

II. OVERVIEW OF TRENDS IN OFFICIAL DEVELOPMENT ASSISTANCE ⁵

5. **A closer examination of major ODA trends can facilitate a better understanding of the key issues affecting the existing global aid architecture.** The figures reported in this Section come from the OECD's DAC database, as well as from the Creditor Reporting System (CRS).⁶ In what follows, subsection A looks into some of the main trends in ODA flows, while subsection B focuses on how ODA has been distributed across recipient countries.

A. Overall Trends in ODA Flows

A.1. Main Trends in Volumes and Terms

6. **After a protracted decline during the 1990s, funding for Official Development Assistance has been growing steadily over the last decade.**^{7,8} As shown in Chart 1, net ODA disbursements have consistently risen in real terms since the late 1990s, and reached US\$105 billion (at constant 2004 prices) in 2005, up from about US\$58 billion in 1997. Net ODA disbursements in 2005 can be decomposed as follows: 64 percent for core development programs; 24 percent for debt relief; 8 percent for emergency assistance; and 4 percent for donors' administrative costs. In fact, 1997 ODA levels mark the reversal of a previously declining trend – in real terms, total funding for ODA in that year was the lowest since 1983.

7. **Much of the recent increase in ODA has been due to debt relief, and to a lesser extent to emergency assistance and administrative costs of donors.** The main driver of the more recent increase in total ODA has been debt relief, as shown in Chart 1: Debt relief grew steeply since the end of the Cold War, having reached an average annual growth rate – at 2004 prices – of 63 percent between 2001 and 2005. In addition, in real terms, debt relief explains almost 70 percent of the increase in ODA between 2004 and 2005 – most of which (US\$19 billion) benefiting Iraq and Nigeria.

8. **In contrast, the resumption of growth in ODA for core development programs since the late 1990s has been less marked than in the case of total ODA.** Official development assistance (ODA) for core development programs (bilateral and multilateral, excluding selected special-purpose grants such as debt relief, administrative costs of donors, and emergency assistance) has not grown as fast as total ODA, as shown in Chart 1. Core development ODA grew on average 4.6 percent p.a. during 2001-2005, while total ODA

⁵ ODA is defined as “grants or loans provided by official agencies (including state and local governments, or by their executive agencies) to developing countries (countries and territories on the DAC List of Aid Recipients) and to multilateral institutions for flows to developing countries, each transaction of which meets the following test: (a) it is administered with the promotion of the economic development and welfare of developing countries as its main objective; and (b) it is concessional in character and contains a Grant Element of at least 25 per cent (calculated at a rate of discount of 10 per cent). In addition to financial flows, Technical Co-operation is included in aid.

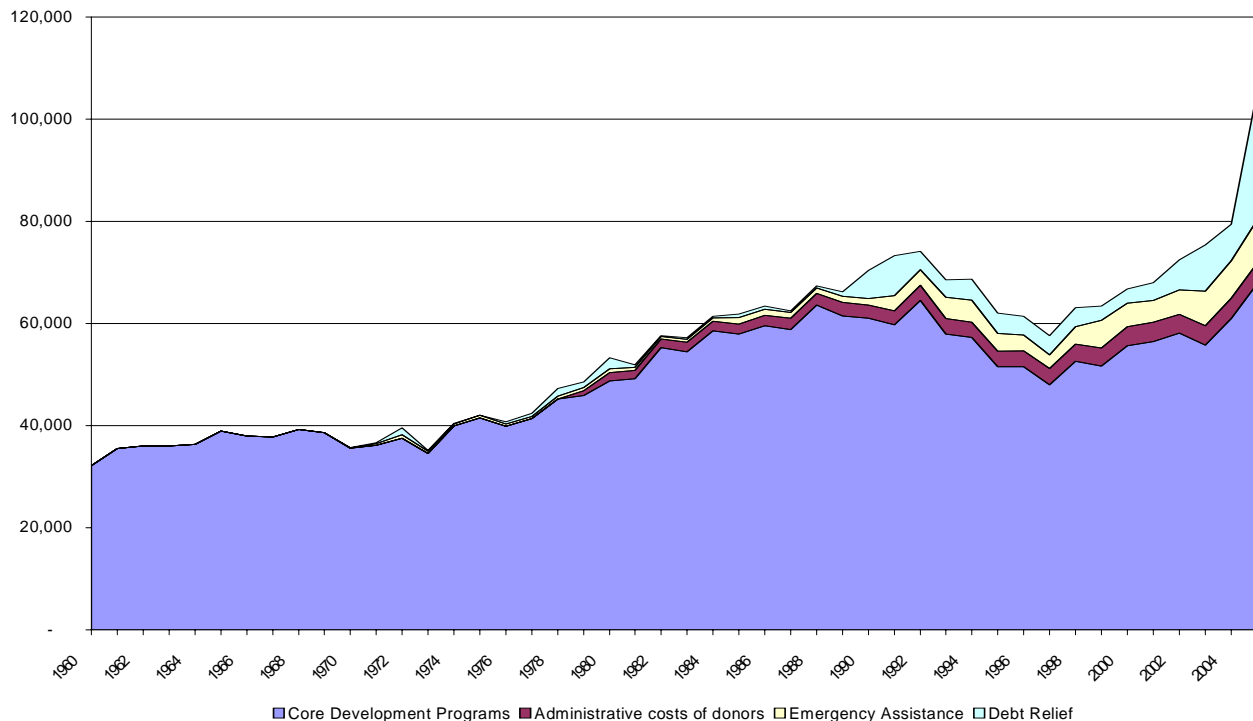
⁶ Invaluable contributions from DAC staff are gratefully acknowledged.

