Long-run Trends and Recent Developments in Official Assistance from Donor Countries

White, Howard

Institute of Development Studies, University of Sussex

November 2002

United Nations University

WIDER

World Institute for Development Economics Research

Discussion Paper No. 2002/106

Long-run Trends and Recent Developments in Official Assistance from Donor Countries

Howard White*

November 2002

Abstract

Official flows account for close to half of capital flows to developing countries, and close to 90 per cent of receipts for Sub-Saharan Africa. This paper documents trends in these official flows over the last three decades. The most striking trend has been declining aid volume. Following two decades of relative stability, official flows have decline in the 1990s; in particular aid to just 0.2 per cent of donor GNP. A second trend is the decline in aid to low-income countries, partly as aid flows are diverted to transition economies and 'trouble spots'. As a result of these trends, real aid per capita to Sub-Saharan Africa fell by 40 per cent in the 1990s. Continuing an existing trend, multilateral agencies have accounted for a growing share of total aid, in part as a result of the expansion of EU aid, but non-EU donors have contributed more of their aid through the UN system. Positive developments have been the increased concessionality of aid and a move toward untying. However, substantial parts of the multilateral system, notably the World Bank, continue to extend loans rather than grants. And the move to untying is not well-established, having been somewhat reversed in some countries in recent years. Finally, the aid programme of most donors is thinly spread over many recipients. Whilst there are good grounds to question the current fashion for selectivity, there remain good developmental arguments for greater concentration by individual donors.

Keywords: development aid, bilateral aid, multilateral aid
JEL classification: F34, F35, O19

* Institute for Development Studies, University of Sussex, email: h.white@ids.ac.uk

This study has been prepared within the UNU/WIDER project on the Sustainability of External Development Financing, which is directed by Matthew Odedokun.

UNU/WIDER gratefully acknowledges the financial contribution to the project by the Ministry for Foreign Affairs of Finland.

UNU World Institute for Development Economics Research (UNU/WIDER)
Katajanokanlaituri 6 B, 00160 Helsinki, Finland

Camera-ready typescript prepared by Liisa Roponen at UNU/WIDER
Printed at UNU/WIDER, Helsinki

ISSN 1609-5774
ISBN 92-9190-338-8 (printed publication)
ISBN 92-9190-339-6 (internet publication)

1 Introduction

Aid continues to be of great relevance to international development, particularly in the poorest countries. However, after four decades of growth, real aid declined in the 1990s. This decline was to some extent offset by improvements in quality measures. This study documents these changes, such as reduced tying and greater concessionality.

Section 2 provides a brief historical overview, including main features of the aid scene. The bulk of the study is concerned with the quantity and quality of aid, as captured in various measures of donor performance. The evolution of aid volume and its relation to other international flows are discussed in section 3. Section 4 examines changes in the allocation of aid and other official flows, aid tying and the financial terms of aid. Section 5 concludes.

2 Historical overview

The origins of aid can be traced back to the development efforts undertaken by colonial authorities (see Hjertholm and White 2000), but the modern multilateral institutions dealing with aid emerged in the 1940s with most bilateral donors coming on the scene in the 1960s. White (1974) provides a periodization of aid until the early 1970s, and Hjertholm and White (2000: 81) an alternative schema. Two of the main points to emerge from these analyses are institutional changes and various shifts in the pattern of aid.

The dominance of different institutions has changed over time. Until the mid-1950s the US was the only donor of note, including as the main funder of the UN system. The launch of Soviet aid in 1956 ushered in a period of explicit competition between the US and USSR with aid as an instrument of foreign policy interests. Countries with colonies, notably the UK and France, became donors as they shed their last substantial colonies in the early to mid-1960s, with others, such as the Scandinavian countries, establishing formal aid programmes by the late 1960s. Multilateral aid, in the shape of the UN, has been present since the 1950s, but gained importance with the growth of the World Bank and IMF from the early 1970s.

There have been changing fashions in both aid instruments and the underlying ideology of aid donors. In the early years bilateral agencies engaged in technical assistance, with some budget support to newly independent countries, in the belief that projects were best undertaken by the multilateral agencies with the requisite skills. But by the 1970s projects had become the mainstay of the aid business. More recent trends toward budget support and sector programmes notwithstanding, projects continue to dominate the aid scene. A further development in the 1970s was an increased emphasis on aid for social sectors, which has once again become a popular theme. But the ideology changed from one of state-directed development to a vision of market-based growth (see Thorbecke [2000] for a more detailed discussion of ideological and theoretical shifts). There have been indications of a move back toward a more balanced view of the complementary roles of state and market, but they are taking quite some time to feed through to the practice of aid.

3 Trends in the quantity of aid

Aid is just one of several sources of capital flows into developing countries. The main source of aid data is the Development Assistance Committee which distinguishes official flows, private (commercial) flows and grants from non-governmental organizations (NGOs).

Aid flows are the largest part of official flows. DAC recognizes as 'aid' flows to developing countries and multilateral institutions from official agencies which satisfy two criteria: (i) be primarily intended for development purposes (which rules out both military aid and export credits), and (ii) be highly concessional, defined as having a grant element of at least 25 per cent.[1] DAC maintains a two-part list of 'eligible recipients'. Flows meeting the above criteria to countries on Part I are called official development assistance (ODA), and those to countries on Part II called official aid (OA).[2] A further category, official development finance (ODF), comprises bilateral ODA, multilateral receipts (both concessional and non-concessional) and non-trade related official flows (in particular loans to refinance debt). Other official flows (OOF) are official transactions for which the main objective is not development, or if it is, the funds are insufficiently concessional to qualify as ODA/OA. The main items of OOF are export credits, official sector equity and portfolio investment and debt re-organization at non-concessional terms.

Table 1 shows the changing pattern of these different flows. For developing countries as a whole, the importance of ODA is down from the 1980s, but higher than in the 1970s. The difference between the 1980s and 1990s is largely accounted for by variations in private flows, which shrank considerably during the years for the debt crisis, but grew again from the early 1990s. There is a view in some quarters that aid is becoming redundant, and its place will be taken by increased trade and private capital.[3] The data in Table 1 show no sign of this happening. In the 1990s, aid was still 40 per cent of flows to all developing countries, and close to 90 per cent of those received by Sub-Saharan Africa. In fact the resurgence of private capital flows has been highly concentrated in a few countries. Lensink and White (1998) present a formal model of access to international capital markets, showing that a large number of countries simply cannot obtain these funds. Hence the institution of aid should be expected to continue for some time.

1 The grant element is the grant equivalent divided by the face value, where the grant equivalent is the face value of the loan less the present value of repayments discounted at 10 per cent. A grant has a grant element of 100 per cent and a loan with an interest rate of 10 per cent a grant element of 0 per cent.

2 Part I countries are mostly low and middle-income countries (in 2000 two high-income countries, Malta and Slovenia were on Part I). Part II countries are high income countries, including those in Eastern and Central Europe. A review of the list takes place very three years. Those countries which have been above the upper middle income country threshold should be graduated, though DAC reserve the right not to graduate by taken into account other criteria (or to graduate countries not satisfying the income criterion on the same basis).

3 For discussions of these views, see Hewitt (1994), White (1999), and Edwards (2000).

Table 1
Total net disbursements of total official and private flows by type, 1971-2000 (%)

	1971-80	1981-90	1991-2000
All developing countries			
Official development assistance (ODA)	36.7	50.8	40.4
Other official flows (OOF)	8.7	6.6	5.1
Private flows	50.7	38.2	50.7
Grants from NGOs	3.9	4.4	3.8
Total	100.0	100.0	100.0
Sub-Saharan African countries			
Official development assistance (ODA)	59.5	77.8	88.5
Other official flows (OOF)	11.2	14.4	0.8
Private flows	29.3	7.9	10.7
Grants from NGOs	na	na	na
Total	100.0	100.0	100.0

Source: OECD/DAC on-line database.

Table 1 also shows that grants from NGOs have been remarkably stable at about 4 per cent of total flows. Hence, if they were to be included with ODA, they would be about 8 per cent of the resulting total. This figure represents the funds which NGOs raise themselves. They also act as a channel for ODA. DAC data have a line 'support to NGOs', which has been stable at 1.5 per cent of total ODA for the last two decades (see Table 15), so that aid through NGOs is about 10 per cent of the total of ODA plus grants from NGOs. However, this line covers direct flows from agencies to NGOs to spend on their own programmes, and does not capture cases when the NGO is the implementing agency for a project funded by that agency. Whilst data are not available on the latter, it is generally believed to have increased quite substantially since the mid-1980s.

