

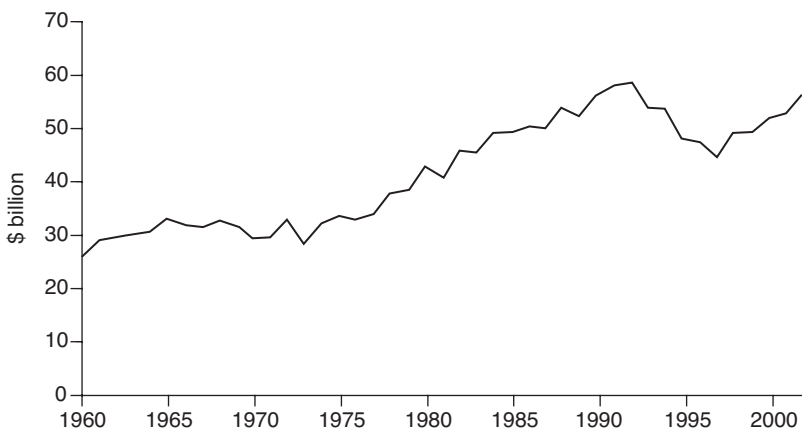
## E5 | Aid

Official development assistance (otherwise known as aid or ODA) consists of grants, loans and technical cooperation from governments and international bodies, with the objectives of promoting economic development and welfare (OECD 2005). Much aid is channelled through bilateral agreements between donor and recipient governments, some to multilateral agencies such as WHO and the World Bank, and much of the rest to NGOs and independent organizations such as the Global Fund to fight AIDS, TB and Malaria.

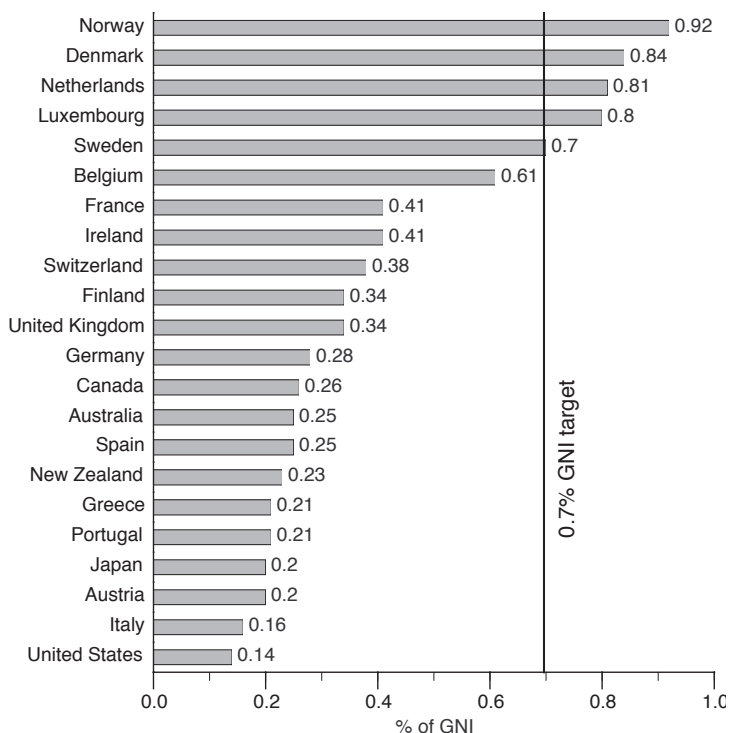
This chapter describes three key aspects of aid: its volume and distribution and its use in support of the political agendas of rich countries, most notably the ‘war on terror’ and privatization. Many other debates about aid are not discussed here, such as the effects of aid on political institutions in developing countries (Wangwe 2004). Some are raised elsewhere in this report, including the coordination of donors and the fragmenting impact of aid on health systems (part B, chapter 1); inappropriate conditions placed on recipient countries by donors; and the effects of aid on economic growth in poor countries.