⁷ As noted in the draft 2007 *Global Monitoring Report*, preliminary DAC estimates indicate that total net ODA dipped in 2006, although it is expected to continue on a rising trend through 2010.

⁸ The rising importance of non-DAC donors is not fully captured in DAC data: “Data on so-called South-South assistance are incomplete, however, making it difficult to obtain comprehensive information on South-South aid volumes and prospects”. IMF and World Bank (2006). *Global Monitoring Report*, p. 75.

grew by 11.4 percent p.a. over the same period.⁹ In real terms, only in 2005 did ODA for core development programs exceed its 1992 levels.

Chart 1. ODA from DAC Donors to Developing Countries and Multilateral Organizations¹⁰
(Net disbursements, US\$ million at 2004 prices, 1960-2005)



Source: DAC online (Tables 1 and 2a)

9. **The recent upward trend in ODA volumes has been accompanied by increasingly concessional ODA terms.**¹¹ Almost 90 percent of bilateral ODA is in the form of grants. As a result of an overall consensus reached within DAC in the late 1970s, there has been a marked increase - from less than 60 percent in 1975 to almost 90 percent in 2005 - of bilateral ODA being provided as grants.¹² More recently, there has also been an increase in the use of grants by multilateral organizations. The grant element of ODA loans has also increased, though it is more difficult to compare across time given that the nominal discount rate used in the calculation of the grant element has not changed over time while market rates have fluctuated widely.

⁹ The corresponding growth rates for the last decade are respectively 2.8 and 5.4 percent per annum.

¹⁰ Data for this chart is presented from a source of funds perspective, whereby recipient country groups cannot be distinguished. Donors started considering significant amounts of administrative costs as part of ODA in 1979. See Annex I, subsection C.1.

¹¹ The donor community has been focusing its attention on aid terms since the early days of DAC. There was wide support among donors for a progressive softening of aid terms. By 1972, an agreement had been reached within DAC on a target of an 84 percent grant element in aid with special conditions for Least Developed Countries, a concept introduced by the UN only one year earlier. The final terms - agreed in 1978 - included a grant element of ODA commitments of 86 percent (90 percent for LDCs).

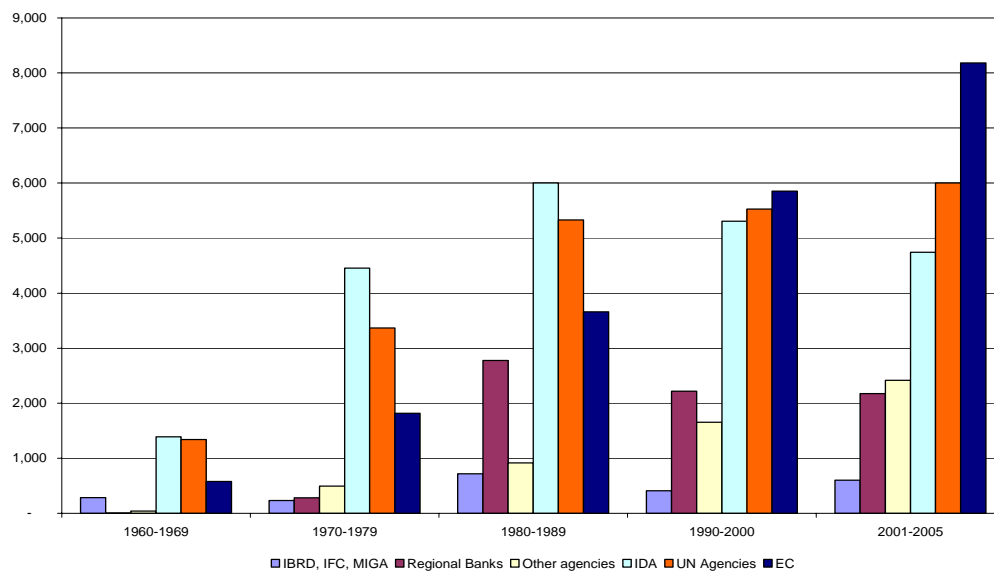
¹² Assistance to the social sectors and multi-sector assistance (e.g., environment, women in development) as well as support to NGOs are provided mostly as grants, while ODA to infrastructure is mostly through loans.

