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## The shifting politics of foreign aid

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## The Shifting Politics of Foreign Aid

Ngaire Woods

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# *Global Economic Governance Programme*

Centre for International Studies | Department for Politics and International Relations



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## **Ngaire Woods**

Ngaire Woods is Director of the Global Economic Governance Programme and Dean of Graduates at University College, Oxford. Her most recent book is *The Globalizers: the IMF, the World Bank and their Borrowers* (Cornell University Press, 2006). She has previously published *The Political Economy of Globalization* (Macmillan, 2000), *Inequality, Globalization and World Politics* (with Andrew Hurrell: Oxford University Press, 1999), *Explaining International Relations Since 1945* (Oxford University Press, 1986), and numerous articles on international institutions, globalization, and governance.

Ngaire Woods was educated at Auckland University (BA in economics, LLB Hons in law). She studied at Balliol College, Oxford as a New Zealand Rhodes Scholarship completing an M.Phil in International Relations (with Distinction) and D.Phil. She won a Junior Research Fellowship at New College, Oxford (1990-1992) and subsequently taught at Harvard University (Government Department) before taking up her Fellowship at University College, Oxford.

In 2005-2006 Ngaire Woods was appointed by the IMF Board to a three-person panel to report on the effectiveness of the IMF's Independent Evaluation Office. Since 2002 she has been an Adviser to the UNDP's Human Development Report. She was a member of the Helsinki Process on global governance and of the resource group of the UN Secretary-General's High-Level Commission into Threats, Challenges and Change, and a member of the Commonwealth Secretariat Expert Group on Democracy and Development established in 2002 which reported in 2004.

Other activities include: member of the Advisory Group of the Center for Global Development (Washington DC) and the Board of the Overseas Development Institute (London); editorial board of the series Cambridge Studies in International Relations; advisory boards of: Prospect (a British monthly); The Round Table: Commonwealth Journal of International Affairs; Demos (the British policy think-tank); the Journal of Global Social Policy; International Relations of the Asia Pacific; the Link Foundation for UK-NZ Relations; and the Wingate Foundation Scholarships Committee; Governor of the Ditchley Foundation.

# **The Shifting Politics of Aid**

**Ngairé Woods**

## **Introduction**

Aid for good governance is much in the news. Wealthy countries promised dramatically to increase aid to the world's poorest countries at the G8 meeting in Gleneagles in 2005, agreeing to double aid for Africa by 2010 and noted that according to the OECD, aid for all developing countries would increase by around \$50 billion per year by 2010 (Gleneagles G8 Communique, 8 July 2005 at [www.g8.gov.uk](http://www.g8.gov.uk)). Promoting good governance is at the heart of these new commitments. To quote the G8 in 2007: "Good governance in Africa is vital to peace, stability, sustainable development, and growth. Without good governance, all other reforms will have limited impacts" (Heiligendamm G8 Communique, 8 June 2007 at [www.g7.utoronto.ca](http://www.g7.utoronto.ca)).

The promises being made by wealthy countries need to be set in a broader context. After 9/11 the global security agenda shifted. Suddenly the top priority was the War on Terror in Afghanistan and Pakistan – in fact, anywhere, where extremists might be contributing to international terrorist activities. Soon after, the invasion of Iraq signalled a new approach to containing and disarming states thought to have weapons of mass destruction (WMD). Inevitably demoted were efforts to prevent or resolve conflicts within poorer states, such as the one currently raging in the Darfur region of Sudan.

These developments magnified three existing challenges to foreign aid. First, donors may hijack foreign aid to pursue their own security goals instead of helping the world's poor. Second, the wars in Afghanistan and Iraq and the broader War on Terror have been extremely costly, diverting aid and reducing other aid budgets. Generous promises of increased aid have not translated into real new flows. "Aid to Sub-Saharan Africa has stalled" concluded the OECD DAC in 2006 (OECD DAC 2006, Figure 2.2) while the World Bank report that net ODA disbursements in fact declined by US\$3 billion in 2006 (World Bank 2007, p.55). The third challenge to aid is that major donors are failing to coordinate aid through existing multilateral institutions, choosing instead to create their own new mechanisms and pursue their own priorities. The result is competition and clashes among priorities, creating aid chaos in many of the poorest recipient countries with regard to how aid is being delivered. This chapter assesses the scope for more aid and good governance promotion in the context of the emerging aid policies of the United States, Japan, the United Kingdom and the European Union.

## **I. The New Security Imperatives and the Risks to Foreign Aid**

New security concerns rapidly came to dominate foreign policy after 9/11. Inevitably those concerns spilled over into aid policy. Foreign aid has always been influenced by donors' geostrategic interests. Once a government allocates money to foreign aid, a range of national and commercial interests heavily influence how much aid is given and how it is disbursed

(Alesina and Dollar 1990).<sup>1</sup> Even so, researchers have found that a genuine moral vision underpins development assistance. However, scholars have proved that there is a genuine moral vision which underpins development assistance (Lumsdaine 1993).<sup>2</sup> Furthermore, efforts to improve aid policies were already underway in the 1990s.

