

# Financing the Millennium Development Goals and Beyond<sup>1</sup>

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## Abstract

A new level of ambition is required on the part of the international community to reach the Millennium Development Goals. This requires both a step-change in volume and much more incisive efforts to improve aid quality. Although absolute levels have risen, aid as a proportion of donor national incomes has halved since 1960. A doubling of aid/GNP ratios is needed by 2015. Donor transparency, improved mutual accountability between donors, recipients and civil society and a global mechanism to allocate aid according to need are all urgently required. In addition, the use of conditionality needs to be substantially reformed and reduced.

Debt relief can play an important complementary role, not least in preventing aid being immediately recycled as debt service. The debt cancellation deal agreed by G8 Finance Ministers in June 2005 establishes an important principle — permanent cancellation of debt stock — but falls short in terms of the number of countries covered and doubt over whether the countries concerned will end up with more money to spend on achieving the MDGs.

## Introduction

A new level of ambition is required on the part of the international community to reach the Millennium Development Goals. Progress has been unforgivably slow, and the first MDG target — enrolling all girls in primary and secondary school by 2005 — will be missed. The difference in human terms between allowing current trends to continue and reaching the MDGs is stark:

- 45 million more children under five will die between 2005 and 2015 than if the MDG to reduce the mortality rate by two-thirds had been met
- 247 million more people in sub-Saharan Africa will be living on less than \$1 a day in 2015 than if the income poverty MDG had been met
- 97 million more children will still be out of school in 2015 than if the universal primary education goal had been met
- 53 million more people will lack proper sanitation facilities than if the Goal to halve the proportion of those living without access to basic sanitation had been met<sup>2</sup>

Current prospects for a financing package to meet the MDGs, which includes improvements in aid quality as well as increases in volume, are likely to be neither bold enough nor rapid enough to guarantee the levels of progress necessary if the poorest countries are to meet the MDGs. While some donors are increasing their aid budgets and a new deal on debt relief has now been announced, this does not yet amount to the step-change in volume necessary to fund the MDGs. Efforts to improve the quality of aid, too, need to be much more incisive if the aid system is to be able to deliver on the current poverty reduction agenda.

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<sup>1</sup> This paper is based on Oxfam's report 'Paying the Price: Why rich countries must invest now in a w a r o n  
[http://www.oxfam.org.uk/what\\_we\\_do/issues/debt\\_aid/downloads/mdgs\\_price.pdf](http://www.oxfam.org.uk/what_we_do/issues/debt_aid/downloads/mdgs_price.pdf).

<sup>2</sup> Calculations based on data supplied by UNDP compiled from World Bank, UNESCO and UNICEF sources. The calculations assume linear progress towards the MDGs and population growth at the current rate, not affected by MDG outcomes. Calculations of child mortality assume a birth rate in line with population growth.

### *The case for aid*

The case for greater aid and debt relief rests on a number of arguments. A review of recent econometric studies finds that most conclude aid (and debt relief where additional) increases economic growth and supports greater public expenditure, including expenditures regarded as 'pro-poor' (Addison, Mavrotas and McGillivray 2005). Case study evidence illuminates how aid has facilitated change in specific instances. International finance has supported dramatic successes in eradicating smallpox and reducing river blindness (Levine and others 2004), increasing primary school enrolment in a host of African countries and assisting indigenous people in Bolivia to participate in local political processes (Oxfam International 2005a).

Aid is a critical source of finance for the poorest countries, because domestic options to tax and save are limited and access to other types of external capital are restricted. Despite the expansion of private capital in the 1990s increases in Foreign Direct Investment remain concentrated in extractive sectors, while in a World Bank sample of 28 poor countries, only one received sizeable non-FDI private flows (World Bank 2005a). Other types of finance are more likely to follow the development process, not lead it (Commission for Africa 2005). The nature of aid also means that it can be targeted to specific sectors and communities, or, unlike remittances, can be used to support national provision of public services<sup>3</sup>.

Concerns about absorption should not overshadow the possibilities for effective aid use. In 1998 in Uganda when a Universal Primary Education programme was launched donors doubted the sector could 'absorb' more aid, but five years later it is absorbing three times as much donor funding (Development Finance International 2004). 'Absorption' constraints also refer to a number of aspects. The first, institutional and personnel constraints, are unlikely to be uniformly low across sectors and institutions (Bevan 2005). Donors can invest in alleviating the blockage in the long-term, funding effective capacity-building and rebuilding the public sector (which means financing recurrent as well as capital costs), but also in the investing in the short-term in community workers and other, more temporary 'front-line workers' (de Renzio 2004). In addition, cumbersome donor procedures and requirements slow down the effective implementation of aid. In terms of the second key issue, the macroeconomic effect, or the possibility of Dutch disease, the partial nature of the evidence about the effects (Adam 2005) should caution against an automatic conservative stance. The IMF should engage in an analysis of the trade-offs specific to the country circumstances, recognising that negative effects on exports can be managed through policy design, and with any decision to reject aid based on a fully informed national debate (Global Economic Governance Programme 2004).