### Global aid trends – volume

From 1960 there was a steady rise in volume aid peaking in 1992, the year of the Earth Summit, when donors pledged further modest increases. In fact aid



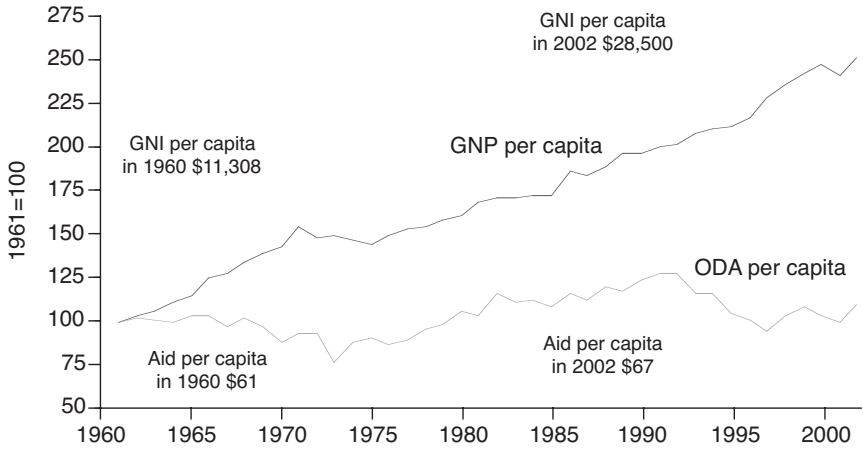
**Figure E5.1** The long-term trend in ODA from DAC donors – in \$ billions real terms (2001 prices) (Source: Randel et al. 2004)



**Figure E5.2 Provisional figures for ODA as a percentage of GNI from DAC donors in 2003**

then fell by 24% in real terms between 1992 and 1997 (Figure E5.1). The last few years have seen a reversal in the decline, but the increases fall far short of the additional US\$ 50 billion a year needed to reach the Millennium Development Goals. Only five rich countries (Norway, Denmark, the Netherlands, Luxembourg and Sweden) met the UN aid target of 0.7% GNI in 2003 (see Figure E5.2). Meanwhile the Bush administration has requested more than US\$ 565 billion from Congress for military purposes and its ‘war on terror’ (Randel et al. 2004). (These figures and those in the next section were provided by Judith Randel and Tony German of Development Initiatives, based on research on OECD Donor Assistance Committee statistics.)

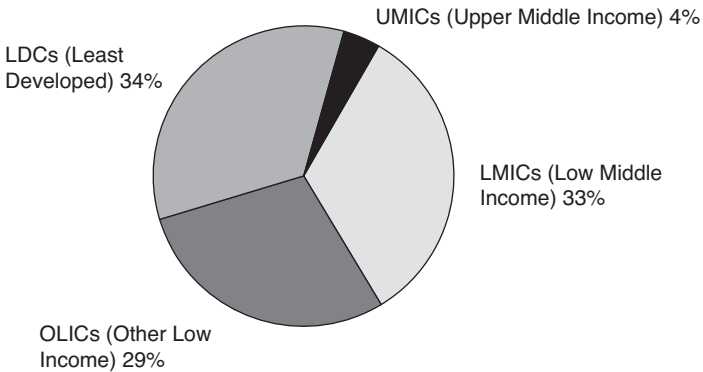
The volume of aid in 2003 was 3.9% more than in 2002 in real terms. This follows a 7.2% real terms increase in 2001–2. Provisional figures suggest that the total from donor countries rose from US\$ 58.3 billion in 2002 to US\$ 68.5 billion in 2003. Substantial increases from some of the largest (G8) donors – the US (up by 17%), the UK (12%) and France (10%) – outweighed big falls in aid from Japan (down 9%) and Italy (17%). In terms of actual amounts the US contributes most, followed by Japan, France, Germany and the UK; but



**Figure E5.3 The growing gap: aid from rich nations has not kept pace with their wealth (Source: Randel et al. 2004 )**

although it is the biggest donor, the US is not the most generous – when the amount given is compared to each country’s national wealth, it comes last.

