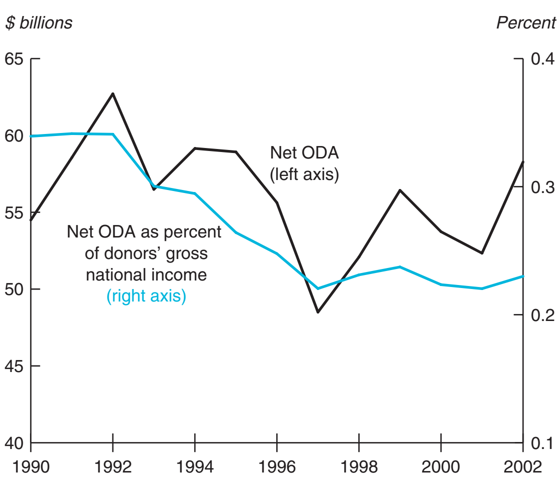
4

The Changing Landscape for Official Flows

CHANGES IN GLOBAL POLITICS, efforts to reach the Millennium Development Goals, and the rise of civil society are altering the landscape for official flows in important ways. Aid flows rose in 2002 (figure 4.1), and in 2003 the United States announced an Emergency Plan for AIDS relief, while pledges by EU governments would raise official development assistance (ODA) to 0.44 percent of gross national income (GNI) by 2010, from 0.35 in 2002. Aid, however, currently remains low relative to historical levels—and well below levels required to meet the MDGs. Substantial increases in disbursements will be required over the next few years to meet the pledges for higher aid made at the 2002 Monterrey Conference. The failure of the international community to reach agreement on reducing agricultural subsidies and trade barriers at the World Trade Organization talks in Cancún in September 2003—reductions that would have generated much greater gains for developing countries than envisioned increases in aid—places even more pressure on finding additional sources of finance for the world's poorest countries. Coherent aid and trade policies are vital in promoting development. Moreover, recipient countries have improved their policies, raising their capacity to absorb and use aid effectively—strengthening the call for more aid.

Figure 4.1 Net official development assistance to developing countries, 1990–2002



Source: OECD Development Assistance Committee.

Recent international conflicts have reinforced the importance of considerations other than poverty reduction in allocating aid. Aid to Afghanistan has risen sharply, and at the October 2003 Madrid Conference, donors pledged $33 billion in new commitments for the reconstruction of Iraq. These countries face enormous challenges in making the transition to peace and in rebuilding their physical, economic, and social infrastructure. Despite the urgency of those concerns, the allocation of aid based on national security concerns may reduce the impact of aid on reducing poverty.

Civil society groups are helping to change the landscape for official flows. In addition to boosting development resources by providing an estimated $12–13 billion annually in aid, international nongovernmental organizations (NGOs) are taking a more prominent role in the debate over development policies.

These issues form the basis for this chapter. The main messages are:

- Aid flows increased in 2002 but remain well below historical levels and what is required to meet the Millennium Development Goals. Moreover, half of the $6 billion rise in the nominal value of aid reflects debt relief and a further $1 billion of the increase represents higher aid to Afghanistan and Pakistan. Thus, the rise in official development assistance to all other developing countries was only $2 billion. Nonconcessional official finance is declining, largely due to repayments to the Paris Club under rescheduling agreements, reduced need for emergency financing packages, and prepayment of loans to the World Bank.

- Subordinating aid policy to national security considerations can reduce the effectiveness of aid in alleviating poverty. On the other hand, aid granted for strategic reasons can sometimes spur development and prevent a return to violence in postconflict societies.
- Aid recipients are improving their policies and institutions through partnerships with other recipients (for example, the New Partnership for Africa's Development) and with donors (for example, through the Poverty Reduction Strategy Paper [PRSP] process). Thus their ability to make effective use of aid is growing.
- International NGOs have boosted aid resources and made valuable contributions to global public goods and community development projects. In their expanded development role, however, NGOs confront many of the challenges familiar to official donors, including ensuring local ownership of projects and government effectiveness. They have broadened the debate over aid policies and had considerable success in single-issue campaigns. But accountability remains an issue. NGOs that are not clearly accountable to their members and to society can take irresponsible positions and engage in counterproductive behavior.

Recent trends in official flows

Aid flows increased somewhat in 2002 but remain well below historical levels, while the level of official nonconcessional lending is falling. Here we present two sets of data on official financing for developing countries (box 4.1). The first is net ODA, which refers to grants and net disbursements of concessional loans to developing countries or territories provided by donor governments for the purpose of promoting economic development and welfare. Data on ODA, which are available only through 2002, are reported by donors. The second set, official finance, includes grants and net lending (concessional and nonconcessional) received by developing countries from official sources. These data, reported by recipients, include estimates for 2003.

Official development assistance

Net ODA to developing countries from members of the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD) increased to $58 billion in 2002, up from $52 billion in 2001—a rise of 7.2 percent in real terms (table 4.1).[1] ODA amounted to 0.23 percent of donors' gross national income, up from 0.22 percent in the previous year. Twelve of the 22 DAC countries achieved increases in ODA in 2002, with the largest gains coming from the United States ($1.9 billion), France ($1.3 billion), and Italy ($0.7 billion).

However, the rise in aid provided by donors does not translate directly into an increase in aid received by developing countries. Half of the $6 billion boost in ODA was generated by an

Table 4.1 Net official development assistance, 1990–2002
$ billions

	1990	1997	1998	1999	2000	2001	2002	ODA/GNI in 2002 (%)	Percent change in real terms in 2002[a]
Total ODA	54.5	48.5	52.1	56.4	53.7	52.3	58.3	0.23	7.2
G-7 countries	42.5	35.1	38.6	39.4	40.2	38.2	42.6	0.20	9.2
United States	11.4	6.9	8.8	9.1	10.0	11.4	13.3	0.13	15.0
Japan	9.1	9.4	10.6	12.2	13.5	9.8	9.3	0.23	−1.2
Germany	6.3	5.9	5.6	5.5	5.0	5.0	5.3	0.27	−0.2
France	7.2	6.3	5.7	5.6	4.1	4.2	5.5	0.38	22.1
Non–G-7 countries	12.0	13.4	13.5	17.0	13.5	14.1	15.7	0.47	1.8
Memo item:									
EU countries	28.3	26.8	27.6	26.7	25.3	26.3	29.9	0.35	5.8

a. Takes into account inflation and exchange rate movements.
Source: OECD Development Assistance Committee.

Box 4.1 Defining aid

The international forum for defining aid is the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD).[a] DAC members provided more than 95 percent of international aid flows in 2000. DAC compiles statistics on aid and other official flows on the basis of information provided by bilateral and multilateral agencies.[b]

DAC donors provide two categories of aid—official development assistance (ODA) and official aid. The two forms are similar, except that only developing countries listed on Part I of the DAC "List of Aid Recipients" are eligible to receive ODA. Only ODA may be counted by DAC countries as part of their "aid effort," the donor country's aid budget relative to its GNI.

ODA comprises loans or grants to developing countries and territories provided by donor governments and their agencies for the purpose of promoting economic development and welfare. If the assistance is provided in the form of a loan it must be extended on concessional financial terms, that is, with a grant element of 25 percent or more, calculated as the net present value of the future payment stream discounted at 10 percent.

Countries on Part II of the DAC list—which includes countries in Eastern and Central Europe, the Russian Federation, other independent republics of the former Soviet Union, and a few high-income countries (French Polynesia, Israel, New Caledonia)—receive official aid.

Aid flows to developing countries can be presented from two perspectives, the donors' or the recipients'. Table 4.1 reports ODA *provided by* DAC donors—bilateral disbursements of concessional financing to developing countries plus concessional financing provided by bilateral donors to multilateral institutions (for example, IDA). By contrast, table 4.2 reports disbursements of concessional finance *received by* developing countries from both bilateral and multilateral sources. The two measures will not be the same, in part because some middle-income countries receive official aid, but mostly because funding received from donors by multilateral institutions does not match those institutions' disbursements to developing countries in any given year.