### *Increasing aid to meet the MDGs and beyond*

#### *Debt relief*

The first priority for an effective financing package in 2005 was a new debt relief deal. Without it, government revenues would continue to be diverted to debt repayments, away from poverty-reducing expenditures and effectively 'recycling' new loans — already since 1970 Africa has paid back in debt service more than it has received in loans (All Party Parliamentary Group on HIPC 2004). The ongoing debt burden would remain a deterrent to private investment and economic growth. Debt relief is also highly efficient as a form of finance, being stable, predictable and delivered straight to government budgets.

The HIPC Initiative has delivered gains — the 27 countries in the Initiative spent 12 per cent of their government revenue on debt service in 2004 on average, down from 24 per cent in 1998-

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<sup>3</sup> Aid also has an important function in financing global public goods, which by their nature are unlikely to attract market-oriented finance.

99, while over the same period ‘poverty-reducing expenditures’ increased from 41 per cent to 47 (World Bank and IMF 2005). However, it has not gone far enough. Within HIPC countries, spending on debt service is still too high relative to government expenditures. In 2003, 13 out of the 27 countries were still paying out 15 per cent or more of their total government revenue in interest payments (World Bank and IMF 2005). Only three countries have achieved ‘sustainable’ debt positions<sup>4</sup>. Meanwhile, many low-income countries remain outside the Initiative, hindering more universal progress towards the MDGs. Estimates are that if debt relief is limited to the HIPCs, only half of Africa’s debt can be cancelled (All Party Parliamentary Group on HIPC 2004).

At the G8 Finance Minister’s meeting in June 2005, a deal was reached for 100 per cent debt cancellation for an initial 18 countries in the HIPC initiative. These 18 countries will save US\$1 billion each year over the next ten years in debt service. The deal also establishes an important principle — permanent cancellation of debt stock. It also includes the cancellation of IMF debts. For HIPCs this is significant — debt service to the IMF over the next five years constitutes half of all multilateral debt service obligations (Eurodad 2005).

Oxfam’s principal concern with the deal, however, is the number of countries covered. Nine more HIPC countries will become eligible as they pass through ‘Completion Point’ of the HIPC process. However, preliminary debt sustainability calculations suggest that to meet the MDGs, at least 62 low-income countries require immediate debt cancellation (Jubilee Debt Campaign, ActionAid UK and Christian Aid 2005)<sup>5</sup>. On this basis, the deal only cancels 10 per cent of the debt that needs to be cancelled. On the creditor side, the debts owed to 19 other multilateral organisations and the private sector are excluded. Five of the poorest countries in the world (Bolivia, Guyana, Haiti, Honduras and Nicaragua) will therefore pay over \$3.3 billion to the Inter-American Development Bank over the next ten years (Jubilee Debt Campaign, ActionAid UK and Christian Aid 2005).

For those countries that are included in the deal, their governments will not necessarily have more money to spend, as gross assistance will be reduced by the amount forgiven. The amount that is forgiven will be put into the World Bank’s IDA facility, and distributed across all 66 IDA-eligible countries according to the Bank’s performance criteria. The money will therefore not necessarily flow to those countries that have had their debts forgiven.

A key element of the deal to track will be whether the money made available for debt relief is additional to aid budgets or not. The additionality principle raises questions about the diversion of aid finance towards particular high-indebted countries. There is little evidence that debt relief has been additional, implying an effective redirection of aid budgets (Killick 2004). For countries without a long-term plan for their aid increases, demonstrating additionality will be more difficult than for those with upfront plans, but these countries should nevertheless account for debt relief separate to their aid budgets.

### ***Increasing aid***

In terms of the finance required to meet the MDGs, debt relief is merely the hors d’oeuvre. Aid is the main course. Despite the evidence that aid is both effective and necessary, aid spending by OECD donors (who provide most of the global aid budget) remains small in relation to need and in relation to the wealth of OECD countries. Although absolute aid levels have risen, reaching their highest ever level in 2004, aid as a proportion of national income, a more revealing test of donor generosity, has halved (see Figure 1). In 1960-65, rich countries spent 0.48 per cent of their combined national incomes on aid. By 1980-85 they were spending just 0.34 per cent, and in 2003-04 the proportion was stagnant at 0.25 per cent.

