THE NEW REALITY OF AID

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EXECUTIVE SUMMARY:

Of the $100+ billion of official development assistance disbursed by rich countries to developing countries in 2005 only $38 billion was oriented towards long-term development projects and programs. Of this $38 billion, perhaps half reached the intended beneficiaries. The balance of the money is tied up in special purpose funds like debt relief and technical assistance, or in administrative costs incurred in both the donor and recipient country. Presumably some is lost to corruption, too. A large gap has opened between poor countries' pressing needs and official aid. In response, the nature of development assistance is rapidly changing. Traditional donors are splintering into many specialized agencies. Large new bilaterals have emerged from the South with their own approaches to development cooperation. The number of private nonprofits is exploding and the value of their donations could already equal or exceed official aid. The new reality of aid is one of enormous fragmentation and volatility, increasing costs and potentially decreasing effectiveness. A key challenge for the new era of development assistance will be to understand how coordination, information sharing and aid delivery will work in the new aid architecture.

With great fanfare, the leaders of the G8 countries reaffirmed at Heiligendamm in June 2007 that they would meet their commitments to increase aid by $50 billion by 2010, with half going to Africa. When this pledge was first announced at Gleneagles in 2005, it was hailed as a breakthrough by aid advocates. Bono gushed that "…I would not say this is the end of extreme poverty, but it is the beginning of the end." Now, two years later, with the same commitments on the table, the tone is different. Bono has accused the rich countries of "obfuscation" with the figures, while his companion-in-arms, Bob Geldof, used

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even stronger language, calling the G8 work "a total farce." So who is right, the politicians or the celebrities? Are rich countries serious in their determination to help Africa and to provide "as close as possible" universal access to treatment for HIV/AIDS, malaria, TB and polio, as well as education? What is the new reality of aid?

No one doubts the ability of the rich world to provide the required resources. With total GDP of the OECD now topping $33 trillion, and continuing to grow at a real rate of around 3 percent, the aid pledges amount to little more than one-third of one percent of rich country incomes – one cent for every $3 dollars. Some countries have taken concrete steps to identify the source of funds for development. Both the UK and France have introduced new innovative financing mechanisms – the International Finance Facility sponsored by the UK's Department for International Development, and the Solidarity tax on airline tickets issued in France. For its part, the USA has called for a doubling of the commitment amounts under President's Emergency Plan for AIDS Relief (PEPFAR) over the next five years. In each case, public opinion appears to be solidly behind the new proposals.

So why is it that these efforts are being called a "total farce"? Partly, it is because some aid, like debt relief and technical cooperation, is inflated in value and impact. Partly, it is because the detailed planning required to use the funds effectively is lacking. The Millennium Challenge Corporation, the newest US agency set up to promote international development in 2002, has signed compacts with developing countries totaling nearly $3 billion, but had only disbursed $69 million by March 2007.[1] Partly, it is because official development assistance has been linked with corruption and scandal in developing countries, undermining confidence in the effectiveness to which the funds are put. Partly, it is because the needs of the poor seem to be increasing at a faster pace than the increase in funding: post-conflict reconstruction, disaster relief, climate change, and the spread of AIDS are all putting additional burdens on official development assistance leaving less money for bread-and-butter programs. And progress on issues important for development that go beyond aid – like trade, energy efficiency, or food security – has been uneven, leaving a frustration that a serious, coherent attack on poverty has yet to begin.

Against this backdrop, the nature of development assistance is changing rapidly. On the one hand, new official funding is being channeled more and more through specialized agencies, dedicated to particular targets, like HIV/AIDS or malaria, instead of through traditional agencies, like the International Development Association of the World Bank, which provide support for broad country development programs. On the other hand, a raft of new players has emerged, bypassing traditional channels. One group of new players is governments of middle income countries who wish to share their own successful experiences more widely, but who could repeat many of the mistakes of the past, like tying aid and paying inadequate attention to maintenance financing. Another group is the private aid sector, comprised of foundations, private philanthropists, religious organizations, and

[1] According to the GAO, the MCC is lagging behind initial plans in the signing of compacts with countries, and is behind in disbursements given their own schedule. The initial planned disbursements from the first 9 signed compacts was supposed to have been $257.6 million by March 2007, i.e. the actual disbursement rate is only 26% of MCC's own plan. See Gootnick, D. "Compacts and Challenges in Africa," Government Accountability Office, Testimony Report 07-1049T (June 2007).

other NGOs and nonprofits. Between them, these new groups are growing rapidly and changing the aid landscape in dramatic ways.

The sheer number of aid players, both public and private, has exploded.[2] There are significant benefits to this dynamism: more resources, more innovative solutions, more direct action. But there are also costs. The number of development projects has grown while the average size of a project has declined, burdening weak administrative structures in recipient countries. There is overlap and waste in many studies needed for each donor. Accountability and sustainability are threatened. Mechanisms for information sharing, coordination, planning, and scaling up are breaking down. The key issues facing development aid are those that arise from this fragmentation and the accompanying volatility of aid disbursements.

PLAYING WITH NUMBERS: WHAT TRADITIONAL DONORS REALLY CONTRIBUTE TO DEVELOPMENT

Official aid has been growing strongly…or maybe not.

There are 22 "traditional" donors that report their official development assistance, or official aid, to the OECD's Development Assistance Committee (DAC).[3] The numbers which these donors report are meant to capture transfers of resources to poor and middle-income countries for the explicit purpose of economic development and welfare. Official development assistance from traditional donors to poor countries topped US$100 billion in each of the last two years, a record high. For perspective, in 1974 official aid stood at $41.3 billion, implying a real annual growth rate of 3.1 percent.[4] In 2001, just before the Monterrey pledge, the figure was $63.8 billion.