As reported in the text, a portion of what is counted as ODA does not represent funds disbursed directly to developing countries. This includes debt relief on nonconcessional loans and the administrative costs of running donor agencies. In addition, a portion of technical assistance funds is paid directly to consultants from industrial countries, rather than to developing-country governments. These three categories of net ODA amounted to \$23.9 billion in 2002, or 40 percent of net ODA (box table).

ODA by DAC donors, 1996–2002

\$ billions

	1996	1997	1998	1999	2000	2001	2002
Official development assistance	55.6	48.5	52.1	56.4	53.7	52.3	58.3
of which:							
Technical cooperation	14.1	12.9	13.1	13.0	12.8	13.6	15.5
Debt relief	3.4	3.1	3.0	2.3	2.0	2.5	5.3
Administrative costs	2.9	2.7	2.8	3.0	3.1	3.0	3.1

Source: OECD Development Assistance Committee.

a. The members of DAC are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States.
b. The data discussed here appear in OECD 2003. DAC will publish data for 2003 in May 2004.

increase in debt relief, which more than doubled in 2002.[2] Administrative costs involved in managing donor agencies, also classified as ODA, remained at about \$3 billion in 2002. Thus aid received by developing countries (net of debt relief) increased by only \$3 billion. Afghanistan and Pakistan accounted for \$1 billion of the increase; in the case of Afghanistan a large amount came as emergency assistance. Thus, the rise in ODA excluding these two countries was only \$2 billion. Substantial increases will be required over the next few years to meet the commitments for higher aid made at the 2002 Monterrey Conference.

Moreover, the rise in ODA remains even further below the level required to meet the Millennium Development Goals. Analyses performed at the global and sectoral levels indicate that at least \$50 billion annually in additional aid, or a doubling

Table 4.2 Net official financing of developing countries, 1990–2003
$ billions

	1990	1997	1998	1999	2000	2001	2002	2003[a]
Total	54.2	38.4	60.9	42.2	22.8	54.8	35.3	28.0
Grants	27.7	25.3	26.7	28.5	28.7	27.9	31.2	34.3
Net lending	26.5	13.2	34.2	13.7	−5.9	26.9	4.1	−6.3
Multilateral[b]	15.5	19.8	37.4	15.9	0.9	34.6	14.7	6.5
Concessional	6.7	7.6	7.4	7.0	5.6	7.3	7.5	6.4
Nonconcessional	8.8	12.3	30.0	8.8	−4.7	27.3	7.2	0.1
Bilateral	11.0	−6.6	−3.2	−2.2	−6.8	−7.7	−10.6	−12.8
Concessional	8.5	0.2	2.0	5.0	0.7	1.6	−1.8	−1.0
Nonconcessional	2.4	−6.9	−5.2	−7.2	−7.5	−9.3	−8.8	−11.8

a. Estimate.
b. Includes IMF.
Source: OECD Development Assistance Committee.

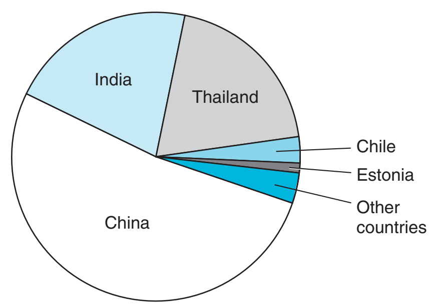
of current aid levels, will be required to meet the goals (World Bank 2003a). Analysis at the country level shows that countries with relatively good policies could effectively use substantial increases in aid.

Net official finance

Net official financing to developing countries is estimated at $28 billion in 2003, a drop of $7 billion from the previous year and just over half the level of 2001 (table 4.2). The sharp decline is due to a steep decrease in the use of emergency financing packages by the International Monetary Fund (IMF), particularly in comparison with large net disbursements in 2001, and to prepayments of loans to the World Bank. Net bilateral lending remained negative, as bilateral donors continued to reduce their lending in favor of grants and some developing countries made further repayments to the Paris Club under past rescheduling agreements (World Bank 2003d). Grants increased, reflecting a step-up in donors' efforts to increase development assistance in general and to boost resources to countries affected by recent international conflicts.[3]

Net lending from the World Bank fell from −$4.1 billion in 2002 to −$6.4 billion in 2003, largely due to $7.2 billion in prepayments of outstanding International Bank for Reconstruction and Development (IBRD) loans. This followed prepayments of $3.2 billion in 2002—led by China, India, and Thailand (figure 4.2)—and $0.3 billion in 2001. Most of the loans being repaid are Single Currency Pool loans and Currency Pool loans. The prepayments have been made possible by the steady rise in developing-country reserves in recent years (see chapter 1) and the simultaneous decline in interest rates. Most creditworthy countries can now borrow at lower rates than the 4–5 percent charged on pooled loans. LIBOR (the London interBank offered rate, the base used for many emerging-market loans) stands at less than 2 percent, and the spread over LIBOR paid by the most creditworthy developing countries can be as low as 100 basis points.

Figure 4.2 Geographical distribution of IBRD prepayments, 2002



Source: World Bank.

Prospects for a rise in official aid

While aid flows remain well below the levels of a decade ago, major donors have pledged to increase them and vowed to improve aid effectiveness (table 4.3). The United States and the European Union agreed to expand their aid programs in the context of discussions surrounding the International Conference on Financing for Development in Monterrey, Mexico (March 18–22, 2002). Those pledges express the intent of OECD governments, although actual disbursements will be subject to future decisions and the normal legislative processes of each donor country. The OECD estimates that if all DAC countries were to meet their expressed commitments, aid would rise

Table 4.3 Aid commitments and announcements after the Monterrey Conference, March 2002

Additional aid as % GNI

Country	ODA/GNI in 2002	Recent announcement	Year to be attained
Australia	0.26	0.26	2003–04
Austria	0.26	0.33	2006
Belgium	0.43	0.70	2010
Canada	0.28	8% annual increase	To 2010
Denmark	0.96	0.70	n.a.
Finland	0.35	0.44 (0.70 by 2012)	2007
France	0.38	0.50	2007
Germany	0.27	0.33	2006
Greece	0.21	0.33	2006
Ireland	0.40	0.70	2007
Italy	0.20	0.33	2006
Japan	0.23	1998–2002 average level ($10.5 bn)	In 2006
Luxembourg	0.77	1.00	2005
Netherlands	0.81	0.80	n.a.
New Zealand	0.22	Future level under review	n.a.
Norway	0.89	1.00	2005
Portugal	0.27	0.33	2006
Spain	0.26	0.33	2006
Sweden	0.83	Long-term goal 1% (at least 0.87% in 2006)	n.a.
Switzerland	0.32	0.40	2010
United Kingdom	0.31	0.40	2005–6
United States	0.13	$7bn increase	2006
Memo item:			
European Union	0.35	0.44	2010

Note: n.a. = not applicable. Excludes reconstruction spending on Iraq and Afghanistan.
Source: OECD Development Assistance Committee.

by 31 percent by 2006 and the ratio of ODA to GNI would increase to 0.26 percent. Even this level would remain well below the ratio of 0.33 percent consistently achieved until 1992, but would represent a substantial rise from current levels. Some countries have made further commitments to increase ODA beyond 2006. The international community should do its utmost to ensure that these existing commitments are met.

Aid commitments from the United States

The United States has proposed an increase in foreign aid through two channels. The Millennium Challenge Account (MCA) should provide $5 billion per year in additional aid to developing countries, with funding based on 16 economic and political indicators, including control of corruption, rule of law, primary education completion rate, country credit rating, and trade policy. According to the U.S. Department of State (2003a), if the allocations were made today, 10 to 20 countries would likely be presented for Board review. There are concerns about the geographical distribution of aid under the MCA. Brainard and Driscoll (2003) argue that, under the proposal, only three African countries would qualify for aid in the second year, due to their poor performance on governance and policy indicators. They advocate grading the performance of African governments relative to other countries in the region. Data are likely to be scarce, particularly for the poorest countries. For example, only 63 of 115 potentially eligible MCA countries have data for "days to start a business." The final recommendation on country allocations is to be made by a board, which should provide for flexibility in cases where data are unavailable.