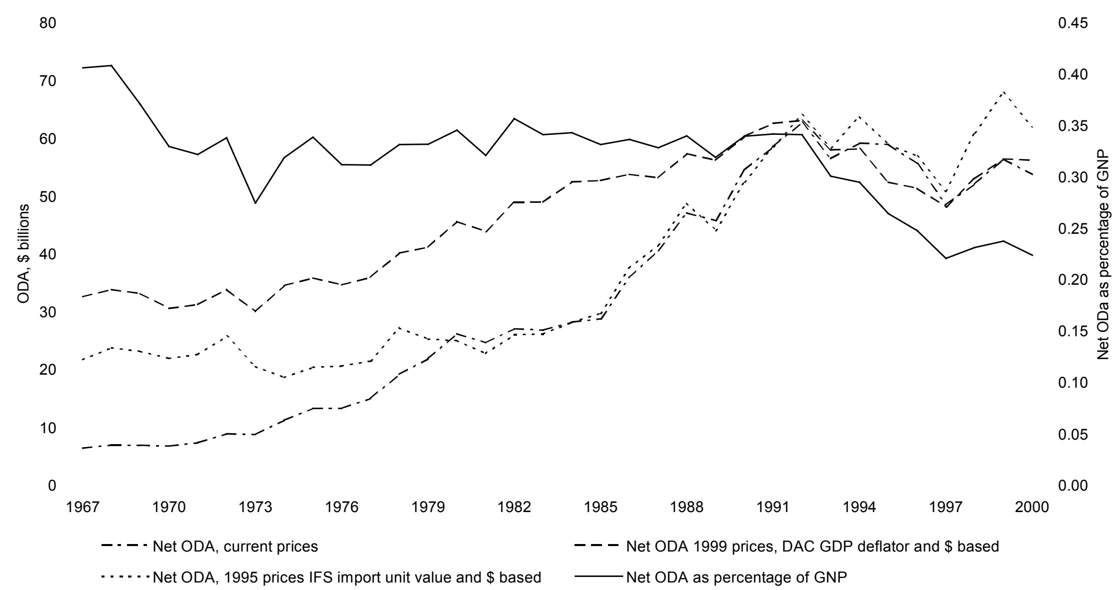
DAC donors dominate the aid scene, more so today than in the past since aid from what were the two main groups of non-DAC donors (Soviet bloc and OPEC) has been declining over time, becoming relatively insignificant by the 1990s. In 2000 non-DAC donors provided US$1,120 million of ODA (net), of which US$780 million was bilateral. The main donors from the non-DAC group are three Arab countries (Kuwait, Saudi Arabia and UAE), accounting for over half the total, with Korea and Israel accounting for the bulk of the remainder. By contrast, Saudi Arabia alone gave US$3.7 million in net ODA in 1990, and Arab donors were substantially more generous than OECD ones, with Saudi Arabia giving 3.9 per cent of its GNP in aid and UAE 2.6 per cent. However, although of some interest to those following developments in aid, the current figure for non-DAC aid corresponds to just over 2 per cent of total overall and total bilateral aid. Hence non-DAC donors can be ignored in discussing overall trends in aid.

Figure 1 shows trends in aid volume since the late 1960s. Four series are shown: net ODA in current prices, net ODA deflated by both the unit import price index for developing countries and the GDP data of donor countries, and as a per cent of donor

GNP.[4] In nominal terms, aid increased in nearly every year until the early 1990s, when it peaked at US$62.7 billion in 1992. In the next four years the total then fell by US$15 billion, dropping to US$47.9 billion in 1997, recovering slightly and erratically in the following years. These trends are more muted, but still present, when real aid is considered. The choice of deflator depends whether we are interested in the value of aid given from the point of view of developed or developing countries. Using an import price index, the rise in aid in the 1980s was quite marked, though since then real aid has fluctuated quite substantially, but with no evident trend, in the 1990s. Using the donor GDP deflator shows the same steady increase as seen for nominal aid until the early 1990s, with a real decline of nearly 15 per cent in the middle of that decade. The trend in aid's share of donor income also shows the deterioration in the 1990s. The average for the whole period is well under one-half of one per cent: aid is a tiny share of donor income. Having fallen from the 1960s, this average fluctuated between 0.30 and 0.35 for two decades, but then fell to its present level of just 0.20. There is a UN target, adopted by all DAC members other than the US and Switzerland, that aid should be 0.7 per cent of GNP.[5] But that target is further away than ever from being met.

Why has aid fallen in the 1990s? One reason may be thought to be diversion to other uses. In particular, rather than realizing a peace divided from the end of the cold war, funds have been taken up the needs of the former-communist countries. To the extent that these countries do not qualify as ODA-recipients then ODA will fall. Whilst this is part of the story, the data do not bear out the view that it is the whole picture. In 2000

Figure 1
Trends in net ODA to developing countries, 1967-2000



Source: Hjertholm (1999) and OECD/DAC on-line database.

4 DAC now uses gross national income (GNI) as the denominator. This chapter uses the more familiar GNP, although this is not strictly the same as GNP.

5 See White and Woestman (1994) for discussion of the target.

official aid (OA) was US$7.8 billion. Since total ODA in that year was US$49.5 billion, then OA 'accounted for' about 60 per cent of the 'shortfall' in ODA compared to its nominal peak in 1992.[6] But, between 1993 and 2000, OA rose by US$2 billion, compared to the fall in ODA of US$6 billion (Appendix Table A.1), suggesting that increased OA explains an even smaller part of the fall in ODA. Hence, additional reasons for the fall in ODA have to be sought.[7] Likely reasons are also related to negative repercussions from the end of the cold war. At least two cases of decline in aid have a clear association with the decline of the Soviet bloc: that of Finland, whose economy, and particularly its external trade sector (and hence availability of forex to give away), suffered from the collapse of the Soviet Union, and that of the United States whose aid has always been the most politically motivated and so consequently lost interest once the cold war was won. In addition, the US has traditionally given 20-25 per cent of its aid to Israel. The graduation of Israel off Part I of the DAC list thus badly hit the volume of US ODA (since the money has continued to flow to Israel, rather than be re-allocated to countries eligible for ODA).

But the fall in aid has been a general phenomenon, not one restricted to one or two donors. Comparing with the late 1980s or early 1990s most donors have recorded falling aid as a per cent of GNP, in some cases a very substantial one. Eleven donors recorded a substantial decline in aid performance (a fall of more than 0.1 per cent of GNP), and five others a small fall (Table 2). Of those five, it should be mentioned that Spain has managed a substantial growth in the programme compared to its modest beginnings in the late 1980s at less than 0.1 per cent of GNP. The largest falls have been recorded amongst both good performers such as Norway and Sweden, but also amongst poor performers, most notably the US (from 0.21 in 1991 to 0.08 in 1997, recovered to 0.10 by 2000). Only one country, the UK has experienced no change, in fact being a story of a decline from the mid 1990s, reversed in just the last two years. Four countries have implemented increasing aid ratios: a very substantial one in the case of Luxembourg, and in the case of Denmark bringing it up to the position of 'top ranking donor'.

Underlying these country-level trends have been substantial shifts in the relative importance of different donors. Table 3 shows these changes. The most striking figure is the falling share of the US, from over half in the 1960s to well under a fifth by the end of the 1990s. The largest rise is that of Japan, which became the largest single donor in the early 1990s. However, the US remains the second largest donor in absolute terms, with a programme just over double that of the next rank of donors (France, Germany, and the United Kingdom). Whilst the shares of the former colonial donors, France, Germany and the UK, have not changed greatly since the 1960s, the share of the new European donors has risen. That of the Scandinavians grew mostly quickly from the 1960s to the early 1970s. The programmes of southern European donors grew in the 1980s, continuing its growth in the next decade, dropping back slightly with the drastic cut in Italian aid in the late1990s.

---

6 This accounting is a slight over-estimate as Part II countries include some former Part I recipients who were graduated, but most OA goes to FSU and Eastern Europe.

7 On the other hand, as shown below, there has been a reallocation *within* ODA toward European recipients, mainly at the expense of Sub-Saharan Africa.

Table 2
Changes in aid volume, circa 1990 to 2000

Fall in excess of 0.1 % of GNI				Fall below 0.1% of GNI			
	High from late 1980s early 1990s	2000	Change		High from late 1980s early 1990s	2000	Change
Finland	0.80	0.31	-0.49	Germany	0.42	0.37	-0.05
Norway	1.17	0.80	-0.37	Japan	0.32	0.28	-0.04
France	0.61	0.32	-0.29	New Zealand	0.27	0.25	-0.02
Italy	0.42	0.13	-0.29	Spain	0.24	0.22	-0.02
Canada	0.50	0.25	-0.25	Switzerland	0.36	0.34	-0.02
Sweden	1.03	0.80	-0.23	*No change*			
Australia	0.46	0.27	-0.19	United Kingdom	0.32	0.32	0.00
Netherlands	0.98	0.84	-0.14	*Rise*			
Belgium	0.48	0.36	-0.12	Denmark	1.02	1.06	0.04
United States	0.21	0.10	-0.11	Ireland	0.20	0.30	0.10
Austria	0.33	0.23	-0.10	Portugal	0.11	0.26	0.15
				Luxembourg	0.33	0.71	0.38
				Recent DAC member			
				Greece	na	0.20	na
				DAC Total	0.34	0.22	-0.12

Source: OECD/DAC on-line database and Hjertholm (1999).

