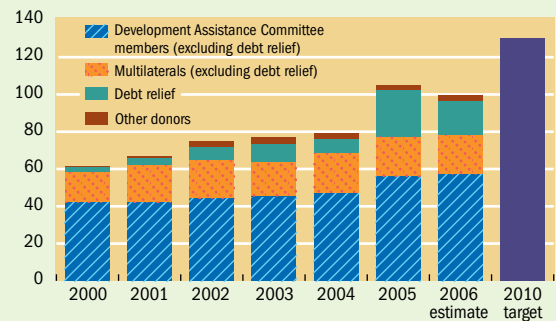


# Changing Aid Landscape

**D**ESPITE donors' commitments to scale up aid in line with the 2002 Monterrey Consensus and the 2005 Gleneagles Declaration, the response has been mixed. Official development assistance (ODA) declined by roughly 5 percent in real terms in 2006—the first drop since 1997—and a slight decline is expected for 2007, according to recent OECD estimates. Moreover, ODA as a percent of gross national income dipped to 0.3 percent in 2006, after inching up to 0.33 percent in 2005, still well short of the UN target of 0.7 percent.

## Official development aid is falling in real terms after the 2005 peak and is still way below target.

(total ODA, billion dollars, 2004 prices)



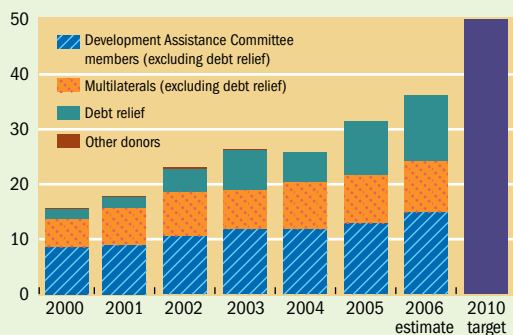
Sources: Organization for Economic Cooperation and Development (OECD)/Development Assistance Committee (DAC); World Bank estimates.  
 Note: Other donors include non-DAC donors reporting to the OECD/DAC; this category does not include such countries as Brazil, China, India, Russia, and South Africa, which are becoming important aid providers.

Exacerbating matters, of the aid that was given, debt-relief grants totaled one-fifth of total ODA during 2005–06, dominated by Paris Club settlements with Iraq and Nigeria. In sub-Saharan Africa, debt relief took one-third of ODA, raising additional questions about whether donor countries will be able to meet and sustain their promised doubling of aid as debt relief fades out.

Furthermore, despite some signs of improvement in the short-term predictability of aid in the better-performing countries, the pattern is uneven. In a sample of 13 countries with relatively large aid inflows, volatility of aid components in the budget declined between 1993–99 and 2000–05, but almost one-third of aid still did not arrive on time. Even among the better-performing countries, the predictability of budget aid regressed for Ghana and Uganda and stagnated for Tanzania.

## In Africa, the lion's share of recent aid increases went to debt relief . . .

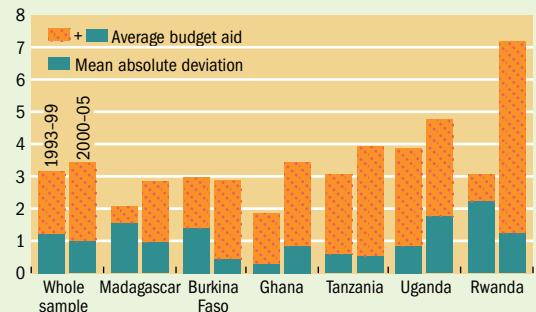
(ODA to sub-Saharan Africa, billion dollars, 2004 prices)



Sources: OECD/DAC; World Bank estimates.  
 Note: Other donors include non-DAC donors reporting to the OECD/DAC.

## . . . and only about 65 percent of aid arrived on schedule.

(percent of GDP)



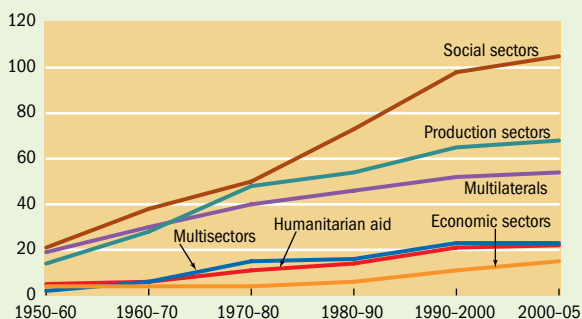
Source: Oya Celasun and Jan Walliser, "Predictability and Pro-Cyclicality of Aid: Do Fickle Donors Undermine Economic Development?" (2007).  
 Note: Deviation is measured as the absolute difference between the budget aid projected in the government's program with the IMF and the actual disbursement.