A.2. *Bilateral vs. Multilateral ODA*

10. **About 70 percent of ODA flows have been provided through bilateral organizations and 30 percent through multilateral organizations.**¹³ The share of bilateral ODA has remained relatively stable at 70 percent of total aid flows since the mid 1970s, with the exception of 2005 when bilateral ODA reached 78 percent of the total. However, there is a great deal of donor-by-donor variance in terms of bilateral vs. multilateral contributions: the shares of multilateral contributions in total ODA flows for the 2000-2005 period range from 9 to 64 percent.

11. **Among multilateral organizations, IDA's role as the main channel for multilateral ODA has been surpassed by the European Commission and the United Nations.** Since the 1990s, the most important channel for multilateral ODA has been the European Commission as shown in Chart 2, which shows only core contributions to international organizations.¹⁴ The amounts of core contributions channeled through IDA and, on a smaller scale, through regional banks peaked in the 1980s and have declined thereafter. IDA's share in total multilateral ODA declined from 42 percent in the 1970s to an average of 20 percent in the 2001-2005 period.

Chart 2. Average Amount of Multilateral ODA (core contributions) Received by Main International Organizations



(Net disbursements, US\$ millions at 2004 prices, period averages, 1960-2005)

Source: DAC online (Table 1)

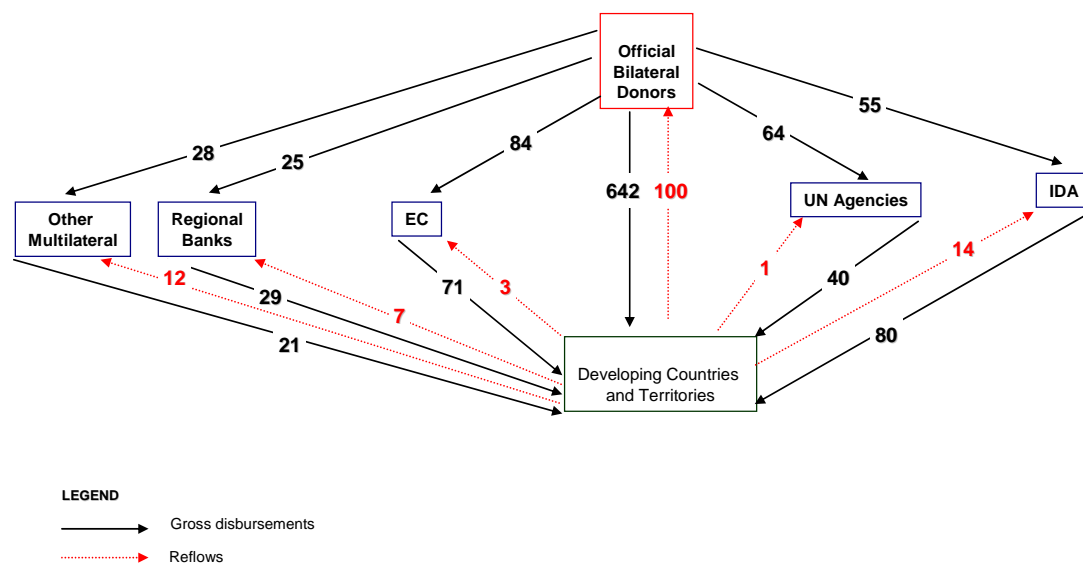
¹³ A key issue in understanding this data is that the bilateral assistance percentage includes funds which are actually managed by international organizations for specific uses. This issue is discussed subsequently in the paper.

¹⁴ Staff estimates based on Annual Reports. However, once trust funds and non-core contributions to the UN – which DAC records as bilateral ODA – are considered, the UN becomes the most important multilateral channel with annual core and non-core contributions amounting to nearly US\$ 12 billion in 2005. In comparison, if trust funds are added to core contributions, the totals for IDA in 2005 become US\$ 8.4 billion, still well below the UN. These totals exclude GEF, GFATM, and the HIPC TF.

A.3. Gross Disbursements and Credit Reflows

12. Due primarily to credit reflows, gross disbursements by multilateral ODA providers such as IDA exceeds the contributions they receive from donors.¹⁵ In the case of IDA, internal resources comprise credit reflows and investment income on IDA’s liquid assets – to which IBRD transfers are added.¹⁶ The fact that IDA and other multilateral development banks can finance part of their assistance to developing countries on the basis of internal resources – which include credit reflows – mean that their “presence” in recipient countries is greater than what would be implied by net disbursement figures. Chart 3 describes several financial flows (cumulative for the 1994-2005 period): (i) bilateral ODA for developing countries; (ii) bilateral donor contributions to multilateral channels; (iii) multilateral outflows to developing countries; and (iv) reflows from developing countries to bilateral and multilateral donors.¹⁷ The chart also indicates that IDA is the third largest recipient of funding for multilateral ODA (US\$ 55 billion, cumulative for 1994-2005), but the second largest (after the EC) provider of multilateral ODA to developing countries (US\$66 billion, cumulative net disbursements for 1994-2005).¹⁸

Chart 3. Funding of ODA and ODA Receipts by Developing Countries, 1994-2005
(Gross Disbursements and Reflows, US\$ billion, Cumulative, 2004 Prices)



Source: DAC Online Tables 1a and 2a

¹⁵ Credit reflows are borrower repayments on credits that have been disbursed and are outstanding, excluding interest.