On the face of it, these numbers show a remarkable increase in development assistance. But what lies behind the numbers is less encouraging. This is because aid is not just a matter of giving money. Official aid figures include cash, commodities, and services, and it is not easy to value these latter two categories appropriately.[5] For example, administrative overheads of donor bureaucracies, and their domestic campaigns to raise awareness and funding, are counted as "aid." Debt forgiveness—often on loans never

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[2] Estimates suggest that there are 233 multilateral development agencies; 51 bilateral donor countries (most with multiple official agencies); several hundred international NGOs; and tens of thousands of national NGOs, not including community-based organizations which could number in the millions.

[3] These are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, United States

[4] All numbers are expressed in constant 2005 US dollars. That is, they are adjusted for inflation. Actual numbers for 2005 and 2006 are $107 and $104 billion respectively.

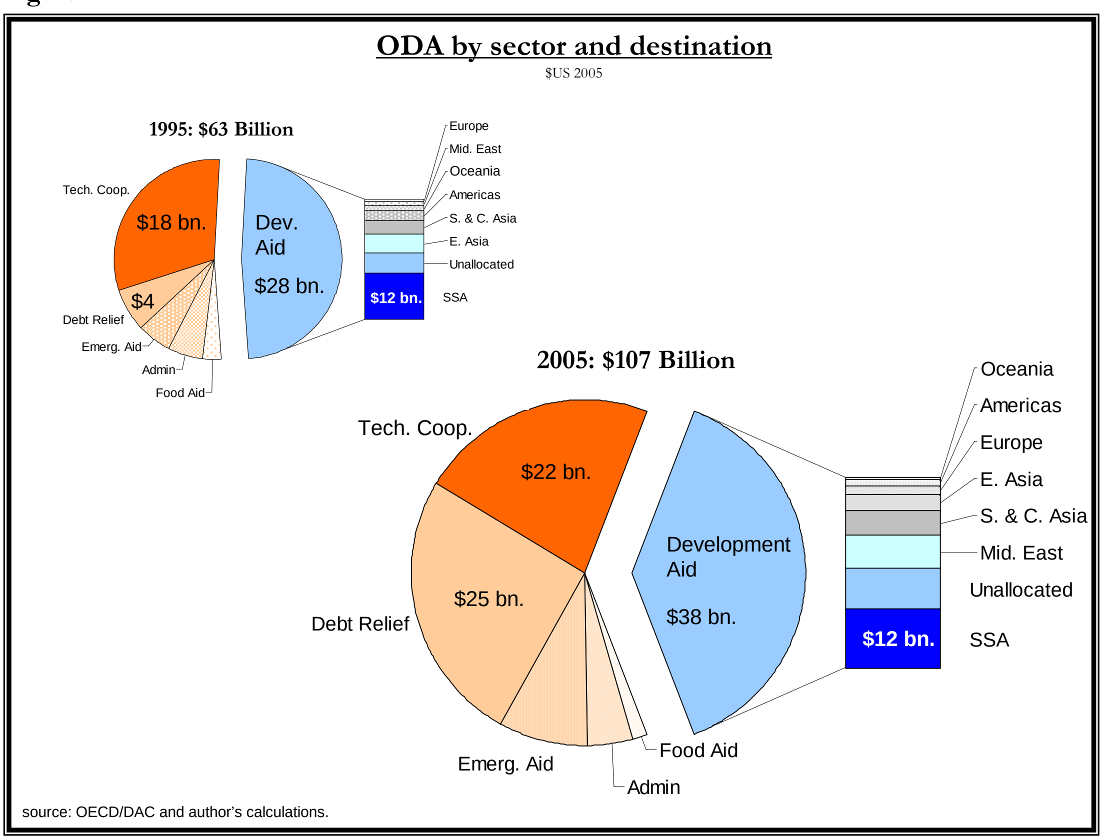
[5] The value of non-cash transfers is easily inflated to give the appearance of higher aid levels. Debt forgiveness includes penalty payments and "notional" interest that can be exorbitant, especially when accumulated over years of non-repayment. Food and certain pharmaceuticals, which might be purchased at a fraction of the cost in a recipient's economy, are bought, shipped and recorded at donor country prices. Finally, technical assistance reflects rich country salaries (sometimes topped up by hardship allowances) rather than recipient country benefits. Some studies suggest that private contractors for official aid agencies have compensation levels up to three times as large as equivalently qualified NGO personnel. See: *The Index of Global Philanthropy* (Hudson Institute, 2007).

expected to be repaid—is called "aid." In reality such debt relief is a transfer from one branch of a donor government, the Treasury, to another branch, the Official Export Credit Agency. Emergency assistance and food aid is included, though these items address short-term suffering rather than long-term development. And a considerable amount of "aid" includes technical assistance, which delivers expert advice, but not funds, to carry out projects. Total aid figures must subtract out these items to get a true picture of what is available to finance development projects and programs on the ground.

Looked at through this lens, the trend in official aid, touted by the G8 countries at Heiligendamm as evidence of their commitment, looks much less promising. Debt forgiveness for Nigeria and Iraq amounted to $19 billion in 2005. This money was not being repaid in the first place, is artificially inflated by compounding in penalty interest rates for the years over which the debt has been in default, and so forgiving it has done little to increase the amounts available for real development problems like schooling, clinics or infrastructure in the short term. Its real value lies more in normalizing relationships and opening the way for further assistance, than in the face value of "relief" that is offered. Additional amounts of $8 billion were allocated for major natural disasters and emergency assistance in 2005, including the tsunami affecting Indonesia, Sri Lanka, Thailand and India. And the reconstruction effort in Iraq and Afghanistan has boosted aid numbers by $6.4 billion, but incorporates the high cost of providing security for these operations. Meanwhile, the most rapidly growing component of aid, technical assistance, amounted to $29 billion in 2005.

