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The Shifting Politics of Foreign Aid

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Introduction

Foreign aid has moved up the global agenda in 2005. The aftermath of the Asian earthquake on 26 December 2004 has focused attention on the questions to whom we should direct emergency relief and how. Prominent economists and policy-makers are calling for a dramatic increase in development assistance, especially to Africa. But the backdrop to increasing aid is a changing one.

After 9/11 the global security agenda shifted. To the top of the agenda swept the prosecution of the 'war on terror' in Afghanistan, in Pakistan and across the 'front line' where extremists may fuel or contribute to international terrorist activity. Soon after that, the invasion of Iraq signalled a new resolve and approach to the containment or forcible disarming of states with weapons of mass destruction (WMD). Necessarily demoted was a previous priority to prevent or mitigate conflicts within low-income states such as that currently raging in Darfur, Sudan.

As the global security agenda has shifted, three challenges have been posed to foreign aid. None of these challenges is new, but each risks being magnified and exacerbated by the 'war on terror' and the war in Iraq. The first concern is the goals of aid. Donors may hijack foreign aid to pursue their own security objectives rather than those which would help the poorest. The second concern is about money. The wars in Afghanistan and Iraq and the wider war on terror have been extremely costly, and the debts incurred may soon gobble up aid budgets. The third concern is about the delivery of aid. Major donors are failing to coordinate aid through existing multilateral institutions, choosing instead to create their own new mechanisms and pursue their own priorities. The result is competition and clashes among priorities, creating aid chaos in many of the poorest recipient countries. This articles assesses these concerns in the context of the emerging aid policies of the United States, Japan, the United Kingdom and the European Union.

The new security imperatives and the risks to foreign aid

New security concerns have rapidly come to dominate foreign policy since the terrorist attacks on the United States in September 2001. Inevitably they are spilling over into aid policy. Foreign aid has always been susceptible to donors' geostrategic interests. Once a government allocates money to foreign aid, a range of national and commercial interests heavily influence how much aid is given and how it is disbursed.[1] However, scholars have proved that there is a genuine moral vision which underpins development assistance.[2] Furthermore, aid policies began to change the world over in the 1990s.

The end of the Cold War generated a lively debate about how to make aid more effective.[3] This dovetailed with a resolve by donor governments to ensure that the aid they gave was put to better use. A consensus emerged that aid would be most effective if donors forged better partnerships with recipient governments, and if those governments in turn had greater 'ownership' of policies. The new shared goals of development assistance were formally expressed as the Millennium Development Goals. At a global

summit on financing for development in Monterrey in 2002, governments pledged to conduct a worldwide battle to reduce poverty, disease, illiteracy and human insecurity.

Security concerns were always part of the rethinking of development assistance in the 1990s. Conflicts within countries were devastating the lives of the most vulnerable people, as well as crushing the possibilities for human development. The Cold War had distorted foreign aid by channelling it to geostrategic goals. In the 1990s serious efforts were made to redefine priorities to focus on human security.[4] The link between poverty and security was widely recognized—as recently expressed by the UK development minister, 'poverty is both a cause and an effect of human insecurity in developing countries'.[5] The lesson of the 1990s was that tackling poverty and insecurity together requires aid which fosters sound and effective governance within countries. But that is no easy task.

Civil wars and post-conflict reconstruction pose a serious challenge to donors. Typically, these situations require emergency relief. Donors act as quickly as they can to get food, peacekeepers and/or medical supplies, as required, directly to people on the ground. In so doing, they often override local institutions. The risk is that emergency relief efforts set in place a longer-term pattern of assistance which keeps local officials dependent on donors rather than fostering their own institutions. Further exacerbating the problem, emergency assistance often dries up fast, leaving governments on the ground with neither the resources nor the legitimacy to begin to govern. The situation in Afghanistan is instructive.

A large proportion of the assistance given to Afghanistan has been for emergency relief. Beyond that, donors have neither pledged enough for reconstruction, nor even disbursed what they have pledged. Compared to Kosovo, East Timor, Bosnia, Palestine, Rwanda, and Haiti, by March 2003 Afghanistan had received the lowest per capita aid for post-conflict reconstruction, and a large share of that aid has been emergency assistance.[6] Experts have noted that, of the total amount disbursed between January 2002 and February 2004, at least a third went to emergency relief rather than reconstruction.[7] The risk now is that aid is drying up. Overall, of some US$1,352 million committed for March 2003–March 2004, only US$536 million was actually disbursed.[8] This leaves some money to be carried over into 2005, but there is a serious risk that in 2006, with no further additional allocations, funding for Afghanistan will dry up.

Equally problematic in Afghanistan has been the record of coordination among donors. In November 2001 the Afghanistan Reconstruction Steering Group (ARSG), chaired jointly by the US, the EU, Japan and Saudi Arabia, was created to give overall direction to reconstruction. The Afghanistan Reconstruction Implementation Group (IG) was meant to be the forum for implementing projects through the Asian Development Bank, Islamic Development Bank, UN, World Bank and the Afghan Support Group (ASG). Over time the IG and the ASG have developed a consultative role but the ARSG has proved unable to raise enough donor funds. In 2002 the government created its own Afghanistan Assistance Coordination Authority, but it has since run into resistance from specific ministries. And in May 2002 the Afghanistan Reconstruction Trust Fund also became

effective, with many donors channelling non-humanitarian assistance through it. The resulting problems of coordination among donors are certainly not unprecedented. Indeed, a scholarly account of the similar lack of donor coordination in Bosnia-Herzegovina poses the same issues.[9]

Donors have long recognized that too often multiple countries and agencies will be found pursuing similar goals in a country where they trip over one another, producing duplication and waste, and overwhelming overstretched recipients with more red tape, reporting requirements and loan negotiations. The problem is now being documented by the OECD Development Assistance Committee (DAC), which has recently completed a set of studies on the lack of coordination among donors.[10]

Underscoring the wastage occurring because donors each insist on doing things their own way is the fact that donor governments have already created multilateral mechanisms for disbursing aid. These include organizations such as the World Bank and its concessional arm the International Development Association, the United Nations Development Programme, the World Health Organization, and the Food and Agriculture Organization. These specialized agencies combine technical expertise with the pooled resources of states and exist to facilitate cooperation. Yet the multilateral aid agencies risk becoming yet more marginal as greater proportions of most donor aid budgets are spent bilaterally.

