• GLOBAL ECONOMIC GOVERNANCE PROGRAMME •

RECONCILING EFFECTIVE AID AND GLOBAL SECURITY:

IMPLICATIONS FOR THE EMERGING INTERNATIONAL DEVELOPMENT ARCHITECTURE

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Introduction

The terrorist attacks on the United States in September 2001 created new security imperatives, which have reverberated powerfully in the international development architecture. The war in Afghanistan, the invasion and occupation of Iraq, counter-terrorism operations in many other countries have taken priority in government policy most obviously in the US and the UK. Some claim this has created a new cold war in global aid – leaving behind the war on global poverty and speeding towards a development assistance regime directed mainly at geostrategic purposes. This paper examines this claim and its implications for the international development architecture.

On the evidence available, the war on terror has not diverted aid flows since 9/11 so much as induced new supplemental expenditures and claims on increments in aid budgets. However, the new supplemental aid flows are likely to be short-term and unsustainable. This means that aid agencies will soon face an onslaught of security-driven demands on their budgets. These demands may turn them away from commitments to the Millennium Development Goals (MDGs) and policies which reflect the 1990s lessons about aid effectiveness.

The new security pressures cast into a new light pre-existing initiatives to enhance coherence and coordination in global aid. It is possible that in the name of coherence and coordination, a greater diversion of aid flows for geostrategic purposes will take place. In this context, a careful reappraisal of the 'donor coordination' agenda is required.

Aid and the War on Terror

Aid has always been susceptible to donors' geostrategic interests. Although a sense of moral duty underpins the overall case for development assistance,[1] in practice once a government agrees to allocate money to foreign aid, a range of national, and commercial interests heavily influence how much and how the aid is disbursed.[2] Some donor countries are more obviously porous to geostrategic factors than others. Table 1 illustrates to whom the world's largest bilateral aid donors give aid. We see immediately that in most cases the main recipients of aid are neither the poorest countries of the world, nor the countries who best use foreign aid. Probably the country most prone to geostrategic priorities in aid is the United States whose major recipients (in 2002) were Egypt, Russia, Israel, Pakistan, Serbia and Colombia, updated data will no doubt reflect the money now being showered on Iraq, and to a lesser extent, Afghanistan. This contrasts hugely with the Nordics and Dutch whose top recipients are Tanzania, the former Yugoslavia, Mozambique, Ghana, Afghanistan and Indonesia.

A shift in priorities began in the 1990s as development agencies the world over – with DFID playing a major role – started to absorb and act on lessons about what kind of aid would work best. The experience of foreign aid during the Cold War highlighted that geostrategic goals often smother development objectives. Foreign aid is most effective when it is given to governments who govern well, have a capacity to implement their decisions, and who themselves decide how to use the aid. Often these factors – and the need to strengthen them in poor countries – had been overlooked by donors pursuing geostrategic goals.

Table 1: Who received the largest amount of official bilateral aid in 2002? (OECD and authors calculations)

	USA	Nordics and Dutch	Japan	European G-4	UK	France	World
1	Egypt	Tanzania	China	Mozambique	India	Cote d'Ivoire	China
2	Russia	Former Yugoslavia	India	Serbia	Serbia	French Polynesia	India
3	Israel	Mozambique	Thailand	Cote d'Ivoire	Tanzania	New Caledonia	Indonesia
4	Pakistan	Ghana	Indonesia	India	Mozambique	Mozambique	Egypt
5	Serbia	Afghanistan	Philippines	Egypt	Bangladesh	Morocco	Serbia
6	Colombia	Indonesia	Viet Nam	Tanzania	Ghana	Egypt	Mozambique

Overall the aid consensus of the 1990s crystallized in the concepts of 'ownership' and 'partnership'. Recipient governments should take the lead in defining and implementing development projects along with associated institution and capacity building initiatives. 'Partnership' involved increasing the accountability of donors and recipient governments. Both concepts were enunciated as key elements of successful development strategies not just by the OECD DAC, the World Bank, and the IMF, but also by all major donors.

Many fear that the 'war on terror' launched by the United States after the Al Qaeda terrorist attacks on New York in 2001 (and elsewhere in the world) has extinguished the possibilities for translating more widely into practice the 1990s consensus on how to do foreign aid better. Since 9/11 development assistance is widely perceived to have been rapidly skewed towards countries on the frontline of the war against terror and disbursed in ways, which experts had previously agreed are likely to be the least successful. Below we examine the evidence as to what is happening to flows of development finance from some of the world's largest donors including the United States, Japan, the EU and its member states, the United Kingdom, and multilateral lending institutions.

The overall conclusion cuts against the widespread perception of a diversion of existing aid to new security imperatives. Existing aid flows have not been whole-scale redeployed and diverted to counter-terrorism and the invasion and occupation of Iraq. Rather, huge new flows of assistance have been channelled to the frontline of the war on terror – in several cases through new delivery mechanisms.

Business as Usual in the Multilateral Development Agencies?

Since the 9/11 attacks there has not been a dramatic diversion of lending away from previous patterns in most multilaterals. There has been a redeployment of some existing multilateral mechanisms. The most notable is the Financial Action Task Force which had been created to monitor and eradicate money laundering was swiftly redirected on 30 October 2001 to focus on a world-wide effort to combat terrorism finance.

In 2001 the IMF, the World Bank, the OECD and others in the FATF accepted eight new recommendations to combat terrorism financing. These included: taking immediate steps ratify and implement the relevant United Nations instruments[3], to criminalise the financing of terrorism, terrorist acts and terrorist organizations, to freeze and confiscate terrorist assets, to report suspicious transactions linked to terrorism, to provide the widest possible range of assistance to other countries' law enforcement and regulatory authorities for terrorist financing investigations, to strengthen customer identification measures in international and domestic wire transfers, and to ensure that entities, in particular non-profit organizations, cannot be misused to finance terrorism.

The action plan required new levels of technical assistance and the training of financial institutions on the techniques and mechanisms used in the financing of terrorism. This was to be followed by the initiation of a process to identify jurisdictions that lack appropriate measures to combat terrorist financing and discussions of next steps, including the possibility of counter-measures, for jurisdictions that do not counter terrorist financing.

The redeployment of the FATF was accompanied by new instruments. For the IMF the new security imperative was implemented in a Combat Financial Terrorism (CFT) initiative and in Anti-Money Laundering and Financing of Terrorism assessments (AML) which began in 2002. The evidence suggests that technical assistance from the IMF in the areas of AML/CFT and Offshore Financial Centres as well as in FSAP-relatives initiatives doubled from 2002 to 2003 while reductions took place in the technical assistance budgets for poverty reduction programmes, HIPC-associated initiatives, and policy reform and capacity building initiatives (Table 4 below). That said, the amounts have been small. Overall lending from the multilaterals, examining the 'top ten' borrowers in each of the IMF, World Bank (IBRD), World Bank (IDA), and Asian Development Bank, has not changed dramatically in the face of the new security imperatives.

In the IMF we find that the top seven borrowers in 2003 were Argentina, Brazil, Colombia, Congo, Croatia, Ecuador, and Serbia and Montenegro. This was not a huge shift from previous years and none of these countries ranks as a frontline in the war against terror although Pakistan made it into the top ten in 2001 and 2002, doubtless reflecting security priorities (Table 5). Turkey was also toward the top in 2001 and 2002, though the initial decision to lend large sums to Turkey preceded the 9/11 terrorist attacks.

In the World Bank (IBRD) leading country borrowers in the same year were Mexico, India, China, Argentina, Colombia, Indonesia, and Russia. Again, there was not significant shift from previous year's patterns. Indonesia may be frontline in the war on terror but it has been a top borrower from the Bank since well before 9/11 (Table 6).

In the World Bank (IDA), the concessional lending arm of the World Bank, which lends to poorest countries, the top borrowers in 2003 included India, Chad, Bangladesh, Ethiopia, Uganda, Pakistan, Nigeria, and Ghana. The change from 2000 does not seem to reflect a shift to the frontline against terrorism although, as with the IMF, Pakistan shot up to become the fourth largest borrower in 2001 and the second largest borrower in 2002 (Table 7).

Finally, in the Asian Development Bank (ADF and OCR) we see a consistent pattern pre and post 9/11 whereby China, India, Pakistan and Indonesia vie for position as top borrower. Afghanistan becomes a significant borrower after 2002 but no instant significant diversion of funding to security priorities is in evidence (Table 8).

Overall there is little evidence that multilateral lending has been skewed towards new security imperatives. Let us now turn to individual country donors.