As Figure 1 shows, what was left over for real development in 2005 was only $38 billion. Or in other words, only 37 percent of the total aid headline number was what can be called net development aid—funds that are available for financing real programs and

Figure 1



projects on the ground in developing countries. What has been happening is that this percent has steadily shrunk over time from 59 percent in 1975 to the current level of 37 percent. As a result, even though net development aid has increased between 1995 and 2005, it is now at a level only slightly higher than in 1985 because last decade's growth followed a decade of decline. And if the special assistance for Iraq and Afghanistan is excluded, net official development aid for other countries was lower in 2005 than in 1985.

But surely Africa is getting more?

This same story is replayed on the ground in Africa. The rhetoric is one of progress: the G8 has an Africa Action Plan, with special representatives to keep a focus on the poorest continent. But so far, Sub-Saharan Africa (SSA) has hardly seen any funding increase at all. Astonishingly, our estimates suggest that only $12.1 billion of the overall official development assistance takes the form of funds that SSA countries can use to invest in social and infrastructure development programs – one cent for every $27 in rich country income. This is almost the same as the amount received by these countries twenty-two years ago in 1985 ($11.6 billion). In proportion to either Africa's needs, its population, number of poor people, or rich country income, net development aid to Africa has been falling with no signs of concrete plans to raise this in an effective fashion. Small wonder that patience with official aid is running thin.

The crumbling pie

When aid advocates in civil society campaign to increase resources for development, they do so with a decent understanding of who gives what, to whom, and in what form. That is an aspect of accountability that is unfortunately absent once the aid arrives in poor countries. From that point on, it is increasingly difficult to trace the flow of funds down to the final beneficiary. It is possible that some funds are siphoned off into the bank accounts of corrupt officials. And every foreign aid project faces a slew of administrative costs: numerous reports, donor missions and committees, and dedicated project management units eat up resources. Case studies suggest that some ministries spend no less than half of their full-time hours accommodating these administrative needs.

One way of estimating the size of these leakages is to measure the difference between the resources a country's treasury disburses for a program and the actual services delivered on the "frontline." One study, based on surveys in Ghana, Tanzania and Rwanda, concludes that "approximately half of the overall amount allocated to clinics and hospitals did not actually reach them."[6] In some cases in that study, the numbers are even higher. Similar figures appear in other studies. The GAO, in its recent analysis of the Millennium Challenge Corporation was able to identify the allocation of 59 percent of in-country disbursements in the nine compact countries that are currently operational.[7] Of this, 32

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[6] Lindelow, M., I. Kushnarova and K. Kaiser, "Measuring corruption in the health sector," in *Global Corruption Report*, Transparency International, 2007.

[7] The remaining 41 percent of funds have still not been classified by use.

percent was for direct project-related expenses, and 27 percent was for administrative, audit, fiscal and procurement expenses.[8]

As a rough approximation it is not unreasonable to guess that roughly half of the money spent on official development aid actually reaches the poor people it targets. So the $38 billion disbursed in new development aid in 2005 was closer to $19 billion in effective terms. Or put another way, the poor in SSA countries could be getting just $6 billion per year of real assistance. These figures do not compare well with the $107 billion spotlighted by donor governments.

FILLING THE GAP: THE EMERGENCE OF NEW PLAYERS

The gap between poor countries' pressing development needs and official development aid has created financial and institutional space for new aid givers. As might be expected, the new players do not yet have standardized methods of reporting their activities, nor are their activities harmonized. But scattered evidence of their contributions to development does exist. When pieced together, the data suggest that amounts are significant and rising. Estimates of aid from new players equaled or exceeded official development aid from traditional donors in 2005.

The new players can be classified in two groups:

- New bilateral donors from the South: Providing assistance to poor countries is no longer the sole province of rich countries. Transition economies and middle income countries now give to poor countries. At last count, 29 such countries have established or are building aid programs. The new bilaterals include small donors like Thailand, Brazil and some of the new members of the EU, medium size donors like Korea and Turkey and large donors like China, India and Saudi Arabia, which have annual aid programs of $1 billion or more (Table 1).
- Private organizations: Private organizations include a vast array of actors including tens of thousands of philanthropic foundations, tens of thousands of NGOs and hundreds of thousands of religious groups and community based organizations. These organizations mediate resources directly from rich individuals in rich countries to development activities in poor countries. Tables 2 and 3 list some of the largest international NGOs and largest US foundations giving money to developing countries.

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[8] Government Accountability Office, "Analysis of Millennium Challenge Corporation (MCC) Compact Disbursements through March 2007", (Letter to congressional committees, May 14, 2007).

The new bilaterals

Development assistance has traditionally been the preserve of rich countries; a moral responsibility of the well-off to help those less fortunate.[9] But bilateral aid has also been closely linked with political objectives, and several academic studies have shown a close correlation between the amounts countries receive in aid and foreign policy considerations, as proxied by votes in the United Nations General Assembly, for example.[10] Given that aid motives are both altruistic and self-interested, it is not surprising that a growing number of middle-income and newly-rich countries have established development aid programs. At last count, at least 29 non-DAC countries are reported to be giving significant amounts of development assistance on an annual basis (Table 1).