Adding to the mess, donors' goals are often at odds - for example, fiscal rectitude for one agency being achieved at the expense of the poverty reduction sought by another; national security supported by one part of a donor government at odds with human rights and development by another. The lack of coherence in priorities is not the result of to a lack of understanding or knowledge; what drives these seemingly perverse and counterproductive actions are competing objectives and incentives faced by each national and multilateral agency involved in disbursing aid.

Donors have begun to recognize problems of incoherence. The World Bank, the IMF, and a few donors using Sector-Wide Approaches (SWAPs) have begun to attempt to enhance coordination and coherence.Within Canada, the Netherlands, Australia, the United Kingdom and the United States, efforts are underway to draw together the various diplomatic, military and development initiatives into a more coherent and effective response to failing states.[11] What donors are failing to do is give space to recipient governments to define their own priorities and set down a framework which forces donors to act better.

Paradoxically, coherence is now emerging in one area which may pose more of a risk to development assistance than the lack of it. Having sought greater coherence across agencies to meet human security and development objectives in the 1990s (with very limited success), real coherence is emerging centred not on a development agenda but rather on achieving global and regional security imperatives which cut across and often run counter to the pursuit of human security and development.

In the following sections of the article, the risks to foreign aid posed by the new security imperatives are analysed by examining whether major donors are in fact shifting security priorities in their aid policies, how they are funding the new priorities, and what mechanisms they are using to deliver aid.

The United States: more aid, more security and more institutions

The United States is at present the largest provider of development aid. Already in 2002 it accounted for 23 per cent of global development aid, the top six recipients of which were Egypt, Russia, Israel, Pakistan, Serbia and Colombia.[12] Since 2002 US aid flows have almost tripled. Between 2002 and 2004 US aid rose from $12.9 billion to $33.2 billion, including $18.6 billion for Iraq in the 2004 supplemental budget.

Is the increase in aid due to the new security imperatives? Most of the increase in US aid has been destined for projects designed to serve the security imperatives prevailing in the wake of September 11. Hence, almost all of the $2 billion supplemental in 2002, the $4 billion supplemental in 2003 and the $20.1 billion supplemental in 2004, plus roughly $2 billion annually in 'budgeted' funds—a total of approximately $32 billion over the past three years—went to help countries on the front lines of Afghanistan, to build support for the war on Iraq or to fund the reconstruction of Iraq and Afghanistan.

Is the new increase in aid likely to be sustainable? The increase has occurred at the same time as the US government has been increasing spending on defence and a host of domestic programmes, while simultaneously cutting taxes. The inevitable reining-in of the US deficit will pit new development initiatives against both existing channels for development aid and domestic spending. It is likely to sharpen questions about priorities and heighten demands to channel US aid to strategically important allies in the war on terrorism, even if experience suggests that this is unlikely to result in aid being used in an economically effective way.

How has the increase in aid been funded? The war on terrorism has mainly been funded through supplemental appropriations, meaning special authority to allocate money to emergencies deemed too urgent to be postponed until the next year's regular appropriations act. Overall aid flows to strategically important countries in the Middle East/Fertile Crescent (Israel, Egypt, Jordan, Iraq, Turkey) and to Afghanistan and its neighbours (Uzbekistan, Kyrgyzstan, Pakistan) over the past three years are roughly equal to aid flows to the rest of the world combined. However, only about $US2 billion in annual aid provided to strategically significant 'front-line' states has been allocated through the standard appropriations process. Most US aid has come through supplemental appropriations, meaning special authority to allocate money to emergencies deemed too urgent to be postponed until the next year's regular appropriations act. This pattern seems unlikely to change. The Bush administration's 2005 aid budget does not include any money for Iraq, for example, and while difficulties spending the $US18.4 billion Iraq supplemental in 2004 are likely to leave a large enough funded pipeline of aid to cover 2005, over time, US aid to countries like Iraq and Afghanistan will increasingly need to be normalized and included in the standard budget.

Does the increase in assistance aimed at the war on terror divert resources from other aid objectives? The increase in aid to front-line states in the 'war on terrorism' is reflected in aid to Afghanistan, Pakistan, Iraq and Jordan. However, contemporaneously with the war on terror, the US launched a bold new initiative—the Millennium Challenge Account—which promised to safeguard at least some US aid from geostrategic goals.

At the Monterrey summit on financing for development in March 2002, President Bush laid out a plan for directing some US development assistance to poor countries with sound economic policies and good governance.[13] Fenced off from other sources of US aid, the MCA would give grants according to results achieved by the governments of poor countries, rather than promises made by then. The criteria for grants would be objective and development-based. The MCA also promised recipients substantial control over the projects so financed, rather than offering them money to meet donor priorities.[14]

Who would benefit from MCA grants? Countries are eligible if the Millennium Challenge Corporation Board establishes that they have demonstrated commitments to just and democratic governance, economic freedom and investing in their people. The Board makes use of 16 indicators to assess the policy performance of individual countries.[15] The most recent list of MCA-eligible countries comprises Armenia, Benin, Bolivia, Cape Verde, Georgia, Ghana, Honduras, Lesotho, Madagascar, Mali, Mongolia, Morocco, Mozambique, Nicaragua, Senegal, Sri Lanka and Vanuatu.