The end of the Cold War inspired a lively debate about how to make aid more effective (Burnside and Dollar 1997; Hansen and Tarp 2000; Easterly, Levine, and Roodman 2003). This dovetailed with a resolve among donor governments to ensure that the aid they were giving was put to better use. A consensus emerged that aid would be most effective if donors forged better partnerships with recipient governments, and if those governments in turn had greater “ownership” of policies. The new shared goals of development assistance were formally expressed as the Millennium Development Goals. At a global summit on financing for development in Monterrey in 2002, governments pledged to reduce poverty, disease, illiteracy and human insecurity throughout the world.

Security concerns were always part of the rethinking of development assistance even in the 1990s. Countries’ internal conflicts were ruining the lives of the most vulnerable people and destroying hope for human development. The Cold War had distorted foreign aid by channelling it toward geostrategic goals. In the 1990s, concerted efforts were made to refocus on human security (UNDP 2002). The links between poverty and security were widely recognized: as expressed by Britain’s development minister, “poverty is both a cause and an effect of human insecurity in developing countries” (Benn 2004). The lesson of the 1990s was that tackling poverty and insecurity together would require aid that fosters sound and effective governance within countries. But that is no easy task.

Civil wars and post-conflict reconstruction programs pose a serious challenge to donors. Typically, these situations require emergency relief. Donors act as quickly as they can to get food, peacekeepers and/or medical supplies directly to people on the ground. In so doing, they often override local institutions. The risk is that emergency relief efforts of this sort can establish patterns of assistance that keep local officials dependent on donors. When this happens, they will not grow their own institutions. Exacerbating the problem, emergency assistance often dries up quickly, leaving governments on the ground with neither the resources nor the legitimacy to begin governing. Here interventions in Afghanistan are instructive.

A large part of the assistance sent to Afghanistan was for emergency relief. Beyond that, donors did not pledge enough for reconstruction, nor have they disbursed what they pledged. By March 2003, Afghanistan had received the lowest per capita aid for post-conflict reconstruction (less than Kosovo, East Timor, Bosnia, Palestine, Rwanda, and Haiti had received), and a large proportion of that aid had been emergency assistance (McKechnie 2003). Of the total amount disbursed between January 2002 and February 2004, at least one-third went to emergency relief rather than reconstruction (Rubin et al. 2003).<sup>2</sup> Of some US\$1,352 million committed to that country for March 2003 to March 2004, only \$536 million was actually disbursed.

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<sup>1</sup> See Alberto Alesina and David Dollar, ‘Who gives foreign aid to whom and why?’, *Journal of Economic Growth* 5, March 2000, pp. 33–63. Ulterior motives have long-fuelled critics on the right and left to argue against aid: Peter Bauer, *Reality and rhetoric: studies in the economics of development* (London: Weidenfeld & Nicolson, 1984); Teresa Hayter, *Aid as Imperialism* (Harmondsworth: Penguin, 1971).

<sup>2</sup> These figures are from <http://www.af/dad/index.html>.

Equally problematic in Afghanistan was the lack of coordination among donors. In November 2001 the Afghanistan Reconstruction Steering Group (ARSG), chaired jointly by the United States, the European Union, Japan and Saudi Arabia, was established to give overall direction to reconstruction. The Afghanistan Reconstruction Implementation Group (ARIG) was intended to be a forum for implementing projects through the Asian Development Bank, the Islamic Development Bank, the UN, the World Bank and the Afghan Support Group (ASG). Over time the ARIG and the ASG developed a consultative role; the ARSG, however, was unable to raise sufficient donor funds. In 2002 the Afghan government founded its own Afghanistan Assistance Coordination Authority, which subsequently ran into resistance from specific ministries. Also, in May 2002 the Afghanistan Reconstruction Trust Fund was founded, and many donors began channelling non-humanitarian assistance through it. The result was problems of coordination among donors – problems that are certainly not unprecedented. Indeed, a scholarly account of the similar lack of donor coordination in Bosnia-Herzegovina raises the same issues (Cousens 2002).

Donors have long recognized that multiple countries and agencies often pursue similar goals in a country and trip over one another. The result is duplication, waste, and overwhelming red tape in terms of reporting requirements and loan negotiations. The problem is now being documented by the OECD Development Assistance Committee (DAC), including in a set of studies on the lack of coordination among donors.<sup>3</sup>

When individual donor countries insist on doing things their own way, waste results. In this regard, it is worth noting that donor governments have already created multilateral mechanisms for disbursing aid. These include organizations such as the World Bank and its concessional arm the International Development Association, the United Nations Development Programme, the World Health Organization, and the Food and Agriculture Organization. These specialized agencies combine technical expertise with the pooled resources of states; their purpose is to facilitate cooperation. Yet the multilateral aid agencies risk becoming even more marginalized as larger proportions of donor aid budgets are spent by national agencies (or “bilaterally” in the aid jargon) rather than through multilaterals.

Adding to the mess, donors’ goals are often at odds. Some examples: the fiscal rectitude promoted by one agency is achieved at the expense of the poverty reduction sought by another; the national security sought by one branch of a donor government is at odds with the human rights and development projects promoted by another. The lack of coherence in priorities is not the result of a lack of understanding or knowledge; what drives these seemingly perverse and counterproductive actions are competing objectives, as well as the competing incentives faced by each national and multilateral agency involved in disbursing aid.