¹⁶ IBRD has contributed resources from its net income and surplus to support IDA’s replenishments, since the inception of IDA. In FY07, an IFC grant of US\$150 million was also approved to support grant-financed private sector development projects in IDA countries. See IDA (2007). “IDA’s Long-Term Financial Capacity”. Resource Mobilization Department, February.

¹⁷ The difference between ODA funding received by multilateral institutions and multilateral outflows to developing countries is due to a number of factors, including the time lag between funding and disbursement, administrative costs and other expenditures (including research) that is not directed to any specific recipient country, and contributions to other multilaterals (as e.g. in the case of the European Commission).

¹⁸ IDA remains the largest provider of multilateral ODA to IDA-eligible countries. See also IDA (2007), *op. cit.*, for a detailed discussion of the impact of debt relief and IDA grants on IDA’s credit flows and assistance capacity going forward.

A.4. Fast-Disbursing ODA Trends

13. **The share of general budget support and sector programs¹⁹ in total commitments has increased in recent years.** Table 1 shows that general budget and sector program support as a percentage of total ODA commitments rose from 8 percent in 2001 to 20 percent in 2004. Most of this increase is attributable to sector programs, which nearly tripled between 2003 and 2004. Low-income countries received the lion's share (63 percent) of total general budget and sector program support in 2004. Table 1 also shows that, during the 2001-2004 period, low-income countries were the main beneficiaries of commitments for debt relief (about 90 percent in 2004), which from a macroeconomic point of view is akin to fast-disbursing ODA.

Table 1. ODA for Sector Programs, General Budget Support and Debt Relief
(Commitments, US\$ million at 2004 prices, 2001-2004)

Type	US\$ amounts (2004 prices)				% of total commitments			
	2001	2002	2003	2004	2001	2002	2003	2004
Sector Programs⁽¹⁾	641	1,984	5,404	14,666	1%	2%	6%	15%
Low Income	199	774	1,591	7,854	0%	1%	2%	8%
Middle Income	441	1,105	3,645	6,011	1%	1%	4%	6%
Unallocated	0	105	168	800	0%	0%	0%	1%
General Budget Support	4,847	5,850	6,395	5,249	7%	7%	7%	5%
Low Income	3,919	4,853	3,635	4,631	5%	6%	4%	5%
Middle Income	913	990	2,745	608	1%	1%	3%	1%
Unallocated	14	8	16	11	0%	0%	0%	0%
Total General and Sector Support	5,488	7,834	11,799	19,915	8%	10%	12%	20%
Debt relief	5,582	8,504	17,778	8,570	8%	10%	18%	9%
Low Income	2,962	5,263	14,771	7,578	4%	6%	15%	8%
Middle Income	2,601	3,102	3,003	899	4%	4%	3%	1%
Unallocated	19	139	4	93	0%	0%	0%	0%

(1) Excluding debt relief and general budget support to avoid double counting. Only commitments with no investment or TC components.

Source: CRS Online (Table 1)

B. The Distribution of ODA

14. **Five dimensions of the distribution of ODA across recipient countries are examined in this subsection:** (i) the distribution of ODA per income group; (ii) ODA trends for IDA-eligible, low-income countries; (iii) the geographical distribution of ODA; and (iv) the sectoral distribution of ODA.

B.1. Distribution of ODA per Income Group

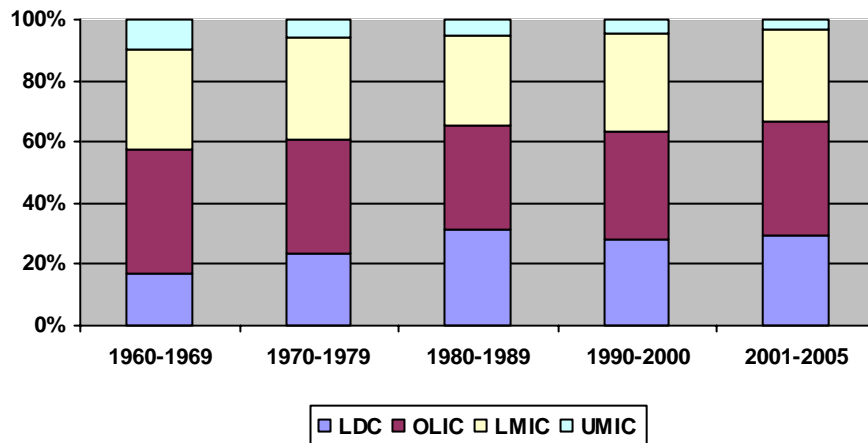
15. **The share of ODA going to low-income countries has been above 60 percent since the 1970s, reaching about 67 percent over the 2001-2005 period.** Chart 4 below shows how total ODA has been distributed over time to four country income categories²⁰:

¹⁹ DAC's Creditor Reporting System (CRS) does not include a subset of data for sector programs provided through budget support. Sector programs are defined by DAC as follows: "Sector programme aid comprises contributions to carry out wide-ranging development plans in a defined sector such as agriculture, education, transportation, etc. Assistance is made available "in cash" or "in kind", with or without restriction on the specific use of the funds, but on the condition that the recipient executes a development plan in favour of the sector concerned." The definition is similar to that of a SWAp and includes, but it is not limited to, sector budget support.