The MCA-eligible list is interesting because the majority of countries declared eligible have *not* traditionally been major recipients of US funding. For Benin, Madagascar, Mozambique and Senegal, for example, France has traditionally been the largest donor. Indeed, the full list roughly approximates the set of countries currently being funded by major European donors, including Denmark, Luxembourg, Norway and the Netherlands, who have already committed themselves to directing significant amounts of aid to countries with better policies and institutions.[16]

Practically, the MCA is not affecting aid or aid flows. Two years after its creation, no disbursements have been made. Insiders say that the promised US$2.5 billion for 2005 is unlikely to survive the appropriations process since the MCC is unlikely to come close to spending its 2004 appropriation. More significantly, the full amounts promised are dwarfed by the sums currently being mobilized for security imperatives. The promised US$2.5 billion is only slightly more than the US$2 billion estimated cost of hiring private security contractors to protect US contractors working on projects being financed by the US$18.6 billion 2004 aid package for Iraq, or to the US$2.5 billion in windfall Iraqi oil revenues that the US military was spending on quick-hitting development projects in Iraq in early 2004.

One less auspicious contribution the MCA makes to the international development architecture is the addition of another institution to an already crowded arena. Although the MCA has not disbursed any development assistance, it has sent a strong signal of US resolve to channel effective development assistance through its own newly created,

unilaterally controlled institution—in spite of the obvious duplication and transactions costs imposed by a new agency in a world already populated by USAID, the World Bank Group (including the International Development Association), the United Nations special agencies, regional development banks, and the other institutions mentioned above.

The MCA is not the only new mechanism for US aid delivery. Indeed, a small and decreasing percentage of US aid tends to be channelled through multilateral institutions. In 2004 this dropped to 5 per cent of US aid flows, as US bilateral aid increased more rapidly than multilateral aid. While it has continued to fund its existing multilateral commitments, assistance to Iraq and the fight against HIV/AIDS bear witness to the same trend reflected in the creation of the MCA: a turn towards new mechanisms which eschew multilateral cooperation and the technical expertise and experience concentrated in existing aid-directing institutions.

Most US aid to Iraq has not been managed by USAID, the US agency responsible for foreign aid. Indeed, it has managed only $2.4 billion of the $18.6 billion allocated in aid to Iraq in 2004. Most reconstruction money is being managed by the Project and Contracting Office (PCO) attached to the Coalition Provisional Authority which will probably migrate in some way to the new US embassy in Baghdad. Put differently, an institution that did not exist in 2002 is now managing more US aid than USAID.

Creating a new institution to manage aid to Iraq has not obviated a number of key problems in delivering aid (leaving aside the high-profile debate about Halliburton's role in Iraq's reconstruction being tracked at www.publicintegrity.org/wow/). The PCO has not been able to spend quickly. In January 2005 only US$1.48 billion had been spent on work in place.[17] The US aid package almost certainly devoted too many resources to capital-intensive projects managed by foreign contractors and too little to labour-intensive projects creating jobs for Iraqis. Indeed, the US was reported in June 2004 to be using $2.5 billion of the windfall gains from higher-than-expected revenues from the sale of Iraqi oil to provide fast-disbursing 'walking around money' for US commanders to spend on quick-hitting projects to deliver a bigger impact on the ground.[18] Using Iraqi oil revenues in this way avoids the restrictions intrinsic in the budget process and implicitly recognizes the difficulties with the formal reconstruction effort.

In the global fight against HIV/AIDS the United States has probably increased its total funding more rapidly than other industrialized countries, with the USAID/State budget for HIV/AIDS, TB and malaria (the foreign operations budget) increasing from $0.6 billion in 2002 to $1.6 billion in 2004. The Bush administration has proposed spending $2.2 billion in 2005.

In governing this aid, the US administration has made clear that it prefers its own programme to existing multilateral approaches.[19] A committee led by the State Department, rather than the existing Global Fund, is coordinating overall AIDS funding. The administration has consistently requested only $100 million a year for the Global Fund through the foreign aid budget (and another $100 million from the health and human services budget), a figure raised by Congress to around US$250 million in 2003

and US$400 million in 2004 (with an additional $100–150 million in the health and human services budget). In announcing his Emergency Plan for AIDS Relief in January 2003, the President pledged $15 billion for a new initiative, just $1 billion of which would go to the Global Fund, and that conditional upon the Fund showing results.

President Bush's special initiative for fighting HIV/AIDs follows rapidly on that of his predecessor President Clinton, whose administration created the Global Fund for HIV/AIDs, Tuberculosis, and Malaria. This itself was an addition to the work of the World Bank, the World Health Organization and several private organizations working in the area. Indeed, when the Global Fund was created, its founders were well aware of the problem of duplicating efforts in global health. Hence, the Global Fund was set up purely to disburse funding. Country coordinating mechanisms (CCMs) were created in each recipient country in which proposals could be formulated and administered. The CCMs, however, are not working in many cases. This and other very worthy initiatives all suffer from the proliferation of competing rather than cooperating or coordinated agencies and programmes.