Donors have begun to recognize that incoherence is a problem. The World Bank, the IMF, and a few donors using sector-wide approaches (SWAPs) have been attempting to enhance coordination and coherence. In Canada, the Netherlands, Australia, the United Kingdom and the United States, efforts have been underway to weave the various diplomatic, military and development initiatives into a more coherent and effective response to failing states (Harmer and Macrae 2004). What donors are *failing* to do is allow space for recipient governments to define their own priorities and set down frameworks that would compel donors to act better.

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<sup>3</sup> An initial OECD DAC study documented how Rwanda donors failed to coordinate even in setting policy, each instead following its own priorities, with disastrous results. See OECD DAC 1998. The Working Party is detailed in OECD DAC 2003a.

Paradoxically, to the extent that real coherence is in fact emerging, it is focused not on a development agenda, but rather on addressing global and regional security imperatives – imperatives that often run counter to the pursuit of human security and development.

In the following sections of this chapter, I analyze the shifting priorities of major donors, their approaches to funding those new priorities, and the mechanisms they are applying to deliver aid.

## **II. The United States: More Aid, More Security and More Institutions**

The United States is the world's largest provider of global development aid. In 2004-5 it accounted for 25.4 percent of official development aid, having more than doubled aid since 2002 (OECD DAC 2006, Table 8). The top seven recipients of US official development aid in 2004-5 were Iraq, Afghanistan, Egypt, Sudan, Ethiopia, Jordan, and Colombia (OECD DAC 2006). This compares with the top seven of 1994-5: Israel, Egypt, Haiti, Jordan, Somalia, Palau, and Rwanda.

The new security imperatives figure strongly in US official development assistance. Yet more strongly, the new security imperatives dominate other kinds of US aid which do not qualify as development assistance, such as: the Economic Support Fund which permits the US to give assistance for priorities the first among which is “assistance to allies in the global war on terror”; and Foreign Military Spending where the US provides “articles and services to support coalitions partners and states critical to the Global War on Terror” (USAID 2007). For example, in 2006 actual development assistance to the Near East (which includes Lebanon, Morocco and Middle East Regional) was just over US\$10 million, as compared to more than US\$6 billion disbursed through the economic support fund (US\$2.881 billion) and foreign military spending (US\$3.814 billion) (USAID 2007, pp.92-99). In South and Central Asia (which includes Afghanistan, Bangladesh, India, Nepal, Pakistan, Sri Lanka, and South Asia Regional) development assistance spending in 2006 was US\$259 million as compared with over a billion on economic support (US\$831 million) and foreign military spending (US\$305 million) (USAID 2007, pp.92-99).

Much of the US War on Terror has been funded through supplemental appropriations requested by the President outside of the annual appropriations act. For example, in September 2003 the President requested US\$87 billion as a supplemental appropriation to fund ongoing military operations in Iraq and Afghanistan ([www.whitehouse.gov/omb/budget/amendments/supplemental\\_9\\_17\\_03.pdf](http://www.whitehouse.gov/omb/budget/amendments/supplemental_9_17_03.pdf)). Even once flows to Iraq had been dramatically increased, in 2007 a further US\$2 billion was being requested as a supplemental to the Economic Support Fund, and a further US\$770 million as an emergency fund for 2008. It remains the case that extraordinary expenditures in Iraq place pressure on all foreign assistance spending by the United States.

Contemporaneously with the war in Iraq, in 2004 the United States launched a bold new initiative—the Millennium Challenge Account—that promised to safeguard at least some U.S. aid from geostrategic goals. The new foreign aid program was designed to help low-income countries who are “ruling justly, investing in their people, and encouraging economic freedom”.



Fenced off from other sources of U.S. aid, the MCA would give grants according to the results achieved by the governments of those countries rather than promises made by them. The criteria for grants would be objective and development-based. The MCA also promised recipients substantial control over the projects so financed instead of offering them money to meet donor priorities (Radelet and Herrling 2003).

Countries are eligible after the Millennium Challenge Corporation Board applies sixteen indicators to assess the policy performance of individual countries.<sup>4</sup> The early list of MCA-eligible countries included Armenia, Benin, Bolivia, Cape Verde, Georgia, Ghana, Honduras, Lesotho, the Malagasy Republic, Mali, Mongolia, Morocco, Mozambique, Nicaragua, Senegal, Sri Lanka and Vanuatu.

It was interesting because most of the countries declared eligible had *not* been major recipients of U.S. funding in the past. For Benin, the Malagasy Republic, Mozambique, and Senegal, France has traditionally been the largest donor. Indeed, the early list roughly approximated the set of countries currently being funded by major European donors, including Denmark, Luxembourg, Norway and the Netherlands, which had already committed themselves to directing significant amounts of aid to countries with better policies and institutions.<sup>5</sup>

Practically, the MCA is not affecting aid or aid flows. Two years after its creation, no disbursements have been made. Insiders say that the promised US\$2.5 billion for 2005 is unlikely to survive the appropriations process since the MCC is unlikely to come close to spending its 2004 appropriation. More significantly, the full amounts promised are dwarfed by the sums currently being mobilized for security imperatives. The promised US\$2.5 billion is only slightly more than the US\$2 billion estimated cost of hiring private security contractors to protect US contractors working on projects being financed by the US\$18.6 billion 2004 aid package for Iraq, or to the US\$2.5 billion in windfall Iraqi oil revenues that the US military was spending on quick-hitting development projects in Iraq in early 2004.