Table 1

The New Bilaterals

		2005 Official Aid ($US 2005, millions)
Non-DAC OECD	Korea	752
	Turkey	601
	Poland	205
	Czech Republic	135
	Hungary	100
	Slovak Republic	56
	Iceland	27
	Mexico	n.a.
Arab	Saudi Arabia	1,000
	Kuwait	547
	United Arab Emirates	141
Other Donors	China	2,000
	India	1,000
	Taiwan	483
	Israel	31
	Venezuela	n.a.
	Chile	n.a.
	Brazil	n.a.
	South Africa	n.a.
	Russia	n.a.
	Malaysia	n.a.
	Thailand	n.a.
New EU members	Bulgaria	n.a.
	Cyprus	n.a.
	Estonia	n.a.
	Latvia	n.a.
	Romania	n.a.
	Slovenia	n.a.
	Malta	n.a.

note: We assess combined bilateral aid for those countries marked n.a. at $1 billion, based on general estimates and anecdotal evidence.
source: OECD/DAC, China ExIm Bank, and author estimates

Our best guess is that the new bilaterals contributed about $8 billion in development aid in 2005.[11] Unlike traditional donors, the new bilaterals give little in the form of debt relief (as they have small outstanding liabilities), and little in the form of technical cooperation (as the domestic consulting industry is small). Correspondingly, a greater fraction of their aid is in the form of projects and programs. One of the largest new donors, China, provides its assistance in the form of turnkey projects, providing planning, finance, manpower and training to implement projects completely. China has built on its own strong history of infrastructure project management to focus its aid, and prides itself on short project preparation and implementation periods compared to traditional donors.[12] Other bilaterals also look to share their own development experiences. Korea places an emphasis on export-led projects, human resources, and rural development and ability to pool human resources along with capital is a core comparative advantage.

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[9] President George W. Bush discussing the US international development agenda, May 31, 2007.
[10] See Kuziemko, I. and E. Werker, "How much is a seat on the Security Council worth," *Journal of Political Economy* 114:5 (2005): 905-930; Wittkopf, E.R., "Foreign Aid and U.N. Votes," *American Political Science Review*, 67 (1973): 868-88.
[11] Based on a sample of new bilaterals reporting to the DAC, about 19% of aid goes for emergency relief and administrative costs. If this is extrapolated to all new bilaterals, the total net development aid would amount to $6.5 billion in 2005.
[12] The disadvantage of this approach is that it typically comes as "tied aid" without the benefits of international competitive bidding.

Table 2

Selection of Large International NGOs

Organization	2006 Expenditures, $	Focus Areas†
World Vision International	2,103,700,000	Children, humanitarian
Save the Children International	863,094,631 *	Humanitarian
Care USA	645,000,000	Multi-sector programs
Catholic Relief Services	597,037,000	HIV/AIDS, humanitarian
Plan International	587,185,000	Health, education, water/sanitation
Oxfam GB	406,272,000	Humanitarian
ActionAid	204,067,080 **	Humanitarian
Catholic Agency for Overseas Development	94,885,120	Humanitarian
Heifer International	77,465,797	n.a.
Oxfam USA	52,804,000	Humanitarian, small enterprise

*revenue, **FY2005, † >20% of program expenditures
source: annual reports and authors calculation's

Table 3

Top 10 US Foundations

Foundation	2004 Disbursements to International Causes, $	Grants	Focus Areas
Bill & Melinda Gates	1,233,160,002	134	Health, technology
Ford Foundation	258,502,043	1328	Democracy, poverty, community development, education, peace
Gordon and Betty Moore Foundation	83,184,068	79	Conservation
John D. and Catherine T. MacArthur Foundation	73,138,000	223	Sustainable development, human irghts, peace, health
Rockefeller Foundation	72,306,649	329	Poverty
William and Flora Hewlett Foundation	56,595,034	165	Education, population, environment
W. K. Kellogg Foundation	56,315,269	122	Poverty
Freeman Foundation	53,456,718	223	Exchange and education
Carnegie Corporation of New York	42,415,000	113	Peace, education
Starr Foundation	41,392,820	101	Healthcare, democracy
TOTAL	1,970,465,603	2817	

source: *International Grantmaking Update* , Foundation Center, 2006.

Rapid growth is anticipated in funds from the new bilaterals. China has announced grand plans for the next three years: $10 billion for developing countries, with an incremental $5 billion for the Association of Southeast Asian Nations, $3 billion for the Pacific Islands, and $3 billion for Africa plus another $2 billion in preferential credits.[13] Korea is aiming to provide $1 billion per year by 2010. And though their contribution will not be large in absolute terms, new member states of the EU (Czech Republic, Hungary, Poland and Slovakia) have promised .33 percent of their gross national income in aid by 2015.

Private charities, foundations and other NGOs

Private sector financial flows have transformed the development landscape. Already, private flows like foreign direct investment, private portfolio capital, private bank credits, bond issuances, and remittances are much larger than official flows to developing countries. Is the same happening with international aid? The scope and scale of private nonprofits are expanding rapidly. While statistics about global numbers of NGOs are notoriously incomplete, it is currently estimated that there are several hundred NGOs operating internationally (INGOs).[14]

The United States is by far the largest source of private aid giving.[15] US giving is comprised of foundations, corporate donations, private voluntary organizations (PVOs) and NGOs, educational scholarships and religious organizations (Table 4). Estimates for the United States suggest a fourfold increase in international giving in the 1990s, and, after a dip in 2002 following the stock market crash, US international giving has grown healthily again.[16] In the 2000s, US foundation giving to international causes outpaced all other sectors. More remarkable is that this growth is being seen at all levels: at the top, giving from huge philanthropies like the Gates Foundation is growing but small foundations' giving is growing even faster (a 35 percent growth in giving between 2002 and 2004).[17] In the United States, some 65 percent of all individual giving is estimated to come from households with annual incomes of less

Table 4

US Private International Giving, 2005

	$Billions
Foundations	2.2
Corporations	5.1
PVOs and INGOs	16.2
Higher Education	4.6
Religious Organizations	5.4
Total	33.5

source: *Index of Global Philanthropy* , 2007.