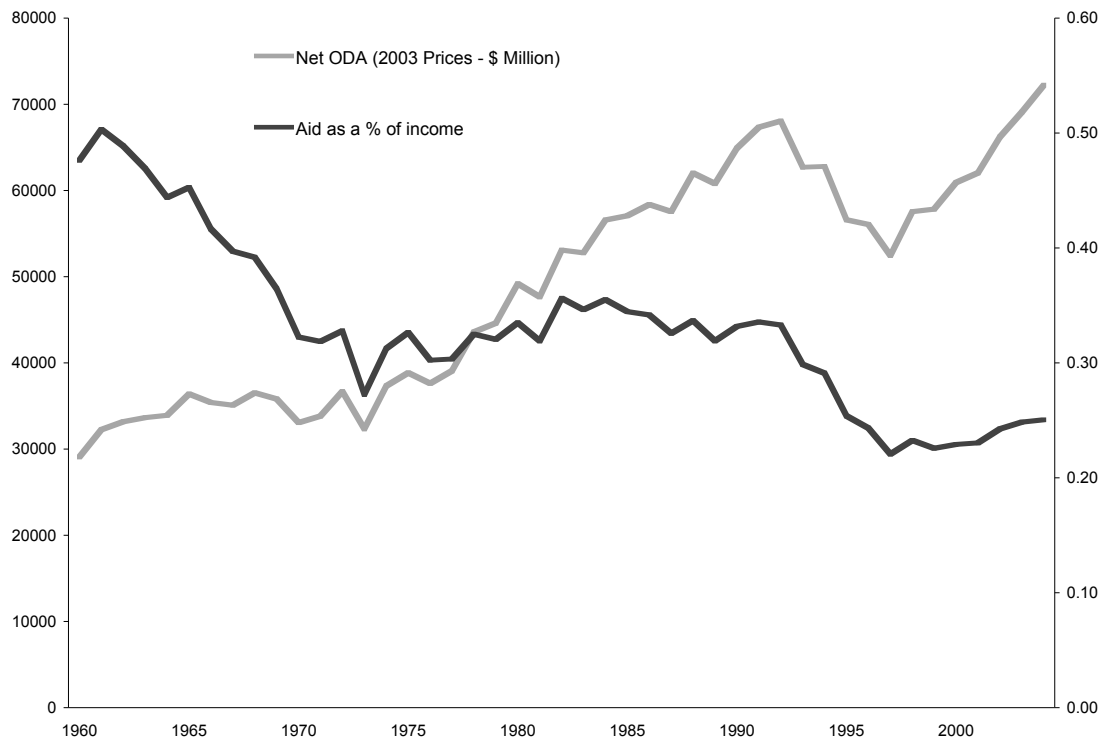
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<sup>4</sup> Ghana, Mali and Mozambique (Development Finance International 2004).

<sup>5</sup> Based on average calculations of the financing needs for the MDGs.

### Figure 1: Aid levels up, but generosity down

Net ODA, \$ million and as percentage of GNI, 1960-2004, OECD countries, 2003 prices



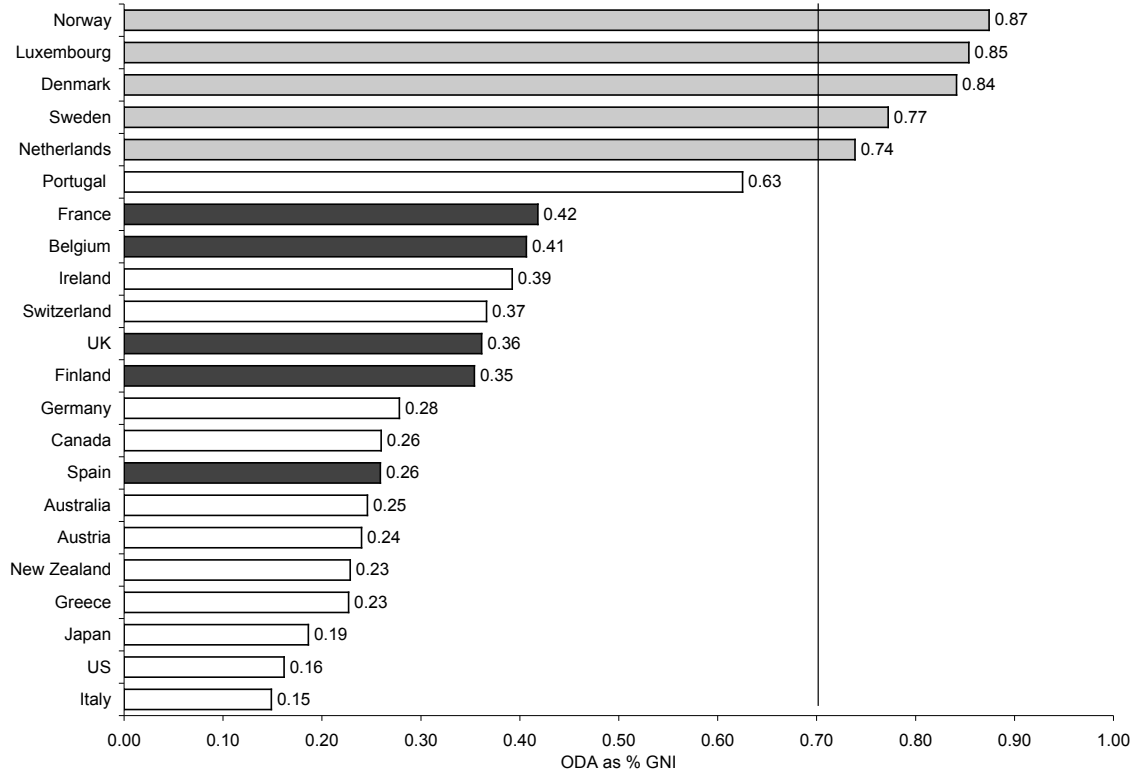
Source: OECD DAC

Aid levels also fall far short of need. Recent calculations by the UN Millennium Project suggest that the level of ODA required to meet the MDGs is equivalent to 0.44 per cent of donor GNP in 2006, and 0.54 per cent in 2015. This would require a doubling of ODA-to-GNP ratios over this period compared with today (Sachs and others 2005). However, these ratios exclude other important items of global expenditure, such as mitigating the impact of climate change, and do not take into account the financing that will be necessary for poverty reduction even after meeting the MDGs. Delivering on the internationally-agreed target to devote 0.7 per cent of national incomes to aid, however, would release enough resources to pursue all of these crucial ambitions.