A further problem with the MCA is that it has added yet another institution to an already crowded arena. The MCA may not have much development assistance; it did, however, send a strong signal that the United States intended to channel development assistance through its own newly created, unilaterally controlled institution; this even though the field was already crowded by USAID, the World Bank Group, the UN special agencies, the regional development banks, and the other institutions mentioned above. A new agency was sure to result in duplication of programs and increased program costs.

The MCA is not the only new mechanism for U.S. aid delivery. The United States has also channelled its assistance to Iraq and the fight against HIV/AIDS through new mechanisms that eschew multilateral cooperation and the technical expertise and experience concentrated in existing aid-directing institutions.

Most U.S. aid to Iraq has *not* been managed by USAID, the federal agency responsible for foreign aid. Initially a special Program Management Office was created to manage assistance aimed at reconstructing Iraq's infrastructure. This became the Project and Contracting Office (PCO) attached to the Coalition Provisional Authority and subsequently migrated to the new

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<sup>4</sup> See <http://www.mca.gov>.

<sup>5</sup> Figures and comparisons are provided in World Bank 2006a.

U.S. embassy in Baghdad. The result of this new set of arrangements was that an institution that did not exist in 2002 was by 2004 managing more U.S. aid than USAID.

The creation of a new institution to manage aid to Iraq did not address a number of key problems in delivering aid (leaving aside the intense debate about Halliburton's role in Iraq's reconstruction; go to: [www.publicintegrity.org/wow](http://www.publicintegrity.org/wow)). The PCO was not able to spend quickly; as of January 2005 only \$1.48 billion had been spent on work in place.<sup>6</sup> The U.S. aid package almost certainly devoted too many resources to capital-intensive projects managed by foreign contractors and too little labour-intensive projects that would have created jobs for Iraqis. Indeed, it was reported in June 2004 that the United States was using \$2.5 billion in windfall gains from higher than expected revenues from the sale of Iraqi oil to provide fast-disbursing "walk-around money" for U.S. commanders to spend on "quick-hitting" projects of the sort that would deliver a bigger impact on the ground.<sup>7</sup> Using Iraqi oil revenues in this way avoided the restrictions intrinsic in the budget process and implicitly recognized the difficulties encountered in the formal reconstruction effort.

In the global battle against HIV/AIDS, the United States has increased its total funding more rapidly than other industrialized countries. By 2006 the United States had committed US \$2.6 billion and disbursed US 1.6 billion, a small part of which was channelled through multilaterals (Kates et al. 2007).

In governing the aid, the U.S. administration has made it clear that it prefers its own program to existing multilateral ones.<sup>8</sup> Overall AIDS funding is being coordinated by a committee chaired by the State Department rather than by the Global Fund. The administration consistently requested only \$100 million a year for the Global Fund through the foreign aid budget (and another \$100 million from the health and human services budget)—a figure that Congress raised to around \$250 million in 2003 and \$400 million in 2004 (with an additional \$100 to \$150 million in the health and human services budget). In announcing his Emergency Plan for AIDS Relief in January 2003, the president pledged \$15 billion for a new initiative—just \$1 billion of which would go to the Global Fund, and even that conditional on the fund showing results.

Bush's special initiative for fighting HIV/AIDS followed rapidly on that of his predecessor, Present William Clinton, whose administration created the Global Fund for HIV/AIDS, Tuberculosis, and Malaria. This fund augmented work being done on the same issue by the World Bank, the World Health Organization, and several private organizations. Indeed, when the Global Fund was created, its founders were well aware that health program duplication was a problem. For this reason, the Global Fund was set up purely to disburse funds. Country coordinating mechanisms (CCMs) were established in each recipient country whose purpose was to formulate and administer proposals. However, these CCMs often do not work well. The Global Fund and other highly worthy initiatives all suffer from the proliferation of competing rather than cooperating or coordinated agencies and programs.

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<sup>6</sup> <http://www.rebuilding-iraq.net>.

<sup>7</sup> *New York Times*, 21 June 2004.

<sup>8</sup> For a description of the president's new plan, see

<http://www.whitehouse.gov/news/releases/2003/01/20030129-1.html>. For the difficulties facing the Global Fund, as well as a summary of the debate swirling around the restrictions on the use of U.S. funds to purchase generic drugs that have not passed U.S. safety tests, see "In the Aids Fight, Ambitious Goals Meet Hard Realities," *Wall Street Journal*, July 1, 2004.

Overall, U.S. aid is marked by two trends. First, new security imperatives have increased flows of U.S. “development assistance” and other external assistance to countries of geostrategic importance. On a smaller scale, the United States has also increased funding for the fight against HIV/AIDS and pledged a total of \$6 billion to the Millennium Challenge Account. These increases will be difficult to sustain, given the ballooning budget deficit of the United States and constant increases for many budget items. The second trend in U.S. aid is toward even greater national control of aid and the potentially costly creation of new mechanisms for its disbursing and delivering it.