Overall, US aid is marked by two trends. First, new security imperatives have increased flows of US 'development assistance' and other external assistance to countries of geostrategic importance. On a smaller scale, the United States has also increased funding for the fight against HIV/AIDS and pledged $1 billion to the Millennium Challenge Account. These increases will be difficult to sustain, given the ballooning budget deficit of the United States and continuous increases on many budget items. The second trend in US aid is towards yet greater national control of aid and the potentially costly creation of new mechanisms for its disbursement and delivery.

Japan: less aid, more security, more institutions

Unlike the United States and the United Kingdom, Japan has absorbed the new security imperatives in the context of a shrinking rather than an increasing external assistance budget. From 1991 to 2002, Japan was the world's largest single provider of official development assistance (ODA).[20] In 1997 the government began to reduce its ODA budget. Cumulatively, it has fallen by a total of 27 per cent in 1997–2003.[21] The large cuts have been driven in part by a fiscal crisis in Japan which led to across-the-board reductions in government spending.[22] They have also reflected a degree of 'aid fatigue' and a perception that the public are disaffected with the government's development assistance programme.[23] In its turn, the government amended the country's Development Assistance Charter in 2003 to increase its orientation towards Japan's foreign policy priorities, retaining a focus on Asia, and prioritizing poverty reduction, sustainable growth, a vague-sounding 'addressing global issues' (which includes terrorism and epidemics) and peace-building.

The recipients of Japanese aid tend to be in Asia, with almost three-quarters of Japanese ODA in the period 1998–2002 going to Asian recipients.[24] By the beginning of the present decade, China and India had displaced Indonesia and Thailand as the top recipients of Japanese aid, partially reflecting the receding impact of the Asian financial

crisis in the latter two countries. Since then, aid to China has been sharply cut—by some 20 per cent in 2003. Meanwhile, India has continued to gain and most recently has become the top recipient of Japanese aid, much of it in the form of infrastructure loans. Japan also continues to provide the financial muscle behind the Asian Development Bank, contributing half of the bank's US$20 billion in Asian Development Fund resources. This is part of the 28 per cent or so of Japan's ODA that it channels through multilateral institutions.

Even as Japan's ODA budget allocations have continued to decline (they fell again in 2004, by almost 5 per cent), the country has made extensive commitments to help with postwar reconstruction in Afghanistan and in Iraq.[25] In January 2002 Japan pledged ¥6.5 billion in aid to Afghanistan over two and a half years, following the US-led military operation in the country. In 2003 Japan pledged US$1.5 billion in grants to help rebuild Iraq and a further US$3.5 billion in loans. To meet some of these commitments, the Diet increased Emergency Grant Aid funds from ¥22.2 billion to ¥31.7 billion (an increase of about $US100 million) for 2004 —an increase significantly less than the allocation requested by the Ministry of Foreign Affairs.

Where will other funds for reconstruction come from? One source will be the Japan Fund for Poverty Reduction established in the Asian Development Bank in 2003: some US$27 million of the US$35 million fund administered by the bank will go to aid for Afghan reconstruction. At least some aid to Iraq has been in the form of new lending from the Japan Bank for International Cooperation (JBIC). As regards the balance of Japan's pledges, they may either not be met (in view of the politics of Japan's aid cuts) or come out of other elements of Japan's aid budget, involving a further redistribution among recipients. This is presaged by the 2001 White Paper on Japanese ODA, the second chapter of which outlines Japan's intention to use its aid more strategically to promote peace and prosperity and to further Japan's wider foreign policy interests.

What mechanisms is Japan using to channel aid? It is often asserted that as the US becomes more unilateral Japan becomes more multilateral. Yet available evidence does not bear this out. The Japanese government has long underscored its commitment to multilateralism and its desire to see foreign aid undertaken in a more coordinated and more coherent fashion across the globe. However, not unlike the United States, Japan's subsequent actions have revealed a strong and persistent impulse to retain control over this assistance.

As chair of the G8 in 2000, Japan announced the 'Okinawa Infectious Diseases Initiative' and its intention to provide assistance of approximately US$3 billion towards combating infectious diseases over five years. How has this been spent? A very large proportion of Japan's aid in respect of HIV/AIDS has been spent on bilateral programmes to combat the disease, in countries including Vietnam, Sri Lanka, Kenya, Congo, Haiti and Zambia. Japan also began in 2001 to investigate joint projects with the United States in Tanzania, Zambia, Bangladesh and Cambodia.

Japan is contributing directly to multilateral organizations such as the United Nations Population Fund and International Planned Parenthood Federation (IPPF), and UNAIDS; at the same time, however, it has found ways to retain control over programmes funded through such organizations. These include contributions to special trust funds, such as the Japan Trust Fund for HIV/AIDS established in the IPPF, and to the Japan Special Fund in the Asian Development Bank. Japan has also undertaken 'multi-bi' cooperation, whereby it acts jointly with international organizations such as the WHO, UNICEF and UNFPA.

In sum, in response to the war on terror, Japan, like the United States, is using supplementary appropriations to deliver contributions to the war in Afghanistan and the reconstruction of Iraq. Japan has also consciously moved to recognize a wider range of security goals as a legitimate part of its aid mission. The risk is that Japan, like the United States, will increasingly use aid to serve its own security aims. Although Japan is an active 'multilateralist', it continues to participate in multilateral aid on its own terms, using special arrangements to retain some degree of national control.

The United Kingdom: more aid, more security; whither multilateralism?