Yet, out of 22 bilateral donors, just five countries — Norway, Luxembourg, Denmark, Sweden and the Netherlands — currently meet the 0.7 per cent target. Five more have definite timetables for meeting the target: France (2012), Belgium (2010), the UK (2013), Finland (2010) and Spain (2012)<sup>6</sup>. This leaves more than half the OECD donors with no timetable (see Figure 3).

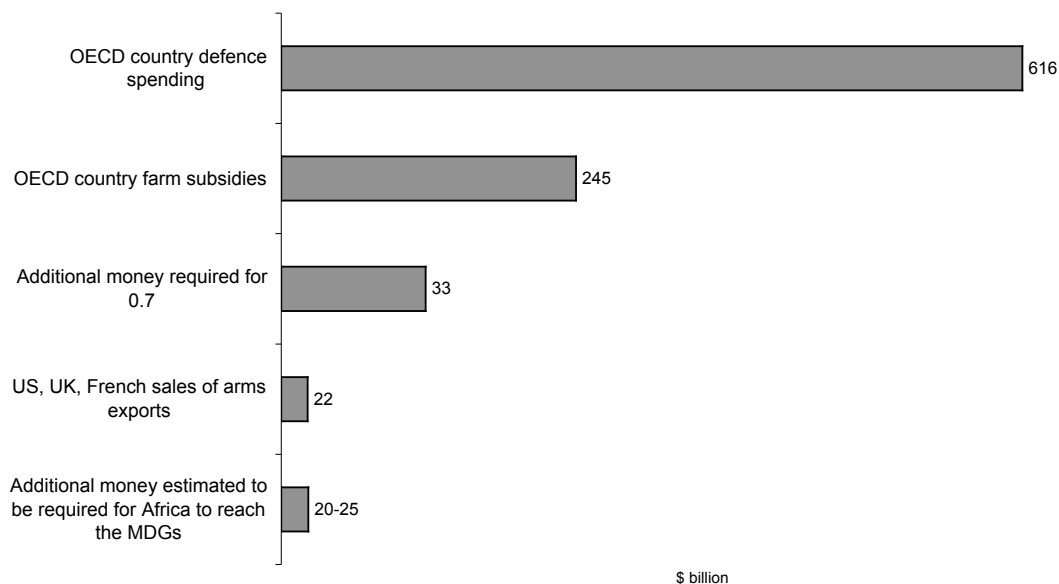
<sup>6</sup> At the time of writing, Ireland is considering a new target date, having reneged on a target date of 2007, while Germany has yet to confirm a statement by its UN Ambassador setting a target for 2014.

**Figure 3: Progress on meeting the 0.7 per cent target**  
*Net ODA as percentage of GNI, OECD donors, 2004*



*Source: OECD DAC*

Setting these numbers against other items of developed country government expenditure, such increases in aid volume are a matter of political priority, rather than affordability. The additional \$120 billion that would have been required from aid donors in 2004 to meet the 0.7 per cent target is under a half of OECD spending on farm subsidies, and under one third of OECD spending on defence. The annual amounts estimated to be necessary for Africa to meet the MDGs are equivalent to US, UK and French annual sales of arms exports (see Figure 5).



**Figure 4: Developed country expenditure priorities and aid**

*Sources: OECD DAC, Oxfam International, African Development Bank*

A new EU aid deal — according to which the EU-15 would meet a target of 0.51 per cent in 2010, with the new member states aiming for 0.17 per cent — is an historic step in the right direction. The increase will be worth an additional \$26 billion each year by 2010. However, the EU needs to make the agreement binding. Germany and Italy have already raised concerns that fiscal constraints will prevent them from actually reaching the target. Meanwhile, the Irish postponement of its 0.7 per cent target demonstrated how fragile such commitments can be. The deal should bring pressure to bear on non-EU donors, nevertheless, with the two largest donors in absolute terms — Japan and the US — as yet to make any commitment to raise total aid flows.

