

Real Aid 3: Ending Aid Dependency

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31st October 2011

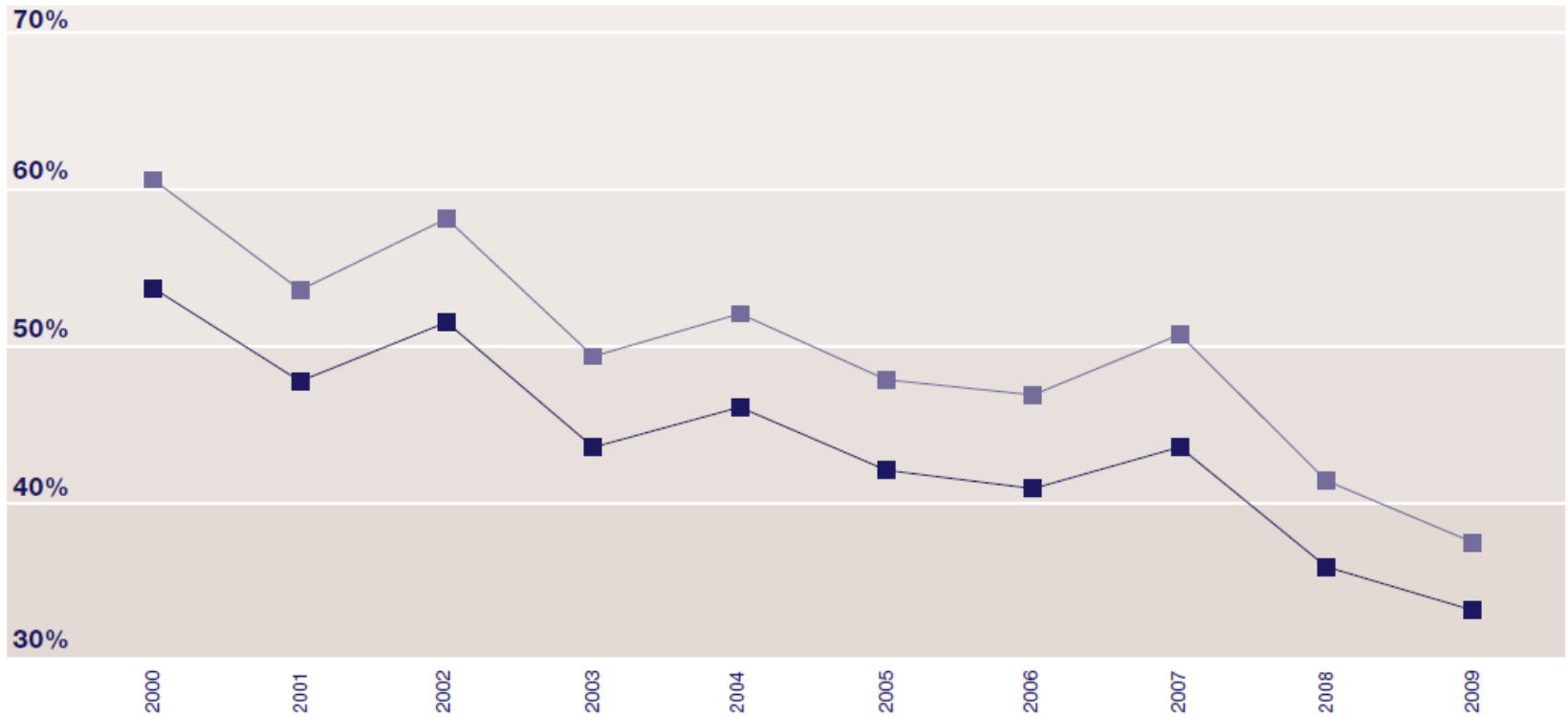
Good news

Poor countries are becoming less dependent on aid

Aid dependency

- Down by one-third in the world's poorest countries in the last decade
 - Ghana: 47% - 27%
 - Mozambique: 74% - 58%
 - Rwanda: 85% - 45%
- Why? Because countries have mobilized more of their own resources (even while aid has increased)

AID DEPENDENCY



This is calculated by the percentage of country programmable aid (CPA) as a percentage of overall government expenditure in each country.

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Why is it important to end aid dependency?

- To increase autonomy to design and implement policies
- To improve accountability between citizens and governments
- To improve predictability of government expenditure

How aid can help end aid dependency

- Country leadership on development and aid
 - e.g. Nepal National Aid Policy
- National accountability to domestic stakeholders
 - e.g. Ghana Parent-Teacher Associations
- Aid for tax systems and domestic savings and investment
 - e.g. UK grant to Rwandan revenue authority
- More 'real aid', to ensure ownership and value-for-money, especially through budget and sector budget support

What is Real Aid? Real Aid is...