Table 4: IMF Technical Assistance Programme Areas FY2002 and 2003[4]

Main Programme Areas	2002	2003
Poverty Reduction	69.3	60.7
Regional	34.9	41.4
Crisis Prevention	**32.6**	**35.2**
Crisis Resolution and Management	**28.9**	**30.5**
Post Conflict/Isolation	**23.2**	**26.5**
Key Policy Initiatives and Concerns		
Policy Reform/Capacity Building	144.7	142.5
Assistance on Standards and Codes	**13.6**	**18.1**
HIPC-associated	21.4	16.8
Offshore Financial Centres and AML/CFT	**5.1**	**10.4**
FSAP-related	**3.4**	**6.0**
Safeguarding IMF Measures	0.6	0.5

Table 5: IMF Top 10 Borrowers, 2000-2003

Year	2000	2001	2002	2003
1	Argentina	Turkey	Turkey	Brazil
2	Indonesia	Argentina	Brazil	Argentina
3	Russia	Nigeria	Argentina	Colombia
4	Turkey	Pakistan	Pakistan	Uruguay
5	Mexico	Vietnam	Uruguay	Serbia & Montenegro
6	Colombia	Kenya	Romania	DR Congo
7	Romania	Uruguay	Cote d'Ivoire	Tajikistan
8	Peru	Peru	Peru	Ecuador
9	Kazakhstan	Yugoslavia	Bulgaria	Sri Lanka
10	Ukraine	Cameroon	FR Yugoslavia	Croatia

Source: IMF annual reports 2000-2003

Table 6: World Bank Top Recipients 2000-2003

World Bank Leading Country Borrowers, 2000-2003
US$ million

	2000	2001	2002	2003
Argentina	57.4	440.7	755	1100
China	1672.5	787.5	562.9	1145
Colombia	941	185.5	482	905
Ethiopia	0	666.8	210	404
India	1800.7	2553	2189.5	1552.6

Indonesia	1334.4	493.2	302.7	583.5
Mexico	1169.3	1982.2	660	1771.7
Russian Federation	112.6	397.5	351	581.1
Turkey	1769.6	1027.8	3350	300
Vietnam	285.7	629.1	593	293.1

Source: World Bank, Annual Report (2003)

Table 7: World Bank – IDA top borrowers 2001 to 2003 (in millions US$)[5]

	2000	2001	2002	2003
1	India	Ethiopia	India	India
2	Tanzania	Vietnam	Pakistan	DR Chad
3	Vietnam	India	Vietnam	Bangladesh
4	Zambia	Pakistan	DR Congo	Ethiopia
5	Bangladesh	Uganda	Nigeria	Uganda
6	Mozambique	Kenya	Tanzania	Pakistan
7	Senegal	Bangladesh	Bangladesh	Sri Lanka
8	Uganda	Madagascar	Ghana	Nigeria
9	Malawi	Senegal	Mozambique	Ghana
10	Yemen	Indonesia	Cote d'Ivoire	Mozambique

Table 8: Asian Development Fund lending by top 10 countries, with percentage of total ADF lending, 1999-2003

	1999		2000		2001		2002		2003	
	Country	%	**Country**	%	**Country**	%	**Country**	%	**Country**	%
1	China	25.28%	India	22.73%	India	28.10%	India	20.85%	India	25.09%
2	Indonesia	20.49%	China	14.91%	China	18.67%	Pakistan	20.10%	China	24.37%
3	India	12.55%	Indonesia	13.67%	Pakistan	17.92%	China	15.30%	Pakistan	14.25%
4	Pakistan	8.09%	Pakistan	12.08%	Indonesia	9.37%	Indonesia	13.52%	Bangladesh	8.71%
5	Thailand	7.31%	Philippines	8.80%	Bangladesh	5.58%	Bangladesh	5.28%	Sri Lanka	4.51%
6	Bangladesh	6.67%	Bangladesh	4.70%	Vietnam	4.88%	Vietnam	5.55%	Indonesia	4.29%
7	Vietnam	3.92%	Sri Lanka	4.01%	Sri Lanka	2.73%	Sri Lanka	4.17%	Philippines	3.01%
8	Sri Lanka	3.69%	Vietnam	3.82%	Philippines	1.97%	Uzbekistan	2.93%	Vietnam	2.93%
9	Papua New Guinea	2.19%	Uzbekistan	3.03%	Nepal	1.79%	Afghanistan	2.64%	Afghanistan	2.46%
10	Cambodia & Philippines	1.77%	Nepal	2.96%	Papua New Guinea	1.42%	Cambodia	1.78%	Uzbekistan	1.62%
Total ADF Lending		91.95%		90.73%		92.43%		92.13%		91.25%

The United States: more aid and more institutions

The US is at present the largest provider of development aid (Table 9). On OECD calculations, it accounted for 23% of global development aid in 2002 and it has certainly increased since then, even though not all of the recent expansion of U.S. development aid will meet the OECD's definition of aid. US aid has always flowed first and foremost to countries of obvious strategic importance. As we saw above, the top six recipients of US aid in 2002 were Egypt, Russia, Israel, Pakistan, Serbia, and

Colombia. However, in 2002 the US announced a bold new initiative – the Millennium Challenge Account – which promised to deliver aid independently of geostrategic goals, focusing instead on conditions for aid effectiveness.

Table 9: Who gives the Most Development Aid?

	Total $ billion / % of GDP	Bilateral $ billion	Multilateral $ billion
United States	13.3 (0.13)	10.6	2.7
Japan	9.3 (0.23)	6.7	2.6
European G-4	18.1 (0.29)	11.5	6.6
O/w France	5.5 (0.38)	3.6	1.9
O/w UK	4.9 (0.31)	3.5	1.5
O/w Germany	5.3 (0.27)	3.3	2.0
O/w Italy	2.3 (0.20)	1.0	1.3
Aid superpowers (Nordics and Dutch)	8.7 (0.80)	5.9	2.8
Total	58.3 (0.23)	40.8	17.5

Source: OECD DAC 2002

The Recent Increase in US Aid

Since 2002 U.S. aid flows have almost tripled. Between fiscal 2002 and fiscal 2004 US aid rose from $12.9 billion to $33.2 billion, including $18.6 billion for Iraq in the FY 2004 supplemental budget (Table 10). Most of the increase has been for post September 11 security imperatives. Hence, almost all of the $2 billion supplemental in FY 2002, the $4 billion supplemental in FY 2003 and the $20.1 billion supplemental in FY 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.

We can contrast the 'security' directed aid to the $1billion given to the Millennium Challenge Account (MCA) over the same FY02-FY 04 time frame and the money put into the fight against HIV/AIDS, TB and malaria which included $3.1billion from the foreign operations budget (plus another $1.9 billion from the health and human services budget).[6]

Is the new increase in aid likely to be sustainable? The increase in aid has occurred while the US government has also increased spending on defence and host of domestic programs 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 whether US aid should go to strategically important allies in the war on terrorism even if they have not displayed a real commitment to sound economic policy, or to countries that are most likely to use the aid in an economically effective way. This requires us to look carefully at how the new funding is being appropriated.

The war on terrorism has reshaped U.S. development aid – but mainly through supplemental appropriations.[7] 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, Krygistan, Pakistan) over the past three years are roughly equal to aid flows to the rest of the world combined. However, only about $2 billion in annual aid provided to strategically significant "frontline" has been allocated through the standard appropriations process. Most U.S. aid has come through supplemental appropriations. This pattern seems unlikely to change. The Bush Administration's FY 2005 aid budget does not include any money for Iraq, for example. The difficulties spending the $18.4 billion Iraq supplemental in FY 2004 are likely to leave a large enough funded pipeline of aid to cover FY 2005, but over time, U.S. aid to countries like Iraq and Afghanistan will increasingly need to be normalized and included in the standard budget.

The large increase in aid flows to frontline "war on terrorism" states, whether in the Middle East or in Central Asia, has largely come by expanding the total aid pie. At the margins though it also has been financed by a shift in funding away from the strategic imperative of the 1990s, notably by a reduction in support to the post-USSR transition economies. Israel also is receiving less economic aid (the data here does not include other forms of aid to Israel, including military aid). In broad terms, there has been a shift in US economic and development aid away from Israel and the transition economies toward Afghanistan, Pakistan, Iraq and Jordan.