Like the United States and Japan, the United Kingdom takes a place at the table of the world's largest development assistance donors. Since 1997, the United Kingdom has significantly increased its development assistance, casting its development priorities in stone in 1997 with the creation of a full Department of International Development (DFID) with a Cabinet-level secretary of state prohibited from directing assistance to any person or body unless 'he is satisfied that the provision of the assistance is likely to contribute to a reduction in poverty'. Also, UK aid is governed by a public service agreement with the Treasury, which for the period 2005–8 sets out goals including: to ensure that the proportion of DFID's bilateral programme going to low-income countries (LICs) is at least 90 per cent over the period 2005–2008; to achieve a greater impact of European Commission external programmes on poverty reduction; and to work for agreement to increase the proportion of European Commission official development assistance (ODA) to LICs from its 2000 baseline figure of 38 per cent to 70 per cent by 2008.

Since its creation the DFID has been assigned a rising share of government expenditures. Its budget has grown to £3.8 billion in financial year 2004/5, with the 2004 Spending Review confirming annual increases of 9.2 per cent (the highest of any government department) through to 2007/8.

At the same time, the United Kingdom has very rapidly expanded its security commitments, stepping in behind the United States as that country's most visible ally in both the 'war on terror' and the occupation of Iraq. Preliminary figures for the costs of the war in Iraq include £842.2 million for military operations in the conflict up to 31 March 2003, a further £650 million in estimated costs of forces recuperation, £30 million for immediate humanitarian aid by the military, £10 million for 'Quick Impact Projects' that would 'have a positive benefit on the force protection of the UK forces deployed'

and a further £1.2 billion for 2003/4 to cover the likely costs of operations.[26] The majority of this expenditure came from the Ministry of Defence (MOD) budget for the armed forces. In his statement on the 2004 Spending Review, the Chancellor stated that total UK expenditure in Afghanistan and Iraq from 2001/2 to 2004/5 will be £4.4 billion.

DFID's direct expenditure in Afghanistan has risen from a negligible baseline to £35 million in 2002/3 and £72 million in 2003/4, and is forecast to be £75 million in 2004/5. Iraq received £207 million in 2003/4 and is forecast to receive £91 million in 2004/5. As yet, this represents a small share of what the UK is spending in each country.[27] At the same time, there is evidence from elsewhere in the DFID budget that development resources have been allocated towards other states perceived to be allies in the 'war on terror'. Hence, for example, Pakistan has seen its aid allocation from the UK multiply fivefold from a low of £12.6 million in 2000/1 (the year after Musharraf's coup) to £64 million in 2003/4, with a further projected increase in 2004/5.

The strain on the DFID's resources and mandate to reduce poverty posed by the war on terror and the war in Iraq is already noticeable. Afghanistan, Iraq and Pakistan have shot to the top of DFID's list of bilateral recipients. Commitments to Iraq made it harder in 2003/4 to pursue the commitment that 90 per cent of country programme resources, excluding humanitarian assistance, should be provided to LICs by 2005/6.[28] In order to address this difficulty, reductions in spending to middle-income countries have been brought forward, amounting to around £100 million in 2004/5 and 2005/6.

What institutions is the UK using to deliver aid? The UK has retained a very large bilateral programme of aid but has also long been committed to delivering a large portion of its aid budget through multilateral mechanisms. From 1990 to 2001 over 40 per cent of British ODA was channelled through multilateral institutions. Subsequently this declined to 28.8 per cent in 2002, but rose again to 37.7 per cent in 2003, and in 2004 the DFID reported that 45 per cent of its programme expenditure was being channelled through multilateral organizations.[29] The UK also works very closely with European aid institutions, channelling a significant proportion of British aid through the European Commission. Finally, the DFID has increased the degree to which it channels aid to partner governments for them to spend using their own financial management, procurement and accountability systems. Since 2000, budget support and other forms of programme aid have accounted for about 15 per cent of DFID's bilateral aid programme.[30]

Efforts have also been made to make policy more coherent across the government. Since 2000 DFID has operated, jointly with the MOD and the Foreign and Commonwealth Office (FCO), two Conflict Prevention Pools (CPPs): one for Africa, the other for the rest of the world. Continuing allocations to these were confirmed in the 2004 Spending Review, rising modestly from the current £60 million per annum for the Africa CPP, and remaining constant at £74 million for the Global CPP. While it is generally agreed that conflict prevention is a critical part of creating the conditions for development in fragile states, the nexus of conflict/security/development issues is a highly sensitive one, as

demonstrated by the concern of development NGOs over recent proposals to review the definitions of ODA in the DAC (more on this below).

In sum, British aid and the government's focus on poverty reduction, including in middle-income countries, is undoubtedly being diverted by the new security imperatives. However, this effect is being mitigated by a rising overall aid budget and by multilateral lending to middle-income countries. Conversely, the high share of UK aid channelled through the EU is increasingly being used to meet new security imperatives.

The EU: more security, more aid; how much coordination?

The European Union and its member states together provide the single largest bloc of bilateral and multilateral aid in the world. Individually and collectively, member states committed themselves to the Millennium Development Goals declared at Monterrey in 2002, and the most recent European Commission report in this area declares that they are 'firmly on target'—but presses strongly for greater coordination and harmonization among European donors in order to make aid more effective.[31]

Coordination is a crucial issue within the EU, which presents a golden opportunity for aid policies to be coordinated at least among members. Coordination already succeeds in the areas of trade and political partnerships. The common External Trade Policy and single seat in the WTO work pull European countries into the same positions, alongside their EU Political Partnerships.[32] However, on aid more generally the story is a different one.