²⁰ Least Developed Countries are a UN category and not defined in terms of a per capita GNI threshold: "Since 1971, the United Nations has denominated 'Least Developed Countries' (LDCs) a category of

(i) least developed countries (LDCs); (ii) other low-income countries (OLICs); (iii) lower-middle income countries (LMICs); and (iv) upper-middle income countries (UMICs). Except for the 1960s, the average share of ODA going to low-income countries (LDCs and OLICs) has been 60 percent or above. In addition, low-income countries received about 64 percent of ODA from bilateral sources and 74 percent of ODA from multilateral sources over the 2001-2005 period.

Chart 4. Share of Total ODA for Low- and Middle-Income Countries (%)



Source: DAC online (Table 2a).

B.2. ODA Trends for IDA-Eligible Countries

16. **Total ODA to IDA-eligible countries has been increasing over time.** Chart 5 shows the increasing importance of special-purpose grants such as emergency assistance and debt relief. In view of the debt relief provided to Iraq, the share of total debt relief in total ODA for all developing countries in 2005 was 38 percent, compared to 22 percent for IDA-eligible countries only.

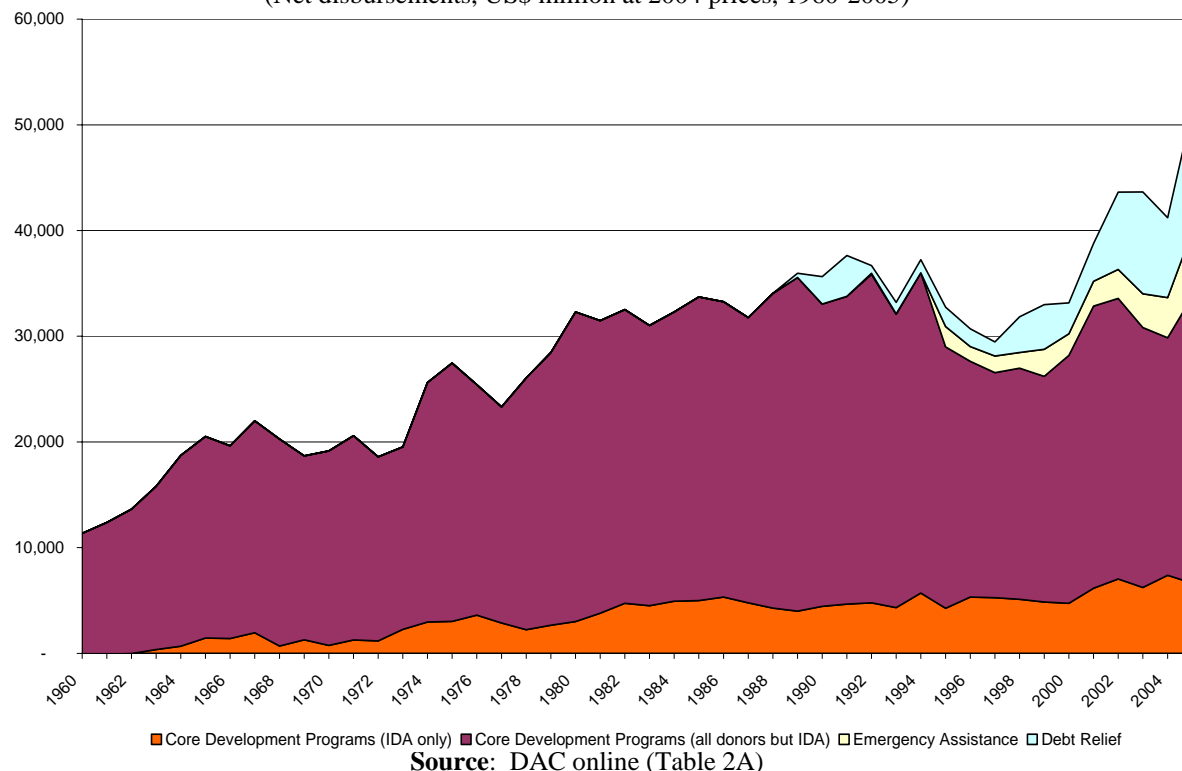
17. **However, IDA-eligible countries have received in recent years less ODA for core development programs than they did on average during the early 1990s.** In fact, as indicated in Chart 5, the average annual ODA for core development programs received by IDA-eligible countries in the 2001-2005 period – about \$32 billion at 2004 prices - is still below the 1991-1995 average – about \$33 billion per year. Furthermore, chart 5 shows a marked decline in core development ODA for those countries between 1994 and 1999. In recent years, there seems to have been some recovery in ODA flows for core development programs for IDA-eligible countries, but not enough to reach the levels observed by the late