Table 3
Bilateral donor shares in total aid, 1966-2000 (period averages, per cent)

	1966-69	1970-79	1980-89	1990-95	1996-2000
France	13	11	12	14	11
Germany	8	12	11	12	11
Denmark, Finland, the Netherlands, Norway and Sweden	4	12	13	14	16
Japan	5	10	16	20	22
Italy, Portugal and Spain	2	2	6	8	7
United Kingdom	7	8	6	5	7
United States	54	32	25	18	17
Others	7	13	11	10	10
Total	100	100	100	100	100

Source: OECD/DAC: *Development Cooperation Report*, for various years.

Table 4
Net ODA disbursements, by type, all donors, 1971-2000 (period averages, per cent)

	1971-80	1981-90	1991-98	1999-2000
ODA type				
ODA grants	61.9	71.1	77.8	90.6
ODA loans	38.1	28.9	22.2	9.4
Total	100.0	100.0	100.0	100.0
Donor				
Bilateral ODA	78.7	75.4	70.6	66.9
Multilateral ODA	21.3	24.6	29.4	33.1
o/w IBRD and IDA	5.4	7.8	8.8	na
IMF (SAF and ESAF)	0.0	0.0	1.1	na
United Nations agencies	7.4	8.7	7.6	8.0
CEC	3.3	4.3	8.1	8.7
Other	5.2	3.8	3.8	na
Total	100.0	100.0	100.0	100.0

Source: Hjertholm (1999) and OECD/DAC on-line database.

Two long-run trends have continued in recent years, these being the increase in the share of multilateral aid and the proportion of aid which is grants (Table 4). The latter is dealt with below when the terms of aid are discussed. Multilateral aid has risen from one-fifth to a third of the total. The impetus for this increase in the 1970s and 1980s was the role of the Bretton Woods institutions in financing the response of developing countries to first the oil price shocks and then the debt crisis,[8] reinforced in the 1970s by the expansion of the World Bank under the presidency of Robert McNamara. For European countries, an additional factor has been the increase in the size of the aid programme of the European Union, which has gone from just over three per cent of total aid in the 1970s to nearly nine per cent in the most recent years; for EU members this share rose from 11 to 20 per cent from 1989-90 to 2000. But a further factor underlying the rising multilateral share in the 1990s has been the shrinking aid programme.[9]

Two pieces of evidence support the link between changes in the overall level of aid and the multilateral share. The first is looking at the link between the change in the multilateral share and the percentage change in aid volume (these data are given in Appendix Table A.2). There is a negative relationship between these two variables.[10] Countries with falling aid all experienced a rising multilateral share (with the very minor exception of Australia which had a negligible change in both variables); the

8 The increase from these factors in the 1970s was greatest in official development finance since the largest part was from non-concessional IMF resources.

9 During the 1990s bilateral donors took a greater burden in debt refinancing operations, so that a reverse in the trend toward greater multilateralism may have been expected. Clearly, this influence has been more than offset by other influences, which I argue are the EU programme and declining aid volumes.

10 There are potentially influential points at both ends of the distribution. However, they do not influence the results as these points of high leverage are consistent with the general pattern of the data. Similar results are obtained using both transformed and untransformed versions of the X variable.

country with the largest increase in multilateral share (Italy) also had the largest fall in total aid. Of the three countries with large reductions in the multilateral share, two (Ireland and Luxembourg) experienced very substantial increases in their aid programme. The significance of this relationship is born out by the regression results shown in Table 5.[11]

It thus seems that the multilateral component appears as a fixed cost in the aid programme, whose share rises as volume falls. This finding may be partly explained by the fact that multilateral contributions are calculated by some formula for burden sharing (e.g. IBRD and EU). But this argument does not apply to all contributions; many of those, such as to parts of the UN system, are voluntary. For voluntary contributions the argument must be that there is an inertia in the size of multilateral contributions which protects them at a time of cuts.

Table 5
Regressions of determinants of multilateral share

Levels regression			Difference regression		
Dependent variable: Multilateral share (2000)			Dependent variable: Change in multilateral share (1993-2000)		
	Coefficients	t-statistic		Coefficients	t-statistic
Intercept	33.7	7.6	Intercept	59.9	3.9
EU dummy	14.4	3.3	Dummy for joining EU during period	1.6	0.4
Aid to GNP ratio	-18.1	-2.3	Change in aid (%)	-28.0	-3.8
R^2 = 0.42	n = 22		R^2 = 0.45	n = 21	

Notes: Dummy for EU membership also tried and also insignificant. Regressor is transformed as log (100+x), which does not greatly change results but yields improved R^2.

Source: Estimated from data in Table A.2.

Table 6
Allocation of DAC aid to multilateral agencies

	Total			EU		Non-EU	
	1980	1990	2000	1980	2000	1980	2000
World Bank	36	31	21	29	15	41	30
o/w IDA	34	27	21	28	14	39	29
United Nations	24	26	29	22	22	26	39
EU	17	19	28	38	50	0	0
Regional Development Banks [(a]	19	14	12	9	8	26	18
Other	5	10	9	2	5	7	13

Note: [(a] For 1980 and 1990 this is total for IDB, ADB and AfDB, which account for 97 per cent of the total in 2000.

Source: OECD/DAC: *Development Cooperation Report*, for various years.

11 The significance of this relationship is robust to changes in the sample which remove the points of high leverage. The slope with Ireland and Luxembourg remains significant and is little changed (the DFBETA is 0.44).

Table 5 also shows results on determinants of the level of the multilateral share. This share is negatively associated with a donor's aid to GNP ratio: the larger the aid programme then the more is left over for the bilateral programme once multilateral contributions are taken care of.[12] The dummy for being a member of the EU is also significant in the regression: being a member of the EU significantly raises the share of a country's aid devoted to multilateral organizations. That is, EU membership crowds out the bilateral aid programme. It is less clear that EU membership has a similar crowding out effect on other multilateral support. Whilst the value of EU contributions has risen for all member states, even those for which total multilateral contributions are falling, the regression results show changing multilateral share not to be associated with EU membership.

Table 6 sheds further light on the issue by showing the breakdown of contributions to multilateral agencies from DAC donors. The main change has been the reduction in contributions to the multilateral development banks (MDBs), especially the World Bank and, of the regional development banks, the Inter-American Development Bank (IDB). For EU donors the increase has been to the benefit of the EU. But the MDBs' share has also fallen for non-EU donors, which have seen a corresponding rise in contributions to the UN.

There are also interesting patterns in the donor-level data (Tables A.5a-c). Most striking is the regional orientation of contributions to the MDBs. The US is the main supporter of IDB and Japan of the Asian Development Bank (ADB). The former colonial powers, France and the UK, are amongst the main contributors to the African Development Bank (ADB).

3.1 Trends in other official flows (OOF)

Other official flows have not declined as has ODA, but experienced a modest rise in the last decade (Table 7). But there have been substantial changes in the nature of these flows. OOF has always been over-whelmingly bilateral, and this continues to be the

Table 7
Breakdown of OOF by type

	1970-79	1980-89	1990-2000
Bilateral	95	99	92
o/w Export-related	50	2	12
Joint venture	20	10	14
Debt rescheduling	18	74	16
Securities and claims	8	12	49
Multilateral	5	1	8
Total	100	100	100
Memo item			
Average per annum (US$ billions)	3.28	6.06	7.57

Source: OECD/DAC on-line database.

12 However, these results are not that robust. The negative relationship depends in large part, though not entirely, on the fact that Greece and Italy have low aid shares but high multilateral volumes.

case. During the 1970s and 1990s, debt rescheduling was less than one-fifth of OOF, but swelled to three-quarters in the 1980s. In the 1970s export-related flows (subsidies) accounted for half of OOF, but this position has been taken by securities in the last decade.

4 Other measures of aid performance

In addition to aid volume, aid performance is measured with reference to geographical allocation, the terms of that aid and the percentage which is untied. Donor comparisons using these variables have been made by White and Woestman (1994) and updated in Hjertholm and White (2000). This study provides a further update, with a focus on recent developments.

4.1 The geographical allocation of aid

The allocation of aid can be considered in a purely descriptive manner, identifying which regions and countries receive aid, or in a more analytical manner, attempting to explain or evaluate aid allocations. The analytical approach is pursued in the paper by Berthélemy and Tichit (2002). The discussion here is more descriptive.

4.1.1 Allocation by region and country

Table 8 shows the regional allocation of aid. The left-hand side shows these data as usually presented by DAC, that is, as a percentage of total aid. Some trends are evident from these figures, notably continued decline in the share for both the Middle East and South and Central Asia. The share of both Europe and Far East Asia has gone up. In the latter case this increase results from rapidly growing aid programmes in China and, more recently, Vietnam. These large programmes should be expected to remain in place for some time. On the other hand, the increase to Europe reflects response to emergencies in the region, so that aid to the region will fall back, should the emergencies not continue. South America's share remains low. Having risen throughout the 1980s, the share of Sub-Saharan Africa has fallen back. The falling share for Sub-Saharan Africa has taken place for both bilateral and multilateral donors, though this has been most marked amongst the latter (Appendix Table A.3). Similarly, the rising share of aid to Europe has been strongest for multilateral agencies, from virtually nothing in 1990 to 13 per cent in 2000, though as noted above, this may be partly a temporary phenomenon.