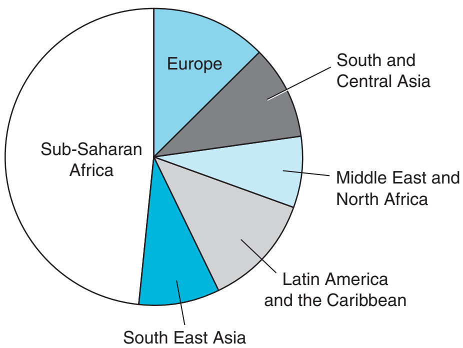
Additionally, the U.S. government (Office of the President 2003) has pledged $15 billion over five years to 14 countries in Sub-Saharan Africa and the Caribbean to prevent new HIV infections, provide antiretroviral treatment to those infected, and offer care for sufferers and AIDS orphans.[4]

World Bank staff estimates suggest that if MCA and HIV/AIDS commitments are honored, U.S. aid could increase from 0.13 percent of GNI in 2002 to 0.21 percent by 2006. Realizing this increase depends, however, on the willingness of the U.S. Congress to allocate funds. Even given sufficient appropriations, the timetable for disbursing funds may be optimistic, given the difficulties in making such programs operational (Birdsall, Shapiro, and Deese 2003).

Planned increases in European aid

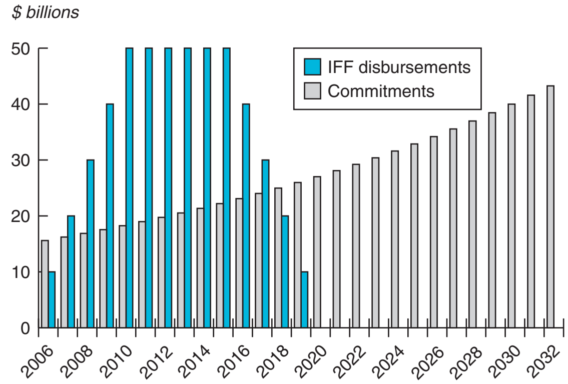
Participants in the Barcelona Summit in March 2002 agreed to increase ODA as a proportion of GNI for the entire European Union to 0.39 percent by 2006 (up from 0.35 percent in 2002), with no member state contributing less than 0.33 percent. The pledge is estimated to provide an additional $7 billion a year. According to the European Commissioner for Development and Humanitarian Aid, Poul Nielson (2003), the EU remains committed to reaching the U.N. goal of 0.7 percent. Since Barcelona, member states have made additional ODA pledges. The OECD estimates these new commitments, if honored, would raise ODA from the European Union in 2010 to $44 billion, or 0.44 percent of GNI. These estimates are based on the current EU membership; that is, they do not reflect the accession of Eastern European countries.

Figure 4.3 Geographical distribution of official development assistance from the European Union, 2002



Source: OECD Development Assistance Committee.

Figure 4.4 Possible commitments and disbursement under the International Finance Facility, 2006–32



Source: DFID 2003a, 2003b.

Sub-Saharan Africa will likely be a major recipient of increased European aid. It received 41 percent of EU member states' aid in 2001 (figure 4.3), and G-8 countries pledged at the Kananaskis summit in 2002 (reaffirmed at the 2003 Evian summit) to spend at least 50 percent of new resources for development on African countries.

In January 2003, the British government launched a proposal to establish an International Finance Facility (IFF). If approved by the international community, the IFF would require participating donors to state their commitments to aid over the next 30 to 35 years. Bonds will be issued in international capital markets on the back of these pledges, resulting in the aid becoming available immediately. The benefit of providing resources up front to aid recipients, many of whom desperately need funds to meet current consumption needs, would greatly exceed the interest cost of the bonds. Assuming that commitments by donors rise over time, as envisioned under the Monterrey Consensus, commitments and possible disbursements under the IFF may follow the pattern of figure 4.4.

The precise legal framework and the details of the covenants of IFF-issued bonds have yet to be determined. But the proposal suggests that the individual donors will bear the ultimate responsibility for repaying the bonds. The international capital markets will likely view any failure to honor commitments to the IFF as a default by the donor in question. Under this initiative, however, as the donor countries are likely to be DAC members, creditworthiness risk is likely to be low; it is envisaged the bonds will receive a triple-A rating (DFID 2003b).

While the IFF bonds would be repaid by money disbursed by the donor countries, the bonds are structured so that they would be contingent liabilities and thus not counted as increasing the fiscal deficit or national debt. Given the fiscal problems of many donors, treating the bonds as contingent, rather than direct, liabilities could ease acceptance of the proposal. To be excluded from national debt, the bonds must meet two conditions:

- The obligation of the donor to make committed annual payments to the IFF must not be automatic, but instead conditional on the behavior of the aid recipients. The United Kingdom has proposed two conditions under which donors would fail to provide pledged contributions with respect to a recipient: if the recipient falls into prolonged arrears to the IMF or becomes subject to United Nations sanctions (DFID 2003a). This approach introduces some tension into how the IFF would work. Investor confidence in repayment of the bonds, and hence the interest rate charged, will depend on there being little risk that recipients would not meet the conditions. However, there must also be some probability that the conditions would not be satisfied or else the IFF commitments would be viewed as direct liabilities of the donor governments.
- There must be a transfer of some decision-making control over disbursements of funds to an organization other than the donor. It is not clear what organization—an existing

international institution or a new one?—might fulfill this role.

The IFF is designed to increase aid flows in the run-up to 2015, the date set for achieving the Millennium Development Goals. Presumably, the increase in aid prior to 2015 would be balanced by a decline in aid afterward, as aid budgets were used to pay off IFF debts. Donor countries may agree, however, to an increase in their aid budgets after 2015, offsetting some of the debt repayments under the Facility.

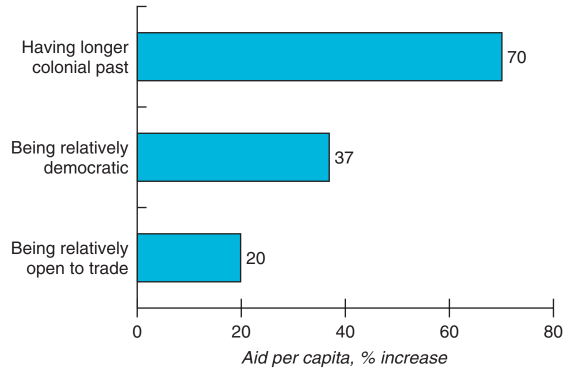
Strategic considerations and aid flows

Since the tragic events of September 11, 2001, and recent international conflicts, strategic considerations have figured prominently in the changing landscape of official flows. According to the U.S. Department of State (2003b), 134 acts of terrorism were committed in 22 developing countries in 2002, many of which had pledged support for the U.S. stance on terrorism. Strategically directed foreign aid is one means of helping countries track terrorist organizations, choke off their access to funding, and destroy their networks. The events of September 11 are believed to have been decisive in galvanizing donor commitments to increase ODA in the run-up to the Monterrey Conference of 2002 (Nielson 2002).

Strategic considerations—such as the Cold War, voting rights in the United Nations, and colonial relationships—historically have been influential in determining bilateral aid flows (Alesina and Dollar 1998). Strategic considerations are more important than policy (such as democratic accountability and openness to trade) in determining the amount of aid a country receives above the average (figure 4.5). And they vastly outweigh motivations based on the need of the recipient, such as balance of payments imbalances and the level of absolute poverty (McKinlay and Little 1979).

Recent data indicate that strategic considerations may be affecting the allocation of aid. Aid to Afghanistan and bordering countries—Pakistan, Tajikistan, Turkmenistan, and Uzbekistan—increased from $1.1 billion in 2000 to $3.7 billion in 2002 (table 4.4). In mid-2003 the Bush administration sought a new aid package for Pakistan ($3 billion) and asked for $21.1 billion for fiscal year 2004 for reconstruction efforts in Iraq and

Figure 4.5 Reasons for additional aid to a country



Source: Alesina and Dollar 1998.