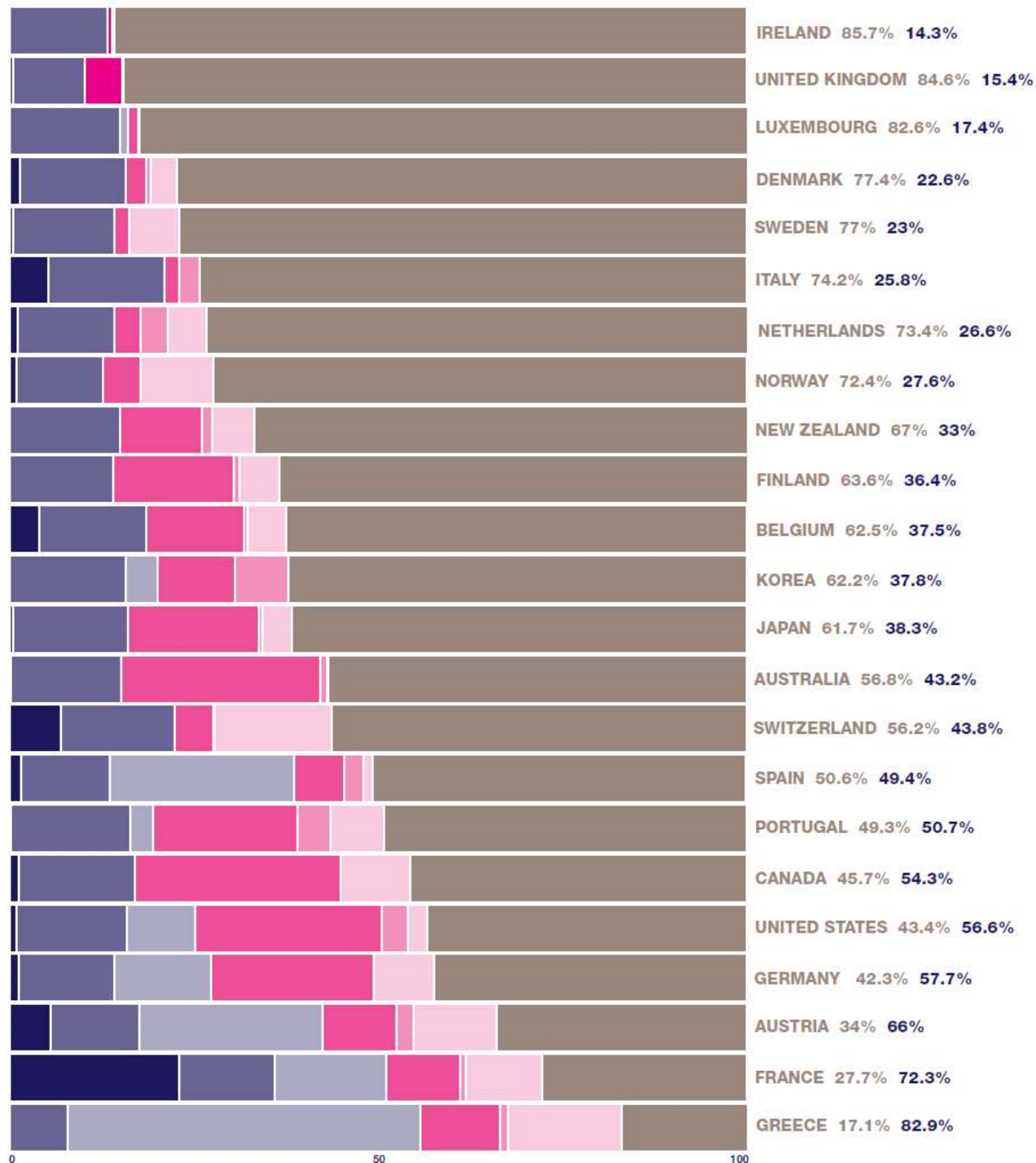
- Aid targeted on the poorest
- Only counted once, as ODA
- If it is tied, purchases from the donor country should not cost more than local purchases
- Technical assistance that is wanted by the recipient and competitively priced
- Supporting country leadership
- Spent in the developing country not the donor country
- Is administered efficiently

A word on value-for-money

- Tying aid reduces its value by 15-40%
- Eliminating volatility in aid would increase its value by 13-17%
- Use of parallel systems increases the transaction and overhead costs by 10-20%
- Each year of delay on a project reduces the value of its returns
- Technical assistance is often regarded by recipient countries as more expensive than necessary

The status of Real Aid

- Over half of all aid is real - \$66bn out of a total of \$120bn
- Significant increase in absolute terms since 2005, by \$24bn
- Share of real aid in the total has not increased much, from 51% in 2005 to 55% in 2009



