necessitated in order to place development objectives at the forefront of poverty reduction.

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