[13] China announced intentions to provide up to $20 bn. in infrastructure and trade financing for Africa over the next three years at the African Development Bank annual meetings in Shanghai in May 2007.
[14] Not including Community based organizations which number in the hundreds of thousands. Source: Duke University Non-Governmental Organizations Research Guide.
[15] Total giving in the United States, both domestic and international, is estimated at $295 billion in 2006: *Giving USA Annual Report*, Indiana University, 2006.
[16] Foundation Center (2007). *International Grantmaking Update.*
[17] *Ibid.*

than $100,000.[18] Over the next decade, this trend will likely continue—a considerable share will be buttressed by Warren Buffett's promise of adding $31 billion in to the mix. Record stock market valuations are fuelling healthy growth in private giving.

Private giving to developing countries has been estimated at $33.5 billion for the United States alone in 2005. In arriving at this figure, best estimates have been used to eliminate the double counting that can arise from the simple summing of all private aid agencies. For example, if the Soros Foundation gives money to the Open Society Institute, then counting both Soros and OSI contributions would lead to an overestimate of what ultimate beneficiaries really receive. The Soros contribution must be netted out; its value will show up in the OSI contribution. In addition, NGOs have been generous in mobilizing funds for emergency operations. To compare their contributions with the net development aid from official agencies, these activities must be deducted. In the United States, the best estimate for humanitarian aid and relief works is 36 percent of the total,[19] Much more than is the case for official aid. This implies that $21.4 billion of private giving from the United States goes to development projects and programs.

Cross-country estimates suggest that US philanthropic giving is about 49-58 percent of the global total.[20] So, if US private international giving, excluding humanitarian aid and relief, is about $21.4 billion per year, then global international private giving might be around $37-44 billion per year. Not all of this is available for development projects. In the US, there are estimates that administrative overhead and fundraising amount to 11% of NGO expenditures.[21] Applying this percentage to all private aid organizations gives an estimate for private giving in the range of $33-39 billion per year. This can be compared with official aid from DAC countries of $61 billion, and $6.7 billion from new bilaterals. Unfortunately, private giving in the form of technical assistance cannot be independently estimated to arrive at a figure comparable to the $38 billion for official DAC net development aid. The private sector does spend considerable amounts on advocacy efforts to change rich country policies, and these funds clearly do not go to developing countries for direct poverty alleviation. But there are also case studies showing that contractors to private NGOs charge a third of what equivalent experts get paid by official agencies to work in developing countries. That would suggest that the amount spent by the private nonprofit sector on technical assistance is comparatively low. When one factors in the $6 billion of bilateral funds that are channeled through private NGOs, in addition to the funds noted in Table 4, the private aid sector may be as large as the official sector in real terms. Table 5 and Figure 2 show comparable figures for official DAC aid, new bilaterals and the private nonprofit sector by component.

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[18] Richard Jolly, Chairman, Giving USA Foundation. For comparison, Warren Buffett's headline grabbing gift totaled $1.9 billion in 2006.

[19] Kerlin, J. and S. Thanasombat, "The International Charitable Nonprofit Subsector," Urban Institute Policy Brief, No. 2 (September 2006).

[20] Salmon, L., *The Comparative Nonprofit Sector Project*, Johns Hopkins University, www.jhu.edu/~cnp/research/compdata.html. Accessed March 2007. This includes both domestic and international giving and shows the US is 49 percent of private giving from all DAC countries combined. The DAC itself reports on private giving, but in a very partial way. The DAC reports US private giving as $8.6 billion in 2005, compared to total reported private giving of $14.7 bn., implying that the US is 58.5 percent of the global total.

[21] Kerlin and Thanasombat (2006) op. cit.

Table 5

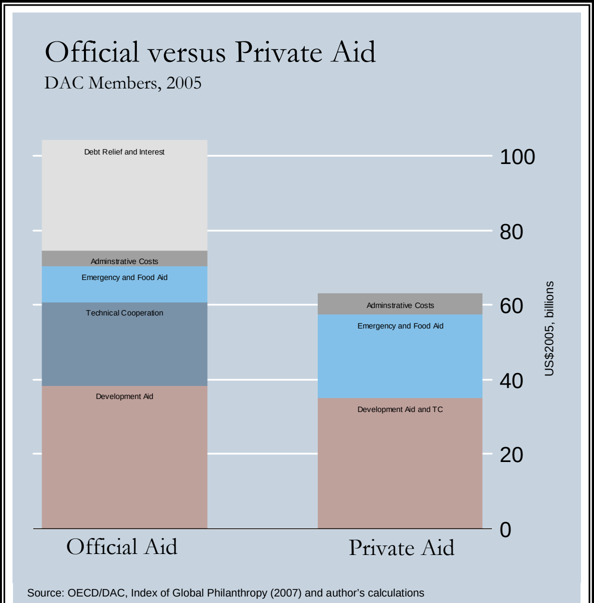
Comparing Official and Private Aid, 2005

US$2005, billions

	Official Aid		Private Aid	
	DAC members	New bilaterals	DAC members	US only
Total	**104.1** [1]	**8** [3]	**58-68** [8]	**33.5** [9]
Less emergency and food aid	(9.6)	(0.5) [4]	(21-24)	(12.1) [10]
Subtotal	94.5	7.5	37-44	21.4
Less debt relief and interest	(29.4)	(0.4) [5]	0	0.0
Subtotal	65.1	7.1	37-44	21.4
Less adminstrative costs	(4.3) [2]	(0.4) [6]	(4-5)	(2.4) [11]
Subtotal	60.8	6.7	33-39	19
Less technical cooperation	(22.4)	(1.4) [7]	?	?
Subtotal	38.4	5.3		
Development Aid	**38.4**	**5.3**	?	?