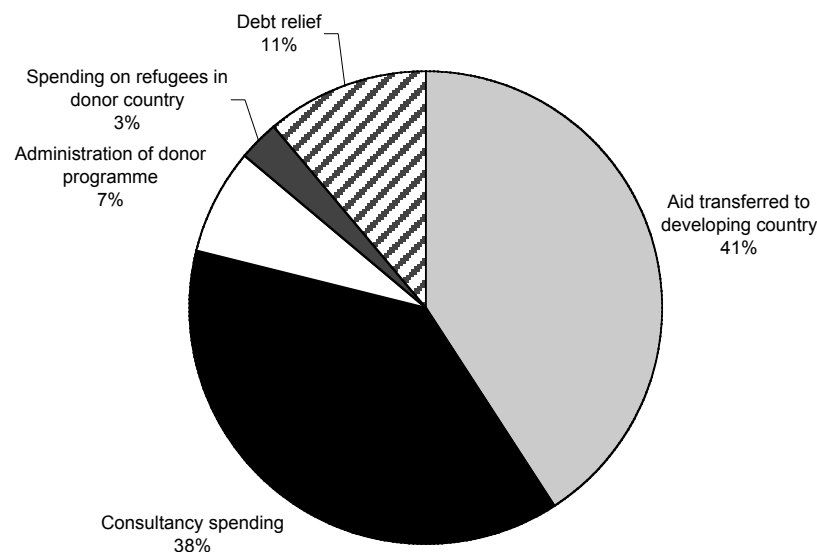
Proposals for increasing aid in 2005 have also centred on the use of ‘innovative financing mechanisms’ to do so. The British government’s International Financing Facility (IFF), which levers additional finance from capital markets on the basis of current aid pledges, effectively ‘frontloading’ aid is a welcome initiative to raise urgently needed resources. It looks likely that at least a smaller version of the IFF, which could lever around \$400 million a year for vaccines and immunisations, will go ahead. However, the initiative must be developed on the understanding that the repayments on the Facility do not come out of aid budgets beyond 2015. Other innovative proposals have focused on international taxes, which would raise revenue in the medium term, and could potentially complement the IFF. The most recent focus of attention has been an airline ticket tax, which would impact only a relatively-well off group of air travellers, and is potentially easy to collect. However, with estimated revenue from a European tax at just \$678 million per year, such as tax would have to be supplemented by other revenue sources to raise the finance necessary for the MDGs. Discussions on this tax and the IFF should also not detract attention from the primary responsibility of governments to achieve the 0.7 per cent aid target, which it is known will raise enough finance to meet the MDGs and beyond.

### *'Effective' aid volume*

An important consideration in this debate is the question of 'effective' aid volume, or the proportion that actually finances poverty reduction. A breakdown of the 2002 aid budget by Oxfam showed that 38 per cent was expended on Technical Assistance, 11 per cent on debt relief, 3 per cent on the costs of supporting refugees in the donor country for the first year of their stay and 7 per cent on administration (see Figure 5). This left just 41 per cent to be transferred to the developing country in development and emergency aid, not accounting for the reduction in value caused by the practice of tying aid to the purchase of goods and services from the donor country. Of course, some amount of Technical Assistance and administrative spending may be warranted, but the exercise highlights that quality is critical to effective volume.

**Figure 6: Effective aid volumes: an ODA breakdown**

Net ODA by purpose, 2002



Source: OECD DAC

### **Making aid work better for poverty reduction**

Improvements in the use of aid must occur alongside aid increases. Without a change in donor practices, the poverty impact of aid will be reduced, and the capability of aid-receiving governments continuously undermined. Conversely, an increase in the quality of aid to sub-Saharan Africa of 24 per cent could induce per capita growth of around 1.8 per cent per annum (Commission for Africa, 2005). The analysis is well-known, but it has not induced the level of change necessary to ensure that the aid system can deliver on ambitious poverty reduction goals.

This section focuses firstly on the agenda currently being pursued at the DAC, before turning to additional questions of aid allocations and the politicisation of aid, and the politics of aid conditionality.

## The DAC process to improve aid quality

The past decade has seen renewed efforts to alter the nature of aid-giving. A donor reform process is now in place at the Development Assistance Committee (DAC) of the OECD and has an increasingly high profile — the 2005 Paris conference, unlike the 2003 Rome one, attracted donor country ministers and included developing country participants. There is some evidence that this process is driving changes at the country level — since Rome many developing countries have produced harmonisation ‘action plans’ (DAC 2005) — and within donor agencies, where messages about harmonisation have been disseminated to all staff (ODI 2005).