The core 15 members of the EU each have large bilateral programmes and positions on multilateral agencies. Where members give aid together through the EU budget, priorities and policies are diluted by trade-offs among competing priorities. Typically, the Nordic states, the Netherlands and the UK argue for a poverty focus in overall allocations and within programmes (in other words, they see the budget primarily as a development assistance budget). This explains why 22.6 per cent of the External Action budget is allocated to Asia, Latin America and southern Africa. Southern EU member states tend to argue for allocations on more political grounds, either to address domestic political concerns (e.g. migration from north African states) or to pursue external political goals (e.g. strong historic relations with Latin America). This explains the 43.6 per cent of the budget allocated to the European 'neighbourhood' (Mediterranean, Middle East, eastern Europe, central Asia and western Balkans). The recent expansion of the EU to 25 members will further complicate coordination.[33]

The new security imperatives are reshaping EU patterns of action beyond its borders. Traditionally EU security policy and development assistance have been separate. Security policy was pursued by individual member states, with the costs even of shared actions such as the recent joint military interventions in Macedonia (Operation Concordia) and in the Democratic Republic of the Congo (Operation Artemis) being borne mainly by individual participating states. Development assistance, by contrast, has always been to some degree administered by the EU as a whole—mainly through the External Action

budget, which amounted to some €5.18 billion (out of a total annual EU budget of €111.30 billion) in 2004.

In June 2003 significant changes became noticeable when a new EU security framework was adopted.[34] The new framework declares security as a 'first condition for development'—although it does not mention the reverse possibility, that development might sometimes be a first condition for security. It proposes that EU security strategy should pay heed to programmes aimed at strengthening governance through conditionality, trade measures and technical assistance. It emphasizes the need to create synergy between security and development goals through a more coherent and comprehensive approach.

The new EU strategy fits with a broader shift among donors towards the use of aid for security purposes. The guardian of what constitutes 'official development assistance' is the OECD DAC. Typically, it restrains attempts by donor governments to broaden the definition of ODA. However, in April 2004 the DAC announced that it was adjusting and clarifying the definition of ODA relating to preventing the recruitment of child soldiers, enhancing civil society's role in the security system, and promoting civilian oversight and democratic control of the management of security expenditure.[35] The result is to widen the categories of assistance that DAC counts as ODA—although not so far as to cover the recent allocation of €250 million from the European Development Fund to a new Africa Peace Facility, an allocation made despite the fact that (under current scoring rules) this will not qualify as ODA.

Is EU aid becoming more subservient to security goals? The EU's attempts to enhance coherence in external relations have provoked concern among development agencies (both governmental and non-governmental) that this will happen. The EU Commission has sought to allay this fear.[36] Several factors need to be assessed in analyzing the current trend.

The EU has been streamlining the governance of its External Relations aid budget, as of 2001 channelling its aid through one agency – EuropeAid – rather than as previously through four different directorates-general. Wider constitutional changes are afoot, including the proposal that a European foreign minister, sitting in both the Council and the Commission, would take charge of external policies. Aid and all other external actions items would be brought under the heading 'The EU as a Global Partner'.[37] 'Economic cooperation and development' and 'security' instruments could even be fused so as to put development cooperation in with all Common Foreign and Security Policy funding.[38] Put simply, development assistance could soon find itself squarely under foreign policy leadership.

Greater policy coherence has been sought since 2001 through the drawing up of EU Country Strategy Papers in respect of external assistance to non-members. Currently it is proposed to widen these papers to include issues of 'migration, terrorism and sustainable development'.[39] The risk is that greater coherence in this form will render aid yet more

susceptible to the security interests of the donor rather than the development needs of recipients—as we are seeing in Afghanistan and Iraq.

The EU has devoted significant resources to the reconstruction of Iraq and Afghanistan. The proposed commitments for activities in Iraq in 2005 total €190 million, up from €160 million in 2004 and €29 million in 2003.[40] Meanwhile, in Afghanistan the European Commission delivered over €280 million (including €72 million from ECHO) in 2002, over €300 million (including extra €50 million to promote security by supporting police salaries and training, and €55 million from ECHO) in 2003 and an expected €245 million in 2004 for reconstruction and humanitarian support (including this the €35.16 million now allocated: see http://europa.eu.int/comm/external_relations/afghanistan/news/ip04_687.htm). The increase of only 0.3 per cent year on year between 2003 and 2004 for the budget line for cooperation with southern Africa suggests there may have been reallocations.

The EU has funded most of its contributions to the 'war on terror' by additional appropriations. That said, it has begun to debate and to widen the kinds of security goal in service of which it is prepared to deploy development assistance. It has also begun to consider institutional reforms that will draw development and security goals more closely together—possibly under a European foreign minister. For some, this indicates a positive shift towards greater policy coherence; for others it raises the risk that development goals will become subservient to overarching strategic security concerns.

Conclusions

Development assistance which prioritizes the achievement of human development goals is at risk. A rapid increase in aid has been channelled to meet new security imperatives. But with acute budgetary pressures besetting Japan, France, Germany and the United States (among others), it is virtually a fiscal certainty that much of the new aid flow (generated largely to fund the 'war on terror', as defined by the United States) will dry up. Development agencies, with their more stable budgets, will then be urged to give priority to the development needs of countries at the front line of the 'war on terror'.

Paradoxically, previously rational efforts to enhance coordination and coherence among donors may now in some instances be counterproductive. The case of the EU highlights the possibility that while greater European coordination and coherence could *in theory* direct very significant aid flows towards the shared commitments of the Millennium Development Goals, in practice, current institutional shifts and political pressures suggest that the common European agenda will instead be driven by foreign policy concerns. This is but one case where, in the name of coherence, a greater diversion of aid flows for geostrategic purposes may take place, and increased coordination would magnify that effect. This is the global security scenario for foreign aid.