low income States that are deemed structurally disadvantaged in their development process, and facing more than other countries the risk of failing to come out of poverty.” United Nations Conference on Trade and Development (2005), *Statistical Profiles of the Least Developed Countries 2005*, p. 6. Other Low-Income Countries (OLICs) are those non-LDCs with per capita GNI below US\$825 in 2004; Lower-Middle Income Countries and Territories (LMICs) are those with per capita GNI between US\$826 and US\$3,255 in 2004; and Upper-Middle Income Countries are those with per capita GNI between US\$3,256 and US\$10,065 in 2005. See *DAC List of ODA Recipients*, effective from 2006 for reporting on 2005, 2006 and 2007.

1980s.²¹ On the other hand, core development ODA provided by IDA showed greater stability over the 1990s, fluctuating between US\$4.2 billion and US\$5.7 billion (both figures at 2004 prices) during this period.

Chart 5. Official Development Assistance from DAC Donors and Multilateral Organizations to IDA-Eligible Countries

(Net disbursements, US\$ million at 2004 prices, 1960-2005)



18. **IDA’s share in ODA for core development programs for IDA-eligible countries has been growing, even on a net disbursement basis.** As indicated in Chart 5, between 2001 and 2005, IDA’s *cumulative* net ODA for core development programs exceeded US\$33 billion (at 2004 prices), or about 20 percent of the total core development ODA for IDA-eligible countries. Furthermore, in the recent past, IDA has provided more than 20 percent of ODA in 17 countries; between 10 and 20 percent in 34 countries; between 5 and 10 percent in 12 countries and less than 5 percent in 18 countries as shown in Table 2.

Table 2: IDA Share of Net ODA Disbursements (2001-2005)

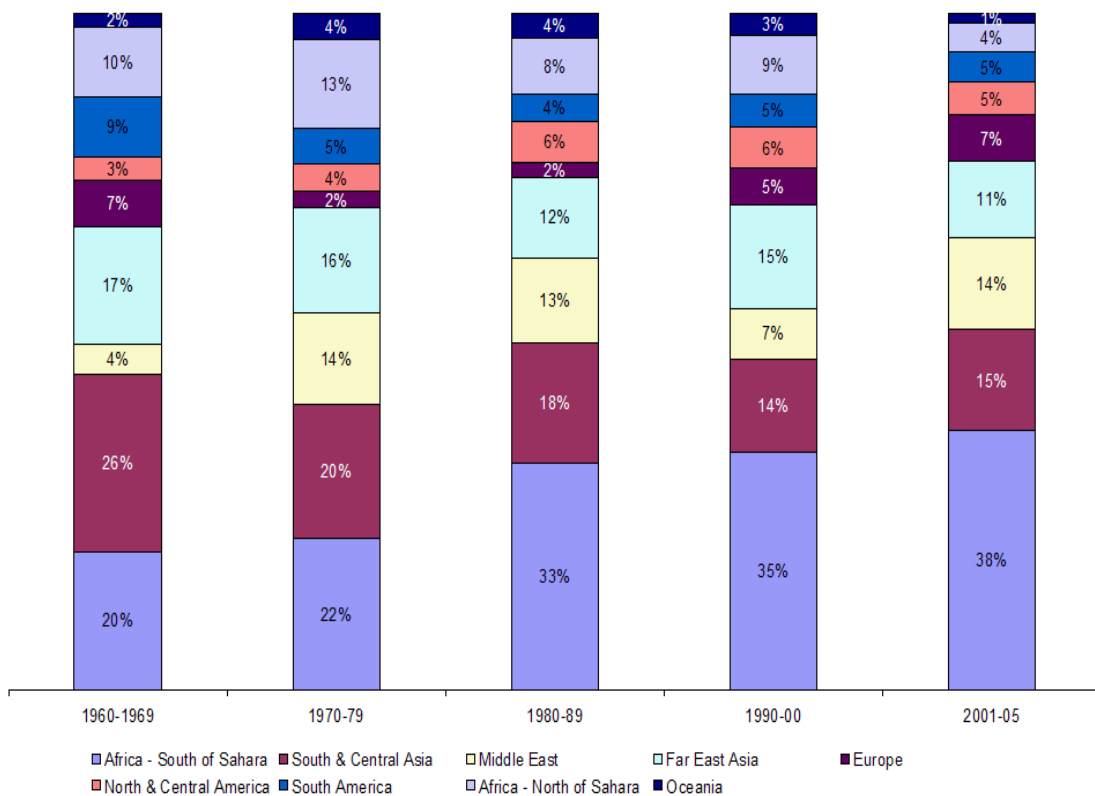
IDA share	Country	No.
> 20%	Armenia, Bangladesh, Comoros, Chad, Eritrea, Ethiopia, Gambia, Georgia, Ghana, India, Madagascar, Pakistan, Rwanda, Senegal, St. Lucia, Uganda, Vietnam,	17
10% < 20%	Albania, Azerbaijan, Benin, Bolivia, Bosnia-Herzegovina, Burkina Faso, Burundi, Cape Verde, Congo Dem. Rep. (Zaire), Cote d'Ivoire, Djibouti, Grenada, Guinea, Guinea-Bissau, Honduras, Kyrgyz Republic, Laos, Lesotho, Malawi, Maldives, Mali, Mauritania, Moldova, Mongolia, Mozambique, Nicaragua, Niger, Sierra Leone, Sri Lanka, St. Vincent, Tajikistan, Tanzania, Yemen, Zambia	34
5% < 10%	Bhutan, Cambodia, Cameroon, Congo, Rep., Dominica, Guyana, Kenya, Nepal, Nigeria, Samoa, Sao Tome & Principe, and Tonga.	12
< 5%	Afghanistan, Angola, Central African Republic, Haiti, Indonesia, Kiribati, Liberia, Myanmar, Papua New Guinea, Serbia & Montenegro, Solomon Islands, Somalia, Sudan, Timor-Leste, Togo, Uzbekistan, Vanuatu, Zimbabwe	18