Overall, the fall in Sub-Saharan Africa's share matches the rising share of Europe. For European donors in particular, European recipients now feature among the top ten recipients, whereas they did not do so ten years earlier. For example, the Federal Republic of Yugoslavia and Bosnia-Herzegovina are now among the top recipients of aid from Norway, Sweden and Switzerland (all of whom have seen a reduction in their share of aid going to Africa of more than 10 per cent), whereas they did not feature ten years ago. In addition, Palestine has become a more important recipient for many donors. Finally, the largest drop in the share going to Sub-Saharan Africa was for Portugal, for whom East Timor has become the second most important recipient.

The right-hand side of Table 8, showing per capita allocations, illustrates some more striking patterns. The first is the considerable disparity in aid per capita, which is explained both by differences in income but also by country size. There is a small country bias by which small countries get more aid per capita than large ones, so a region with lots of small countries (Sub-Saharan Africa, the Caribbean and the Pacific) will get more aid per capita than a region with a few large countries (South America), or a region with even one very large country (China in East Asia and India in South Asia). The second striking pattern is a general one of falling receipts of real aid per capita (with minor exceptions). In the 1990s, Sub-Saharan Africa has been triply hit by a falling share of a shrinking aid budget compounded by a growing population, resulting in a drop of real aid per capita of over 40 per cent between 1990 and 2000.

Other official flows have displayed a similar pattern with even sharper trends (Table 9). Sub-Saharan Africa accounted for just over 30 per cent of these flows in the 1970s, increasing to 30 per cent when debt relief dominated OOF (see above), but collapsed to 5 per cent in the 1990s. Part II countries, which did not exist as a category prior to the 1990s, took over one-third of these flows. Several Part II countries were formerly classified under Europe, whose share has fallen as a result.

Table 8
Regional allocation of net ODA, 1980-2000 (share and per capita)

	Share (% of total aid)			Per capita (US$)		
	1980	1990	2000	1980	1990	2000
North Africa	8.1	12.4	4.3	42	68	18
Sub-Saharan Africa	22.5	30.9	25.3	27	38	22
South America	2.4	3.6	4.7	5	8	8
Middle East	15.9	8.2	4.6	76	40	16
South & Central Asia	16.7	10.6	11.5	8	5	4
Far East Asia	7.8	12.1	15.4	3	5	5
Other	26.7	22.2	34.3	66	60	72
of which Europe	3.6	2.5	7.4	19	16	43
Total	100.0	100.0	100.0	14	15	12
Memo item:						
Real ODA (US$ billion, 1999 prices)				46	60	56

Sources: Calculated from OECD/DAC on-line database; Hjertholm (1999) and World Bank (2002).

Table 9
Regional allocation of OOF

	1970-79	1980-89	1990-2000
Sub-Saharan Africa	10.9	29.6	5.6
Western Hemisphere	23.1	38.5	11.1
South and Central Asia	-2.1	2.3	4.2
Middle East and North Africa	18.6	12.8	11.2
Europe	20.8	2.5	0.8
Asia and Pacific	28.6	14.4	30.6
Part II countries	0.0	0.0	36.5
Total	100.0	100.0	100.0

Source: OECD/DAC on-line database.

4.1.2 Allocation by income group

Table 10 shows the allocation of aid by income group. There are several ways in which the allocation of aid may be described (see White and McGillivray 1995 for a review). The headcount-based share going to poor countries is far from being the best measure, but it is that which DAC reports.[13] The most striking result from Table 10 is that the progressive redistribution of aid which took place since the 1970s in multilateral aid and during the 1980s for bilateral aid has been reversed in the 1990s. In 1973, just over half of all aid went to low-income countries, with nearly a fifth being received by high-income and upper middle-income countries. By 1990 no aid was being received by high-income countries, though the share going to upper middle-income countries has remained resilient at around 5 per cent. In earlier decades the share of aid to middle and high-income countries fell to the benefit of low-income recipients. But in the 1990s, the share of low-income countries has fallen back by around 10 per cent,[14] the share of lower middle-income countries rising back up by a similar amount for bilateral donors. A similar 'swap' can be seen for multilateral donors, with a larger magnitude involved. Such a trend can be explained in part by aid recipients graduating from the low-income to the low-middle income country category. Such improvements present donors with a dilemma. Withdrawing aid from good performers as they no longer need it can send the wrong signal and so create adverse incentives. In practice, donors have been slow and reluctant to phase out aid, only doing so when a country's fortunes are very well established. Botswana provides a good example of a country which continued to receive aid despite relatively high-income, but no longer gets that much, and Cape Verde an example which continues to receive aid. Failing to graduate good performers off aid at a time of falling real aid budgets means that the neediest countries are receiving a smaller slice of a shrinking cake. These patterns can be observed in both bilateral and multilateral ODA.

Table 10
Allocation of bilateral and multilateral ODA by income groups

	Low-income countries	Low middle-income countries	Upper middle- and high-income countries	Total	*Memo:* total net ODA (billions US$)
Bilateral (DAC total)					
1971	57	26	17	100	5.5
1981	55	19	25	100	16.1
1990	71	21	8	100	31.1
2000	62	34	4	100	25.0
Multilateral					
1971	54	25	21	100	1.1
1981	79	13	8	100	7.0
1990	88	10	2	100	11.8
2000	71	24	5	100	11.8

Note: Per cent as share of total allocated funds.

Source: OECD/DAC: *Geographical Distribution of Financial Flows to Developing Countries*, for various years.

13 White and McGillivray (1995) report time series of other measures for selected donors until the early 1990s.

14 Not shown in the data presented here is the fact that this decline has fallen on the least developed countries.

4.1.3 Aid concentration

A further aspect of donor allocation is the concentration of the aid programme in a restricted number of countries. There are good developmental grounds for concentrating the assistance of any one donor on a few countries. First, the staff of the agency, and the consultants working for them, build up expertise on a particular country. Second, concentration will reduce donor proliferation in developing countries, by which the scarce time and skills of government are taken up in satisfying the multiple demands of many different donors. In recognition of this problem several donors have at various times sought to concentrate their aid on fewer countries. Sweden has recently decided to focus its bilateral programme on just 18 countries. The Netherlands has taken several initiatives over the last thirty years to concentrate its aid, but proliferation always creeps back in.

Arguments for concentration should not be confused with those for selectivity, which is the view that aid should be focused on countries which donors deem to have 'good policies'. This view has been advanced most strongly in the World Bank's *Assessing Aid* report (World Bank 1998), and the Collier-Dollar aid allocation model (1998). Whilst selectivity has been a factor in recent moves toward aid concentration (though not those in the past) it is not without its problems (for a critique see Lensink and White 2000).

Table 11 reports various measures of the concentration of donor assistance, using a period average of DAC data for the five years 1991-96. For each donor the data include every country which received aid from that donor in those five years, though not necessarily in every year.[15] Six measures are given. The first measure is simply the number of countries receiving any aid at all, with two subsequent measures of the numbers getting over one and five per cent of that donors aid. Three further measures report the share of the donor's aid accounted for by the top one, three and ten recipients. The results for bilateral and multilateral donors are interestingly different. Bilateral donors are discussed first.

For DAC as a whole, 175 recipients are listed, which is thus the maximum any one donor may give aid to. No donor gives aid to less than 100 recipients, and the most are France and Japan at 160 and 161 respectively. These numbers are so large since some there are many countries with very small aid programmes, benefiting from a handful of scholarships or a small grants programme run by the Embassy. Hence the second measure is the number of countries having an aid programme in excess of one per cent of that donor's total aid. A concentrated programme will have few such countries, the least being 16 for New Zealand and the most being 36 in the case of Switzerland. A cut-off of 5 per cent is also used. However, once the cut-off is increased, then the relationship with concentration is reversed. To see this, suppose that the cut-off were 49 per cent, then a very concentrated programme would have a value of 2 (countries), though all donors would in fact have a value of 0. Donors whose aid appears to be concentrated by the other measures tend to have a higher value for this measure. The next three measures show the share of aid to the top recipient, top three and top 10. For most donors, between one-half to three-quarters of aid goes to their top ten recipients, though it is as little as one-third for The Netherlands.

[15] Negative net flows are also shown, so the data include a few cases of net outflows in the period.