An alternative scenario is one in which development agencies continue to prioritize human development and the achievement of the Millennium Development Goals, which include human security, leaving to other agencies preoccupations with counterterrorism

and WMD. Rather than attempting greater 'coordination and coherence' of foreign, aid and security policies in general, this scenario calls for a better differentiation and allocation of goals at the global level. This would require a commitment by donors to use existing multilateral institutions rather than perpetuate the erosion of multilateralism evident at present in increasing bilateral aid budgets. It would also require some protection within donor governments of the development assistance remit, to prevent a return to the Cold War patterns of almost purely geostrategically led aid which so obstructed rather than facilitated human development.

The development-led scenario requires two further things from donors. First, they must rationalize the demands they place on recipient governments. A recent study by major donors details the duplication and gaps left by donors imposing a plethora of different financial audits on recipients. Most damningly it concludes that although the `World Bank and IMF would continue to take the lead in conducting most assessments of public expenditure management', all other parties should have access to information and that 'the views of governments (and other local stakeholders)' should be taken into account.[41] That finding highlights the extent to which donor efforts have enhanced auditing of their own loans, but failed to build capacity and accountability in public finances within recipient countries. The wider aid picture reveals a multiplicity of donors and their demands not only failing to strengthen governmental processes within countries, but probably even hindering their development. Amid a growing cacophony of donors, very little space is left for local agencies to build, coordinate among themselves and strengthen local governance. Scarce resources are used up strengthening and maintaining external relations with donors and undertaking externally demanded actions, some of which are contradictory. The problem is likely to increase as the number of goals and institutions involved in development assistance increases. At the very least what is needed here is a very focused form of coordination among groups of donors—such as shared, streamlined reporting requirements, so as to lessen diversion of local resources to managing donors.

A second area where better coordination within the development assistance community is sorely needed concerns the timescale and predictability of aid flows. Donors need to join together in providing a long-term financial compact between themselves and recipients. Volatile or unpredictable aid flows do little to bolster good governance, coherent government expenditure planning, or the development of sound institutions of accountability in recipient countries. Yet aid is proving to be even more volatile than fiscal revenues in most developing countries,[43] in spite of the evidence that shortfalls in aid produce poor policies.[44] The new security-driven aid flows are already proving to be volatile and short-term. But in other sectors as well where new resources are being promised—such as the global fight against HIV/AIDs—there is little guarantee that new flows will be sustained in the long term, or that the multiplicity of donor institutions which are supposed to disburse the assistance will not change priorities. What is needed is specific donor coordination with a view to committing long-term, predictable flows of resources.

Finally, a development-led foreign aid system kept separate from global security concerns needs to be part of an overarching mechanism which holds international

agencies and governments to account for a range of shared international goals, including the downstream effects of security on development goals and vice versa. Such a mechanism might be led by the G8, or by a wider grouping such as the Leaders-20 group favoured by Canada's prime minister. It will become all the more crucial as the international development architecture begins to straddle a greater mixture of security and development goals.

The international development community has not yet been swept up into the war on terror, but it stands on the threshold. The international development architecture is already being transformed. Donor governments must act quickly to ensure that their development aid mission to deliver effective aid and to meet specific human development goals—even as they pursue other goals—stays at the forefront of the emerging aid regime.

Footnotes

[1] See Alberto Alesina and David Dollar, 'Who gives foreign aid to whom and why?', *Journal of Economic Growth* 5, March 2000, pp. 33–63. Ulterior motives have long-fuelled critics on the right and left to argue against aid: Peter Bauer, *Reality and rhetoric: studies in the economics of development* (London: Weidenfeld & Nicolson, 1984); Teresa Hayter, *Aid as imperialism* (Harmondsworth: Penguin, 1971).

[2] David Lumsdaine, *Moral vision in international politics* (New Jersey: Princeton University Press, 1993).

[3] C. Burnside and David Dollar, *Aid, policies and growth*, Policy Research Working Papers no. 1777 (Washington DC: World Bank, 1997); H. Hansen and F. Tarp, 'Aid effectiveness disputed', *Journal of International Development* 12, (2000) pp. 375–98; William Easterly, Ruth Levine and David Roodman, *New data, new doubts: revisiting 'aid, policies and growth'*, Working Paper no. 26 (Washington DC: Center for Global Development, 2003).

[4] United Nations Development Programme, *Human Development Report 2002* (New York: UNDP, 2002), ch. 4.

[5] Speech by Secretary of State for International Development, Hilary Benn, at the Centre for Global Development, Washington DC, 23 June 2004.

[6] Alastair J. McKechnie, 'Humanitarian assistance, reconstruction and development in Afghanistan: a practitioner's view', World Bank CPR Working Paper no. 3, 2003, http://lnweb18.worldbank.org/ESSD/sdvext.nsf/67ByDocName/PublicationsWorkingPapers (26/01/05)

[7] Barnett R. Rubin, Abby Stoddard, Humayun Hamidzada, and Adib Farhadi, *Building a new Afghanistan: the value of success, the cost of failure* (New York: New York University, 2004), at www.cic.nyu.edu/conflict/conflict_project4.html (26/01/05)

[8] These figures are from www.af/dad/index.html (25/01/05)

[9] Elizabeth M. Cousens, 'From missed opportunities to overcompensation: implementing the Dayton Agreement on Bosnia', in Stephen John Stedman, Donald Rothchild, and Elizabeth M. Cousens, eds, *Ending civil wars: the implementation of peace agreements* (Boulder, CO: Lynne Rienner, 2002).