Table 10: U.S. Development and Economic aid, by region ($ million)

	2002	**2003**	**2004**	**2005**
US AID, total	**7714**	**10936**	**9927**	**6229**
Budget	**6548**	**7281**	**6365**	**6229**
Supplemental	1166	3655	3562	0
Africa	997	1143	1040	1078
Asia and near east	3153	4081	3541	2788
o/w Egypt	655	911	571	535
o/w Israel	720	596	477	360
o/w Jordan	250	948	349	350
o/w West bank/ Gaza	72	125	75	75
o/w Iraq (budget only)	0	180	0	0
o/w Afghanistan	120	309	1071	397
o/w Pakistan	640	238	268	351
Iraq (US AID supplement)		1438	2437	
Europe and Eurasia	2027	2325	1166	1041
o/w Turkey	400	1000	99	50
o/w Russia	162	143	96	83
o/w Uzbekistan	125	39	36	36
Latin America	532	508	499	464
Special Breakdowns				
Afghanistan and central asia	1039	650	1435	842
o/w sup	866	167	1025	0
o/w budget	173	483	410	842
Iraq, Israel and the middle east*	2097	5198	4008	1370
o/w sup	300	3488	2537	0
o/w budget	1797	1710	1471	1370
Strategic priorities	3136	5848	5443	2212

o/w sup	1166	3655	3562	0
o/w budget	1970	2193	1881	2212
Rest of world	4578	5088	4484	4017
Memo item: Iraq, non US AID		709	16003	

Protecting some Aid from Geostrategic Concerns: the Millennium Challenge Account

The Millennium Challenge Account (managed by the Millennium Challenge Corporation) was announced by President Bush at the Monterrey Summit in March 2002 – an attempt to redirect US development assistance to poor countries with sound economic policies and good governance.[8] Fenced-off from other sources of US aid, the MCA would channel money to countries that delivered results (rather than those who promise future performance) on the basis of objective development-based (rather than other) criteria. The MCA also promised recipients substantial control over the projects so-financed rather than offering them money to meet donor priorities.[9]

Who would benefit from MCA grants? Countries are eligible if the Millennium Challenge Corporation Board establishes they have demonstrated commitments: to just and democratic governance, economic freedom and investing in their people. The Board makes use of sixteen indicators to assess policy performance of individual countries. These are listed below. The most recent list of MCA-eligible countries includes: Armenia, Benin, Bolivia, Cape Verde, Georgia, Ghana, Honduras, Lesotho, Madagascar, Mali, Mongolia, Mozambique, Nicaragua, Senegal, Sri Lanka and Vanuatu. The list is interesting because the majority of countries declared eligible have <u>not</u> traditionally been major recipients of US funding. (Table 2, which lists the current largest donor to most of these).

The Millennium Challenge Account Eligibility Criteria

Ruling Justly:	**Encouraging Economic Freedom:**	**Investing in People:**
1. Civil Liberties 2. Political Rights 3. Voice and Accountability 4. Government Effectiveness 5. Rule of Law 6. Control of Corruption	1. Country Credit Rating 2. 1-year Consumer Price Inflation 3. Fiscal Policy 4. Trade Policy 5. Regulatory Quality 6. Days to Start a Business	1. Public Expenditures on Health as Percent of GDP 2. Immunization Rates: DPT3 and Measles 3. Public Primary Education Spending as Percent of GDP 4. Primary Education Completion Rate

Source: Report on the Criteria and Methodology for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance in FY 2004 posted at www.mca.gov

Table 2: Countries eligible for US Millennium Challenge Account assistance and their major pre-existing (2002) donors

U.S. already largest donor	**France largest current donor**	**UK largest current donor**	**Japan largest current donor**	**Other countries are the largest current donor**
Armenia Georgia Honduras	Benin Madagascar Mozambique Senegal	Ghana	Sri Lanka Mongolia	Lesotho (Ireland) Nicaragua (Spain)

		Bolivia (Germany)

How likely is it that the MCA will transform US aid? For eligible countries the promised money is significant. Some US \$1 billion was provided in the fiscal 2004 budget. The Administration have requested an additional \$2.5 billion for FY 2005. On the face of it, the sums suggest some significant potential flows to poor countries which could in theory offset growing pressures for aid to be diverted to the war on terror. But some closer scrutiny is required.

First, within the US aid budget the US\$1 billion provided for FY 2004 is about equal to the pre-existing aid budget for Africa administered by USAID[10] and if the full \$1 billion were allocated to projects in Africa, it would increase overall global aid flows to Africa by about 5%. In theory, therefore, the MCA could provide a significant increase in aid flows although in practice they will be more geographically diffuse than this.

Second, the US is not the only donor aiming to channel aid to `good performers'. Other donors – most notably Denmark, Luxembourg, Norway and the Netherlands – are directing significant amounts of aid to countries with better policies and institution.[11] Furthermore, the current list of MCA-eligible countries roughly approximates the set of countries currently being funded by the major European donors. All this magnifies the persistent residual problem for the global aid regime: how to deal with `bad' performers? This is particularly acute since countries which are (or risk becoming) failed states are likely to produce the most disastrous consequences for all aspects of human development.

Finally, the Millennium Challenge Account resources might also be compared with the sums currently being mobilized for security imperatives (more on this below). In FY 2004 some US\$6 billion (including supplementals) was provided through USAID with a further US\$16 billion provided through the special office managing aid to Iraq (Table 3). Compared with other Departments budgets, the MCA resources look meagre. Current resources are smaller than the increase in the State Department's military aid budget, which has been increased by \$1.3 billion since the 9/11 attacks. The \$2.5 billion requested for the MCA for FY2005 would amount to half the US\$5.2 billion request for the State Department's military aid program (the Pentagon has its own military aid program as well). It is only slightly more than the US\$2 billion estimated cost of hiring private security contractors to protect contractors working on projects being financed by the \$18.6 billion FY 04 aid package for Iraq, or to the \$2.5 billion in windfall Iraqi oil revenues that the U.S. military is spending on quick-hitting development projects in Iraq.

So will the MCA influence the new development architecture? It is very clearly not counter-balancing the new security-driven flows, nor is this likely. Two years after its creation, no disbursements have been made by the MCA. Few actual disbursements are likely to be made this year. The promised US\$2.5 billion for FY 2005 is unlikely to survive the appropriations process, since the MCC is unlikely to come close to spending its FY 2004 appropriation. One less auspicious contribution the MCA makes to the international development architecture is the addition of another institution with its associated transactions costs not just for donors but also for recipients.

Table 3: What is happening to US aid flows? ($ billion)

	FY 2002	FY 2003	FY 2004	FY 2005
Bilateral Development/ economic aid	11.52	15.55	31.55	14.36
o/w Budget	9.56	10.23	11.44	14.36
o/w supplements	1.96	5.32	20.11	0.00
U.S. AID	9.77	14.25	12.65	8.82
Budget	8.22	9.46	8.81	8.82
Supplemental	1.56	4.79	3.84	0.00
Of which:				
Dev. Aid	2.65	3.33	3.20	2.75
Economic Support Fund	3.29	4.80	3.26	2.52
Total US AID Iraq	0.00	4.05	2.44	0.00
Eastern Europe and FSU	1.41	1.28	1.03	0.96
Food aid	0.96	1.81	1.18	1.19
US AID excluding food aid	8.81	12.44	11.47	7.64
Budgeted AID excluding food aid	7.26	7.66	7.63	7.64
State Department	2.25	2.31	2.69	3.71
o/w supplements	0.37	0.19	0.58	1.45
o/w HIV/AIDS			0.49	1.45
Budget, excluding HIV/AIDS	1.88	2.12	2.10	2.26
Millennium Challenge Account			0.99	2.50
Iraq (non-US AID)		0.71	16.00	0.00
Multilateral	1.37	1.47	1.70	1.80
o/w IFIs	1.17	1.30	1.38	1.49
o/w IDA	0.79	0.84	0.91	1.06
Total bilateral and multilateral aid	12.89	17.02	33.25	16.16
o/w sups	1.96	5.32	20.11	0.00
State Dept. Military Aid	4.50	6.29	4.85	5.15
o/w budget	3.86	4.13	4.43	5.15
o/w supplemental	0.64	2.16	0.42	0.00

Appropriated funds, apart from FY 05
Source: US AID and State Department

Another Shift in US Aid: New Institutions to Govern Aid

A relatively small percentage of US aid tends to be channelled through multilateral institutions. In FY2004 this dropped to 5% of US aid flows (Table 11), as US bilateral aid increased more rapidly than multilateral aid. In recent years the United States has emphasized exercising direct control over its aid. While it has continued to fund its existing multilateral commitments, its new initiatives have turned away from multilateral institutions. Three compelling cases demonstrate this: assistance to Iraq, the fight against HIV, and development financing.

Table 11: How bilateral is US aid? (State Department Budget, U.S. definition of aid)

	FY 02 $ billion	FY 03 $ billion	FY 04 $ billion	FY 05 (request) $ billion
Total	12.9	17.0	33.2	16.2
Multilateral	1.4	1.5	1.7	1.8
Bilateral	11.5	15.6	31.6	14.4
Budgeted bilateral aid	9.6	10.2	11.4	14.4
O/w MCA and “new” HIV AIDS funds			1.5	4.0
O/w traditional aid programs	9.6	10.2	10.0	10.4
Supplements	2.1	4.0	20.1	
Note: Iraq funding[12]		4.0	18.4	

Most **US aid to Iraq** has not been managed by USAID, the US agency responsible for foreign aid. Indeed, it has only managed $2.4 billion of $18.6 billion in aid to Iraq. Over $16 billion is being managed by the Program Management Office (PMO), a Defense department style procurement office that has been attached to the Coalition Provisional Authority and will likely migrate in some way to the new U.S. embassy in Baghdad. Put differently, an institution that did not exist in 2002 is now managing more U.S. aid than USAID. The PMO has tended to tap major U.S. defense contractors and construction firms to manage major reconstruction related projects.

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). The program management office has not been able to spend the $18 billion quickly. It has been reported that to date contracts for only $3.7 billion of $18.4 billion have been awarded[13] and even less – under $1 billion – has actually been spent.[14] 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, to deliver a bigger on the ground impact, the US is reported 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.[15] 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.