Although aid more than doubled in real terms over a 40-year period, this does not mean donor countries are more generous – they became much richer over the same period. Figure E5.3 shows how the growth in aid per person from donor countries compares with how much richer people in those countries have become. While wealth in donor countries has gone up by 152%, from US\$ 11,303 per person to US\$ 28,500, aid per person has risen by less than 10%, from US\$ 61 to US\$ 67.



**Figure E5.4 Share of aid to poorer countries 2002 (Source: Randel et al. 2004)**

## Global aid trends – allocation

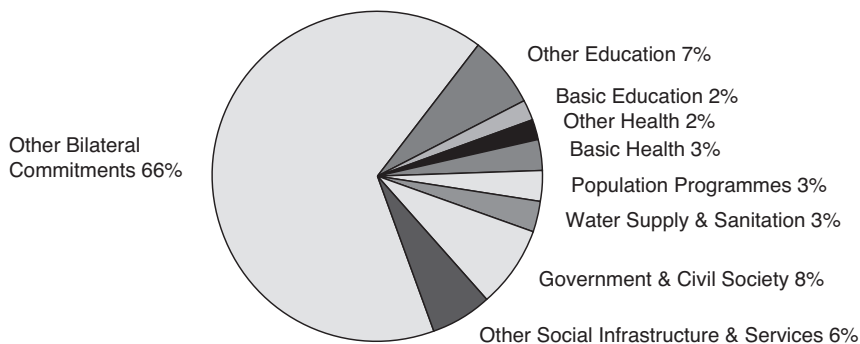
Where is aid allocated? In 2002, a third of global aid went to the 49 least developed countries, while 29% went to other low-income countries including India, China, Ghana, Indonesia, Pakistan, Nigeria and Zimbabwe. Lower middle-income countries received a third, including Bolivia, Bosnia and Herzegovina, Egypt, Fiji, Iraq, Morocco, Palestine, Papua New Guinea, Peru, the Philippines and Yugoslavia. Upper middle-income countries received 4% (see Figure E5.4).

Aid has shifted to different regions. In 1992–2002 the major changes were a 5% fall in aid to east Asia and a 5% rise in aid to south and central Asia. The share of aid to Sub-Saharan Africa rose from 33% to 36% and Europe's share more than doubled from 5% to 11%.

## Aid for political purposes

Aid is used and spent on many different things. The amount spent on basic health and other social programmes is surprisingly small (see Figure E5.5). It is easily diverted to projects to support export promotion and win geopolitical influence. Two key trends are the use of aid to bolster the 'war on terror', and the vigorous promotion of the privatization of industry and public services in poor countries.

*Aid and the war on terror* Official development assistance has always reflected donors' geopolitical imperatives. The growing priority now appears to be their security interests. In 2003 the OECD released a controversial policy statement. 'Development co-operation has an important role to play in helping to de-



**Figure E5.5 Shares of bilateral aid to basic needs**  
(Source: Randel et al. 2004)

prive terrorists of popular support and addressing the conditions that terrorist leaders feed on and exploit,' it said. There was a suggestion that donors may need to 'calibrate' current aid approaches and allocations to take account of terrorism prevention (OECD 2003). This opens up the possibility not only of making terrorism prevention a goal of development cooperation, but of giving it precedence over existing, internationally agreed development goals (BOND 2003a). The impact on aid allocations and the nature of donor cooperation with developing countries is only just beginning to be seen.

The US, the world's biggest donor measured by volume, increasingly allocates bilateral aid according to concerns related to the 'war on terror': countries with large Muslim populations and insurgency movements are automatic priorities. After 11 September, Washington made substantial increases in foreign aid to Pakistan, India, the Philippines and Indonesia – foci of the Bush administration's anti-terrorism efforts in Asia. One example is increased military funding to Indonesia (Lum 2002), the world's largest Muslim country, which plays a strategic role in world geopolitics. US military intelligence claims that the Java-based Jemaah Islamiyah is active in Al Qaeda. Soon after 11 September the US began to loosen restrictions on military aid despite Indonesia's record of human rights abuses in East Timor, Aceh province and West Papua (Hallinan 2002). US bilateral assistance in south and east Asia generally shows a growing emphasis on military aid:

- US aid to east Asia grew by 47% in 2000–2003, while the US economic support fund (ESF) doubled. These rises are dwarfed by huge increases in military-related aid. Expenditure through the US foreign military fund (FMF) in east Asia, for example, grew by 1614%. Expenditure on US international military education and training (IMET) grew by 4575% and it is now the largest US aid programme in east Asia.
- US aid to south Asia grew by 85% in 2000–2003. This pales in comparison with the large expansion in IMET, which grew by 593%. The largest increase was in the ESF, from zero to US\$ 242 million, jumping to 40% of US bilateral assistance in the region in 2003 and now the largest US aid programme, followed by development assistance with 36% (Lum 2002).

US military and security-related aid to Africa has also increased since 11 September. Countries that have hitherto been of little importance to the US have garnered new funding via the war on terror, like Djibouti, which received US\$ 31 million for allowing the US to set up a permanent military base. Under the Pan-Sahelian Initiative, established in 2002, US military advisers provide

weapons, vehicles and military training to anti-terrorism squads in Mali, Niger, Chad and Mauritania (BOND 2003b).

US involvement in Iraq and Afghanistan threatens to undercut other US development initiatives. With the US budget stretched by expenditure in Iraq, the government announced that it would not meet President Bush's earlier promises of US\$ 15 billion over 5 years to combat HIV/AIDS. The much-heralded US 'Millennium Challenge Account' (MCA) was also only allocated US\$ 1 billion over financial years 2002–2004.

Overall, there are concerns that the recent increases in aid from the developed world are being lost to new donor-driven priorities relating to the War on Terror. A substantial proportion of these ODA rises have been directed to reconstruction and stabilization in Iraq, Afghanistan and Pakistan. Nearly half of all the funds in 2002 to the UN's twenty-five humanitarian appeals went to just one country, Afghanistan. More recently, donor interest in Afghanistan has waned. Of the US\$ 1352 million committed for March 2003 to March 2004, much of it emergency assistance, only US\$ 536 million was actually disbursed. Much of the immediate post-conflict stabilization costs have been financed from short-term allocations from military budgets (Woods et al. 2004). Meanwhile, the October 2003 donor conference on Iraq pledged US\$ 33 billion for the period 2003–07. This compares with annual ODA to Sub-Saharan Africa of US\$ 11 billion.

*Aid and privatization* Multilateral and bilateral agencies use aid money to fund the privatization of public services and boost the profits of private sector companies. This highlights the need for civil society to monitor how tax contributions are used under the guise of overseas development. All information in this section is obtained from War on Want (2004).

Conditionality attached to World Bank lending during the 1980s and 1990s provided the impetus for privatization of public services in developing countries, as highlighted frequently in this report. Its lending directive for this period (Operational Directive 8.60) specified privatization as a reform goal, and country after country was instructed to start a national privatization programme. Its 2002 private sector development strategy called on all parts of the Bank group to promote privatization of infrastructure and social services in developing countries, with particular emphasis on 'frontier' sectors such as water, energy, health care and education.

Donor governments play an important supporting role, particularly the UK's department for international development, which has positioned itself as a champion of privatization and taken the lead in a number of new initiatives.

### *Box E5.1 Key privatization advisers*

The consulting arms of the Big Four accountancy firms take the lion's share of privatization consultancy contracts in developing countries:

- PricewaterhouseCoopers
- KPMG
- Deloitte Touche Tohmatsu
- Ernst & Young.

Arthur Andersen, the fifth of the Big Five before its fall from grace over the Enron scandal in 2001, has also been engaged in numerous privatizations in developing countries. Its consulting arm split from the parent company in 2000, renaming itself Accenture.

Other key players come from the financial sector, with many of the world's largest banks now also involved in privatization consultancy in developing countries:

- ABN AMRO
- NM Rothschild
- Credit Suisse First Boston
- Dresdner Kleinwort Wasserstein
- Morgan Stanley
- HSBC
- Citigroup.