Table 4.4 Net ODA to Afghanistan and neighboring countries, 1998–2002
$ millions

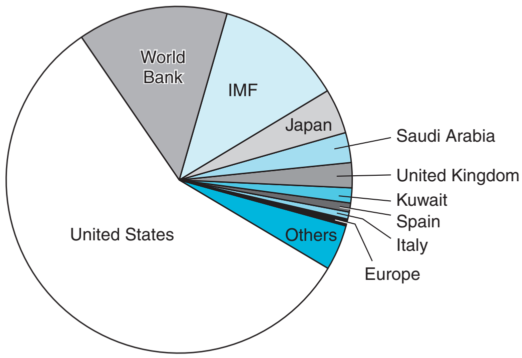
	1998	1999	2000	2001	2002
Afghanistan	154	142	141	403	1,261
Pakistan	1,057	732	702	1,934	2,099
Tajikistan	160	122	124	167	167
Turkmenistan	16	21	16	40	32
Uzbekistan	144	134	151	124	174
Total	**1,531**	**1,151**	**1,133**	**2,668**	**3,733**

Source: OECD Development Assistance Committee.

Afghanistan.[5] The immense development challenges facing these countries, which would require increased aid regardless of their strategic position, are discussed in box 4.2.

Substantial resources will be required for Iraq's reconstruction. The World Bank, United Nations, and Coalition Provisional Authority estimate that Iraq will require a total of $55 billion from donors for 2004–07. Infrastructure projects—electricity, water and sanitation, solid waste, transport, telecommunications—account for almost half the total. This estimate assumes a stable security situation, a rise in oil revenues, and an economic recovery that generates substantial tax revenues. At the International Donors' Conference for the reconstruction of Iraq, held in Madrid in October 2003, more than $33 billion was pledged through 2007 in the form of loans, grants, and export credits. The largest pledges were from the United States ($20.3 billion), Japan (up to $5 billion), the World Bank ($3–5 billion), and the IMF ($2.5–4.25 billion) (figure 4.6). These pledges leave an estimated shortfall of $22 billion in meeting

Figure 4.6 Distribution of donor pledges made at Madrid Conference, October 2003



Note: The World Bank and IMF pledged \$3–5 billion and \$2.55–4.25 billion, respectively. The above chart shows the mean for both institutions.
Source: World Bank estimates.

Iraqi reconstruction needs. The Madrid conference also agreed to address Iraq's heavy burden of external debt, estimated at more than \$120 billion by the Paris Club. As yet, no agreement has been reached on the terms of debt restructuring. There is great uncertainty about how and when pledges will materialize, and about whether, in some cases, they reflect pre-existing allocations.

The allocation of aid according to strategic considerations can impair aid effectiveness. Where aid is provided to corrupt, repressive, or incompetent governments it can strengthen their legitimacy, encourage poor governance, and prolong the duration of the regime, as occurred with the distribution of aid to Zaire during the Cold War (Lancaster 1999). Trade, fiscal, and monetary policies in Zaire deteriorated almost continually from the early 1970s to the late 1980s, as aid flows as a percentage

Box 4.2 Aid and the challenges of postconflict reconstruction

Postconflict economies face enormous challenges in making the transition to peace. Spurring development in Afghanistan, the Democratic Republic of Congo, Iraq, Liberia, Solomon Islands, and Timor-Leste requires reconstructing physical, economic, and social infrastructure as well as building institutions that maintain security, promote reconciliation, and are seen as legitimate in the eyes of the local population. Some argue that conflict resolution, as a global public good, should be borne by the entire international community (Kaul, Grunberg, and Stern 1999).

Many postconflict societies remain vulnerable to relapsing into violence. Providing additional resources (through ODA or debt relief) helps finance broad-based public spending to redress grievances—and thereby may tip the balance toward peace (Addison and Murshed 2001). This is particularly true if international support is coordinated (Michailof, Kostner, and Devictor 2002). Collier and Hoeffler (2002) find evidence that in the first 10 years of peace, postconflict countries have twice the absorptive capacity for aid as in normal times. Many have great need for additional aid resources to address special problems. The under-five mortality rate in Afghanistan, for example, is 260 per 1,000 live births—far more than the average of 121 for the poorest countries. The primary-education completion rate in Yemen and Pakistan is 58 and 59 percent respectively—far below the average of 78 percent for the low-income countries. In a few cases, however, aid may exacerbate conflict by encouraging competition for resources (Hannington 1992 cites the example of Somalia).

Beyond the immediate humanitarian concern of providing sustenance, shelter, and emergency medical treatment to those in need, postconflict societies face four main challenges:

- *The reconstruction of government and legal structures.* The collapse of a regime often leaves a power vacuum, not only giving rise to looting, but also creating a risk of social fragmentation. The establishment of functioning institutions of law and order is a prerequisite to poverty reduction and economic development (Michailof, Kostner, and Devictor 2002).
- *The reconstruction of physical infrastructure.* Conflicts lead to the destruction of bridges, roads, schools, and hospitals while disrupting electricity and water supplies. They also can create additional hazards for the civilian population. For example, land mines are a severe problem in countries such as Angola, Bosnia-Herzegovina, Eritrea, and Somalia.
- *The reconstruction of the monetary and financial system.* Conflicts often weaken or destroy a currency, severely damage financial infrastructure, deplete markets, and halt productive activity. Economic recovery is vital to stabilize an often fragile peace, requiring a reliable medium of exchange, a functioning financial system, resolution of the outstanding debt position,

Box 4.2 *(continued)*

creation of jobs, and payment of civil servants (Michailof, Kostner, and Devictor 2002).

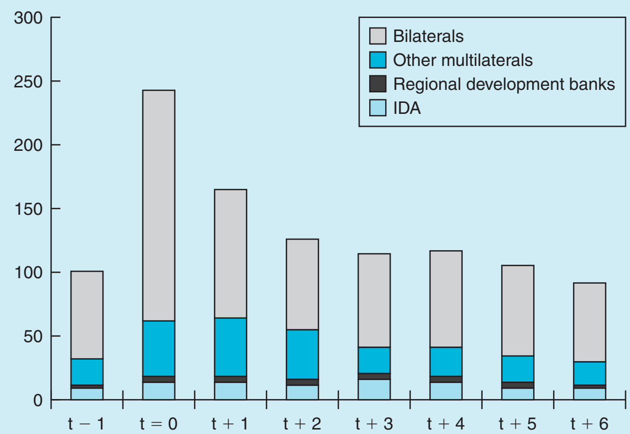
- *The reconstruction of social capital.* Wars often weaken the productive element of the population, increase numbers of refugees, and cause elites to flee, leaving a shortage of trained personnel and little institutional capacity for reconstruction. On top of these challenges, ex-combatants often need to be reintegrated into society through education and work programs and the reestablishment of trust between communities.

These challenges require a variety of skills—notably logistical abilities to arrange immediate food relief, but also engineering, policing, economic management, and refugee repatriation and resettlement. Because agencies vary in their comparative advantages, reconstruction must be a collaborative process. The mistakes made in countries such as Cambodia, where competing donor interests and policies and a lack of coordination among agencies diminished the effectiveness of aid, need to be avoided in the future (Karim and Hess 2001).

For a sample of 17 postconflict countries in the 1990s and early 2000s, aid more than doubled immediately after the conflict, dropped by almost 40 percent in the next year, and then gradually returned to preconflict levels by the sixth year (see figure). ODA to postconflict countries is dominated by bilateral donors, which mainly provide emergency assistance, while contributions from the International Development Association are relatively stable. Initially, humanitarian assistance dominates aid; after the first year, reconstruction assistance takes over (Demekas and others 2002).