To date the experience of US aid disbursements to Iraq through the newly created PMO does not seem to have built on past lessons about aid and reconstruction, nor has it offered a model of accountable, effective aid delivery.

In the **global fights against HIV/AIDS** the US 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 FY 02 to $1.6 billion in FY 04. The Bush Administration has proposed spending $2.2 billion in FY 2005.

In governing this aid, the US Administration has made clear it prefers its own rather than a multilateral approach.[16] A State-department led committee is coordinating overall AIDS funding rather than the already-existing Global Fund. 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 number that the Congress raised to around FY$250 million in 2003 and $400 million in FY2004 (with an additional $100-150 million in the health and human services budget). Looking forward, in announcing the President's 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 conditional upon the Fund showing results.

The **Millennium Challenge Account** (MCA) offers a third and final case of the new more unilateral approach to aid in the United States. As described above, it has yet to disburse any development assistance. However, it sends 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 which already has USAID, the World Bank Group including the International Development Association, the United Nations special agencies, regional development banks, and so forth. The same can be said for the new mechanisms being used to fund Iraq, and the global fights against HIV/AIDS. In the latter case in particular, it is clear that countries are already struggling mightily to deal with multiplying donors – the costs of adding a new agency to the mix are considerable.

Overall the new security imperatives have increased US 'development assistance' and other external assistance flows to countries of geostrategic importance. On a smaller scale, the U.S. also has increased its bilateral funding for HIV/AIDS, and found $1 billion for the MCA, whose formula based eligibility criteria will direct funds to a set of countries with little connection to immediate geostrategic imperatives. The increase in development aid has taken place in the context of a ballooning budget deficit and increases on many budget items. It is unlikely that the new flows will be sustainable. Of longer duration may be the costs and duplication created by the new institutions created to manage new aid flows.

Japan Reduces Aid and Takes up Security

Unlike the United States, 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. During that time, the second largest bilateral donor—the United States—nearly halved its ODA budget, which reached its nadir in 1997-98. At its peak, Japanese ODA represented about 0.35 percent of GDP, higher than other G-7 DAC members but still well below the 0.7 percent developing countries have been calling for since 1980.[17]

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 (Table 12).[18] 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. India has continued to gain and most recently has become the top recipient of Japanese aid – much of it is in the form of infrastructure loans. Japan also continues to be 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% or so of Japan's ODA aid that it channels through multilateral institutions.

It is often asserted that as the US becomes more unilateral Japan becomes more multilateral. Yet available evidence suggests a more subtle interpretation. 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. Its actions in respect of aid to combat infectious diseases give a glimpse of how Japan expresses this commitment. As Chair of the G8 in 2000 Japan announced the 'Okinawa Infectious Diseases Initiative' and its intention to provide assistance of approximately $3 billion towards combating infectious diseases over five years. However, not unlike the United States, Japan's subsequent actions have revealed an ongoing strong instinct to retain control over this assistance.

Table 12: The 10 largest recipients of Japan's Bilateral ODA (1999-2001), Japan's MOFA figures

	1999		2000		2001	
	Country	Share	Country	Share	Country	Share
1	Indonesia	15.30%	Indonesia	10.06%	Indonesia	11.54%
2	China	11.68%	Vietnam	9.58%	China	9.21%
3	Thailand	8.39%	China	7.96%	India	7.10%
4	Vietnam	6.48%	Thailand	6.59%	Vietnam	6.17%
5	India	6.04%	India	3.82%	Philippines	4.00%
6	Philippines	3.93%	Philippines	3.16%	Tanzania	3.49%
7	Peru	1.80%	Pakistan	2.91%	Pakistan	2.64%
8	Pakistan	1.62%	Tanzania	2.25%	Thailand	2.61%
9	Brazil	1.42%	Bangladesh	2.09%	Sri Lanka	2.48%
10	Syria	1.30%	Peru	1.99%	Peru	2.10%
Total		57.95%		50.43%		51.74%

Source: Japan's Ministry of Foreign Affairs, White Paper 2001, chapter 2.

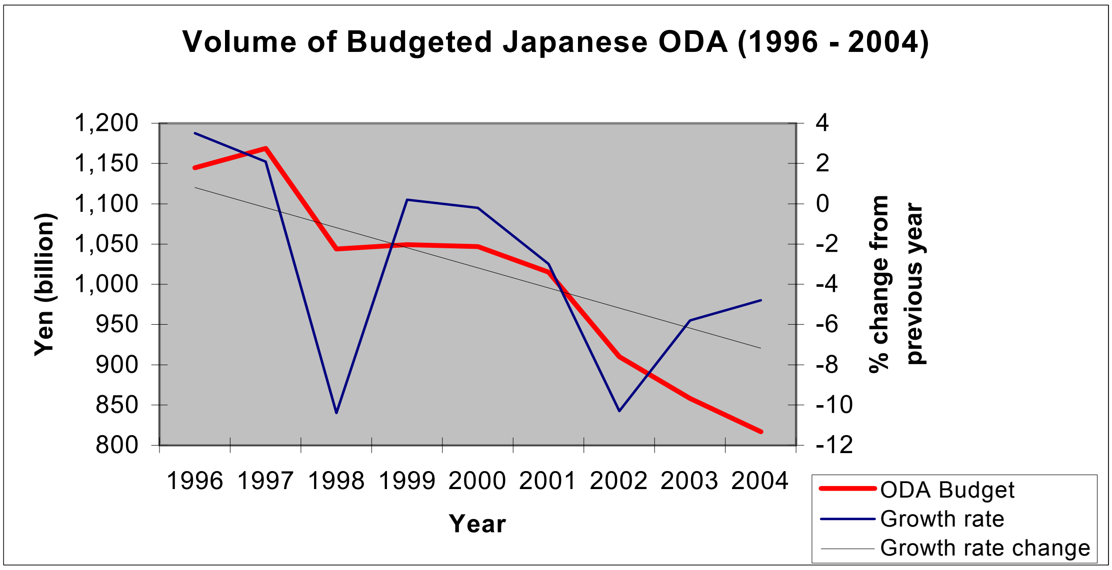
A very large proportion of Japan's aid in respect of HIV/AIDS has been spent on bilateral programmes to combat the disease – such as in Vietnam, Sri Lanka, Kenya, Congo, Haiti, and Zambia. Japan also began in 2001 to scope out joint projects with the United States in Tanzania, Zambia, Bangladesh, and Cambodia. In respect of multilateral institutions Japan is cooperating in a number of different ways, contributing directly to multilateral organizations such as the UNFPA and IPPF, and UNAIDS. At the same time, Japan has found ways to retain control over programmes funded through multilaterals. These include contributions to special trust funds such as the Japan Trust Fund for HIV/AIDS established in the International Planned Parenthood Federation, 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. Japan is actively engaging with multilaterals, but on its own terms.

Japan's Reductions in the Aid Budget

In 1997, the Japanese government began to reduce its ODA budget. The development assistance budget for the Japanese government as a whole was cut by 3 percent in 2001, 10 percent in 2002, and almost 6 percent in 2003. Cumulatively, the country's ODA budget has fallen by a total of 27 percent in 1997-2003 (Table 13).

The large cuts in Japanese aid and the shift in distribution have been caused by several factors, four of which stand out. First, a fiscal crisis in Japan, caused by a decade of economic stagnation and falling tax revenues, has led to across-the-board cuts in government spending. Fiscal consolidation has been a top priority for the Koizumi government, and ODA funding has suffered along with other areas of government spending.[19] Second, annual polls conducted by the prime minister's office show flagging public support for ODA spending. After a decade of high ODA spending and stagnant growth at home, voters appear to be suffering from "aid fatigue" and are questioning the government's development assistance program.[20] A third factor, related to the above, has been a government attempt to rethink its aid program and emphasize "quality, not quantity". As a result, the government amended its Development Assistance Charter in 2003. According to the amended document, the regional focus of Japanese ODA will remain Asia, and the priority issues will be poverty reduction, sustainable growth, a vague-sounding "addressing global issues" (which includes terrorism and epidemics), and peace-building. Finally, the emergence of China as a major economy and potential rival to Japan has raised the question of why China should continue to receive such large aid flows from Japan. China now has the world's second largest foreign currency reserves, a well-developed infrastructure, and a per capita income that is double India's. Accordingly, the Japanese government sharply cut ODA to China in 2001-2004 (by 20 percent in FY2003). The government has also begun significantly to shorten the terms on development loans extended to China.

Table 13: Volume of Budgeted Japanese Overseas Development Aid (1996-2004)



Source: Ministry of Finance

Japan's Response to the New Security Imperatives

Even as Japan's ODA budget allocations have continued to decline (they fell again in FY2004 by almost five percent), Japan has made extensive commitments to help with postwar reconstruction in Afghanistan and in Iraq.[21] 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 this year – an increase significantly less than the MOFA's allocation request.

Where will other funds for reconstruction come from? One portion will come from 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 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 light of the politics of Japan's aid cuts) or they will come out of other parts 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.

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. That said, Japan has consciously moved to recognize a wider range of security goals as a legitimate part of its aid mission.