### **III. Japan: Less Aid, More Security, More Institutions**

Unlike the United States and the United Kingdom, Japan has absorbed the new security imperatives in the context of a shrinking rather than an increasing external assistance budget. From 1991 to 2002, Japan was the world’s largest single provider of official development assistance (ODA).<sup>9</sup> In 1997 the government began to reduce its ODA budget, which fell by 27 percent between 1997 and 2003.<sup>10</sup> The large cuts were driven in part by a fiscal crisis in Japan that led to across-the-board reductions in government spending.<sup>11</sup> They have also reflected a degree of “aid fatigue” and a perception that the public was disaffected with the government’s development assistance programme.<sup>12</sup> The Japanese government amended its Development Assistance Charter in 2003 so that it focused more strongly on its foreign policy priorities: poverty reduction, sustainable growth, peace building, and what is vaguely called “global issues” (which include terrorism and epidemics).

The recipients of Japanese aid tend to be in Asia: between 1998 and 2002 almost three-quarters of Japanese ODA went to Asian recipients (Japan, Ministry of Foreign Affairs 2001). By the beginning of the new millennium, China and India had displaced Indonesia and Thailand as the top recipients of Japanese aid. In part, this reflected the receding impact of the Asian financial crisis in the latter two countries. Since then, aid to China has been sharply cut—by some 20 percent in 2003. Meanwhile, India has continued to gain: recently it has become the top recipient of Japanese aid, much of it in the form of infrastructure loans. Japan also continues to provide the financial muscle behind the Asian Development Bank, contributing half its US\$20 billion in Asian Development Fund resources. This is part of the 28 percent or so of Japan’s ODA that it channels through multilateral institutions.

Japan’s ODA budget allocations have continued to decline (they fell again in 2004, by almost 5 percent). Even so, it has made extensive commitments to help with postwar reconstruction in Afghanistan and in Iraq (ibid. chap 2). In January 2002 Japan pledged ¥6.5 billion in aid to Afghanistan over two-and-a-half years, following the U.S.-led military operations in the country. In 2003 Japan pledged \$1.5 billion in grants to help rebuild Iraq and a further \$3.5

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<sup>9</sup> A large proportion of Japanese bilateral ODA is disbursed in the form of loans, which constituted nearly 55% of total bilateral aid in 2002, by far the highest proportion of the OECD DAC members. These ODA loans are generally untied, with the exception of the short-term, tied Special Yen Loan facility (1999–2002) designed to help countries affected by the Asian financial crisis. The proportion of grants to loans in Japanese ODA has remained roughly constant in the last five years, but the loan component is likely to rise in the immediate future as the loans for Iraq reconstruction are disbursed (more on this below).

<sup>10</sup> Figures from Japanese Ministry of Finance; see [www.mof.go.jp/english](http://www.mof.go.jp/english).

<sup>11</sup> The populist version of the argument is reported by Tim Large, ‘Cash-Strapped Japan Rethinks Foreign aid’, Reuters AlertNet, 20 Oct. 2003.

<sup>12</sup> See the debate between the government and the leading opposition party on this, reported in *Yomiuri Shimbun* and reproduced in translation by the Financial Times Information, ‘Matter of Opinion’, 11 April 2003.

billion in loans. To meet some of these commitments, the Diet increased Emergency Grant Aid funds from ¥22.2 billion to ¥31.7 billion (an increase of about \$100 million) for 2004 — an increase significantly less than the allocation requested by the Ministry of Foreign Affairs.

Where will other funds for reconstruction come from? One source will be the Japan Fund for Poverty Reduction established in the Asian Development Bank in 2003: some \$27 million of the \$35 million fund administered by the bank will go to aid for Afghan reconstruction. At least some aid to Iraq has been in the form of new lending from the Japan Bank for International Cooperation (JBIC). Regarding the balance of Japan's pledges, they may either not be met (in view of the politics of Japan's aid cuts) or come out of other elements of Japan's aid budget, involving a further redistribution among recipients. This is presaged by the 2001 White Paper on Japanese ODA, the second chapter of which outlines Japan's intention to use its aid more strategically to promote peace and prosperity and to further Japan's broader foreign policy interests.

What mechanisms is Japan using to channel aid? It is often asserted that as the United States becomes more unilateral, Japan becomes more multilateral. Yet the available evidence does not bear this out. The Japanese government has long underscored its commitment to multilateralism and its desire to see foreign aid undertaken in a more coherent fashion around the globe. However, not unlike the United States, Japan's subsequent actions have revealed a strong and persistent impulse to retain control over this assistance.

As chair of the G8 in 2000, Japan announced the "Okinawa Infectious Diseases Initiative" and its intention to provide assistance of approximately \$3 billion toward combating infectious diseases over five years. How has this been spent? A large proportion of Japan's aid in respect of HIV/AIDS has been spent on bilateral programs to combat the disease in countries such as Vietnam, Sri Lanka, Kenya, Congo, Haiti and Zambia. Japan also began in 2001 to investigate joint projects with the United States in Tanzania, Zambia, Bangladesh and Cambodia.