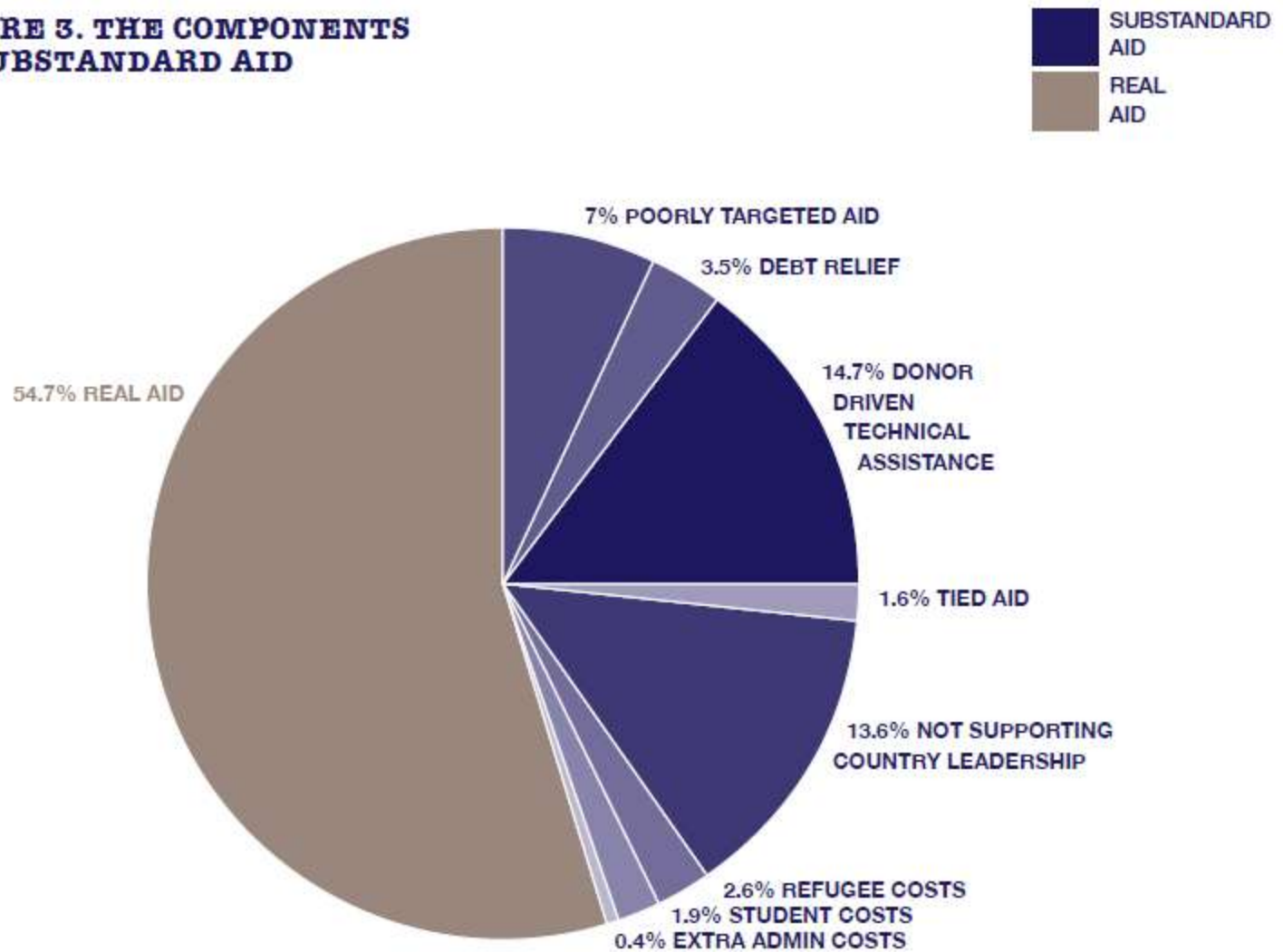
**FIGURE 1. SUBSTANDARD
AND REAL AID BY DONOR**

Breakdown of substandard aid

- Poorly targeted aid – 7%
- Debt cancellation double-counted as aid – 3.5%
- Poor quality technical assistance – 14.7%
- Aid tying reducing value-for-money – 1.6%
- Donor policies that fail to support country leadership – 13.6%
- ‘Aid’ spent on refugees or education in donor countries – 4.5%
- Aid spent on excess administration costs – 0.4%

Sources: OECD, Development Finance International

**FIGURE 3. THE COMPONENTS
OF SUBSTANDARD AID**



Recommendations

Aid donors should:

- Increase real aid sharply
- Increase the value-for-money and results of aid by making aid more predictable and using recipient systems
- Focus on true policy coherence for development (e.g. fair policies such as tax co-operation)

Recommendations

Aid-receiving governments should:

- take clear leadership on making aid more effective for development results
- be fully accountable to domestic stakeholders
- mobilize domestic resources
- continue to improve systems for financial management, procurement, M&E and fighting corruption
- base national development plans on existing commitments to gender equality and gender-responsive budgeting

Recommendations

Donors and recipients should jointly:

- design and support strong national development strategies based on democratic ownership
- give preference to local procurement
- accelerate aid delivery

Citizens of developed and developing countries should:

- participate fully in national accountability
- demand greater tax justice globally and nationally

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