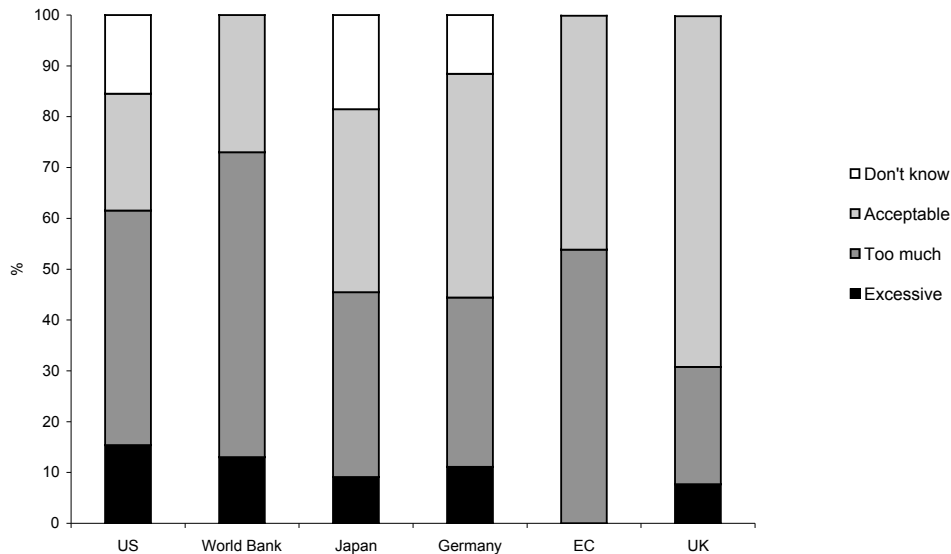
However, the impact of these changes on the ground is still far too limited given the quality of aid that is needed if the investments required to meet the MDGs are to be possible. A survey conducted by Oxfam in mid-2004 shows how delivery is lagging. Interviews with recipient government officials, carried out anonymously in 11 countries across Africa, Asia, the Middle East and Eastern Europe<sup>7</sup>, found the following:

- In 52 percent of reported cases, government officials spend ‘too much’ or ‘excessive’ amounts of time reporting to donors.
- In 50 per cent of reported cases, ‘none’ or ‘only some’ donor activities fitted with the government’s financial planning.
- In 31 per cent of reported cases, donor aid arrives more than 6 months late.
- In 70 per cent of cases, donors commit aid for three years or less, and in 10 per cent of those cases, for less than six months.

In 60 per cent of cases reported, respondents described the reporting requirements imposed by the World Bank and US as ‘too much’ or ‘excessive’, in contrast to the UK, whose requirements were described in 69 per cent of cases as ‘acceptable’ (Figure 7).

**Figure 7: Bound in red tape**

Responses to the question ‘How much of your ministry’s time is spent in reporting to the donor?’



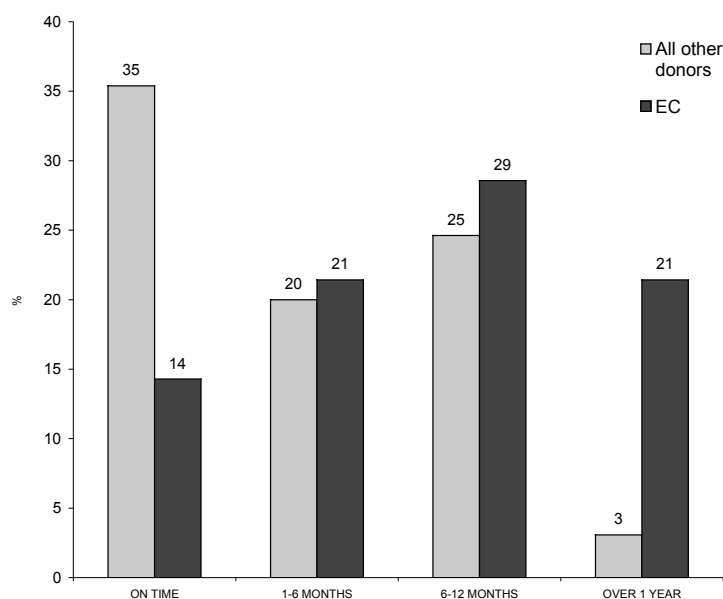
<sup>7</sup> The survey was undertaken in June-July 2004, with staff in various ministries in 11 developing countries, distributed evenly across regions. They were asked to express their opinions on various dimensions of donor practice by rating and commenting on donors with whom they had worked over the previous two years. Approximately 80 data points were generated for each donor, and donors for which there were not considered to be sufficient data were excluded from the final results (France, Canada and Italy). To encourage reliable responses, respondents’ anonymity was assured at all times.



Source: Oxfam survey of donor practices

As Figure 8 shows, in 25 per cent of cases, aid disbursements arrived between six and twelve months late. However, ratings for the European Commission were far worse than the rest, with 20 per cent of its aid reported to arrive more than one year late.

**Figure 8: Expect delays in aid delivery**



Source: Oxfam survey of donor practice, 2004R

The findings have been borne out in other survey work. A DRI study in African HIPC countries finds that shortfalls in donor aid are 26% less than projected for donor projects (DFI 2004). A perceptions survey by the DAC to track progress since the Rome summit on its main areas of focus (ownership, alignment and harmonisation) concluded there was a need to increase efforts.

The consequence is a serious restriction in the time government officials have to design, manage, implement and evaluate national programmes and continuous uncertainty about the feasibility of donor-funded investments. A sense of partnership between government and donors is undermined, while donor programmes may lack local support, damaging their sustainability and appropriateness.