²¹ The total amounts refer to ODA received by low income countries from bilateral and multilateral sources. The chart is presented from a *uses of funds* perspective.

B.3. Geographical Distribution of ODA

19. Sub-Saharan Africa’s share of total ODA has been growing for almost half a century, from a little more than 20 percent in the 1960s to over a third of total ODA today.²² This can be seen in Chart 6. During the last five years (2001-2005), most of ODA flows have been directed to Sub-Saharan Africa (38 percent), South and Central Asia (15 percent), the Middle East and North Africa (14 percent), and Far East Asia (11 percent). It should be noted, however, that debt relief for Nigeria accounts for a substantial share of recent growth in ODA to Africa.

Chart 6. Breakdown of ODA by Regions (%)



Source: DAC Online, Table 2a

B.4. Sectoral Distribution of ODA

20. The share of the social sectors in total sector allocable ODA²³ to low-income countries has grown from 29 percent in the early 1990s to 52 percent in 2000-2004.

²² ODA is the most important source of capital inflows for most countries in Sub-Saharan Africa, “contributing nearly half of all net capital flows.” See Sundberg, M. And A. Gelb (2007). “Making Aid Work”. *Finance and Development*, Vol. 43, No. 4, December, p.2.

²³ DAC defines sector allocable ODA as: “Total sector allocable ODA is used to better reflect the sector focus of donor’s programmes. It concerns all ODA flows aimed at fostering a peculiar sector in the recipient country (examples of sectors are: agriculture, education, health, water supply and sanitation, government and civil society, transport and storage, etc.) and thus excludes all the contributions that are not susceptible to allocation by sector (e.g., balance-of-payments support, actions relating to debt, emergency assistance, and internal transactions in the donor country - administrative costs of donors, Support to NGOs and Unallocated/unspecified ODA)”.

Currently, half of all sector allocable ODA goes to the social sectors. Within sector allocable ODA, since 1990 there has been an overall shift from infrastructure and production to social sectors²⁴, as shown²⁵ in Chart 7 and Table 3, particularly for Sub-Saharan Africa, where they now account for 60 percent of all sector allocable ODA. It is interesting to note that this trend is concomitant to the rising trend in the share of grants in total ODA and the increasing importance of ODA earmarking.

21. **In contrast, infrastructure ODA for low income countries – and especially for Sub-Saharan Africa – has declined in relative terms.** In the case of Sub-Saharan Africa, the share of infrastructure in sector allocable ODA fell from 29 percent in the first half of the 1990s to 19 percent in the 2000-2004 period. There has also been a reallocation of aid resources away from water and sanitation – which is classified by DAC under social sectors.²⁶ This could be interpreted as an increasing financing of recurrent costs of service delivery by government and non-governmental organizations.

22. **Three quarters of ODA for physical infrastructure for IDA-eligible countries are provided by two bilateral donors (Japan and the US, together at 42 percent) and two multilateral donors (IDA and EC, together at 32 percent).** Physical infrastructure is used here to refer to three sectors under the DAC classification for economic infrastructure: (i) transport and storage; (ii) communications; and (iii) energy.²⁷ Among the multilaterals, IDA had the largest commitments, with about US\$3.4 billion in commitments for physical infrastructure during 2004-2005, or about 20 percent of total physical infrastructure commitments for IDA-eligible countries during this period. It is followed by the EC, with about US\$2 billion, 79 percent of which also classified under transport and storage. In turn, IDA's commitments for physical infrastructure in 2004-2005 were distributed as follows: 58 percent for transport and storage; 36 percent for energy; and 6 percent for communications.