Table 11
Measure of the concentration of donor aid, 1991-96

	No. of countries receiving aid			Share in donor's aid of:		
	At all	>1% of donor allocation	>5%	Top recipient	Top 3 recipients	Top 10 recipients
Bilateral						
Australia	130	18	4	35	54	77
United States	128	17	2	25	51	68
Austria	130	19	4	22	47	72
New Zealand	104	16	8	13	33	73
Ireland	105	20	5	14	38	71
Denmark	100	23	5	14	30	62
Japan	161	22	5	14	35	62
Finland	111	24	5	10	24	58
Norway	122	27	4	11	28	54
Sweden	133	28	4	9	24	54
United Kingdom	151	24	3	10	22	51
Belgium	133	29	4	10	25	50
France	160	26	5	9	24	53
Canada	143	34	3	8	23	47
Germany	154	33	2	9	22	40
Switzerland	123	36	2	6	15	38
Netherlands	141	33	2	6	11	34
DAC total	175	30	2	8	19	39
Multilateral						
ADB (ADF)	48	30	3	12	23	51
World Bank (IDA)	68	2	0	3	6	10
UNDP	162	32	2	7	17	33
EU (ED)	164	34	0	5	13	30
Multilateral total	173	29	2	6	16	37

Note: Shares are calculated from total of that donor's aid allocation on a country basis.
Source: Calculated from data from OECD/DAC on-line database.

Table 11 ranks countries according to how concentrated is their aid taking into account the different measures. The main conclusion from this analysis is that aid is not concentrated. The strong developmental rationale for concentrating aid is clearly outweighed by the political and commercial pressures for a more diffuse aid programme (see Mosley [1986] for a discussion of these pressures). Various hypotheses may be advanced as to why some donors' aid is more concentrated than others. First, one may expect the aid of small donors to be more concentrated. This is to some extent true, though the US also appears as very concentrated, by virtue of the fact it gave nearly half its aid to just two countries (Israel and Egypt). Second, it may be expected that countries with ties to many former colonies, notably the UK and France, would have diffuse aid programmes. This is indeed true—but countries with few or no ex-colonies also have diffuse aid. Finally, it may be thought that those countries with a strong 'development lobby' would have more successfully resisted pressures against aid concentration. This also does not seem to be the case. The Netherlands, where public interest in aid is high and which has indeed made repeated efforts to concentrate its aid, is the most diffuse of all.

Multilateral aid has three striking differences with the allocation of bilateral aid. First, some multilaterals have a restricted mandate in one of two ways: (i) they may be geographically restricted, as for the regional development banks, such as the African Development Bank shown in the table, and (ii) concessional (i.e. ODA) flows may be restricted to low-income countries, as for the ADF window of the ADB and the World Bank's IDA window. These restricted mandates mean that aid is more concentrated since it is given to fewer countries.[16] But, second, for multilaterals not having restricted mandates of this sort, then aid goes to a very large number of countries, as shown by the cases of the UNDP and EU. Finally, multilateral agencies usually work with an allocation rule taking into account recipient income and population, which prevents them having 'favourites' which take a large share of their aid, so that the shares going to the top recipients are much lower for multilateral donors than for bilateral ones. For IDA and the EU, no recipient takes more than 5 per cent of their total net aid. On the other hand there are two countries having more than 5 per cent of total multilateral aid; these are China and India, which is to be an expected result for any sensible allocation rule.[17]

One reason for supporting concentration is that diffuse aid programmes result in donor proliferation. Proliferation means that government agencies have to deal with many donors, spending their time in meeting the dozen or so visiting missions each month, and their accounting systems having to accommodate numerous different sets of procurement and disbursement regulations and their officers having to comply with various reporting requirements at different times. These problems may also be overcome by improved donor coordination. Such coordination has long been an ideal that has failed to be realised. But three developments over the last decade have led to some improvements and recent developments may leave one cautiously optimistic. First has been the increased use of programme aid by bilateral donors in support of World Bank structural adjustment programmes. Bilateral programme aid is almost invariably linked to World Bank or IMF programmes, which immediately introduces one element of coordination (see White and Dijkstra, forthcoming). If the bilateral funds are joint co-finance (i.e. given to the World Bank to spend on behalf of the bilateral) then the funds are also subject to the same procedures. However, if the funds are parallel co-finance (disbursed alongside the World Bank funds) then they may utilize different procedures. But there have been efforts to coordinate these procedures, which have been especially successful in Sub-Saharan Africa under the auspices of the Special Programme for Africa (now called the Strategic Partnership with Africa, SPA). Second has been the rise of the sector approach, by which donors should coordinate their aid within a government-led programme, with a large proportion of these funds being budget support using harmonized procedures. Experience with the approach has been mixed thus far, but its popularity continues to spread (see Foster 2000 and White 2001). Finally, to access debt relief, countries are required to produce a poverty reduction strategy paper (PRSP) and it is likely that all low-income countries will be encouraged to follow suit. In principle, the aid of all donors should be consistent with that, and donors are trying to at least link their new country strategies with the PRSP. If such mechanisms work as planned, then the framework provided by the PRSP (within which sector programmes

16 Only low-income countries are eligible for soft-loans from the World Bank. There is also an income threshold for the hard, IBRD window, which falls in the middle of the upper middle-income range. Hence not all countries on Part I of the DAC list are eligible for World Bank funds.

17 On prescriptive rules for donor allocations see McGillivray *et al.* (2002).

are embedded) should provide coordination in the allocation of funds, though does not guarantee it insofar as procedures are concerned.

4.1.4 The allocation of official aid

Since ODA has fallen on account of the rise of OA, it is worth mentioning the distribution of these other funds. Table 12 shows the net OA to the main recipients of OA, ranked by their share of the total in 2000. There are two types of country on the list. Predominant are those of the former Soviet Union and other Eastern bloc countries. Such countries constitute, with one exception, the top twelve recipients of OA, with the largest two, Russia and Poland, getting just under 20 per cent each of the total in 2000. The other group on the list are those countries who have been placed on DAC's Part II list. Most notable is Israel, accounting for 10 per cent of OA. But also included are high-income countries such as the Bahamas and Brunei which still receive some aid funds.

Table 12
Major recipients of official aid, 1991-2000 (US$ million)

	1991	1995	2000	Share in 2000 (%)
Russia	563.5	1,610.1	1,564.6	19.5
Poland	2,508.3	3,790.4	1,396.2	17.4
Israel	na	na	800.0	10.0
Ukraine	368.3	319.1	541.0	6.7
Czech Republic	230.6	147.9	438.2	5.5
Romania	321.1	275.6	432.1	5.4
Bulgaria	316.1	113.7	311.1	3.9
Hungary	626.0	-244.0	252.2	3.1
Slovak Republic	114.5	98.2	113.1	1.4
Lithuania	4.0	179.6	99.0	1.2
Latvia	3.4	63.6	91.1	1.1
Estonia	15.4	58.2	63.8	0.8
Cyprus	na	na	54.5	0.7
Belarus	187.0	222.9	39.6	0.5
Bahamas	na	na	5.5	0.1
Singapore	na	na	1.1	0.0
Brunei	na	na	0.6	0.0
Qatar	na	na	0.5	0.0
Other	1,316.0	1,782.0	1,816.0	22.6
Total	6,574.2	8,417.3	8,020.2	100.0

Source: OECD/DAC: *Geographical Distribution of Financial Flows to Developing Countries*, for various years.

4.2 Financial terms and conditions

Two components make up the grant element of aid (*GE*): the share which is loans (*L*) and the concessionality of that loan component (GE_L). Algebraically:

$$GE = 100\ (1 - L) + L\ GE_L$$

The grant element of the loan depends on the interest charge and the maturity and grace period of the loan. DAC has a norm that the grant element of aid should be 86.6, which is met by all donors, although only just by Japan (*GE* = 88.6). However, countries with low aid volumes[18] are deemed not to have met the target, which in 2000 disqualified Italy and the US.

There has been a historical trend toward improved terms and conditions, which, as Tables 4 and 13 show, has been strongly accentuated in recent years. Rising concessionality has historically been associated with a rising grant share. By 1989-90 the aid of six bilateral donors was entirely aid finance and so had a grant element of 100 per cent (Appendix Table A.4), and another six had a grant element of close to 100 per cent (five over 99 per cent and the US at 98.3 per cent). The improvement in the grant element of DAC ODA at the end of the last decade thus came about from improvements in the donors whose financial terms were still relatively poor ten years earlier. At that time, four countries were not meeting the terms target and two were barely doing so– compared to the case in which they all do today (discounting the disqualifications).

The continued and dramatic improvement in the terms of aid in the 1990s has thus come about by those donors still having a substantial non-grant component of their aid programme in 1990 reducing the share of loans, and improving the concessionality of what loans they do have. This has been the case for each of these donors, namely Austria, Japan, Spain and Portugal. It is also so for France and Germany which were already nearer the emerging 'norm' of 98 per cent or more.

Multilateral aid has a large concessional component since UN funds are entirely grants. The usual windows of the World Bank, multilateral development banks and IMF are non-concesssional and do not qualify as ODA. However, all of these institutions have concessional facilities for low-income countries, such as the World Bank's IDA and the Fund's ESAF, recently replaced by the PRGF. Whilst these are very soft loans (with grant elements of around 70 per cent), they are nonetheless loans which have to be repaid. It is far from clear that recipients should borrow programme aid funds to pay external debt, or that money borrowed to pay technical assistance or for social sector activities will generate the necessary revenue for repayment. A review of the IFIs recommended that World Bank resources to low-income countries should be in the form of grants (International Financial Institution Advisory Commission 2000), and in 2001 President Bush stated that at least half of World Bank funds to Africa should be grants. These calls have been resisted by other donors and the Bank itself. This is an area to which aid campaigners could usefully devote some energies.