The DAC process acknowledges many of these issues. At both Rome and Paris, donors have committed to support country priorities, devise common procedures, reduce the number of missions, reports and conditions, enhance transparency and provide predictable, multi-year funding. Indicators by which to monitor donors are currently under discussion<sup>8</sup>. For the framework to deliver, however, firstly the targets need to be monitorable, ambitious and relevant. This means bolder indicators: currently, progress on untying aid is to be measured by 'continued progress' in meeting a 2001 DAC Recommendation to untie aid to all Least Developed Countries (LDCs) — a recommendation that excludes food aid and Technical Assistance, despite evidence that tying aid raises the cost of goods and services by 20-30 per cent (Jepma 1991). It also means tackling aid quality issues that most matter to recipients. The DRI study finds that the most

<sup>8</sup> The European Union moved ahead to agree a set of targets to coordinate capacity building, provide 50 per cent of government assistance through county systems, start no new Project Implementation Units and decrease the number of uncoordinated missions by 50 per cent.

problematic issue for HIPC governments is the lack of flexibility of funds, yet this is not addressed in the Paris Declaration.

Secondly, it needs to be underpinned by robust accountability mechanisms. The current proposal is for mutual assessment reviews in all aid-receiving countries by 2010. However, progress also needs to be monitored at an international level, with annual multi-stakeholder reviews that bring together donors, recipients and civil society in a spirit of mutual accountability. The review may be convened by the DAC, but should be far more open to developing country participation than has previously been the case. In addition, an ombudsman should be created to provide impartial oversight of both donors and recipients, with the post reporting to the UN Secretary General as part of an Independent Review of Aid Effectiveness. At the country level too, progress should not just be independently assessed, forums should be established where donors and recipients can call each other to account for aid delivery (ActionAid and Oxfam, 2005).

Thirdly, the DAC process needs to be integrated into broader efforts to reach the MDGs, both as improvements in aid quality are so vital to meeting the MDGs and as efforts to improve aid quality need to incorporate other stakeholders, and cannot just be decided between donors themselves. The 2005 UN Summit could be one such forum for incorporating DAC discussions into the wider development agenda.

### Quality of aid allocation

The DAC process plays out within the broader context of the way aid is allocated. There is no global mechanism for allocations, and the result has been a phenomenon of donor ‘darlings’ and ‘orphans’. Nicaragua, for instance, received \$178 in aid per person in 2001, while Niger, at a similar income level, received just \$22 per person (ActionAid International and Oxfam International 2005). Attempts to examine the problem have concentrated on how to ensure aid is delivered to ‘fragile states’. While an important question, this focus ignores the imperatives driving aid allocations in the first place, which are as much about foreign and security policy as poverty reduction concerns. Studies have demonstrated that an historic colonial link remains a major determinant of aid flows (Alesina and Dollar 1998).

Table 2 shows the top recipients of G7 aid in 2002 and their average annual income per capita. The measure includes OA (Official Assistance) as well as ODA (Overseas Development Assistance), which is provided on exactly the same terms as ODA but classified differently as it is given to more ‘advanced’ economies. This broader measure is revealing about overall donor priorities — two of the top recipients of French aid, French Polynesia and New Caledonia, and Israel, one of the top recipients of US aid, are classified as high-income countries.

**Table 2: Real Aid Allocations**

Top three recipients of G7 gross aid (ODA and Official Aid (OA)) in absolute terms, 2002, and recipient income per capita compared with that of LDCs (PPP, 2003 estimates)

G7 Donor	Top 3 recipients of aid	Recipients’ average annual income per capita
France	1. Cote d’Ivoire 2. French Polynesia 3. New Caledonia	\$11300
US	1. Egypt 2. Russia 3. Israel	\$10833
Canada	1. Poland 2. Former Yugoslavia 3. Cameroon	\$6376
Japan	1. China	

	2. India 3. Thailand	\$5100
Germany	1. Serbia and Montenegro 2. China 3. Bolivia	\$3233
UK	1. India 2. Serbia and Montenegro 3. Tanzania	\$1933
Italy	1. Mozambique 2. Tanzania 3. Eritrea	\$833
Average income per capita in LDCs		\$1307

Source: DAC, HDR 2004

In addition to existing donor biases, the ‘war on terror’ threatens to revive an era when aid was governed by strategic aims<sup>9</sup>. There is some evidence of direct shifts in aid funds towards so-called ‘frontline states’ — in the US this is away from Israel and Eastern European economies to Afghanistan, Pakistan, Iraq and Jordan; in the EU there have been possible reallocations from Southern Africa to Iraq and Afghanistan and in the UK funding to Iraq has displaced funds to low-income countries (Woods 2004). In addition, huge supplemental aid budgets have funded strategically important states (\$32 billion in the US alone between 2002 and 2004). Not only could this money have been used in the poorest countries, but such supplemental flows are likely to be short-term and unsustainable, with pressure on aid agency budgets growing more acute (Woods 2004). A final danger is not only the loss of money to the poorest countries, but that poverty-reduction goals are diluted as strategic allies are accommodated, as in Denmark, Japan and Australia, where ‘combating terrorism’ has been made an explicit aim of official aid programmes.