Distribution of official aid following the onset of peace in time t = 0

ODA, base year = t – 1



Sources: World Bank staff estimates using data from OECD Development Assistance Committee and *GDF*, various years.

of the country's GDP rose from around 2 percent to around 6 percent (Burnside and Dollar 1997).

Aid allocated for strategic reasons is not always used inefficiently. The Marshall Plan, designed to facilitate a European economic recovery in the aftermath of World War II, had additional objectives—among them resisting the global expansion of communism. Over several years, the Marshall Plan provided \$100 to \$200 per inhabitant per year to Western Europe (in 2001 prices). The cumulative total was almost \$1,000 per person. By contrast, aid per capita to Sub-Saharan Africa was \$21 in 2001.[6]

Did the aid to Europe work? In postwar Western Europe, GDP growth averaged 4 percent per year from 1950 to 1973, compared with 1 percent for 1913–1950. However, economic policies (such as trade liberalization and effective demand management) and the boost provided by recovery from the devastation of the war were the main reasons behind the impressive GDP growth in postwar Western Europe. Nevertheless, the Marshall Plan provided vital international finance for the importation of capital goods needed in reconstruction.

Progress in raising aid effectiveness

The Monterrey Consensus called for more aid to developing countries and better policies in those countries to improve the effectiveness of resources. The two parts of the consensus are obviously connected—it is easier to justify additional resource flows if aid is shown to be effective. Improving aid effectiveness requires actions by donors and recipients to strengthen their policies. Here we focus on selected recent proposals, and progress in ongoing programs, that contributed to or may contribute to aid effectiveness.

Proposals for new aid initiatives from major donors, aimed at raising the volume of aid, hold some potential for increasing the effectiveness of that aid, in part by making it more stable and predictable. The evidence is mixed on whether aid in fact has been more volatile than other sources of government revenues.[7] It does appear that aid commitments provide insufficient information to reliably predict disbursements (Bulir and Hamman 2003). In any event, it is clear that large, unexpected shifts in the volume of aid can disrupt macroeconomic management and erode the effectiveness of aid-financed expenditures. Commitments by donors concerning the overall volume of aid, combined with more transparent mechanisms for allocating some aid expenditures (for example, under the U.S. Millennium Challenge Account), may provide some further information to aid recipients concerning likely aid levels. Relying on multiyear commitments to obtain aid resources from the capital markets (rather than basing each year's disbursements on government appropriations), as proposed under the IFF, also would increase the predictability of aid expenditures.

Strong governance and effective economic policies are essential for aid effectiveness. The allocation of funds according to economic and political indicators, proposed under the Millennium Challenge Account, should help channel funds to good performers and thus raise the effectiveness of aid. Other donors also are stressing the importance of policy performance in their aid allocation. A recent survey indicates that donors increasingly are emphasizing selectivity in aid allocation, favoring recipients with stronger governance, program implementation, and absorptive capacity (DFID 2002). Supporting good performers is one of the British government's fundamental determinants for allocating aid. Recipients of aid from the Netherlands are selected on the basis of poverty—and the degree to which they are well governed (Droeze 2002).

Greater emphasis on performance in aid allocation does not imply, however, that the better performers will necessarily be overwhelmed by increases in aid, beyond their ability to use the funds productively. First, aid allocations change slowly. Donors are often involved in multiyear programs and have long-term commitments to their aid partners. Shifting aid at the margin to better performers is unlikely to result in massive increases in disbursements. Second, the move toward using the quality of the policy regime in deciding aid allocations does not mean that other motivations for aid are ignored. Indeed, recent international conflicts are likely to reinforce strategic motivations for aid in some donor programs.

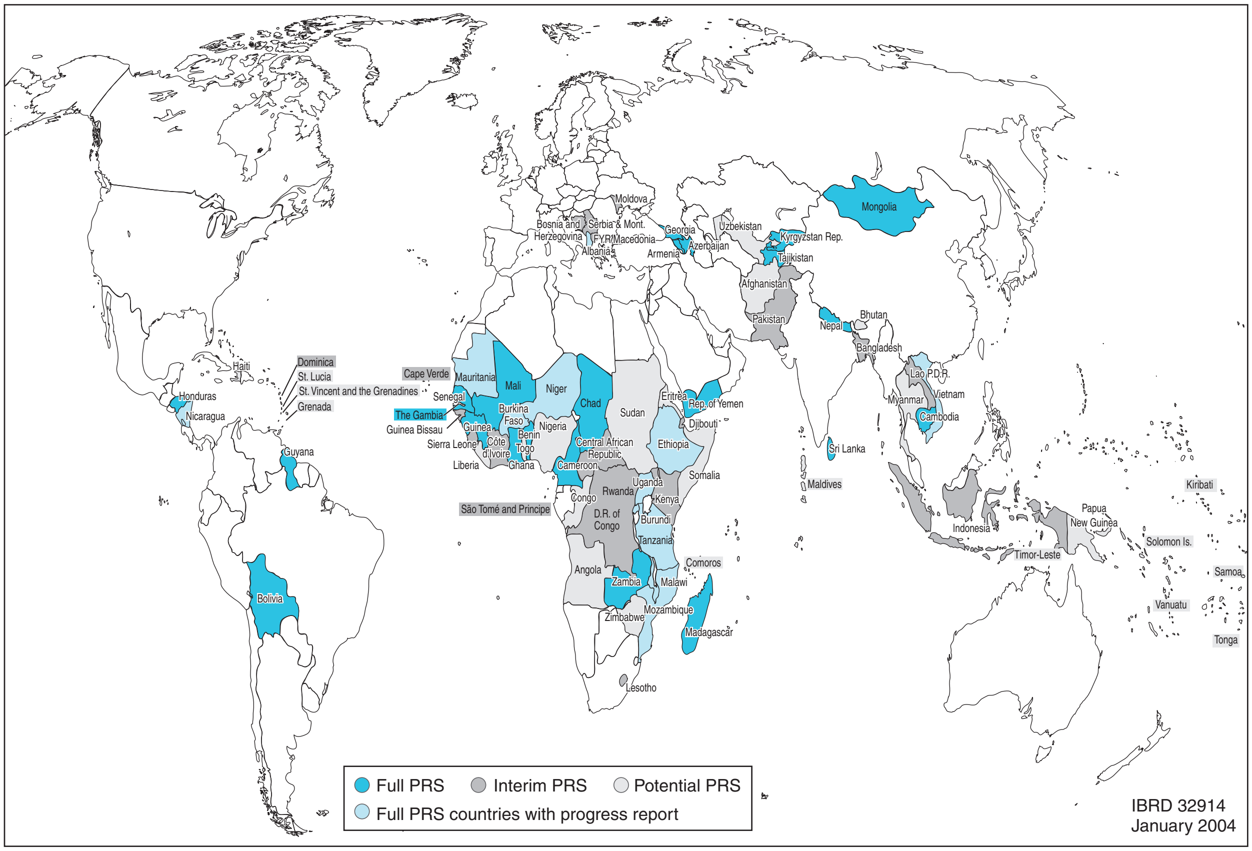
Most important, the better performing recipients are better able to absorb increased aid resources effectively. While the productivity of aid is subject to the law of diminishing returns, it depends most closely on the policy and institutional environment of the recipient country. A study of 18 aid recipients that have improved their policies over the past decade, continue to use aid productively, and have significant unmet development needs, shows that all could benefit from substantial increases in aid beyond current levels (World Bank 2003a).

Poverty Reduction Strategy Papers

More focused aid allocations to the better performers have been helped by the adoption of the Poverty Reduction Strategy Papers. Prepared by developing countries, PRSPs set out a program of action to reduce poverty with help from development partners. Considerable progress has been made in the PRSP process.[8] As of January 2004, 35 countries had completed their full PRSPs, and 12 countries had been implementing the strategy for at least one year and produced a PRSP Progress Report. An additional 19 countries had embarked on the PRSP process, after finalizing their interim PRSPs (figure 4.7). The PRSP process is helping to improve donors' and recipients' policies although progress has been limited in some areas:

- More open and participatory processes are often being sustained during implementation. Several NGOs have praised efforts to broaden participation, although many remain dissatisfied with the process.
- Government ownership has improved, as shown by more engagement by parliaments and improved dialogue between PRSP teams and line ministries, but further progress is required in integrating the PRSP with other planning documents and agencies.
- There are signs of a shift in spending priorities toward poverty-reducing spending. In the 14 PRSP countries where data are available, poverty-reducing expenditures increased on average by 1.4 percent of GDP and 3.9 percent of total expenditures from 1999 to 2001.[9]

Figure 4.7 Full, interim, and potential PRSPs, by country, January 2004



Source: World Bank.