Japan is contributing directly to multilateral organizations such as the UN Population Fund, the International Planned Parenthood Federation (IPPF), and UNAIDS. At the same time, though, it has found ways to retain control over programs funded through such organizations. For example, it contributes to special trust funds such as the Japan Trust Fund for HIV/AIDS established in the IPPF, and to the Japan Special Fund in the Asian Development Bank. Japan has also undertaken 'multi-bi' cooperation, whereby it acts jointly with international organizations such as the WHO, UNICEF and UNFPA.

In sum, in response to the war on terror, Japan, like the United States, is using supplementary appropriations to deliver contributions to the war in Afghanistan and the reconstruction of Iraq. It has also moved to recognize a broader range of security goals as a legitimate part of its aid mission. The risk is that Japan, like the United States, may increasingly use aid to serve its own security aims. Although Japan is an active "multilateralist", it continues to participate in multilateral aid on its own terms, using special arrangements to retain some degree of national control.

#### **IV. The United Kingdom: More Aid, More Security; Whither Multilateralism?**

Like the United States and Japan, the United Kingdom is among the world's largest development assistance donors. Since 1997, it has significantly increased its development

assistance, casting its priorities in stone in 1997 with the creation of a full Department of International Development (DFID). The DFID has a Cabinet-level secretary of state, who is prohibited from directing assistance to any person or body unless “he is satisfied that the provision of the assistance is likely to contribute to a reduction in poverty.” In addition, British aid is governed by a public service agreement with the Treasury, which for the period 2005–8 set out goals that include the following: to ensure that the proportion of DFID’s bilateral programme going to low-income countries (LICs) is at least 90 percent; to achieve a greater impact of EC external programs on poverty reduction; and to work for agreement to increase the proportion of EC official development assistance (ODA) to low-income countries from its 2000 baseline figure of 38 percent to 70 percent by 2008.

Since its creation the DFID has been assigned a rising share of government expenditures. Its budget had grown to £3.8 billion by the fiscal year 2004-5, with the 2004 Spending Review confirming annual increases of 9.2 percent (the highest of any government department) through to 2007-8. UK official development assistance rose from £5.9 billion in 2005 to £6.8 billion in 2006 (DFID 2007 at [www.dfid.gov.uk](http://www.dfid.gov.uk)).

At the same time, the United Kingdom has rapidly expanded its security commitments, stepping in behind the United States as that country’s most visible ally in both the War on Terror and the occupation of Iraq. The costs of the occupation of Iraq have been very significant. The Ministry of Defence spent £1 billion on additional costs of operations in Iraq in the year 2005-6. A further £200 million was spent on the additional costs of operations in Afghanistan (Ministry of Defence, 2006, p.201).

DFID’s direct expenditure in Afghanistan has risen from a negligible baseline to £35 million in 2002/3 and £72 million in 2003/4, and is forecast to be £75 million in 2004/5. Iraq received £207 million in 2003/4 and is forecast to receive £91 million in 2004/5. As yet, this represents a small share of what the UK is spending in each country.<sup>27</sup> At the same time, there is evidence from elsewhere in the DFID budget that development resources have been allocated towards other states perceived to be allies in the ‘war on terror’. Hence, for example, Pakistan has seen its aid allocation from the UK multiply fivefold from a low of £12.6 million in 2000/1 (the year after Musharraf’s coup) to £64 million in 2003/4, with a further projected increase in 2004/5.

The DFID’s direct expenditure in Iraq has risen dramatically. In 2002 it was 0.39 percent of the total net UK bilateral official development assistance. By 2005, Iraq was receiving 16.14 percent of total net UK bilateral ODA (DFID 2007, p.242). Iraq has also consumed a large share of multilateral net official development assistance. The imputed UK share of multilateral net official development assistance to Iraq rose from 1.9 percent in 2002 to 13.6 percent in 2004, dropping to 4.5 percent in 2005 (DFID 2007, p.263).

The strain on the DFID’s resources and mandate to reduce poverty generated by the War on Terror and the war in Iraq had immediate effect even before the increments described above. Afghanistan, Iraq and Pakistan shot to the top of the department’s list of bilateral recipients by 2004. Commitments to Iraq made it harder in 2003-4 to pursue the pledge that 90 percent of country programme resources, excluding humanitarian assistance, would be provided to LICs by 2005-6 (*ibid.*). To address this, spending in middle-income countries was reduced by around £100 million in 2004-5 and 2005-6.

Through what institutions does the United Kingdom deliver aid? It has retained a large bilateral aid program but has also long been committed to delivering a large portion of its aid budget through multilateral mechanisms. Between 1990 and 2001 over 40 percent of British ODA was channelled through multilateral institutions. This had declined to 28.8 percent by 2002 but rose again to 37.7 percent in 2003. In 2004 the DFID reported that 45 percent of its programme expenditure were being channelled through multilateral organizations (DFID 2007, p.140). By 2006 this had dropped back to 38 percent (DFID 2007, p.140). The British also works closely with European aid agencies, channelling a significant proportion of their aid through the EC. Finally, the DFID has increased the degree to which it channels aid to partner governments for them to spend using their own management, procurement and accountability systems. Since 2000 budget support and other forms of program aid have accounted for about 15 percent of the DFID's bilateral aid program (DFID 2004a).