The EU: Bringing Security into Development

The European Union and its member states together provide the single largest bloc of bilateral and multilateral aid in the world (Table 9). Individually, and collectively, member states committed themselves to the Millennium Development Goals declared at Monterrey in 2002 and the most recent EC report 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.[22]

The volume of EU aid does not translate into proportional leverage or coordinated development policy. Members 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. Alongside hopes for greater coordination of development policies, the new security imperatives have created a potential diversion of resources away from development assistance. Current plans to reform the governance of EU external actions could increase this risk.

Traditionally EU security policy and development assistance have been separate. Security policy has been pursued by individual member states. Meanwhile, some element of development assistance has been administered by the EU as a whole.

The main instrument of EU aid is the budget for External Action, which in 2004 involved some 5.18 billion EUR (out of a total annual EU Budget of 111.30 billion EUR). Included in this budget at present are ‘cooperation programmes’ with third countries and regions as well as a sub-heading for humanitarian aid. Table 14 shows the main sub-headings within this area of the EU Budget along with their allocation of commitments in 2004. Some 43.6% goes to neighbouring countries, and some 22.6% to the rest of the world.

The top recipients of EU overseas assistance in 2002 were (in descending order) Poland, Romania, Federal Republic of Yugoslavia, Bulgaria, Hungary, Afghanistan, Lithuania, the Palestinian National Authority, and Mozambique (Table 15). There has also been a shift towards providing general budgetary support, which has risen from 7.3% of EU ODA in 2000 to 20% in 2003.[23] This may well explain a skewing of assistance towards small, relatively well-off states (Baulch 2004) since budgetary support tends to be directed towards strong performers.

The overall distribution of EU aid at present reflects a defining political trade-off among core EU member states, which may well change over time now that the EU has enlarged from 15 to 25 members.[24] The Nordics, Netherlands and the UK argue for a poverty-focus in overall allocations and within programmes (in other words, seeing the budget primarily as a development assistance budget). This explains the 22.6% of the External Action budget, which 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% of the budget allocated to the European ‘neighbourhood’ (Mediterranean, Middle East, eastern Europe, central Asia and western Balkans).

Table 14: EU Budget for External Actions, 2004

	Commitments, million EUR (2004 prices)	% of total	% of aid and cooperation
Food aid and support operations	419.0	8.09	8.91
Humanitarian aid	490.0	9.47	10.42
Cooperation with Asian developing countries	616.1	11.90	13.10
Cooperation with Latin American developing countries	312.1	6.03	6.64
Cooperation with the countries of southern Africa, including South Africa	134.0	2.59	2.85
Cooperation with Mediterranean third countries and the Middle East	842.0	16.27	17.90
Aid for rehabilitation and reconstruction of Iraq	160.0	3.09	3.40
Assistance to partner countries in eastern Europe and central Asia	535.4	10.34	11.38
Cooperation with the countries of the western Balkans	675.0	13.04	14.35
Other cooperation measures	519.4	10.03	11.04
Sub-total: aid and cooperation measures	**4703.0**	**90.85**	
European initiative for democracy and human rights	125.6	2.43	
International fisheries agreements	193.8	3.74	
External aspects of certain Community policies	91.2	1.76	

Common foreign and security policy	62.6	1.21
Performance facility reserve	0.3	0.01
Total	**5176.6**	

Centralized EU policy towards neighbours and the wider world has also expressed in the common External Trade Policy (the EU speaks with one voice in the WTO) and in EU Political Partnerships. For example, the EU extends a preferential tariff regime extended to the African and Caribbean countries (ACP) under the Cotonou Agreement, and has more recently implemented the 'Everything but Arms' (EBA) initiative which extends quota- and tariff-free access to the EU market to all least developed countries. In parallel with bilateral trade negotiations, the EU promotes Political Partnerships with third countries or regions. These range from dialogues aimed at conflict prevention to more formal frameworks aimed at facilitating specific internal political, economic and institutional reforms for 'partners' – although some argue that the latter increasingly look like 'conditionality' rather than 'partnership' since the EU's responsibilities as partners in these agreements are gradually being marginalized.[25]

Other European development assistance is channelled through the European Development Fund (EDF), which is administered by the Commission and provides assistance to the African, Caribbean and Pacific (ACP) former colonies of member states. The EDF has a particularly poor record of disbursement – with some 10 billion EUR remaining unspent from the 6th, 7th and 8th EDFs as revealed at the outset of the 9th EDF budgeting period in 2000. The European Investment Bank (EIB) provides a further very modest contribution to EU development assistance. Most of its lending is to the EU-25 on commercial grounds at competitive rates. However, occasionally it lends at concessional rates (using subsidies from EU member states) and lends to states in the ACP, South Africa, Asia and Latin and Central America – this amounted to some 2.5% of the sums allocated in the last 5 years (that is, 4.8 billion EUR).

Table 15: Principal Recipients EU Overseas Assistance, 2002

Country/ £ thousand, 2004 prices	ODA/ OA	2003 GNI, USD millions	EU 2002 Commitments, million EUR	%ODA	%OA
ODA Total	6532.73				
OA Total	3673.32				
Global Total	10206.05				
Poland	OA	201389	995.17		27.1
Romania	OA	51194	696.63		19.0
FR Yugoslavia	ODA	15512	531.91	8.1	
Bulgaria	OA	16639	283.67		7.7
Hungary	OA	64028	266.57		7.3
Afghanistan	ODA -		247.59	3.8	
Lithuania	OA	15509	239.17		6.5
Palestinian Authority	ODA	3734	231.07	3.5	
Mozambique	ODA	3897	221.62	3.4	
Ethiopia	ODA	6325	210.13	3.2	
Czech Republic	OA	68711	208.97		5.7
DR Congo	ODA	5369	156.55	2.4	

Slovakia	OA	26483	153.6	4.2

Note 1: population/GNI figures: FR Yugoslavia excludes Kosovo; Palestinian Authority is for West Bank and Gaza

Sources: OECD DAC/ EuropeAid 2003 Annual Report

The New EU Security Strategy

In 1997 the EU began to forge a Common Foreign and Security Policy under which tentative steps towards a shared defence policy were made in the recent joint military interventions in Macedonia ('Operation Concordia') and in the Democratic Republic of the Congo ('Operation Artemis'). A large portion of the costs of these operations, however, was met not by the EU but by participating states. In brief, security goals have not – until very recently – been explicitly embraced in the EU's institutions and budget.

A new EU security framework was enunciated by the Council's CFSP High Representative, Javier Solana in June 2003 and subsequently adopted by the General Affairs and External Relations Council (GAERC).[26] The new framework declares security as a 'first condition for development' – although 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 proposes creating synergy between security and development goals through a more coherent and comprehensive approach.

The new EU strategy must be read against a background of efforts by Europeans and others to broaden the goals of development assistance within the OECD Development Assistance Committee (DAC), which sees itself as 'guardian' of the credibility of the definition of ODA. In April 2004 DAC announced that it was adjusting and clarifying the definition of ODA relating to preventing recruitment of child soldiers, enhancing civil society's role in the security system, and civilian oversight and democratic control of the management of security expenditure.[27] This widened the categories of assistance that DAC counts as ODA – although not far as to cover the recent allocation of 250 million EUR from the EDF 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 EU development assistance will become subservient to security. The EU Commission has sought to allay this fear.[28] However, several factors weigh into how this may work out, even though a detailed picture of effects on flows is not possible until the allocation of programme resources and conditionalities become available.

First, institutional changes to effect greater coherence among instruments aimed at security and development assistance goals could push development considerations down the agenda. At present the EU has streamlined the governance of its External Relations aid budget, channelling it through EuropeAid rather than through four different Directorates General. But wider constitutional changes are likely further to affect these arrangements. At the political level, it has been proposed that a European Foreign Minister, sitting in both the Council and the Commission, would take charge of external policies. At the institutional level, the EU budget would group all external actions items under the heading 'The EU as a Global Partner'.[29] Subsequent instruments would include 'economic cooperation and development' and 'security'.[30] These two items could even be fused so as to put development cooperation in with all Common Foreign and Security Policy funding.[31] The result is that alongside foreign and security policy, development assistance may find itself with a weak institutional footing, squarely under foreign policy leadership.

A second factor is how far the EU assigns development resources and objectives to the range of tasks falling under the headings of 'conflict prevention', 'humanitarian operations' and 'counter terrorism operations'. In 2001 the Commission began drawing up Country Strategy Papers, which intended to provide a more coherent approach to external relations with third states. Subsequently, Ministers have discussed integrating new issues of "migration, terrorism and sustainable development" into these papers.[32] The problem is that in the name of stability, security and conflict prevention, aid can rapidly end up driven more by the security interests of the donor than by the development needs of the recipient. Such as slippage is evident in recent policies towards Afghanistan and Iraq, in any re-allocation of ODA to states perceived to be in the 'frontline' of counter-terrorism operations at the cost of poorer countries with greater development needs, and in any redistribution of ODA to programmes which have a clear security advantage to the donor (e.g. counter-terrorism operations), even though the overall picture is difficult, as yet, to analyse.[33] We might note in respect of the EU budget that net of the allocation to Afghanistan, there is no evidence of an increase in ODA to Asia, while the modest increase in allocation to southern Africa in the 2004 budget was less than the increase in the total External Actions budget.