Table 13
Bilateral commitments, data on financial terms, DAC donors 1971-98 (period averages)

	1971-80	1981-90	1991-1998	1999-2000
Grant share of ODA	33.9	55.0	52.0	76.2
Loan share of ODA	66.1	45.0	48.0	23.8
Grant element of ODA loans	61.0	55.4	59.9	71.0
Grant element of total ODA	74.3	80.0	80.5	95.4

Source: Hjertholm (1999) and Appendix Table A.4.

18 Defined as 'commitments as a percentage of GNI significantly below the DAC average'.

4.4 Aid tying

Aid tying has various means. The most common, which is that mainly pursued here, refers to the practice of linking aid to the procurement of goods and services from the donor country. However, it has also been taken to mean linking the use of aid to particular projects and to making aid conditional on implementing agreed policy changes. The bulk of aid has always had, and continues to have, its intended use specified by the donor. Programme aid, defined by the donor as aid not linked to a specific project, is around 10 per cent of total ODA (Table 15). This proportion has fallen since the 1970s, since US food aid under PL480 was also largely programme aid, with the funds raised from the sale of the food available to the government. Food aid's share of total aid has fallen from around 15 per cent in the 1970s to less than 5 per cent today, with much of it being used in 'food for work' programmes, i.e. as project aid. By the 1980s, financial programme aid was more important than food programme aid, and was increasingly linked to policy change. By the 1990s most bilateral donors were also giving programme aid linked to policy reform. Moreover, the scope of these reforms has spread over time, from macro stabilization to market liberalization and then onto the allocation of spending. By the late 1980s governance concerns were starting to be raised and became an established part of conditionality in the early to mid-1990s. And now the increased use of the sector approach introduces a policy dialogue framework for many activities previously restricted to the project level.

Table 14
Share of untied aid, 1980-2000

	1980	1985	1990	1995	2000	Average 1995-2000
Sorted in descending order for average for 1995-2000						
Portugal	na	na	na	98.1	98.2	98.2
Luxembourg	na	na	na	na	96.7	96.7
Switzerland	60.7	67.3	63	91.3	93.6	92.5
Japan	25.8	60.8	77.0	96.3	86.4	91.4
Sweden	83.5	68.8	78.5	93.9	85.4	89.7
United Kingdom	25.2	27.6	na	86.2	91.5	88.9
Norway	68.9	70.3	61.3	77.0	97.7	87.4
Netherlands	55.9	60.3	51.2	78.9	95.3	87.1
Belgium	25.7	37.5	na	na	85.7	85.7
Finland	37.2	80.8	27.4	75.8	89.5	82.7
Australia	66.4	53.4	15.8	na	77.4	77.4
Germany	82.2	63.7	43.6	60.3	93.2	76.8
Denmark	57.6	60.4	na	61.3	80.5	70.9
France	43.3	42.5	47.1	58.4	68.0	63.2
Italy	26.3	16.6	16.6	59.8	38.2	49.0
Spain	na	na	na	na	47.2	47.2
Austria	0.7	3.0	38.8	25.0	59.2	42.1
Canada	10	42.3	38.8	31.5	24.9	28.2
United States	26.8	40.9	69.5	27.3	na	27.3
Greece	na	na	na	na	23.5	23.5
No data for 1995-00						
Ireland	na	100	na	na	na	na
New Zealand	48.4	78	100	na	na	na
DAC donors total	44.1	47.3	59.4	69.6	81.1	75.4

Source: Hjertholm (1999) and OECD/DAC: *Development Cooperation Report*, for 2001.

In the procurement sense, aid is said to be partially tied if the list of supplier countries is restricted, but extends beyond the donor. In principle, all aid from EU countries should now be at most partially tied since agencies are required to ensure firms from all member countries can bid. As is the case for the financial terms of aid, DAC has long had targets for untying, but these have had little or no impact on the continued practice of tying. But the 1990s saw a change, with several donors making step changes in the proportion of their aid which is untied. For example, this proportion rose for the UK from 35 per cent in 1993, to 45 per cent the next year and 86 per cent in 1995. The White Paper on International Development of the labour government which came to power in 1997 announced the abolition of the aid and trade provision (ATP),[19] and the second White Paper (published in November 2000) the intention to abolish aid tying altogether.

As Table 14 shows, many other donors have made considerable progress with untying. By 2000, over 90 per cent of aid was untied for seven donors, and over 80 per cent for over five more. In every case, these figures represent a considerable move toward untying compared to the situation in 1980. However, the case of the UK notwithstanding, this does not mean that untying is here to stay. The values attained in 2000 are *not* a peak for nearly all countries. There are only three countries for which the percentage of aid which was untied in 2000 was higher than a previous year shown, compared to ten for which it was lower, and seven for which share was the same. The DAC total peaked at nearly 88 per cent in 1997, so that the figure of 81 per cent in 2000 is in fact a considerable decline. The reversal has been greatest amongst northern European donors (Austria, Norway, Finland, Denmark and Germany), which saw big increases in untying in the first part of 1990s but then dropped back.

Three questions thus arise: (i) why has untying become more prevalent since the 1990s?, (ii) is the improvement permanent?, (iii) and, if not, why not? One possible reason for the increase in untying is that the form of aid has changed to aid which is less easily tied. Debt relief and budget support (programme aid) cannot be tied to donor imports by definition. Import support (also programme aid) could of course be tied, but the strong evidence that doing so delayed disbursement (see White and Dijkstra, forthcoming) helped the tendency to harmonize donor import support procedures during the 1990s with the implication that tying would be less. However, as Table 15 shows, the share of programme aid and debt relief in fact fell slightly in the 1990s. A similar argument can be made with respect to emergency aid (though some emergency aid is tied, by virtue of being surplus disposal). Whilst the share of emergency aid has been increasing, it remains too small to account for any but a small part of reduced aid tying. An alternative argument is that the type of aid given has become less import-intensive, funding locally built schools and nurses salaries rather than imported machinery and technical assistance. The data in Table 15 do not bear out the former argument. Support to production sectors has fallen,[20] but that to economic infrastructure risen by about the same amount. There is no evidence that reliance on technical assistance is declining, its share of ODA having increased rather than fallen. Hence it seems likely that the increase in untying is 'real', in that it reflects the untying of previously tied transactions.

---

19 ATP was the UK's mixed credits programme, which combined a grant with a non-concessional loan, the whole lot being tied.

20 This fall reflecting the change in donor attitudes toward the state's role in development.

Table 15
ODA commitments by sector and purpose, DAC donors, 1971-2000

	1971-80	1981-90	1991-2000
Social infrastructure and services	22.6	25.0	27.9
Economic infrastructure and services	12.6	18.7	20.0
Production sectors	19.1	19.7	10.8
Multisector (crosscutting)	1.8	3.0	5.6
Commodity aid and general programme aid	16.5	16.2	9.2
Action related to debt	4.4	4.3	8.8
Emergency assistance	1.1	1.7	6.2
Administrative costs of donors	na	2.6	4.8
Support to NGOs	na	1.5	1.5
Unallocated/unspecified	22.0	7.1	5.3
Total	100.0	100.0	100.0

Source: Hjertholm (1999) and OECD/DAC on-line database.

5 Conclusions

A number of findings emerge from this review. The most important of these are as follows. First, real aid declined in the 1990s. Whilst the fall has levelled off, there is no sign of aid returning to the levels achieved in the early part of the last decade. Recent calls to double aid volume would, if carried out, achieve this—but not bring total aid to much above half of the UN target of 0.7 per cent of GNP. The second main finding is that, at the same time as aid has been falling, there has been a regressive shift in the allocation of aid away from some of the poorest countries. This shift has largely been driven by a shift of aid from European donors toward European aid recipients, though it is also accounted for by increased assistance to other ‘troubled areas’. As a result, real aid per capita to Sub-Saharan Africa has dropped by 40 per cent during the 1990s. Thirdly, the multilateral share of aid has continued to rise, fuelled in part by falling aid budgets and also the growth of European Union aid. The expanding EU aid programme has crowded out the bilateral element of European donors’ aid programmes.

Turning to other measures of donor performance, it has been shown that aid is generally very diffuse: no bilateral donor gave aid to less that 100 countries in the first part of the 1990s and most gave 20 or more recipients a significant amount of aid. Multilateral aid is, by contrast, rather more concentrated. Both the financial terms of aid and aid tying have seen improvements in the 1990s. A very large proportion of bilateral aid is now in the form of grants, and all donors meet the DAC norm that the overall grant element should be 86 per cent (though two donors are deemed not to have met the condition on account of their low aid volume). This improvement reinforces a long-run trend. There has also been a shift to greater untying, though this seems less firmly established. Whilst there was untying in the 1980s, the extent in the 1990s has been greater but also shows some signs of being reversed. Since untying is consistent with the market-based development promoted by donors, aid campaigners should be on solid ground in attempting to protect the gains that have been made.