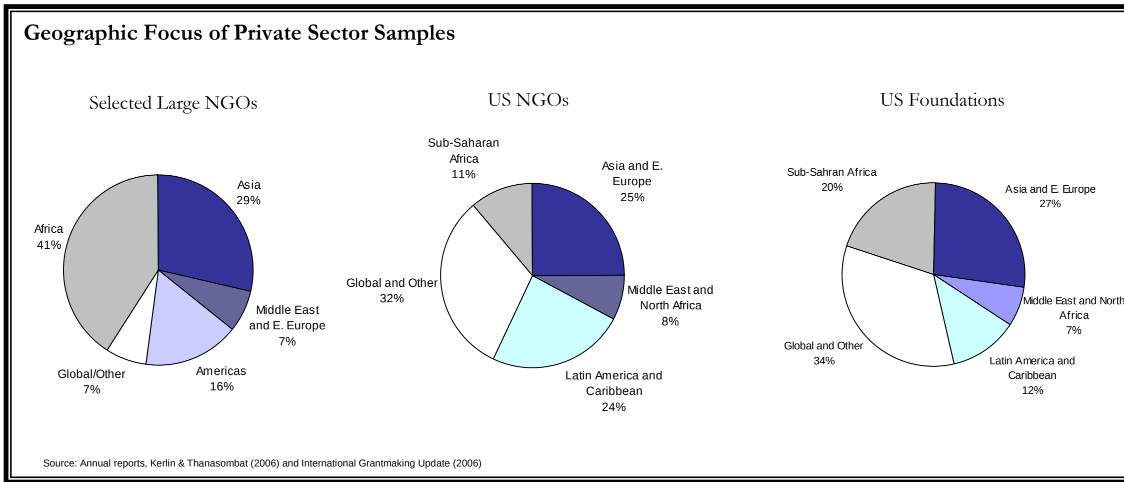
Source: Author's calculations and: 1.) Totals and deductions from OECD/DAC. 2.) Includes costs for raising awareness. 3.) Official and unofficial estimates, see Table 2. 4.) Based on 2002-2005 average of Czech Republic, Korea and Turkey, OECD/DAC. 5.) Based on 2002-2005 average of Czech Repulic and Korea, OECD/DAC. 6.) Based on 2002-2005 average of Czech Republic, Korea and Turkey, OECD/DAC. 7.) Average 2002-2005, Czech Republic, Korea and Turkey, OECD/DAC. 8.) Extrapolated from US figures. Lower bound assumes US private aid represents 58% of total (OECD/DAC). Upper bound assumes US private aid represents 49% of total (Salamon, L., 2007). 9.) Index of Global Philanthropy (2007). 10.) International relief NGOs accounted for 36% of international nonprofit sector revnues. Kerlin and Supaporn (2006). 11.) 11% of international nonprofits' expenditures oriented to adminstration and fundraising. Kerlin and Supaporn (2006).

Figure 2



The destination of private aid is difficult to assess, but general trends suggest a focus on Africa and Asia. Figure 3 displays the geographic focus of three sub-samples of private aid donors. Among prominent international NGOs and US foundations, Africa and Asia are clear areas of intense activity. But US-based NGOs give Latin America nearly twice the attention of Africa suggesting a propensity to send aid to projects closer to home in geographic and cultural terms.

Figure 3



A LOOK INTO THE FUTURE

Can promises be kept?

OECD countries have promised to disburse $130 billion of total aid by 2010. $50 billion has been promised to Sub-Saharan Africa alone. Will donors meet this promise? The low levels of net development aid from official donors suggest that it has proven to be easier to mobilize funds for things like technical assistance, debt relief, food aid and emergencies, than for real development projects. In 2005 debt relief accounted for nearly one-quarter ($25.4 billion) of total official aid, including the Paris Club's extraordinary debt cancellation for Iraq and Nigeria. By providing funds in this fashion, donors bypass the need to have well-designed and implemented development projects.

Looking forward, it is unlikely (and undesirable) that aid increases can continue to be expanded through special purpose flows. All 30 countries which have participated in the Heavily Indebted Poor Countries (HIPC) Initiative will have realized their debt relief packages by 2009. New bilateral disbursements of debt relief are not expected to exceed $4 billion in 2010.[22]

In recent years, donors have increasingly transferred resources through "vertical" funds, meaning agencies which concentrate on narrow sectoral goals, such as health, education or the environment. The most significant of these is the Global Fund for AIDS, TB and Malaria (GFATM), established in 2002 and already disbursing almost $1 billion per year, with plans to increase disbursements to $4-6 billion per year in three to five years' time. The Global Fund's success comes from simple programs which can be taken to scale in countries and achieve tangible results, such as numbers of people protected by mosquito nets, or numbers on anti-retroviral medicines, and ex post audits by private firms to assure financial probity. Other specialized funds, like the Global Environment Facility and the Montreal Protocol have also increased in size. From negligible levels, these new funds now account for 7 percent of total multilateral aid, or $1.8 billion in 2005. While vertical funds can be expected to grow rapidly, they cannot absorb the amounts of new aid that should be disbursed by 2010. They may also result in some misallocation of resources at the country level if they expand too rapidly. One, now infamous, example, is in the health sector in Rwanda. There, $48 million per year is available for HIV/AIDS, which affects 4 percent of the population, thanks to significant GFATM funding, while only $1 million is available for maternal and child health programs.[23]