The British have also tried to make their aid policy more coherent throughout the government. Since 2000 the DFID has operated, jointly with the MOD and the Foreign and Commonwealth Office (FCO), two conflict prevention pools (CPPs): one for Africa, the other for the rest of the world. Continuing allocations to these were confirmed in the 2004 Spending Review; the budget for the Africa CPP rose modestly to £60 million per annum and remained stable at £74 million for the global CPP. While it is generally agreed that conflict prevention is vital to creating the conditions for development in fragile states, the nexus of conflict/security/development issues is a highly sensitive one, as demonstrated by the concern among development NGOs over recent proposals to review the definitions of ODA in the DAC (more on this below).

In sum, British aid and the government's focus on poverty reduction, including in middle-income countries, is undoubtedly being diverted by the new security imperatives. However, this effect is being mitigated by a rising overall aid budget and by multilateral lending to middle-income countries. Conversely, the high share of British aid channelled through the EU is increasingly being used to meet new security imperatives.

## **V. The EU: More Security, More Aid; How Much Coordination?**

The EU and its member states together provide the world's single largest bloc of bilateral and multilateral aid amounting to 52.32 percent of worldwide official development assistance (European Commission 2006). Individually and collectively, its member states have committed themselves to the Millennium Development Goals declared at Monterrey in 2002. In 2004, the EU declared that it was "firmly on target"; but emphasized the need for greater coordination and harmonization among European donors in order to make aid more effective. These goals were reaffirmed in the EU Development Policy Statement signed on 20 December 2005 (European Commission 2006).

Coordination is a crucial issue within the EU, which presents a golden opportunity for aid policies to be coordinated at least among its members. Coordination has already succeeded in the areas of trade and political partnerships. The common External Trade Policy and single seat in the WTO work to pull European countries into the same positions alongside their EU political partnerships (Grimm and Woll 2004). However, on aid more generally the story is a different one.

Each of the fifteen older 15 members of the EU has its own large bilateral program as well as its own position on multilateral agencies. In the past, members' aid together with the EU budget, priorities and policies was diluted by trade-offs among competing priorities. Typically, the Nordic states, the Netherlands and the United Kingdom argued for a focus on poverty in overall allocations and within programs (in other words, they see the budget primarily as a development assistance budget). Southern EU member states tended to argue for allocations on more political grounds, either to address domestic political concerns (e.g., migration from northern African states) or to pursue external political goals (e.g., strong relations with Latin America). The 2005 Policy Statement reflects greater coherence and commitment to the Millennium Development Goal Targets. This reflects in the regional distribution of EU official development assistance in 2005: 44 percent went to Africa and 18 percent to Asia (European Commission 2006, p.154).

The new security imperatives have reshaped EU patterns of action beyond its borders. Traditionally, the EU's security policy has been separate from its development assistance. Security policy has been pursued by individual member states, with the costs even of shared actions such as the recent joint military interventions in Macedonia (Operation Concordia) and in the Democratic Republic of Congo (Operation Artemis) being borne mainly by individual participating states. Development assistance, by contrast, has always been to some degree administered by the EU as a whole—mainly through the External Action budget, which amounted to some €5.18 billion (out of a total annual EU budget of €111.30 billion) in 2004.

In June 2003 significant changes became noticeable when a new EU security framework was adopted (General Affairs and External Relations Council 2003). The 2003 framework declared security as a “first condition for development”—although it did not mention the reverse possibility, that development may sometimes be a first condition for security. It proposed that the EU's security strategy pay heed to programs aimed at strengthening governance through conditionality, trade measures, and technical assistance. It emphasized the need to create synergy between security and development goals through a more coherent and comprehensive approach.

The 2003 EU strategy fits with a broader shift among donors toward the use of aid for security purposes. The guardian of what constitutes “official development assistance” (ODA) is the OECD DAC. This body generally restrains efforts by donor governments to broaden the definition of ODA. However, in April 2004 the DAC announced that it was adjusting and clarifying the definition of ODA as it related to preventing the recruitment of child soldiers, enhancing civil society's role in security, and promoting civilian oversight and democratic control of security expenditure (OECD DAC 2004). The result was to widen the categories of assistance that DAC counts as ODA.

Is EU aid becoming more subservient to security goals? The EU's efforts to enhance coherence in external relations have provoked concern among development agencies (both governmental and non-governmental) that this will happen. The European Commission sought early on to allay this fear.<sup>13</sup> Several factors need to be assessed in analyzing the current trend.

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<sup>13</sup> EU Development Commissioner Poul Nielson in a communication to British NGOs, ‘Letter to the British overseas NGOs for development,’ [www.bond.org.uk](http://www.bond.org.uk).

The EU has been streamlining the governance of its External Relations aid budget. In 2001, it began channelling its aid through one agency—EuropeAid—rather than through four different directorates as previously. Broader constitutional changes are afoot. A high representative of the EU for foreign affairs and security policy—some would say a European foreign minister—is being created and will sit on both the Council and the Commission. It has been proposed that aid all other external action items be brought under the heading “The EU as a Global Partner” with “economic cooperation and development” and “security” instruments brought closer together within the Common Foreign and Security Policy funding (Mackie and Rossini 2004). Put simply, development assistance could soon find itself squarely under foreign policy leadership.