The increase was most rapid among African PRSP countries.

- The principle that donor support should be aligned around country-owned poverty-reduction strategies is now widely accepted, and PRSPs are enhancing donor coordination. However, donors' progress in harmonizing assistance has been limited by national systems of procurement and financial management that do not meet international good practice standards.
- The PRSP process continues to be time consuming, with the time from interim PRSP to full PRSP averaging 20 months. These long preparation times stem from the need to broaden participation, obtain adequate technical assistance, and adjust to political changes or recover from disruption. They also reflect capacity constraints, particularly in postconflict countries.
- Particular attention is required to ensure that the PRSP process supports the general growth of the economy, a key ingredient for sustained poverty reduction. Further work is needed to relate macroeconomic targets to the PRSPs' broader goals (for example, to analyze the implications of achieving debt sustainability for the fiscal path and other policy choices), and to strengthen the links between the sectoral policies envisaged in the PRSP and the budget. However, performance has been strong: countries that have completed PRSPs have averaged real GDP growth of nearly 5 percent since the mid-1990s, a marked improvement over performance in the 1980–95 period.

New Partnership for Africa's Development

African countries have engaged in a far-reaching process to improve their policy and institutions—and thus to strengthen aid effectiveness. The New Partnership for Africa's Development (NEPAD), adopted in July 2001 by African heads of state as the development plan for the African Union, is intended to enhance regional integration and

Table 4.5 Quality of governance, institutions, and public services during the 1990s
Index, 0–10

	Government stability	Democratic accountability	Ethnic tensions	Quality of bureaucracy	Law & order	Corruption	Investment profile
Asian NIEs[a]	6.8	6.0	8.3	8.2	8.1	6.8	6
Asia	6.0	5.5	6.3	5.9	6.5	5.3	5.1
Western hemisphere	5.7	6.1	7.4	4.1	5.3	4.9	5.3
Africa	5.5	4.4	5.3	3.8	4.8	4.5	4.6
World	6.1	6.1	6.8	5.5	6.5	5.6	5.2

Note: NIE = newly industrialized economy. Index runs from 0 to 10, representing averages of annual scores in 1990s. High scores indicate better quality. For all groupings, the unweighted average of countries for which information is available. Indicators have been rescaled from 0 to 10.
a. Hong Kong (China), Republic of Korea, Singapore, and Taiwan (China).
Source: Funke and Nsouli 2003.

coordination. Given the secretariat's limited resources, the main thrust of NEPAD's project activities is to overcome political and administrative obstacles to development projects (for example, by getting different administrative bodies to work together and helping to resolve disagreements by bringing issues to heads of state).

This focus on coordination reflects the mutual dependence of many African economies, including several landlocked countries that must rely on neighbors for the bulk of their international trade. Many of the continent's major waterways cross two or more countries. Diseases such as malaria and AIDS, which have had catastrophic effects on the African people and their economies, are easily transmitted across boundaries. The size of many African economies (21 countries have populations of fewer than 5 million) means that regional (or continental) cooperation has the potential for greatly reducing costs through economies of scale, as well as for facilitating mutually beneficial trade in natural resources. For example, low-cost sources of hydropower have gone unused because of the problems involved in producing energy in one country for consumption in another, often with transmission across a third. And physical incompatibilities between transport systems (rail lines may be of different gauges or may not link at borders), coupled with long delays at customs and other costs involved in crossing borders, impede trade among African economies (World Bank 2000).

One especially important focus for NEPAD is to strengthen governance through the African Peer Review (APR) mechanism. The voluntary APR is designed to focus on economic and corporate governance—including budget management, audit and accounting procedures, and financial-sector supervision. Some political issues also would be included, such as a review of the capacity of legislatures and effective anticorruption measures. Presently, Africa compares unfavorably with other countries on indexes of the quality of governance, institutions, and public services (table 4.5).

A panel of eminent Africans, reporting to the APR implementation committee, is appointed to oversee the review and select teams to carry out the work. The United Nations Economic Commission for Africa will conduct the technical assessment in economic governance and management, while the African Development Bank will consider banking and financial standards (NEPAD 2003). As of July 2003, 15 countries had signed up to be reviewed (all Africa 2003).[10] Ultimately, the peer-review process could serve as a common mechanism of assessment for donors as well, thus reducing the administrative demands on African governments. Donors' reliance on the APR process would also reduce their own costs and encourage greater ownership of reform programs based on the findings of the review.

The APR reflects the African Union's departure from the principle of noninvolvement in other countries' domestic policies. Members of the union realize with increasing urgency that violence and abuses of power in individual countries tend to adversely affect neighboring countries—in part through reputational effects spilling over national borders, as investors may not adequately distinguish among some countries, but also because violence in one country can indeed spread to others. Further, to the extent that African development depends on regional cooperation (as argued above), African countries have an interest in reducing instability and improving economic policies across the continent. The APR represents a promising step toward an African mechanism for addressing these concerns.

The Heavily Indebted Poor Countries Initiative

In 1996 the World Bank and IMF launched the HIPC Initiative to mitigate the debt crisis that had affected some of the world's poorest countries in the 1980s and 1990s. Enhanced in 1999, the initiative aims to provide a permanent exit from debt restructuring, to promote growth, and to allow resources to be redirected to poverty reduction.

The initiative has made substantial progress in reducing the debt burden of the poorest developing countries. Twenty-seven heavily indebted poor countries, or more than two-thirds of the 38 countries that potentially qualify for assistance under the initiative, have reached the "decision point," when donors commit to the amount of debt relief required to reach sustainable levels.[11] More than $31 billion of debt relief in net present value (NPV) terms has been committed to these 27 countries, making up 85 percent of the total expected relief for the 34 HIPCs for which data are available. Most of the HIPCs that have not reached a decision point are constrained by domestic conflict or unsettled transitions from postconflict situations. Also, in some of these countries a concerted international effort would be needed to resolve outstanding arrears.

In the 27 countries that have reached the decision point, the HIPC Initiative has led to a substantial decline in debt stocks and debt service. The NPV of debt for these countries was estimated at $77 billion before traditional debt-relief mechanisms (stock of debt operations involving a 67 percent reduction in NPV terms), but only $32 billion after the full delivery of traditional debt relief and assistance under the HIPC Initiative (further declining to $26 billion after additional bilateral relief committed by several creditors). Indicators of debt sustainability, such as debt-to-exports ratios and debt-service ratios, are forecast to be cut by 50 percent or more after debt relief, to levels comparable to, or below, those of other low-income countries (table 4.6).

The decline in debt-service payments in the 27 HIPCs that have reached the decision point, coupled with policy reforms, has made possible reallocations of funds to address social goals. Poverty-reducing expenditures in the 27 countries increased from $6.4 billion in 1999 to $8.4 billion in 2002, or about twice the annual savings in debt service. The rise in poverty-reducing expenditures

Table 4.6 Debt indicators for HIPCs that have reached decision point

	Before enhanced HIPC relief[a]	HIPC relief at completion point[b]
NPV of debt-to-exports ratio[c]	274	128
NPV of debt-to-GDP ratio	61	30
Debt service-to-exports ratio[d]	16	8

a. Debt stocks are after traditional Paris Club relief, but before the HIPC decision point. Data refer mostly to end-1998 and 1999 (for debt service, average of 1998 and 1999).
b. Forecast for 2005.
c. Exports are defined as the three-year average exports of goods and services up to the date specified.
d. Exports are defined as goods and services in the current year.
Source: World Bank.

was supported by an increase in donor assistance. Gross official flows to the 27 countries increased from about $8 billion in 1997 to almost $12 billion in 2002, with half of the increase due to HIPC relief. While it is impossible to know what donor assistance would have been in the absence of the initiative, the rise in official assistance provides some indication that HIPC Initiative resources may be additional to other aid, and indeed that the HIPC Initiative, by encouraging policy reform, may be helping to attract donor finance.