Whilst there are many important dimensions of aid which are not mentioned here, most significantly the quality of the aid-financed activities themselves, the aspects mentioned here are also of great importance to developing countries. Developing countries have restricted access to international capital and many continue to be plagued by problems of debt, so a substantial, growing grant-based aid programme is necessary to assist their development.[21] Aid should be focused on poorer countries, with aid to less poor countries well targeted to reach the poor in those countries. And good terms must be preserved, increasing concessionality by moving multilateral bank soft-loan windows to a grant basis and protecting the trend toward untying.

21 It is not being maintained that aid is sufficient to ensure development. The conditions under which aid will work or not are beyond the scope of this study.

References

Berthélemy, Jean-Claude, and Ariane Tichit (2002). 'Bilateral Donors' Aid Allocation Decisions: A three-dimensional Panel Analysis'. Paper presented at the UNU/WIDER meeting on the Sustainability of External Development Financing, 23-24 August. Helsinki: UNU/WIDER.

Collier, Paul, and David Dollar (1998). 'Aid Allocation and Poverty Reduction'. Washington, DC: World Bank. Mimeo. Available at: www.worldbank.org/research/aid/background/bg98_allocation.htm .

Edwards, Michael (2000). *Future Positive: International Cooperation in the 21st Century.* London: Earthscan.

Foster, M. (2000). 'Experience with Implementing Sector Wide Approaches: A Background Working Paper for DFID White Paper. London: Centre for Aid and Public Expenditure, ODI. Available at www.dfid.gov.uk/ .

Hewitt, Adrian (1994). *Crisis or Transition in Foreign Aid.* London: ODI.

Hjertholm, Peter (1999). 'Aid Book Database'. Copenhagen: Development Economics Research Group, University of Copenhagen. Mimeo. Available at: www.econ.ku.dk.

Hjertholm, Peter, and Howard White (2000). 'Foreign Aid in Historical Perspective', in Finn Tarp and Peter Hjertholm (eds), *Foreign Aid and Development.* London: Routledge.

International Financial Institution Advisory Commission (2000). 'Report of the International Financial Institution Advisory Commission' (commonly known as the 'Meltzer Report'. Washington, DC.

Lensink, Robert, and Howard White (1998) 'Does the Revival of International Private Capital Flows Mean the End of Aid? An Analysis of Developing Countries' Access to Private Capital'. *World Development*, May.

Lensink, Robert, and Howard White (2000). 'Assessing Aid: a Manifesto for Aid in the 21st Century?'. *Oxford Development Studies,* 28 (1).

McGillivray, Mark, Jennifer Leavy, and Howard White (2002). 'Aid Principles and Policy: An Operational Basis for the Assessment of Donor Performance', in B. Mak Arvin (ed.), *Foreign Aid and Economic Development*. Westport, CT: Greenwood.

Mosley, Paul (1986).*Overseas Aid: Its Defence and Reform.* Brighton: Wheatsheaf.

OECD/DAC (various years). *Geographical Distribution of Financial Flows to Developing Countries.* Paris: OECD.

OECD/DAC (various years). *Development Cooperation Report.* Paris: OECD's Development Assistance Committee.

Thorbecke, Eric (2000). 'The Evolution of the Development Doctrine and the Role of Foreign Aid, 1950-2000', in Finn Tarp (ed.), *Foreign Aid and Development.* London: Routledge.

White, Howard (1999). 'The Future of Aid. Report for UNDP'. Brighton: IDS, University of Sussex.

White, Howard (2001). ‘Will the New Aid Agenda Help Promote Poverty Reduction?’. *Journal of International Development*, 13: 1057-70.

White, Howard, and Mark McGillivray (1995). ‘How Well Is Aid Allocated? Descriptive Analyses of Aid Allocation: A Survey of Methodology and Results’. *Development and Change*, 26 (January): 163-83.

White, Howard, and Lois Woestman (1994). ‘Aid Quality: Measuring Trends in Donor Performance’. *Development and Change*, 25 (July): 527-54.

White, Howard, and A. Geske Dijkstra (forthcoming). *Beyond Conditionality: Programme Aid and Development.* London: Routledge.

White, John (1974). *The Politics of Foreign Aid*. New York: St. Martin’s Press.

World Bank (1998). *Assessing Aid*. Washington, DC: World Bank.

World Bank (2002). *World Development Indicators*. New York and Oxford: Oxford University Press.

Appendix: additional tables

Appendix Table A.1
Composition of official development finance, 1993 and 2000

		US$ billions (current)		Shares of total ODF		Shares within category	
		1993	2000	1993	2000	1993	2000
ODA	Bilateral	39.4	36.0	47.8	54.9	71.0	72.7
	Multilateral	16.1	13.5	19.5	20.6	29.0	27.3
	Total	55.5	49.5	67.3	75.5	100.0	100.0
Official Aid	Bilateral	5.2	4.9	6.3	7.5	88.1	62.8
	Multilateral	0.7	2.9	0.8	4.4	11.9	37.2
	Total	5.9	7.8	7.2	11.9	100.0	100.0
Other ODF	Bilateral	11.4	-1.4	13.8	-2.1	54.0	-16.9
	Multilateral	9.7	9.7	11.8	14.8	46.0	116.9
	Total	21.1	8.3	25.6	12.7	100.0	100.0
Total ODF	Bilateral	56.0	39.5	67.9	60.2	67.9	60.2
	Multilateral	26.5	26.1	32.1	39.8	32.1	39.8
	Total	82.5	65.6	100.0	100.0	100.0	100.0

Source: OECD/DAC: *Development Cooperation Report*, for 2001.

Appendix Table A.2(a)
Net bilateral and multilateral ODA by donor, 1989-90 and 2000 (US$ millions)

	1989-90				2000			
	Bilateral	Multilateral	EU	Total	Bilateral	Multilateral	EU	Total
Australia	730	258	–	988	758	229	–	987
Austria	250	88	–	338	257	167	87	424
Belgium	452	344	116	796	437	323	218	760
Canada	1,636	759	–	2,395	1,160	583	–	1,743
Denmark	609	445	65	1,054	1,024	641	93	1,665
Finland	467	310	–	777	241	176	57	417
France	5,050	1,433	696	6,483	2,829	1,276	792	4,105
Germany	3,827	1,807	759	5,634	2,687	2,343	1,242	5,030
Greece	–	–	–	–	79	115	91	194
Ireland	21	32	22	53	155	80	47	235
Italy	2,151	1,534	421	3,685	377	999	638	1,376
Japan	6,782	2,234	–	9,016	10,476	4,848	–	15,324
Luxembourg	14	8	5	22	93	33	15	126
Netherlands	1,672	644	183	2,316	2,243	892	233	3,135
New Zealand	79	12	–	91	101	33	–	134
Norway	655	406	–	1,061	934	330	–	1,264
Portugal	91	35	25	126	179	92	59	271
Spain	449	304	170	753	829	534	367	1,363
Sweden	1,327	576	–	1,903	1,242	557	83	1,799
Switzerland	487	167	–	654	627	263	–	890
United Kingdom	1,468	1,144	543	2,612	2,710	1,792	975	4,502
United States	7,597	1,939	–	9,536	7,405	2,550	–	9,955
DAC Total	35,812	14,300	3,005	50,112	36,043	17,694	4,954	53,737
Memo items								
EU members	17,848	8,704	3,005	26,552	15,382	10,020	4,997	25,402
EU members in 1989–90	15,804	7,730	3,005	23,534	13,563	9,005	4,679	22,568

Appendix Table A.2(b)
Net bilateral and multilateral ODA by donor, 1989-90 and 2000 (% of total)

	1989-90				2000			
	Bilateral	Multilateral	EU	Total	Bilateral	Multilateral	EU	Total
Australia	73.9	26.1	0.0	100.0	76.8	23.2	0.0	100.0
Austria	74.0	26.0	0.0	100.0	60.6	39.4	20.5	100.0
Belgium	56.8	43.2	14.6	100.0	57.5	42.5	28.7	100.0
Canada	68.3	31.7	0.0	100.0	66.6	33.4	0.0	100.0
Denmark	57.8	42.2	6.2	100.0	61.5	38.5	5.6	100.0
Finland	60.1	39.9	0.0	100.0	57.8	42.2	13.7	100.0
France	77.9	22.1	10.7	100.0	68.9	31.1	19.3	100.0
Germany	67.9	32.1	13.5	100.0	53.4	46.6	24.7	100.0
Greece	–	–	–	–	40.7	59.3	46.9	100.0
Ireland	39.6	60.4	41.5	100.0	66.0	34.0	20.0	100.0
Italy	58.4	41.6	11.4	100.0	27.4	72.6	46.4	100.0
Japan	75.2	24.8	0.0	100.0	68.4	31.6	0.0	100.0
Luxembourg	63.6	36.4	22.7	100.0	73.8	26.2	11.9	100.0
Netherlands	72.2	27.8	7.9	100.0	71.5	28.5	7.4	100.0
New Zealand	86.8	13.2	0.0	100.0	75.4	24.6	0.0	100.0
Norway	61.7	38.3	0.0	100.0	73.9	26.1	0.0	100.0
Portugal	72.2	27.8	19.8	100.0	66.1	33.9	21.8	100.0
Spain	59.6	40.4	22.6	100.0	60.8	39.2	26.9	100.0
Sweden	69.7	30.3	0.0	100.0	69.0	31.0	4.6	100.0
Switzerland	74.5	25.5	0.0	100.0	70.4	29.6	0.0	100.0
United Kingdom	56.2	43.8	20.8	100.0	60.2	39.8	21.7	100.0
United States	79.7	20.3	0.0	100.0	74.4	25.6	0.0	100.0
DAC Total	71.5	28.5	6.0	100.0	67.1	32.9	9.2	100.0
Memo items								
EU members	67.2	32.8	11.3	100.0	60.6	39.4	19.7	100.0
EU members in 1989-90	67.2	32.8	12.8	100.0	60.1	39.9	20.7	100.0

