D2 Government aid

No one really knows if the entire 'aid industry' is a good or bad thing. Most people working in the aid industry probably feel strongly that aid is good, or at least that it can do much good. Certainly they are able to point to the translation of aid money into lives saved, clinics built and medicines dispensed. Others argue that aid deflects attention from the structural economic and political inequalities between rich and poor countries that perpetuate poverty. It has also been suggested that aid is used to further the foreign policy and economic objectives of donor countries and that it creates dependency and enables corruption.

In this subsection of *Global Health Watch 2*, we discuss the foreign assistance programme of the world's biggest donor: the United States. This is followed by a chapter that discusses aspects of the aid programmes of two smaller donor countries: Canada and Australia. It then ends with a chapter describing the linkage between 'security' and 'health' which has been strongly promoted by the powerful donor countries, in particular the US.

Have the rich countries delivered on their commitments?

Commitments to reach the UN target of 0.7 per cent have generally been poor. Major donor countries have provided a mere 0.26 per cent of their gross national income (GNI) to official development assistance (ODA) in 2004. Indeed since the Millennium Summit in 2000, based on Reality of Aid (ROA)[1] calculations, deducting new aid resources due to aid to Afghanistan and Iraq, debt cancellation, and support for refugees in donor countries, only 25 per cent (or $6.9 billion) of the $27 billion in new aid resources from 2000 to 2004 were available for poverty reduction or Millennium Development Goals (MDG) programmes.

Even the Development Assistance Committee (DAC) secretariat of the Organization for Economic Cooperation and Development (OECD) registered caution about the will of donors to meet their own targets. They noted that the recent 'aid boom' in 2005–06 was primarily due to debt relief for Iraq and Nigeria, and emergency aid to countries hit by the Indian Ocean tsunami in December 2004.

Aid effectiveness

According to ROA, aid 'is hobbled not only by the severe shortfalls in committed aid outlined above but also by the myriad problems in aid relationships that stray from the principles of equality and mutuality in development cooperation'. It lists three aspects of aid effectiveness:

- The political economic relationships surrounding aid partnerships. This refers to issues of selectivity of aid partners and the use of aid to leverage political, economic, military and other concessions from the recipient country; the economic underpinnings of aid relationships such as debt, export credit agencies and tied aid; and policy conditionalities.
- Administrative issues regarding lack of harmonisation of donors, alignment to country priorities and systems, management for development results and accountability mechanisms.
- Issues of aid delivery and implementation.

Does aid go to countries that most need it?

According to ROA, 'instead of allocating their aid based on where it is most needed, rich countries often favour recipients that are of direct political or economic interest to them.' As a result, 'the most impoverished people of the planet actually receive less aid than people living in middle-income countries.'

What about tied aid?

Tied aid mandates developing countries to buy products only from donor countries as a condition for development assistance. According to ROA 2006, the US, Germany, Japan and France insist that a major proportion of their aid is used to buy products originating only in their countries.

What about conditionalities?

Many have argued that conditionalities imposed by the World Bank and the International Monetary Fund (IMF) on developing countries have harmed development in some of the poorest countries. ROA suggests that there is a growing body of evidence that conditionality has failed:

- aggregate World Bank and IMF economic policy conditions rose on average from 48 to 67 per loan between 2002 and 2005;
- the World Bank and IMF continue to put conditions on privatisation and liberalisation despite the acknowledged frequent failures of these policies in the past;
- IMF macroeconomic conditions impair much needed spending on social and economic development.

Note

1. ROA is a North–South international non-governmental initiative focusing on analysis and lobbying of the international aid regime. It produces a two-yearly report on aid effectiveness for poverty reduction.