Greater policy coherence has been sought since 2001 culminating in a commitment in the 2005 Development Policy Statement to “Policy Coherence for Development” which calls for agricultural policy, trade policy, research and development policies and other policies all to be deployed coherently to contribute to the Millennium Development Goals objectives.

The EU has devoted significant resources to reconstruction in Iraq and Afghanistan. In Iraq efforts have focused on provided humanitarian relief and political and financial support to launch the reconstruction process. Since 2003, in addition to individual members’ assistance, the European Commission has provided assistance to Iraq for an amount of EURO 518.5 million ([http://ec.europa.eu/external\\_relations/iraq/intro/index.htm](http://ec.europa.eu/external_relations/iraq/intro/index.htm)). In Afghanistan, for the period 2002-2006, the European Commission has delivered more than EURO 1 billion in reconstruction aid ([http://ec.europa.eu/external\\_relations/afghanistan/intro/index.htm](http://ec.europa.eu/external_relations/afghanistan/intro/index.htm)).

The EU funded most of its initial contributions to the War on Terror through additional appropriations. It has also begun to debate security and to broaden the types of security goals in the service of which it is prepared to deploy development assistance. It has also begun to consider institutional reforms that would pull development and security—possibly under a European foreign minister. For some, this indicates a positive shift towards greater policy coherence; for others it raises the risk that development goals will become subservient to overarching strategic security concerns.

## Conclusions

Development assistance that prioritizes the achievement of human development goals is at risk. A rapid increase in aid has been channelled to new security imperatives. But with acute budgetary pressures besetting Japan, France, Germany and the United States (among others), it is a virtual certainty that much of the new aid flow (generated largely to fund the War on Terror as defined by the United States) will dry up. Development agencies, with their more stable budgets, will then be urged to give priority to the development needs of countries at the front lines of the ‘war on terror’.

Paradoxically, previously rational efforts to enhance coordination and coherence among donors may now in some instances be counterproductive. The case of the EU highlights the possibility that while greater European coordination and coherence could *in theory* direct very significant aid flows toward the shared commitments of the Millennium Development Goals, in practice, current institutional shifts and political pressures suggest that the common European agenda will instead be driven by foreign policy concerns. This is but one case where, in the name of coherence, a greater diversion of aid flows for geostrategic purposes



may take place, and increased coordination would magnify that effect. This is the global security scenario for foreign aid.

An alternative scenario is one in which development agencies continue to prioritize human development and the achievement of the Millennium Development Goals, which include human security, leaving to other agencies preoccupations with counterterrorism and WMD. Instead of attempting greater “coordination and coherence” of foreign, aid and security policies in general, this scenario calls for a stronger differentiation and allocation of goals at the global level. This would require a commitment by donors to use existing multilateral institutions instead of perpetuating the erosion of multilateralism evident at present in increasing bilateral aid budgets. It would also require some protection within donor governments of the development assistance remit, to prevent a return to the Cold War patterns of almost purely geostrategically led aid that so obstructed rather than facilitated human development.

The development-led scenario requires two further things from donors. First, the development assistance commonly must address the timescale and predictability of aid flows. Donors need to join together and develop a long-term financial compact between themselves and recipients. Volatile or unpredictable aid flows do little to bolster good governance, coherent government budgets, or the development of sound institutions of accountability in recipient countries. Yet in most developing countries aid is proving to be even more volatile than fiscal revenues (Bulir and Hamann 2003) despite evidence that shortfalls in aid produce poor policies (Gemmell and McGillivray 1998). The new security-driven aid flows are already proving to be volatile and short term. But in other sectors as well where new resources are being promised—such as the global fight against HIV/AIDs—there is little guarantee that new flows will be sustained in the long term, or that the multiplicity of donor institutions that are supposed to disburse the assistance will not change priorities. What is needed is specific donor coordination with a view to committing long-term, predictable flows of resources.

Second, donors must rationalize the demands they place on recipient governments. A recent study by major donors details the duplication and gaps that result when donors impose a plethora of different financial audits on recipients. Most damningly, it concludes that though the “World Bank and IMF would continue to take the lead in conducting most assessments of public expenditure management”, all other parties should have access to information and that “the views of governments (and other local stakeholders)” should be taken into account (Allen, Schiavo-Campo, and Garrity 2004). That finding highlights the extent to which donors’ efforts have enhanced auditing of their own loans, but failed to build capacity and accountability in public finances within recipient countries. The broader aid picture reveals a multiplicity of donors whose demands not only failing to strengthen governmental processes within countries, but also probably even hindering their development. Amid a growing cacophony of donors, very little space is left for local agencies to build, coordinate among themselves and strengthen local governance. Scarce resources are used up strengthening and maintaining external relations with donors and undertaking externally demanded actions, some of which are contradictory. The problem is likely to grow as the number of goals and institutions involved in development assistance increases. At the very least what is needed here is a sharply focused form of coordination among groups of donors—such as shared, streamlined reporting requirements, so as to lessen diversion of local resources to the management of donors (OECD DAC 2003a). These conclusions highlight serious challenges for donors attempting to export good governance.

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