The EU has devoted significant resources to the reconstruction of Afghanistan and Iraq. The proposed commitments for activities in Iraq in 2005 total 190 million EUR, up from 160 million in 2004 and 29 million in 2003 (source: Preliminary Draft Budget 2005). Meanwhile, the EU pledged a multi-annual contribution of 1 billion EUR to Afghanistan from the EU Budget at the January 2002 conference: hence, the budget line for Afghanistan reconstruction in 2005 is 183 million EUR, as it was in 2004. Taking account of increases in the External Relations budget of 389 million EUR from 2003 to the preliminary proposals for 2005, these programmes may have been funded by additional appropriations rather than displacement of other programmes. However, the increase of only 0.3% year-on-year between 2003 and 2004 for the budget line for cooperation with southern Africa suggests there may have been reallocations.

Finally, the EU continues to allocate a very significant proportion of its external assistance budget to middle income countries in the European neighbourhood. While the reasons for this are multiple, it has recently been increasingly justified in terms of using financial assistance to these states to extend the 'zone of security' around the EU's borders.

In sum, 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 goals to which end 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.

Britain's Dilemmas: Pro-Poor Development, Multilateralism and Security

Like the United States and Japan, the United Kingdom takes a place at the table of the world's largest development assistance donors. Over the past five years, the United Kingdom has significantly increased its development assistance and its commitment to pro-poor aid flows. It has also pursued this agenda within multilateral institutions. More recently, the UK has also increased its security commitments, stepping in beside the United States as that country's most visible ally in the 'war on terror'. Seen from outside, the resulting dilemma for the UK of course involves some trade-offs between security and development. More subtly, however, it may be resulting in difficult trade-offs in its advocacy within multilateral agencies – between urging them to step up to the security agenda, and reforming them better to fulfil the pro-poor poverty vision.

The UK increases its aid budget and focus on pro-poor development

In 1997 UK government created a full Department of International Development (DFID) with a Cabinet-level Secretary of State which has subsequently been assigned a rising share of government expenditures with a budget which has grown to 3.8 billion GBP in FY 2004-5, with Spending Review 2004 confirming annual increases of 9.2% (the highest of any government department) through to FY 2007-8.

The increase in commitment to development assistance has accompanied a firm resolve to use aid to reduce poverty and to achieve the Millennium Development Goals (MDGs). This is entrenched in legislation that prohibits DFID from using development assistance for any other goal. The 2002 International Development Act gives power to the Secretary of State to 'provide any person or body with development assistance if he is satisfied that the provision of the assistance is likely to contribute to a reduction in poverty'. It is also entrenched at the administrative level by the adoption of a public service agreement with the Treasury, which has the attainment of the Millennium Development Goals (MDGs) as DFID's (only) aim. For the period 2005-8 these include: to ensure that the proportion of DFID's bilateral programme going to low-income countries (LICs) is at least 90% over the period 2005-08; to achieve a greater impact of EC external programmes on poverty reduction and work for agreement to increase the proportion of EC official development assistance (ODA) to low income countries from its 2000 baseline figure of 38% to 70% by 2008.[34]

The top recipients of UK aid in 2003-4 were Iraq, India, Tanzania, Afghanistan, Bangladesh, Pakistan, Uganda, Ghana, Malawi, and Rwanda, reflecting a pattern of aid focussed mainly on Africa and Asia (Table 16).

Table 16: Recipients of UK Bilateral Assistance

Country/ £ thousand, 2004 prices	2003-4	Country/ £ thousand, 2003 prices	2002-3
bilateral total	1648000	bilateral total	1370000
global total	3931000	global total	3648000
Iraq	207000	India	155997
India	197000	Bangladesh	75580
Tanzania	77500	Tanzania	75497
Afghanistan	72000	Uganda	53206
Bangladesh	65000	Ghana	52871
Pakistan	64000	Malawi	51728
Uganda	63000	Kenya	42390
Ghana	57000	Ethiopia	40341
Malawi	57000	Pakistan	37970
Rwanda	35000	Zambia	37710

The impact of new security imperatives on UK aid

The UK Government committed itself to support the Iraq campaign as the second-largest contingent of the US-led coalition. Following the end of this campaign, it was the US's partner in the Coalition Provisional Authority, engaging in both military and civilian/ administrative activities in Iraq. This followed on from the UK's commitment to similar military operations and reconstruction activities in Afghanistan. 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 GBP.

The majority of this expenditure came from the Ministry of Defence (MOD) budget for the Armed Forces. Preliminary figures about the costs of the war in Iraq include £842.2 million for the cost of military operations in the conflict up to 31 March 2003, a further £650 million in estimated costs of 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' plus a further £1.2 billion for the FY 2003-4 to cover the likely costs of the operation.[35]

DFID's direct expenditure in Afghanistan has risen from a negligible base-line to £35 million in 2002-3, £72 million in 2003-4 and it 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. Simply deducting these figures from the stated total suggests that the total cost of non-development-focused operations in these states 2001-2 to 2004-5 was of the order of 3.9 billion GBP, or eight times DFID's expenditure there.[36]

At the same time, there is evidence from elsewhere in DFID's budget that development resources have been allocated towards states perceived to be allies in the 'War on Terror'. Hence, for example, Pakistan has seen its aid allocation from the UK rise five-fold 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. This pattern is equally reflected in the lending patterns of the US, the IMF and the World Bank (IDA) to Pakistan.

Given that Afghanistan, Iraq and Pakistan shot to the top of DFID's list of bilateral recipients, it is unsurprising that these new demands on the DFID budget have placed stress on DFID's poverty reduction goals. One strain is on the mandate of DFID and whether all expenditures in Iraq and Afghanistan are consistent with the letter, or at least spirit, of its obligations under the International Development Act.[37] A second strain is on resources. DFID's 2004 Annual Report states (under the heading 'Reprioritisation of financial resources') that commitments to Iraq made it harder in 2003-4 to make progress towards the commitment that 90% of country programme resources, excluding humanitarian assistance, should be provided to low-income countries by 2005/06. In order to address this, the Report continues, reductions in spending to middle-income countries (MICs) have been brought forward: amounting to around £100 million in 2004-5 and 2005-6, although DFID's contributions to multilaterals supporting MICs will continue. Two implications follow. Iraq has displaced at least some of DFID's focus on low-income countries and has certainly prompted the acceleration of DFID's intended scaling back of bilateral programmes to middle-income countries. To some degree, the latter is presumed to be mitigated by multilateral lending patterns to middle-income countries, which DFID has used partly to justify its withdrawal.

Overall the UK aid budget has been growing. This means we need to examine how allocations compare to the overall annual increase not simply whether they increase in absolute terms. We find a skewing of aid away from low-income countries in the allocation of resources in 2003-4 to a number of major recipients of UK aid (Table 17). Whereas in most (though not all) cases, a year-on-year increase is seen, the interesting conclusion from this chart is that the vast majority of these states received less UK ODA in 2003-4 than was foreseen in DFID's 2003 Annual Report. At the same time, DFID's Annual Report did not foresee *any* expenditure in Iraq in 2003-4. In other words, since all of these countries (with the exception of Iraq) are low-income countries, there does seem to be shift from them to expenditure in Iraq. This is not a strong conclusion, however. Four states (Ethiopia, Malawi, Sudan and DRC) received additional assistance totalling 37 million GBP while the total difference between the 2003 projections and the final outturn for the states in this selection seeing a decrease was just 53.5 million GBP: a figure dwarfed by the 202 million GBP unexpectedly spent in Iraq. Nevertheless, had it not been for the allocation to Iraq, it is reasonable to assume that the monies allocated here would have gone to low-income countries.

Evidence of cuts in funding to middle-income countries can be read from Table 17 which shows the evolution of DFID's budget by sub-heading, with increases below the overall increase highlighted. At this level of aggregation, little reallocation is immediately clear. However, the sharp fall in assistance to the rest of the world in 2004-5 **is** significant as, along with a halving of aid to Iraq, this represents the cut backs mentioned to eastern Europe, central Asia, the Americas and the Middle East and North Africa: totalling 29.3 million GBP from 2003-4 to 2004-5 and 89 million GBP from their high-point in 2001-2 to 2005-6.

In respect of multilateral agencies and British aid, especially to middle-income countries, the picture is difficult to discern. DFID's expenditure plans cannot reveal answers to this, although it bears noting that the Spending Review committed DFID to a substantial contribution to IDA replenishment. DFID may increasingly seek to use its multilateral channels to finance policies that its strict poverty-focus prevents it from financing bilaterally. Perhaps a hint of this can be read into the scale of EU support to Iraq. The EU contribution exceeds the UK one, notwithstanding the hostility of a number of EU members to the Coalition's activities there.