Consultancies such as the UK's Adam Smith International and the US' Louis Berger Group have also established themselves as leading players in privatization. Individual sectors also have their own specialist consultants, such as Mott MacDonald and Stone & Webster in the water and energy sectors, IPA Energy Consulting in the power sector, and Canadian consultancy CPCS Transcom in transport. Other companies provide specialist services, such as legal consultants CMS Cameron McKenna and Baker & McKenzie. (*Source: War on Want 2004*)

For example, in 2002 it created the Emerging Africa Infrastructure Fund with backing from Sweden, Switzerland, the Netherlands and private financiers Barclays and the Standard Bank Group. This is designed to mobilize up to US\$ 450 million of private sector investment finance in the privatization of public services in African countries and to fund new infrastructure projects, with particular emphasis on energy, telecommunications, transport and water.

TABLE E5.1 Value (in £) of new DFID contracts awarded to Big Five consultants, 1997–2002

	1997–8	1998–9	1999–2000	2000–1	2001–2
PwC	5,575,135	11,193,643	13,405,142	19,018,515	3,075,210
Ernst and Young	445,792	838,429	286,800	11,610	43,023
Deloitte Touche	4,185	269,070	749,262	8,478,352	633,884
KPMG	7,104,728	2,548,237	12,773,757	4,700,110	2,185,931
Arthur Andersen	-	24,558,244	27,724	83,721	114,162
Total	13,129,840	39,407,623	27,242,685	32,292,308	6,052,210

Source: War on Want 2004

It is open only to private companies and will not finance public sector investment.

UK Department for International Development (DFID) has also taken a lead in the creation of new global institutions to advance privatization. One of the most influential is the Public Private Infrastructure Advisory Facility, launched in 1999 in collaboration with the Bank and the government of Japan, a ‘technical assistance’ facility to advise developing countries how to ‘tap the full potential of private involvement in infrastructure’. Working from the Bank’s headquarters, its main focus is promoting the increased involvement of private sector service companies in water and sanitation, energy, transport and telecommunications, and advising on multisector issues such as utilities regulation. It has also been engaged in the ongoing battle for hearts and minds in developing countries, running workshops, study tours and public awareness campaigns such as the ‘knowledge programme’ for journalists from nine African countries that aimed to counter public scepticism over water privatization by encouraging more positive media coverage.

Both the Bank and DFID have developed strong partnerships with consultants from private companies (see Box E5.1), whose ‘technical assistance’ to developing countries has recently become an integral part of the reform process; governments are often required to accept them as advisers as part of the financial support package on offer. In the first five years of the Labour government (1997–2002) DFID agreed new contracts worth over US\$ 220 million in consultancy fees to the Big Five accountancy firms (see Table E5.1). India, the largest recipient of UK aid, provides a good example of this use of privatization consultants. In addition to huge sums paid to consultants advising on Orissa’s electricity privatization, DFID engaged Andersen Consulting and PricewaterhouseCoopers for the initial phase of the Haryana State Electricity



Board privatization, and reportedly paid around US\$ 50 million to consultants advising on the first phase of power privatization in Andhra Pradesh.

Adam Smith International, the consultancy arm of the Adam Smith Institute, has been awarded around US\$ 1.4 million by DFID to assist the privatization programme of the government of Tanzania, including US\$ 812,000 to support a public relations unit. Its outputs include a pop video broadcast on local television, a series of short dramas by Tanzania's top comedian, and an open Privatization Day at Dar es Salaam's Royal Palm Hotel. Tanzania's upbeat Privatization Song is even available internationally via the website of the Parastatal Sector Reform Commission.

### Recommendations

- All donors must establish and be accountable to a realistic timetable to fulfil their longstanding commitment to spend 0.7% of their gross national income on official development assistance.
- aid must remain clearly and unequivocally dedicated to achieving existing development goals. Increases must not be used to justify spending it on other priorities. Northern governments should find the necessary resources in appropriate non-ODA budget lines to respond to terrorism in a manner that is proportional and coherent with human rights and democratic norms (BOND 2003b);
- donors must not insist on the privatization of public services as a condition of development assistance to developing countries, nor on any requirement that their governments must engage privatization consultants to qualify for aid.

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