[10] An initial OECD DAC study documented the way in Rwanda donors failed to coordinate even in setting policy, each instead following its own priorities, with disastrous results: Development Cooperation Directorate of the Organization for Economic Cooperation and Development (OECD DAC), `The Limits and Scope for the Use of Development Assistance Incentives and Disincentives for Influencing Conflict Situations. Case Study: Rwanda' (Paris: OECD 1998) at http://www.oecd.org/dataoecd/58/17/2370123.pdf accessed 25/01/05. The Working Party is detailed in OECD DAC, *OECD Development Cooperation Report 2003* (Paris: OECD, 2003).

[11] Adele Harmer and Joanna Macrae, *Beyond the continuum: the changing role of aid policy in protracted crises* (London: Overseas Development Institute, 2004).

[12] OECD DAC, *Development Cooperation Report 2003*. In the statistics that follow, fiscal years are used throughout.

[13] www.un.org/ffd/statements/usaE.htm (accessed 25/01/05).

[14] Steven Radelet and S. Herrling, ‘The Millennium Challenge Account: soft power or collateral damage?’ *Center for Global Development Brief* 2: 2, 2003, pp. 1–7.
[15] See www mca.gov (accessed 25/01/05).
[16] Figures and comparisons are provided in World Bank, *Global monitoring report* (Washington DC: World Bank, 2004).
[17] www.rebuilding-iraq.net (accessed 25/01/05).
[18] *New York Times*, 21 June 2004.
[19] For a description of the President’s new plan see www.whitehouse.gov/news/releases/2003/01/20030129–1.html (25/01/05). For the difficulties facing the Global Fund, as well as a summary of the debate swirling around the restrictions on the use of US funds to purchase generic drugs that have not passed US safety tests, see ‘In the Aids fight, ambitious goals meet hard realities’, *Wall Street Journal*, 1 July 2004.
[20] A large proportion of Japanese bilateral ODA is disbursed in the form of loans, which constituted nearly 55% of total bilateral aid in 2002, by far the highest proportion of the OECD DAC members. These ODA loans are generally untied, with the exception of the short-term, tied Special Yen Loan facility (1999–2002) designed to help countries affected by the Asian financial crisis. The proportion of grants to loans in Japanese ODA has remained roughly constant in the last five years, but the loan component is likely to rise in the immediate future as the loans for Iraq reconstruction are disbursed (more on this below).
[21] Figures from Japanese Ministry of Finance: see www.mof.go.jp/english (26 Jan 2005).
[22] The populist version of the argument is reported by Tim Large, ‘Cash-strapped Japan rethinks foreign aid’, Reuters AlertNet, 20 Oct. 2003.
[23] See the debate between the government and the leading opposition party on this, reported in *Yomiuri Shimbun*/*Daily Yomiuri* and reproduced in translation by the Financial Times Information, ‘Matter of Opinion’, 11 April 2003.
[24] *Japan’s official development assistance: White Paper 2001* (Tokyo: Economic Cooperation Bureau, Ministry of Foreign Affairs, 2001).
[25] The early efforts are detailed in *Japan’s official development assistance*, ch. 2.
[26] Ministry of Defence, *Operations in Iraq: lessons for the future*, chs 11 and 12, available at www.mod.uk/publications/iraq_futurelessons/index.html (25/01/05)
[27] Department for International Development, *Departmental Report 2004* (London: DFID, 2004).
[28] Department for International Development, *Departmental Report 2004*.
[29] Department for International Development, *Statistics on International Development 99/00–03/04* (London: DFID, Oct. 2004).
[30] Department for International Development, *Departmental Report*, p. 117.
[31] EU progress towards the goals is reported in European Commission, ‘Translating the Monterrey Consensus into practice: the contribution by the European Union’, *COM(2004)150* (Brussels: European Commission, 2004).
[32] Sven Grimm with Bettina Woll, ‘Political partnership with the south’, *European Development Cooperation to 2010: ODI/EDC Briefing,* May 2004.
[33] The likely impact on EU development policy has been explored by the European Commission in a report it commissioned: Stefano Migliorisi, *The consequences of*

enlargement for development policy: development strategies (Brussels: European Commission, 2003).
[34] General Affairs and External Relations Council, *A secure Europe in a better world*, adopted Dec. 2003.
[35] OECD DAC, Statement adopted by members of the OECD'S Development Assistance Committee at High Level Meeting, 16 April 2004.
[36] EU Development Commissioner Poul Nielson in a communication to British NGOs, 'Letter to the British overseas NGOs for development': www.bond.org.uk (25/01/05).
[37] European Commission, *Building our common future: policy challenges and budgetary means of the enlarged Union 2007–2013* (Brussels: European Commission, June 2004).
[38] James Mackie and Celine Rossini, 'A changing EU: what are the development implications?', *European Centre for Development Policy Management, In Brief*, no. 8, April 2004.
[39] General Affairs and External Relations Council, 18 March 2003.
[40] Preliminary draft budget 2005.
[41] Richard Allen, Salvatore Schiavo-Campo and Thomas Columkill Garrity, *Assessing and reforming public financial management: a new approach* (Washington DC: World Bank, 2004).
[42] *OECD Development Cooperation Report 2003*.
[43] Ales Bulir and A. Javier Hamann, 'Aid volatility: an empirical assessment', *IMF Staff Papers* 50: 1, 2003, pp. 64–89.
[44] Norman Gemmell and Mark McGillivray, *Aid and tax instability and the budget constraint in developing countries*, Research Paper 98/1 (Nottingham: CREDIT, University of Nottingham, 1998).