Over a longer period, the number of aid channels in the development arena has soared—from 65 in 1950–60 to 287 in 2000–05. Many new donors have announced ambitious plans to scale up their engagement in the aid arena, and private organizations, in particular, have rapidly expanded their activities. While statistics are notoriously incomplete, estimates of private philanthropy directed to developing countries are as high as \$60 billion, of which about half comes from the United States—whose contribution has increased over fourfold since 1990.\*

But the proliferation of donors also brings challenges, including the fragmentation of aid flows, manifested through a greater number—and a smaller financial size—of donor activities a year. Some developing countries have over 1,000 donor-funded activities managed by several parallel implementation units, host over 1,000 donor missions a year, and prepare as many as 2,400 progress reports annually.

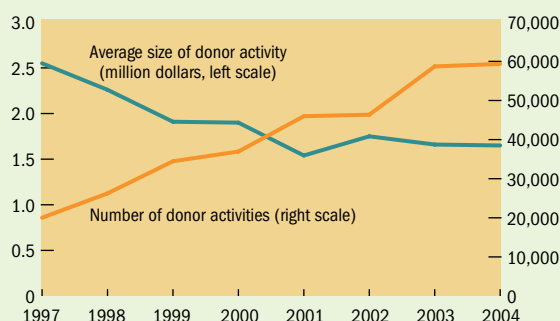
### A proliferation of donors . . .

(number of international donors)<sup>1</sup>



Sources: OECD/DAC Creditor Reporting System (CRS) database; World Bank estimates.  
<sup>1</sup>Includes public, private, and nongovernmental organizations, funds, and programs.  
 \*Homi Kharas, "The New Reality of Aid" (2007).

### . . . has led to a fragmentation of aid flows . . .



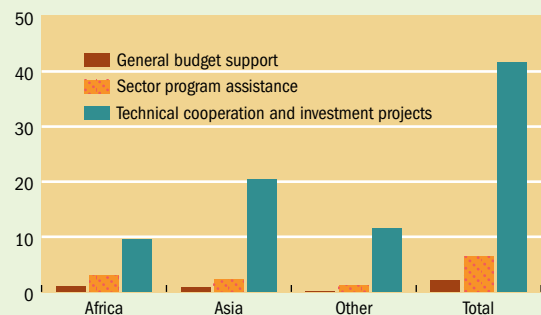
Sources: OECD/DAC CRS database; World Bank estimates; *Aid Architecture*, IDA Discussion Paper 15 (Washington: International Development Association, 2007).

Another challenge is aid earmarking, including through an increase in the number and size of "global programs," or "vertical funds." When these funds are narrowly targeted and separate financing mechanisms are used, there is a risk of a misalignment with recipients' inter- and intrasectoral priorities and a mismatch between the size of funding and domestic absorptive capacity. Strong evidence of earmarking is provided by the fact that donors still disproportionately favor projects and technical cooperation over sector program assistance and general budget support.

In Rwanda, although malaria is the leading cause of morbidity and mortality, donor funds allocated to antimalaria activities were only about one-third the amount allocated to combating HIV/AIDS. Moreover, 75 percent of donor support went directly to nongovernmental organizations or was directly managed by the donors through their own projects, greatly constraining the government's ability to channel ODA to program priorities.

### . . . and a significant degree of aid earmarking . . .

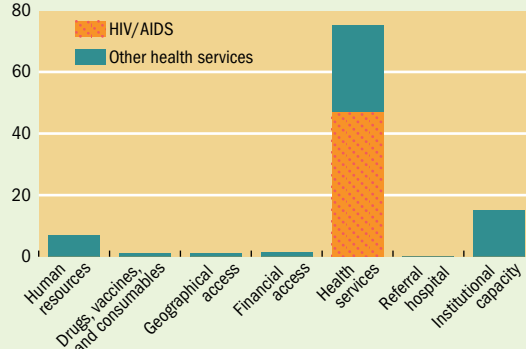
(ODA commitments by type, DAC countries; billion dollars, 2005)



Source: OECD/DAC, CRS database.

### . . . which raises worries about a mismatch with recipients' priorities.

(distribution of donor funding by strategic objective in Rwanda (2005), million dollars)



Sources: Republic of Rwanda; *Country-Based Scaling Up: Assessment of Progress and Agenda for Action* (Washington: World Bank, 2007).

Note: Antimalaria funding is covered by both vaccines and other health services.

Prepared by Stefano Curto, World Bank.