Finally, the resources the UK puts into lobbying and persuading internationally deserves mention since the inevitable consequence of lobbying on a new issue such as the Iraq pledging conference is that it deflects both human resource and negotiating capital away from work on other objectives and most specifically, DFID's overall poverty-reduction mandate.

Table 17: Changes in DFID's Budget

Heading/FY (£ million, 2004 prices)	2002-3 Total (current prices)	Y-on-Y	2003-4 Total (current prices)	Y-on-Y	2004-5 Total (current prices)	Y-on-Y
Sub-Saharan Africa	654	21.8	694	6.1	813	17.1
Asia	463	-8.7	524	13.2	654	24.8
Rest of World	253	25.9	430	70.0	265	-38.4
Sub-total	**1370**	**10.0**	**1648**	**20.3**	**1732**	**5.1**
Multilateral Aid	802	11.2	800	-0.2	840	5.0
Innovative Approaches	294	-11.7	277	-5.8	254	-8.3
Multiple Objectives	184	100.0	129	-29.9	180	39.5
EC	804	27.0	865	7.6	605	-30.1
Conflict Prevention	35	59.1	49	40.0	45	-8.2
Total (resource budget)	**3648**	**14.1**	**3931**	**7.8**	**3840**	**-2.3**

Source: DFID Annual Reports 2000-2004

It bears noting that the above picture of British aid does not take into account expenditures by other channels such as:

- export credits (through the Export Credit Guarantee Department (ECGD));
- military assistance (as distinct from military operations);
- judicial and/or police cooperation and training;
- deployment of UK influence over EU trade instruments.

These expenditures are difficult to track. The UK has contributed to civilian police operations in and judicial cooperation with developing countries – we found no details of this in Home Office documents. The ECGD, which exists to assist UK businesses to secure overseas contracts, has written off almost 1 billion GBP of debt owed by HIPCs and is committed to write off a further 1.37 billion GBP when states reach completion point. We have not found evidence that this policy has been affected by new policy goals.

Military assistance raises a more complex picture. From 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. Ongoing allocations to these have been confirmed in Spending Review 2004, rising modestly from the current 60 million GBP 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.

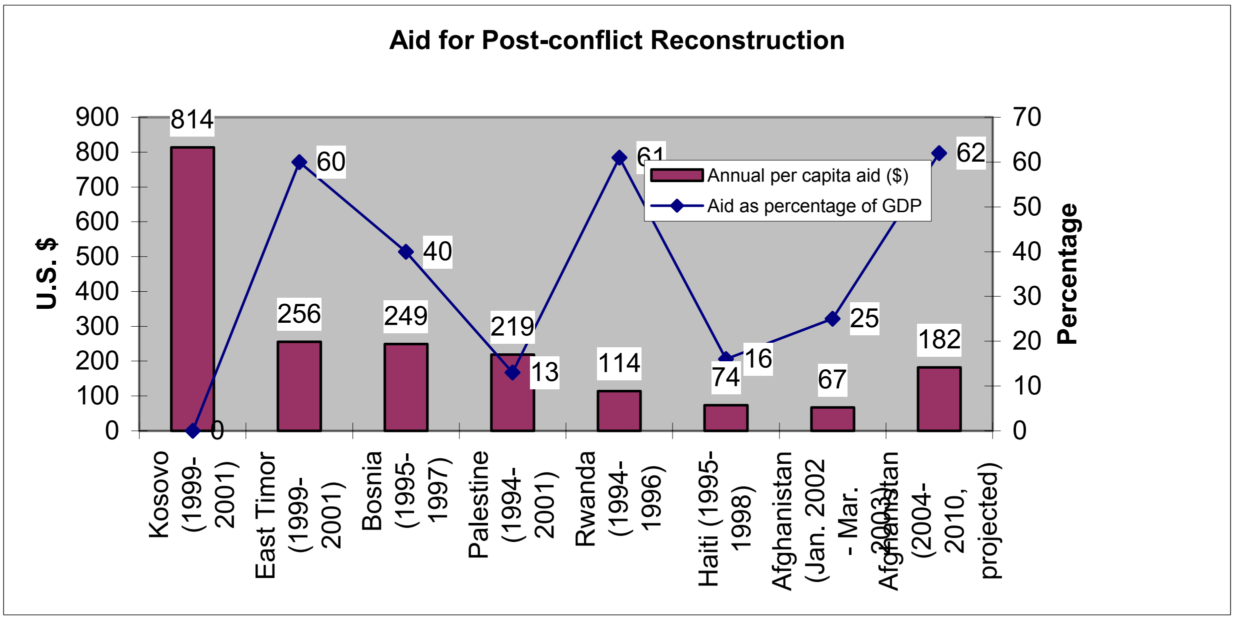
In sum, British aid and the government's focus on poverty reduction, including in middle-income countries (MICs), is undoubtedly being diverted by the new security imperatives. However, this effect is being mitigated by a rising overall aid budget, by multilateral lending to MICs, and by EU uptake of funding of the new security imperatives (in part due to effective UK lobbying). This poses tough choices on the UK government. Should pro-poor development assistance be ring-fenced off from the new security imperatives? Will this be possible as the longer-term costs of reconstructing Iraq and Afghanistan roll into aid budgets? And how should the UK government square their longer-term goal of reorienting multilateral institutions to pro-poor policies and their increasing reliance on those institutions to fulfil both security and MIC lending?

Aid flows for the new security imperatives: will they last?

Donors have increased aid to Afghanistan and to Iraq. The new funds have not been diverted from aid budgets. Mostly they have been additional. In part because of this, the new flows are unlikely to be sustained. However, the longer-term reconstruction needs of countries Afghanistan and Iraq are unlikely to diminish, nor are their implications for regional and global security – let alone the pressure on countries who intervened in these countries to show progress on the ground. The challenges posed for the international development architecture are underscored by the evidence available to date in respect of Afghanistan.

In Afghanistan donors have neither pledged enough for reconstruction, nor disbursed what they have pledged. Afghanistan has received the lowest per capital aid for post-conflict reconstruction (Table 18). A large share of that aid has been emergency assistance.[38] Experts note that of the total amount disbursed between January 2002 and February 2004, at least a third went to emergency relief rather than reconstruction.[39] That said, large amounts have been mobilized for the Afghan National Army, with military aid from the United States in 2003 amounting to nearly half the budget shortfalls for reconstruction (see Table 19).

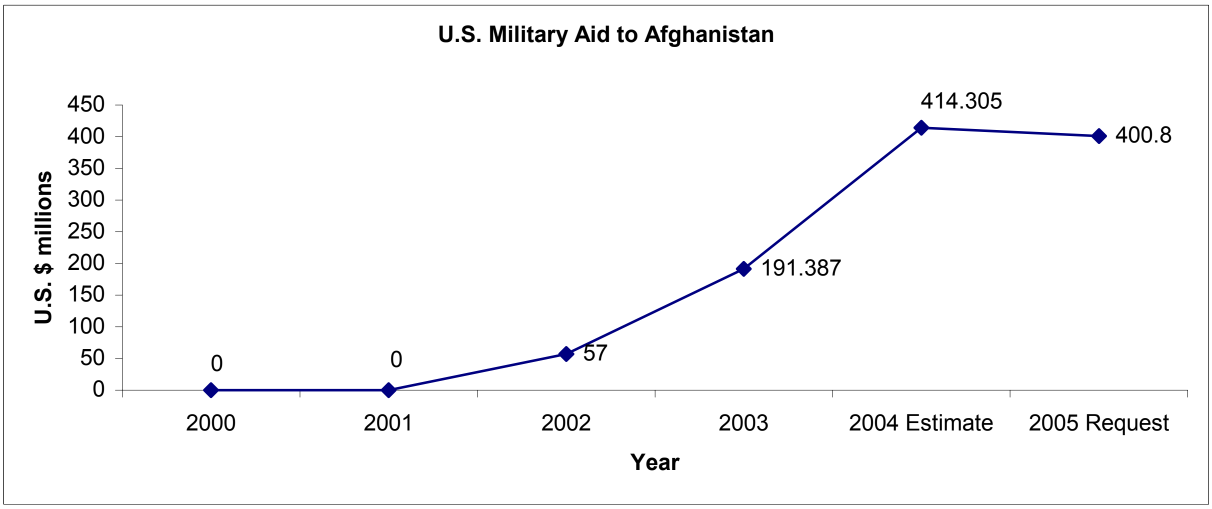
Table 18: Afghanistan has received the lowest per capita aid post-conflict reconstruction



Source: Barnett R. Rubin, Abby Stoddard, Humayun Hamidzada, and Adib Farhadi. 2004. Building a New Afghanistan: The Value of Success, the Cost of Failure. http://www.cic.nyu.edu/conflict/conflict_project4.html

Overall, of some US$1352 million committed for March 2003-March 2004, only US$536 million was actually disbursed (Table 20). This pattern may well put-off a dry-up of funding since money not disbursed in FY 2004 may carry-over providing assistance in FY 2005. Should that occur, there is a serious risk that in FY2006, with no further additional allocations, funding for Afghanistan will dry up. In short, the requirements for reconstruction and improving human development in Afghanistan are going to be significant and ongoing. Current funding projections in no way meet them.