Traditionally, multilateral agencies, such as the International Development Association (IDA), other regional development banks, and the UN system, have played a dominant role in aid disbursements. In 1995, these agencies accounted for almost two-thirds of all multilateral net disbursements. But they have been growing slowly in absolute terms, and shrinking in relative terms over time, and now account for just one-half of multilateral aid.

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[22] $4 billion includes reimbursement to IDA and AfDB for MDRI. 8 other countries fall under HIPC's financial criteria for debt-relief, but are not expected to qualify for debt relief under "decision-point" rules. In another study, The DATA Report (2007), there is an assumption of zero debt relief by 2010.
[23] High-Level Forum on Rwanda

Part of the reason for IDA's slow growth is that poor countries often have poor policy frameworks in place, and IDA's country-based allocation system rewards countries with good policies. This means that policy and institutional improvements have to precede major increases in aid allocation. And while many African countries have indeed been moving towards meeting their commitments to the G8, of better accountability and strengthening democracy,[24] the ones that are deemed to be best placed for major increases in aid are smaller countries: Burkina Faso, Ghana, Madagascar, Mozambique, Rwanda and Tanzania.[25]

It is important for IDA and other channels to expand significantly if G8 pledges are to be met, but the brief overview above suggests this expansion will be hard to achieve. Aid, excluding debt relief, will have to increase from $81 billion in 2005 to $126 billion in 2010 because debt relief itself might fall from $25.4 billion in 2005 to $4 billion in 2010. There are no realistic plans as to how this incremental $45 billion would be channeled to developing countries.[26] In fact, the aid architecture is so convoluted it is hard to see how donors will allocate their resources in the most effective way.

The messiness in the aid architecture is illustrated in Figure 4. The figure shows how aid flows between major players. The initial source of funds is taxpayers in rich countries, who both donate to the private sector ($63 billion) and pay taxes to fund development aid programs ($105 billion). These dollars are then channeled to poor individuals in low income countries along several routes. Bilateral aid agencies channel their funds through multilaterals, through support to developing country government programs, or through NGO development programs. Table 6 illustrates the sources and uses of funds of the DAC bilaterals in 2005. They provided a total of $107 billion in net flows, funded with taxpayer contributions ($105 billion) and interest reflows from previous loans to countries ($2 billion). Of this $107 billion, only $17.8 billion is disbursed through bilateral development programs. The rest goes in technical assistance ($21 bn.), emergency food aid and humanitarian assistance ($8 billion), administration and overheads ($4.3 bn.), debt relief ($25 bn.), contributions to multilaterals ($24.6 bn.) and contributions to NGO programs ($6 bn.).

Figure 4 shows all the flows between major groups in the same way. What is clear is that the amounts that are actually received by poor people for development purposes is a small fraction of what gets financed initially.

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[24] To quote from the Gleneagles summit document: "The African leaders set out their personal commitment, reaffirmed strongly at this week's African Union summit, to drive forward plans to reduce poverty and promote economic growth; deepen transparency and good governance; strengthen democratic institutions and processes; show zero tolerance for corruption; remove all obstacles to intra-African trade; and bring about lasting peace and security across the continent."

[25] The good news is that more African countries now meet basic standards of good performance, or have credible Poverty Reduction Strategies in place to improve in key areas.

[26] The DAC projects that as extraordinary debt relief subsides (like that granted to Iraq and Nigeria) total ODA levels will decline in 2006 and 2007. Total ODA is not expected to exceed $100 billion again until 2008: this trend requires development aid to increase by $26 billion ($30 billion, less our projections of debt relief efforts in 2010 of $4 billion) in two years.