²⁴ “Other social sectors” comprise water and sanitation, population, health, government and civil society, and conflict, peace and security. “Production” includes agriculture, forestry and fishery; industry and mining; and tourism.

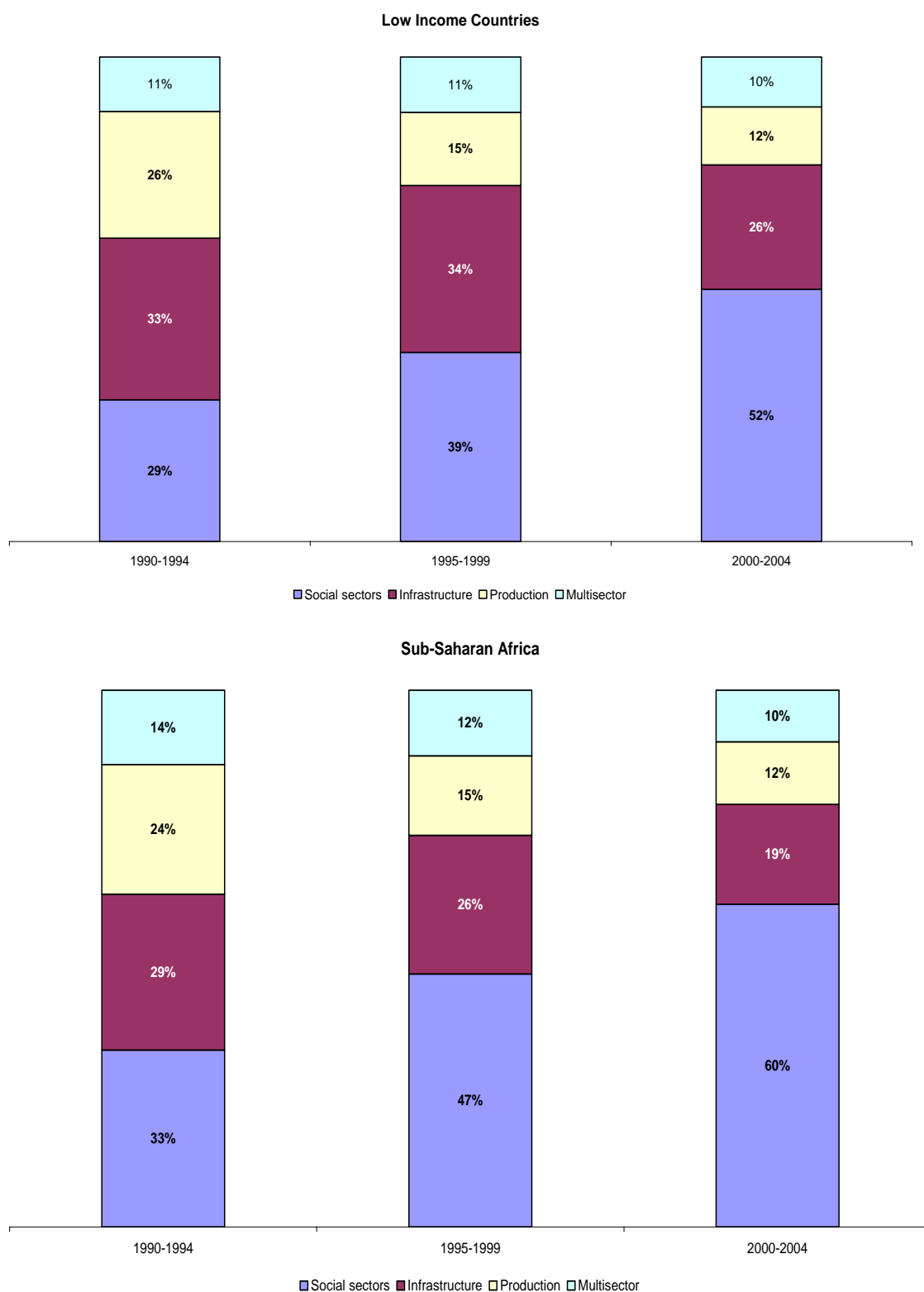
²⁵ Chart 7 focuses on sector allocable ODA alone, while Table 3 covers both sector allocable and overall ODA.

²⁶ Within the social sectors, aid seems to have been reallocated from water and sanitation to government and civil society. As a share of total ODA allocated to the social sectors, water and sanitation fell from 22 percent in the 1990s to about 14 percent in 2001-2004, while government and civil society rose from 15 to 23 percent over the same period.

²⁷ Cumulative commitments for 2004-2005, at constant 2004 prices. The source for the figures in this paragraph is the CRS. “Economic Infrastructure”, as defined in the CRS Directives, includes also “Banking” and “Business Services”.

Chart 7. Distribution of Sector Allocable ODA to Low Income Countries and Sub-Saharan Africa

Commitments, period averages, %, 1990-2004



Source: CRS Online (Table 1)