### **Aid conditions: undercutting ownership**

Conditionality has been under scrutiny since the late 1990s but, despite this, conditions continue to undercut mutual accountability and domestic ownership. This weakens the effectiveness, appropriateness and sustainability of reform, and can lead to the implementation of reforms that harm the interests of poor communities. The focus here is principally on multilateral conditions, given that multilateral conditionality is judged to be a bigger problem than bilateral (DFI 2004), and the role of the IMF in ‘signalling’ to other donors when to suspend funds<sup>10</sup>.

The administrative burden of conditionality is undoubtedly an important contributing factor. Despite IMF and World Bank claims that numbers of conditions have been ‘streamlined’, the basis for these findings has often been limited. A recent IMF review only examines structural conditions (IMF 2005), while a 2004 Bank paper showed that this conclusion held for binding conditions only (World Bank 2005b). Streamlining has not been consistent across countries (Eurodad 2003), and in Tanzania, considered a ‘good performer’, the 1996-99 IMF Adjustment Facility had 52 formal conditions, while the 2000-03 facility had 58 (TASOET 2005). Certainly, African governments do not perceive multilateral efforts as having a major impact (DFI 2004).

<sup>9</sup> Not all strategic aims are connected to the ‘war on terror’, however. In the European Commission’s case, regional security takes priority with the result that, although it has been declining, aid to Lower Middle Income countries was still at 39 per cent in 2003, mostly to neighbouring Eastern European countries.

<sup>10</sup> The emphasis here is also on policy conditions, not fiduciary or process ones.

In addition, the important measure from the point of view of developing country governments is aggregate conditionality. Although lack of donor transparency means meaningful overviews are hard to come by, there are indications that the World Bank and bilateral donors have merely ‘picked up’ structural conditions dropped by the Fund (Killick 2004), or that donors shift conditions out of joint donor frameworks into projects and bilateral agreements with the government.

Numbers do not tell the whole story either, and donor ‘micro-management’ has been equally as intrusive. The most recent IMF review highlights cases of Fund conditions that stipulate sending letters of redundancy to 240 health sector employees in Macedonia or require double signatures to operate school bank accounts in Sierra Leone (IMF 2005).

To achieve genuine domestic ownership of policy reform, donors need to pay greater attention to domestic accountability mechanisms. Donor accountability to their own constituencies is of course vital, but such ‘upward’ accountability has come at the expense of better accountability to receiving governments and citizens. This means explicitly committing, as DFID has done, not to “attempt to impose policy choices..(including in sensitive economic areas such as privatisation or trade liberalisation)” (DFID 2005). Not ‘imposing’ policy entails respecting domestic political processes: contrary to Ghana’s experience, where IMF staff convinced the government to overturn a parliamentary decision to raise its import tariffs on rice from 20 per cent to 25 per cent (Oxfam International 2005b). It means drawing donor frameworks from national plans, with an ongoing problem that IMF Poverty Reduction and Growth Facilities (PRGFs) are not integrated with the PRSP or the relevant national strategy. And it necessitates full transparency, not only to government authorities, but also all domestic stakeholders. Both in Ghana and Mozambique, donors’ budget support frameworks are not passed to parliament or civil society.

Finally, too little attempt is made to base conditions on independent analysis of the impact they will have on poor communities. Recent conditions by the World Bank and IMF on the privatisation of the water system in Dar es Salaam, Tanzania, failed to consider gender in the reform design, and nor were any women targeted for consultation, despite women’s primary responsibility for providing water (ActionAid International 2004). While a tool to analyse the distributional impact of reforms is now in use by the World Bank and IMF, the Poverty and Social Impact Assessment (PSIA), this should be undertaken in all cases where it is relevant for policy reforms, especially in the case of IMF macroeconomic reforms. Analysis of conditions needs to go beyond examining the mode or sequencing of a reform — in Chad, the PSIA examined the different ways to privatise cotton marketing, but did not assess the appropriateness of the reform per se. Any analysis also needs to feed into the policy-making process, unlike in Malawi, where the results of a PSIA on the privatisation of the state marketing board were ignored in the conditions of a new World Bank loan. While PSIA has been a positive step, more analysis needs to be fostered independently of the World Bank and IMF’s control, giving national authorities the ability to examine and deploy the counter-evidence.

## **Conclusions and recommendations**

Urgent and concerted action is necessary in 2005 to meet the Millennium Development Goals. DAC donors should make up the current shortfalls in aid flows to meet the MDGs, providing at least \$50 billion in additional aid immediately, and setting binding timetables to meet the 0.7 aid target by 2010. All donors should fully implement Rome and Paris commitments to improve the delivery of aid, and adopt monitorable and ambitious targets that go beyond current proposals. Donors should initiate the establishment of strong in-country and international accountability mechanisms to monitor and report on progress. Donors should ensure that aid is focused on the poorest countries and communities, enacting national legislation where necessary to mandate the use of aid solely for poverty-reduction purposes.

All donors should restrict the use of conditions to requirements for financial accountability and broadly-agreed poverty reduction and gender equity goals only, where such goals are based on nationally-agreed plans and the requisite independent impact assessment has been undertaken.

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