The growing importance of international civil society in development

The growing presence of private groups in international meetings (around the table and on the street), the success of major human-development campaigns, and the growing resources allocated by NGOs all reflect the rise of civil society as a major force in international development.[12]

The rise of NGOs

Private organizations dedicated to political, religious, or charitable causes are not a new phenomenon. Philanthropic activity in China was strengthened under Buddhism from at least the eighth century, and the Western religious missionary movements date back to the sixteenth century. The modern, secular NGO movement has its origins in the Red Cross, begun in the 1860s. Advocacy NGOs may trace their antecedents to the antislavery movement of the nineteenth century.

NGOs have various goals, activities, positions, and structures. The main sectors of civil society involved in global development finance are development NGOs, environmental NGOs, organized labor, policy research institutes, and religious bodies (principally Protestant and Roman Catholic churches). This diversity makes it difficult to define the universe of NGOs, and thus to measure their size and impact. But despite this lack of precision, there is little doubt that the number of people and organizations involved in international development activities has grown substantially.

In the 1970s, NGOs had only a marginal role in development (Fowler 2000). NGOs became more important with the debt crisis of the 1980s, and their numbers have mushroomed in the past decade (Edwards 2001; Zaidi 1999). The *Yearbook of International Organizations* (Union of International Associations 2001) reports that the number of international NGOs increased by about 50 percent from the early 1990s. Increases have been particularly steep in groups working on global issues, such as human rights, the rights of women, the environment, and poverty. Several forces explain the growth of international NGOs. Globalization has heightened concern among citizens of industrial countries regarding events in the developing world—an altruistic response to better and more timely news from abroad and a reflection of the growing importance of developing countries in the global economy.

The NGO movement also gained from growing concern over the effectiveness of aid and state-led development. Failed aid programs led donors to channel more resources through nonstate actors (Smillie and others 1999). More broadly, the collapse of state-led, one-party systems in Eastern Europe and the failure of state direction of the economy in many developing countries—followed by the direct reduction in the capacity of the state from the debt crisis of the 1980s—encouraged donors to channel funds through NGOs. These developments also stimulated the intense reconsideration of development policies. Greater emphasis was placed on social capital, partnership, and shared ownership as keys to sustainability (Edwards 2001). NGOs were viewed as closely in touch with the needs of the poor (Tvedt 1998),[13] so international NGOs became a vehicle for improving aid effectiveness through their contacts with local NGOs in developing countries.

The end of the Cold War and the global expansion of democratic political systems have increased governments' acceptance of NGOs as legitimate international actors. During the Cold War, the potential for civil society groups to have an appreciable impact on the development debate was limited—disputes between communist countries and the West dominated international discussions, and autocratic regimes repressed dissent in developing countries. But the number of countries with open political systems has increased significantly over the past three decades (Freedom House 2003) as the Soviet Union broke up and political systems in Africa, Asia, and Latin America were transformed. Of the 139 countries with ratings from the early 1970s, 44 moved toward greater freedom as defined in the ratings; only 17 deteriorated. As international bodies and domestic politics moved toward allowing freer debate, NGOs have naturally gained a greater opportunity to participate.

Technological innovations also have supported the increasing influence of NGOs. The Internet has facilitated an explosion of information, greatly expanding the ability of groups with limited resources to communicate with like-minded organizations and the general public. E-mail and the Internet have greatly eased the challenge of organizing mass demonstrations.

NGOs allocate a growing amount of assistance to developing countries, using their own resources and those of donors. Although they provided only 0.2 percent of aid in 1970 (Atack 1999), they now provide, from their own resources, about $7 billion—roughly one-seventh of DAC ODA (table 4.7). NGOs in the United States provided more than one-half of the total and (along with Germany) had the highest level of aid relative to gross national income. Grants by NGOs tend to be

Table 4.7 Aid from private voluntary organizations, 2001

Country	$ millions	% of GNI
Canada	116	0.02
France	—	—
Germany	808	0.04
Italy	32	. .
Japan	235	0.01
United Kingdom	327	0.02
United States	4,569	0.04
Total DAC countries	7,289	0.03
Memo item:		
DAC ODA	52,336	0.22

Note: — = not available; . . = negligible. Includes only aid provided from organizations' own resources.
Source: OECD Development Assistance Committee.

Box 4.3 Aid from nongovernmental organizations

The contribution of NGOs to development is difficult to quantify, for several reasons. First, because many of their staff, particularly those working in developed countries, are volunteers, the value of their labor is never measured in money terms. Second, even when they are paid, their compensation may be considerably less than the market value of their services, as in the case of teachers or community workers in developing countries. Third, many of the activities undertaken by NGOs are not strictly developmental in aim, but may promote cultural or recreational activities.

Further difficulties arise in tracking the flow of financial resources. NGOs receive income from private donations, fundraising, investments, donations, and subsidies from national governments and international organizations. International organizations such as the International Committee of the Red Cross receive revenue from their own national branches.

Statistics compiled by OECD's Development Assistance Committee (DAC) cover flows for developmental or humanitarian relief. Data are gathered on three types of flow: contributions made by NGOs from their own resources, contributions by governments to NGOs' own programs, and government aid programs administered by NGOs:

- In contributions made by NGOs from their own resources, DAC member countries have reported about \$7 billion annually in recent years—more than half from NGOs in the United States.
- Contributions by governments to NGOs' own programs are reported as a little more than \$1 billion annually, but this may underestimate the flows, as a few donors do not report.
- Funds channeled through NGOs, reported by no more than half of donors, are certainly significantly underestimated at the official figure of about \$1 billion. In particular, the United States does not report this item, but in 1994 USAID estimated U.S. government contributions channeled through voluntary agencies at \$1.7 billion. Including this amount, and allowing for other nonreporting donors, it is likely that the total amount of bilateral aid channeled through NGOs is about \$4 billion annually.

Because the three items are additive, total flows for both development and relief handled by NGOs are approximately \$12–13 billion annually.

Sources: OECD Development Assistance Committee and USAID.

higher in countries where charitable contributions are tax-deductible—Germany and most of the English-speaking industrial countries (Smillie and others 1999).

The amount of aid channeled through NGOs is more difficult to estimate. Fowler (2000) judges that about 50 percent of NGO expenditures come from governments. DAC estimates, based on incomplete reports, are that NGOs may intermediate about \$4 billion annually (box 4.3).

The establishment of well-funded foundations by several super-rich individuals accounts for some of the expansion in private donations to international development. The Bill and Melinda Gates Foundation was established in 2000 with an endowment of \$24 billion; through June 2003 it had provided more than \$3 billion in grants for global health. Global Funds was recently established to fight diseases, attracting money from governments, private individuals, and corporations.

The corporate sector has become another potential source of private aid. Consumer awareness about development makes messages about ethical international behavior a useful marketing tool: a firm's reputation for social responsibility has, in short, become an important social and economic asset (Micklewright and Wright 2003).

NGO reliance on donor funds

Those NGOs that have expanded their operations on the basis of government funds face several challenges.

First, donor funds can impair NGOs' independence, particularly as many of these organizations began with strong advocacy positions that frequently opposed donor country and multilateral policies. Overreliance on public funds can shift accountability from NGOs' members or clients toward government agencies and thus induce self-censorship (Fowler 2000). Government funding has caused some NGOs to drift away from their original mission and reduce their effectiveness as advocates (Smillie and others 1999).