Figure 4

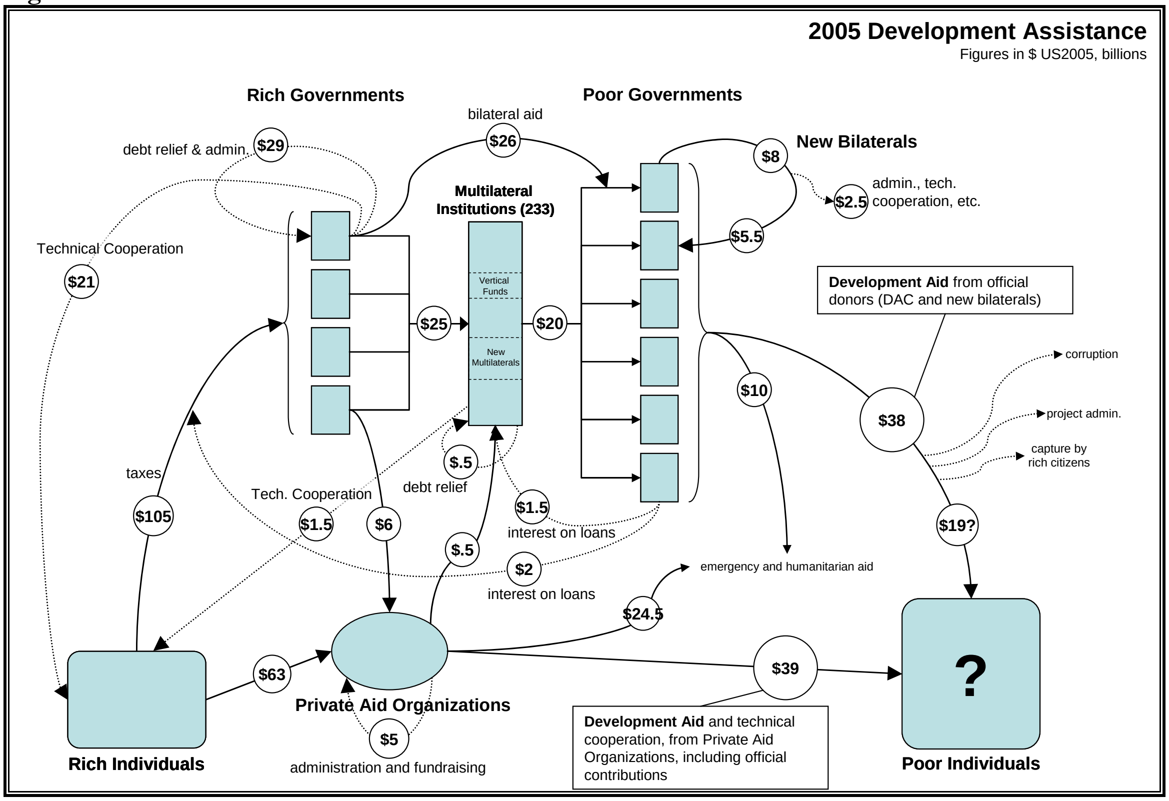

Table 6

DAC Official Development Funding

Sources of funds	US$2005, billions	**Uses of funds**	US$2005, billions
Taxes	104.7	Bilateral development programs	17.8
Interest on past loans	2	Technical assistance	21
		Emergency and food aid	8
		Adminstration and overheads	4.3
		Debt relief	25
		Contributions to multilaterals	24.6
		Contributions to NGOs	6
Total:	106.7	*Total:*	106.7

source: Author's calculations and OECD/DAC

Implications for official agencies and private nonprofits

The new reality of aid is one of enormous fragmentation and volatility. Fragmentation arises because of the multiplicity of groups now involved in the delivery of aid, especially given new private aid players, new bilaterals, and the declining importance of the large multilaterals. As aid amounts increase, it common for recipients to see high volatility in their year to year aid disbursements. Large swings in disbursements translate to large swings in a recipient's domestic expenditures, especially recurrent spending which is difficult to adjust.[27]

The costs of fragmentation and volatility are well known. Fragmentation implies multiple donor requests for studies, individual meetings with country officials,[28] establishment of separate project management units, multiple procurement practices for the same products, an inability to identify and propagate best practices, and allocative distortions between what gets funded and country development priorities. Volatility implies conservative attitudes by finance ministries and international macroeconomic watchdogs, such as the International Monetary Fund, whose support is a prerequisite by many donors for continued aid, which generates a catch-22 situation.[29] Volatility in recurrent cost financing is especially costly in terms of development impact.

In such an environment, private aid players cannot rely on shaping donor programs. Donors will have to support recipients' government-led programs, using budget support, sector-wide operations or recurrent cost financing.

Private nonprofits can best play a catalytic role by providing innovative solutions to major service delivery problems, especially in underserved areas. But this function will require a shift in focus from charitable work to systemic change.

What are the implications for private NGOs? There are six. First, they should focus on project implementation. Many have already started to decentralize their activities to the field,[30] and to develop partnerships with local NGOs. Those with strong field presence and proven programs can expect to receive more funding from official donors and other private foundations. Second, the nature of advocacy needs to change. It is no longer sufficient to encourage rich country governments, or multilaterals, to change their aid practices: that will put these agencies at odds with each other and with countries and contribute to ever greater fragmentation. Instead, advocacy has to turn to country programs and policies, a far more dangerous effort for many NGOs. Third, resources are unlikely to be the critical constraint. Program effectiveness, at scale, will instead be key. The challenge from the new bilaterals is on precisely this front. They claim that they can implement better programs more effectively based on their own experiences with development, and so should not be subject to the same

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[27] In health, which is one sector which exhibits the greatest degree of fragmentation and volatility, one study estimates that health aid is twice as volatile as budget resources. Lane and Glassman, "Smooth and Predictable Aid for Health: The role of innovative financing," mimeo (Brookings Institution, 2007).
[28] One study finds that half of all the time of some ministries in developing countries is spent in meetings with donors and satisfying their reporting requirements.
[29] The IMF will only certify programs with definite amounts of aid forthcoming, while future aid is predicated on an IMF certified program.
[30] ActionAid, for example, has decentralized its headquarters from London to South Africa.

rules for "tying" for example, that traditional donors adhere to. But fourth, program effectiveness cannot be assessed at the individual project level alone. With multiple donors, a broad approach to evaluation is required, as the Rwanda case makes clear. Fifth, as NGOs expand they must do more to evaluate their operations and to engage early on with potential champions who can scale up successful interventions. There are too many "success stories" with little follow-up on scale. That fragmentation reduces effectiveness. Sixth and finally, information, coordination and planning are becoming harder, yet are more important for development effectiveness. The private aid givers need to do more to provide good statistical data on their activities to governments, so as to permit others to identify key gaps and overlaps.[31] That is the minimum level of accountability they owe to the countries where they operate.

[31] Some countries have adopted a Development Gateway platform to build an appropriate database. See www.amp.developmentgateway.org