

Meeting Donor Commitments On Aid, Debt Relief And Trade

During the 2005 “year of development” donors promised a **major expansion in official development assistance (ODA)**.



- At their summit in Gleneagles, G-8 leaders pledged to increase aid to Africa by \$25 billion a year by 2010—more than doubling assistance to the region—and DAC members have agreed to expand aid to all developing countries by about \$50 billion.
- ODA from Development Assistance Committee (DAC) countries was \$106.5 billion in 2005, up from \$80 billion in 2004 and \$69 billion in 2003.
- Official development assistance from non-DAC donors rose by 9 percent (in nominal terms) to \$3.7 billion in 2004. Saudi Arabia continued to account for the largest share of assistance by this group. Other donors are beginning to emerge in importance, including Korea, Kuwait, Taiwan (China) and Turkey, as well as new EU members that are not DAC members.
- Nearly half the increase in net ODA from 2001 to 2004 has been in the form of debt relief and technical cooperation, more than a quarter was for emergency assistance, and less than a tenth for flexible bilateral forms of financing.
- Aid allocation patterns suggest that donors are paying more attention to poverty and to quality of recipients’ policies and institutions—in 2004 over two-thirds of bilateral donors have a significant relationship between aid and poverty and that the poverty elasticity of aid has strengthened for most of these donors.
- Broad-based support for the Paris Agenda on aid effectiveness has translated into the adoption of global targets for the 12 indicators in the Paris Declaration. Some countries are beginning to implement the Paris Framework at the country level, customizing indicators and targets to the country context.

Major progress was made in 2005 in **extending and deepening debt relief to the poorest countries**.

- The G-8 Proposal (the Multilateral Debt Relief Initiative - MDRI) to cancel 100 percent of the debt that heavily indebted poor countries (HIPC) owe to the African Development Fund (AfDF), International Development Association (IDA), and the International Monetary Fund (IMF) will cut the external debt of these countries by another \$50 billion. Nineteen countries have already received about \$3.4 billion in debt relief from the IMF under the MDRI. MDRI debt relief from IDA is expected beginning this July, and from the AfDF once donors finalize the MDRI implementation modalities for the AfDF
- As of March 2006, 29 HIPCs had reached the decision point and are receiving debt relief, under the previous HIPC Initiative. For these 29 countries, poverty-reducing expenditures on average have risen from about six percent of GDP in 1999 to eight percent of GDP in 2004, almost four times the amount spent on debt service. In absolute terms, poverty-

reducing spending is estimated to have increased from about \$6 billion in 1999 to almost \$11 billion in 2004, and is projected to increase to \$15 billion in 2006.

- Progress on the Doha Development Agenda was modest at the Hong Kong ministerial meeting in December 2005. World Trade Organization members face a challenge in concluding the Doha Round by the end of 2006.
- Tariff liberalization by OECD and developing countries caused a two-percentage point reduction in the overall trade restrictiveness index (OTRI) for the world as a whole, to 14 percent on average. The OTRI of high-income countries is 11 percent, down from 12 percent for 2002; much of this decrease is due to a reduction in agricultural tariffs underpinning market price supports. These reductions mostly affected middle- and high-income country exporters; the trade restrictiveness confronting exports from low-income countries continues to be above the world average.
- The OTRI for least developed countries changed very little between 2002 and 2005. It is still highest in the Middle East and North Africa, followed by Sub-Saharan Africa, South Asia, Latin America, and East Asia and the Pacific.
- Offsetting slow progress in the Doha Round of trade talks is the proliferation of regional and bilateral trade agreements; over 250 regional trade agreements cover more than one-third of world trade, up from 24 in 1990).
- Donor support for “aid-for-trade”—efforts to help developing countries benefit from multilateral trade liberalization—has been steadily increasing. Between 2002 and 2003 trade-related assistance increased from 3.6 percent to 4.4 percent of total aid commitments; infrastructure accounted for a further 25 percent. In 2004, commitments in trade policy and regulations declined from \$934 million to \$811 million, but assistance to trade facilitation and trade development rose sharply. Aid for infrastructure remained at \$9.3 billion; Asia was the largest recipient, but Africa’s share increased by 60 percent over 2002 to \$3 billion in 2003. Assistance to Africa for cotton increased fivefold over 2002–3 to \$63.5 million in 2004.
- The World Bank’s trade-related lending has almost trebled over the last three years, rebounding to \$1.2 billion in 2004 from about \$300 million in 2002, to account for 6 percent of portfolio, thanks largely to the resumption of lending for trade-related infrastructure. Africa is the priority target; it has received some 60 projects and 30 percent of trade component lending.