Second, expansion may challenge NGO effectiveness. International NGOs often have an advantage in carrying out development projects because of their close association with community-level organizations in developing countries. Their historic advantage is at risk, however, as the scope of their interventions increases and as NGOs are encouraged to expand the scale of projects beyond their native capacities (Zaidi 1999). NGOs have also been heavily involved in community-level institutional development—a time-intensive process. This focus can be lost when donors require short-term results.

Third, the receipt of donor funds forces NGOs to become more professional in their program planning, accounting, and reporting results. At the same time, their credibility with members and other private donors requires that they keep their administrative costs low. As a result, some NGOs have been forced to take contracts simply to cover administrative costs or have engaged in dramatic fund-raising tactics that impair their credibility (Smillie and others 1999).

NGO impact on local projects

Funds provided by international NGOs have had a major role in the explosive growth of local NGOs in developing countries. Some observers claim that the burgeoning number of local NGOs has been entirely driven by foreign funding, giving birth to thousands of NGOs in a matter of a few years (Zaidi 1999). Stiles (2002) notes that international NGOs were largely responsible for the creation of an NGO community in Bangladesh, and Levine (2002) describes the important role of international NGOs in funding Tanzanian conservation programs.

The role of international NGOs in providing and intermediating funds has been subject to some of the same criticisms that have been addressed to official aid. Dependence on international NGOs can stifle debate, as local NGOs fail to object to international NGOs' views for fear of losing funds. Local organizations often must spend an enormous amount of time dealing with demands from international NGOs for reports and evaluations (Smillie and others 1999). Moreover, where the state is weak, NGO activities can weaken government structures by siphoning off competent local professionals and by channeling resources to the provision of services that typically are the government's responsibility (Van Rooy 2002). Reusse (2001) claims that NGOs in Sudan tended to circumvent inefficient state institutions by working directly with beneficiaries, contributing to the erosion of the authority and legitimacy of local government structures. Of course, it is hard to argue that a poorly served population should be denied benefits from NGOs because of the potential impact on already ineffective government agencies. And the provision of services by NGOs, if properly designed and coordinated, can help to strengthen the management of government health services (see Van Rooy 2002 for an example from Zimbabwe). But this experience does underline the potential for dependency on international NGOs.

NGO advocacy

NGOs have played an important advocacy role for decades. Some writers describe a significant expansion in their influence dating from the early to mid-1990s, when NGOs were able to generate public pressure to push through an agreement on greenhouse gases at the 1992 Earth Summit in Rio (Hudock 2000). Thereafter, NGOs sought to mobilize public opinion and to influence decision-makers from the 1995 World Summit for Social Development in Copenhagen (Wildeman 2000). They grabbed headlines with colorful and sometimes violent demonstrations during the 1998 annual meeting of the World Bank and IMF in Berlin and the 1999 World Trade Organization meeting in Seattle (Dawson and Bhatt 2001). It is difficult to gauge the impact of street protests on specific agreements; in some cases the violence of radical groups is seen to have damaged the reputation of the movement as a whole. But there is little doubt that the mass protests have had an appreciable impact on the debate over development issues.

More measurable success has come in single-issue campaigns, through public advocacy and by exerting influence on government and intergovernmental organizations. Jubilee 2000 successfully lobbied for reducing the debt burden of the poorest countries, and hundreds of NGOs worked with the Canadian government to outlaw landmines. In fact, the coordinating NGO won a Nobel Prize for its efforts. NGOs helped to dismantle apartheid in South Africa (Spiro 1995) and played a central role in improving conditions for child laborers in Bangladesh (Edwards 2001). Aston (2001) describes the positive role that NGOs have played in the United Nations by raising emerging issues, providing expertise, and contributing to the consensus-building process. They have met with considerable success in pushing the World Bank and IMF to increase the transparency of their operations (Birdsall 2002).

The success of NGOs in influencing an array of development issues inevitably raises the issue of whether they are accountable to a broad-based constituency. Several observers criticize the limited accountability of many NGOs to their members. The growing professionalism of NGO staff and their access to information may confer greater autonomy on leaders vis-à-vis boards or members (Tvedt 1998), although this development is common to most organizations. Nuscheler (2001) notes that several major NGOs have hierarchical structures that limit member influence. Many are nonmembership organizations, with even fewer constraints (Spiro 1995).[14] Nevertheless, leadership activities are clearly circumscribed. Outside boards and advisory committees can discipline NGO leadership. Some of the larger NGOs have adopted a strict internal governance structure to reduce or manage disputes. Since the costs of exit are low and no NGO has a monopoly over any issue, members can leave if they object to the leadership. Members of NGOs that are focused on a small set of issues are probably in a better position to monitor and discipline leadership than are voters in democratic states (Wapner 2002).

The issue of accountability to society is murkier. Effective advocacy requires coordination and compromise with other groups (Keck and Sikkink 1998). NGOs involved in or associated with activities that the broader public finds objectionable can see their influence decline. Violence in Seattle and in Washington, D.C., eroded public support for campaigns against the WTO and the multilateral organizations.

NGOs' growing expertise and public recognition have raised their visibility by earning them a voice in U.N. meetings, World Bank decision-making, and various international negotiations. Such connections—like those with fellow NGOs and the broader public—open NGOs to greater scrutiny and evaluation. The most influential depend on an extensive network of members and donors. They are thus likely to be responsive to a host of outside pressures.

Notes

1. OECD will publish data for 2003 in May 2004.

2. External debt relief can improve the macroeconomic environment and free resources to be directed toward development. However, in some cases the debt service forgiven would not have been paid in any event, limiting the benefits in terms of increased resources. The Monterrey Conference urged donors to ensure that resources provided for debt relief do not detract from ODA resources.

3. The data for developing countries as a group do not include Afghanistan or Iraq, for which we lack sufficient information to estimate net flows or the stock of debt. These countries are discussed separately.

4. The countries that will benefit under the Emergency Plan for AIDS Relief are Botswana, Cote d'Ivoire, Ethiopia, Guyana, Haiti, Kenya, Mozambique, Namibia, Nigeria, Rwanda, South Africa, Tanzania, Uganda, and Zambia.

5. These figures include security-related expenditures that are not counted as ODA under the OECD/DAC definition.

6. Aid flows to the Marshall Plan countries were probably smaller relative to per capita income than aid flows to Sub-Saharan Africa are today.

7. See *Global Development Finance* 2002 for a discussion. Bulir and Hamann (2003) provide further evidence of the volatility, and to some extent the pro-cyclicality, of aid.

8. Except where other citations are specifically given, this overview of the PRSP process relies on World Bank (2003c).

9. The definition of poverty-reducing expenditures varies across countries, although many countries include primary education and basic health, as well as expenditures for rural development. Country-specific definitions can be found in World Bank (2003b), appendix table 5.

10. These include Algeria, Burkina Faso, Cameroon, the Democratic Republic of the Congo, Ethiopia, Gabon, Ghana, Kenya, Mali, Mozambique, Nigeria, Rwanda, Senegal, South Africa, and Uganda. Ghana and South Africa will be the first to be reviewed.

11. The 27 countries include 19 that have yet to reach the completion point (Cameroon, Chad, Democratic Republic of the Congo, Ethiopia, The Gambia, Ghana, Guinea, Guinea-Bissau, Guyana, Honduras, Madagascar, Malawi, Nicaragua, Niger, Rwanda, Sao Tome and Principe, Senegal, Sierra Leone, and Zambia) and 8 that have reached the completion point (Benin, Bolivia, Burkina Faso, Mali, Mauritania, Mozambique, Tanzania, and Uganda). See World Bank (2003b) for a description of the HIPC Initiative process.

12. We use the term "nongovernmental organizations" to refer to foundations, advocacy groups, and agencies administering development programs. See Vakil (1997) for a discussion of alternative definitions.

13. Tvedt (1998) also finds mixed evidence of the ability of NGOs (compared with government, for example) to reach the poor.

14. Here, as elsewhere in discussing NGOs, it is hard to generalize. For example, some membership NGOs do elect their leadership, including Amnesty International and the Sierra Club.

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