Appendix Table A.3
Geographical allocation of bilateral and multilateral aid

	Bilateral			Multilateral		
	1980	1990	2000	1980	1990	2000
MENA	19	19	11	9	7	9
SSA	28	34	30	30	48	36
Asia and Pacific	26	31	38	48	35	33
Europe	15	2	8	1	0	13
Western Hemisphere	12	13	13	12	9	9
Total	100	100	100	100	100	100
Memo:						
Total (US$ billions)	34.5	33.3	26.9	7.9	12.5	12.1

Source: OECD/DAC: *Geographical Distribution of Financial Flows to Developing Countries*, for various years.

Appendix Table A.4
Financial terms of ODA

	Grant element of total ODA		Grant share	
	1989-90	1999-2000	Bilateral ODA	Total ODA
Australia	100.0	100.0	100.0	100.0
Austria	75.6	91.3	63.4	77.2
Belgium	99.1	99.5	96.3	97.9
Canada	99.7	100.0	100.0	100.0
Denmark	100.0	100.0	100.0	100.0
Finland	99.6	100.0	94.2	96.7
France	86.2	95.6	84.3	87.8
Germany	89.6	96.2	79.7	88.8
Greece	–	98.2	99.2	–
Ireland	100.0	100.0	100.0	100.0
Italy	91.8	99.0	77.9	93.1
Japan	79.4	86.6	38.4	49.5
Luxembourg	81.9	100.0	100.0	100.0
Netherlands	96.7	100.0	100.0	100.0
New Zealand	100.0	100.0	100.0	100.0
Norway	99.8	99.8	98.3	98.7
Portugal	86.0	98.4	95.3	96.9
Spain	53.2	92.4	69.3	81.1
Sweden	100.0	99.8	99.2	99.4
Switzerland	100.0	100.0	98.6	99.2
United Kingdom	99.9	100.0	91.9	95.0
United States	98.3	99.6	98.8	99.0
DAC total	91.3	95.4	76.2	82.8

Note: Excluding debt re-organization. Equities are treated as having 100% grant element, but are not treated as loans.

Source: Extracted from OECD/DAC: *Development Cooperation Report*, for 2001 (Table 20).

Appendix Table A.5(a)
Allocations to multilateral agency by country, 1980 (US$ millions)

	IDA	Other WB	Total WB	IDB	ADB	AfDB	EEC	Total UN	Other	Total
Australia	80.5	0	80.5	0	36.1	0	0	50	13.1	179.7
Austria	0	-3.3	-3.3	0.3	4.4	0	0	12	13.8	27.2
Belgium	0	2.2	2.2	8.2	10.2	9.8	88.7	14.5	5.8	139.4
Canada	141.6	3.4	145	22.2	43.8	25.8	0	148.4	11.2	396.4
Denmark	44	0	44	3.6	4.7	9.3	35.6	111.6	5.8	214.6
Finland	14.2	1.4	15.6	1.7	4.2	3.4	0	16.4	3.9	45.2
France	162.7	4.5	167.2	20	31.5	7.9	398.2	62.5	14	701.3
Germany	515.2	5.7	520.9	40	2.8	31	467.2	160.6	20.4	1,243.1
Italy	312.2	33.2	345.4	21.3	3.4	22.5	187.2	18.3	1.5	599.6
Japan	619.1	51	670.1	36.4	338.4	34.6	0	248.7	14.7	1,342.9
Netherlands	94.3	1.8	96.1	2.1	2.2	0	120.2	176.9	1.3	402.8
New Zealand	2.8	1	3.8	0	0	0	0	4.8	9.1	19.9
Norway	42.3	0.8	43.1	0	6.9	12.3	0	130.3	9	201.6
Sweden	0	0	0	0	7.4	17.7	0	211.2	11	247.3
Switzerland	0	0	0	4.6	6.6	14.3	0	45.9	4.7	76.1
UK	3.7	0	3.7	39.5	37.8	28.7	280	111	25.1	525.8
United States	1,072	38	1,110	471	237	25	0	647	281	2772
DAC total	3,104	141.3	3,245.3	670.9	783.6	242.3	1,577.3	2,170	445.4	9,134.9

Appendix Table A.5(b)
Allocations to multilateral agency by country, 1990 (US$ millions)

	IDA	Other WB	Total WB	IDB	ADB	AfDB	EEC	UNDP	Other UN	Total UN	Other	Total
Australia	2	0	2	0	80	0	0	15	61	76	44	202
Austria	47	0	47	1	0	13	0	10	15	25	9	94
Belgium	87	10	97	1	10	18	121	36	32	68	27	342
Canada	237	15	252	11	17	111	0	62	208	270	118	780
Denmark	77	1	78	0	0	31	68	89	138	227	72	476
Finland	41	2	43	1	23	15	0	52	149	201	64	348
France	268	50	318	3	21	94	764	53	92	145	205	1,551
Germany	524	0	524	13	92	96	784	80	204	284	48	1,841
Ireland	5	1	6	0	0	0	23	1	3	4	0	34
Italy	291	49	340	4	53	87	435	78	183	261	103	1,283
Japan	997	171	1,168	0	455	8	0	92	392	484	168	2,282
Netherlands	173	21	194	3	29	13	192	84	164	248	12	691
New Zealand	5	0	5	0	0	0	0	2	2	4	1	11
Norway	79	30	109	0	8	35	0	85	186	271	26	449
Sweden	121	2	123	4	15	46	0	117	250	367	73	628
Switzerland	0	0	0	1	16	46	0	47	70	117	20	199
UK	310	0	310	-1	4	37	587	48	148	196	30	1,164
United States	961	158	1,119	172	299	227	0	105	619	724	455	2,996
DAC total	4,223	511	4,734	213	1,123	878	2,975	1,057	2,916	3,973	1,475	15,372

Appendix Table A.5(c)
Allocations to multilateral agency by country, 2000 (US$ millions)

	IDA	Other WB	Total WB	RDBs	IDB	ADB	AfDB	EEC	UNDP	Other UN	Total UN	Other	Total
Australia	74	1	75	71	0	71	0	0	4	51	55	28	229
Austria	26	0	26	23	2	4	17	87	6	14	20	11	166
Belgium	51	5	56	8	2	0	6	190	14	35	49	39	343
Canada	136	0	136	88	2	29	29	0	28	96	124	234	583
Denmark	51	24	75	68	3	6	50	93	59	192	251	153	641
Finland	14	0	14	22	1	3	13	51	12	50	62	5	154
France	238	4	242	83	2	2	80	792	14	111	125	34	1,276
Germany	384	0	384	209	15	27	166	1,237	20	367	387	127	2,343
Greece	2	0	3	4	0	0	0	98	0	16	16	6	127
Ireland	8	0	8	0	0	0	0	47	4	18	22	3	80
Italy	0	19	19	76	20	20	30	638	36	166	202	65	999
Japan	1,146	7	1,153	891	102	547	242	0	111	1,193	1,304	391	3,740
Luxembourg	4	0	8	0	0	0	0	15	2	8	10	1	33
Netherlands	197	0	197	38	38	0	0	233	67	293	360	64	892
New Zealand	5	2	7	4	0	4	0	0	2	6	8	10	28
Norway	31	2	33	49	1	4	35	0	65	143	208	40	330
Portugal	13	0	13	11	0	0	11	59	1	5	6	2	92
Spain	31	0	35	19	14	0	5	352	6	44	50	18	475
Sweden	149	2	151	67	3	15	31	83	59	189	248	9	557
Switzerland	83	0	100	62	0	7	56	0	31	47	78	23	263
United Kingdom	258	13	271	130	2	27	101	977	57	302	359	55	1,792
United States	771	4	775	249	42	91	131	0	75	1,167	1,242	284	2,550
DAC total	3,672	109	3,781	2,172	249	857	1,002	4,950	672	4,516	5,188	1,603	17,694