Table 19: US military aid to Afghanistan



Source: U.S. Department of State, International Affairs Budget, various years. http://www.state.gov/m/rm/c6112.htm

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 U.S., the E.U., 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 ADB, IDB, UN, World Bank and the Afghan Support Group (ASG). Over time the IG and the ASG have developed a consultative role and supported government budgets 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. It is difficult to see how a government as stretched as that of Afghanistan will coordinate the various coordinating agencies and authorities and funds.

The experience in Afghanistan highlights the extent of development needs, which will soon find their way to development agencies. Although initially funded by supplemental and military budgets, when that funding dries up (as is already happening in Afghanistan) development budgets will be under pressure to take up the slack. The deployment of a large chunk of Japan's Fund for Poverty Reduction (Asian Development Bank) in Afghanistan is just one of several indications of this. With Iraq looming on the agenda, the implications are profound.

Aid in the next decade could well be diverted sharply away not just from programmes in less geostrategically important countries, but also away from the lessons about what kind of aid works and how it should be delivered. Against this risk, we need to assess the new implications of efforts to enhance coherence and coordination within and among donors. It may well be that drawing security and human development goals (MDGs) into a more comprehensive and coherent framework for development assistance, and that enhancing coordination among donors in a climate of strongly politically-driven security imperatives – risks producing a double-edged sword for development agencies. But first let's examine why so much effort has been put into increasing coherence and coordination.

Table 20: What donors have pledged and disbursed to Afghanistan

National Programmes	**Development Budget 1382* US $ Million**	**Donor Funds Committed 1382* US $ Million**	**Donor Funds Disbursed 1382* US $ Million**	**Unfunded US $ Million**
1.1 Refugee & IDP Return	164.08	77.89	55.73	**86.19**
1.2 Education & Vocational Training	250.00	70.17	36.53	**179.83**
1.3 Health	173.50	130.78	87.97	**42.72**
1.4 Livelihoods & Social Protection	248.00	143.72	51.57	**104.28**
1.5 Cultural Heritage, Media & Sport	30.19	15.79	14.79	**14.4**
2.1 Transport	253.60	531.47	130.89	**-277.87**
2.2 Energy, Mining, & Telecommunications	162.36	68.03	10.06	**94.33**
2.3 Natural Resource Management	146.05	91.85	25.45	**54.2**

2.4 Urban Management	75.23	63.53	27.11	**11.7**
3.1 Trade & Investment	5.49	5.72	4.12	**-0.23**
3.2 Public Administration Reform & Economic Mgmt	96.98	71.68	35.11	**25.30**
3.3 Justice	24.87	23.86	17.77	**1.01**
3.4 National Police & Law Enforcement	98.41	13.82	5.72	**84.59**
3.5 Afghan National Army (ANA)	0.00	0.00	0.00	**0.00**
3.6 Mine Action	66.06	30.22	30.22	**35.84**
3.7 DDR	22.26	13.5	3.5	**8.76**
Total	**1817.08**	**1352.03**	**536.54**	**465.05**

*NDB 1382 is 21 March 2003 to 20 March 2004
Source: Calculated from Afghanistan Donor Assessment Database.
http://www.af/dad/quick/index.html
Note: Support for the Afghan National Army is noted outside the NDB report. For year 1382 it was $240.25m, all disbursed.

Reconciling security and development: with what implications for coordination and coherence?

Why and how have donors been working to improve coordination and coherence in development assistance? Donors have long recognized – and vowed to resolve – a lack of coordination and coherence among themselves. The lack of coordination among donors is a problem because multiple agencies pursue similar goals but each insists on their own way with the result that they trip over one another, often overwhelming recipients. The coherence problem results where say some agencies pursue security goals while others prioritize development goals, with neither facing an incentives to ensure that one goal is not achieved at the expense of another.

The lack of coherence and coordination within and among donors creates duplication and waste at the global level as well as contradictions and cross-purposes among agencies. Within recipient countries it besieges over-stretched governments with multiple agencies each requiring their own conditionalities and demanding action on their own preferred (often changing) priorities.

The problem is well illustrated by the experience of post-conflict countries. In the case of Bosnia-Herzegovina, in spite of good intentions, coordination proved to be a shambles. The major donors – World Bank, the EC, most of the G7 and the Netherlands – agreed along with the government of Bosnia-Herzegovina on an externally appointed “aid coordination board” and a small, specialist “reconstruction task force” within Bosnia-Herzegovina. However, the US, which had played the most important political role in the peace negotiations, developed its own coordination mechanism that would include a political Steering Board of the Peace Implementation Council and an Economic Task Force (ETF) comprising the donors. Eventually the U.S. and the United Nations Office of the High Representative succeeded in having their structure accepted. Fifteen Islamic countries also formed the Assistance Mobilisation Group under the OIC (AMG/OIC) but they were not made part of the ETF. As a result their contributions to the multilateral aid programmes declined. Finally, while the Bosnia-Herzegovina government created a Reconstruction Cabinet, its coordination efforts suffered from political disputes over the state structure. Ministers from Republika Srpska (RS) refused to participate in donor meetings;

Bosnians and Croats in the federal government could not find consensus on the coordination mechanisms.

A lack of coherence among donors was also strongly in evidence in Bosnia-Herzegovina. The various donors each had their own attitude towards conditionality, applying it differently to different recipient actors. The World Bank worried about the effectiveness of reconstruction projects if conditionality was imposed at will. The U.S. and the E.C. started channelling aid not through multilateral routes but increasingly bilateral programmes. Moreover, there were inconsistencies in application, as Bosnian Croats lost no aid despite not cooperating on refugees or war criminals while aid conditionality against RS delayed reconstruction there by about two years. Under these circumstances, and with a poor security situation, refugees were unwilling to return.[40]

Unsurprisingly, experiences such as that of Bosnia-Herzegovina have galvanised donors into several attempts to improve coherence and coordination. Donors have repeatedly pledged better to harmonize and coordinate their aid – although few actions have resulted. Among international agencies various concordats and agreements detailing commitments to cooperate have been established. For example, the African Development Bank (ADB) and the World Bank signed a Memorandum of Understanding (MOU) on March 14, 2000. It sought 'to clarify their respective roles in the development of the African continent, minimize the duplication of efforts, profit from each others' comparative advantages and experience, as well as coordinate their efforts to attain more effective development assistance for Africa'. Some five bi-annual consultations later, the agreement has produced a draft Joint Board Memorandum setting out a modest plan for collaboration and cooperation on some strategic issues and at country level (in not more than 5 countries) in areas such as HIV/AIDS and post-conflict issues 'should the two parties identify realistic and achievable joint activities'.[41] At most this highlights the depth of the existing lack of coordination.

The most promising efforts have been made by the OECD DAC which established a Working Party on Aid Effectiveness and Donor Practices in May 2003 which is focusing on promulgating proposals for better coordination on alignment and harmonization, public financial management, procurement, managing for development results, and untying of aid. The OECD has also begun to study and monitor incoherence and the lack of coordination among donors, such as in their recent study of Rwanda.[42]

Equally important, the World Bank's Comprehensive Development Framework announced in 1999 sought to enhance coherence across sectors (economic and social policies), as well as inclusion and coordination among the various actors involved in any one country's development strategy – under the leadership of the recipient government. The joint IMF and World Bank Poverty Reduction Strategy Papers are another attempt to formulate a wider development strategy through a more inclusive process. Many other donors have taken up Sector-Wide Approaches (SWAps) to enhance coordination and coherence. These comprehensive strategies towards development assistance have been rapidly taken-up by many agencies, most of whom are now grappling with how to include security considerations into the framework.

Coherence in pursuit of which goal?

The problem with including security into the overall framework for development assistance is that the security agenda has subsequently become driven and widened by political pressures. As development agencies the world over know, not all security and development goals cohere. **Human security** is a necessary element of human development.[43] As the UK Development Minister recently put it 'poverty is both a cause and an effect of human insecurity in developing countries'.[44] Many instruments aimed at enhancing human security will also achieve positive human development effects. This underpins the conflict-related development analysis undertaken by the UNDP's Bureau of Crisis Prevention and Recovery. In defining tools for conflict prevention, their analysis evaluates whether development assistance and programmes mitigate or reinforce the underlying structural factors or socio-economic inequalities that increase the potential for conflict.

The contradictions begin when the referent of security becomes the state or even a region. The **security of the state** in developing countries is to some degree a legitimate concern of effective development assistance frameworks. Securing the state is a way to secure the possibility for sound and effective institutions of government, which will in turn ensure the effective use of aid. But serious tensions exist. The government of Uganda is a model of effective aid use for poverty alleviation - perhaps the most effective in the developing world. In recent years however, the global war on terror seems to have provided cover – and resources – for an extension of military activities including in the D.R. Congo and against the LRA in the North with incursions into Sudan. Few accept that all have been necessary for the security of the state and almost all donors agree that the operations have diverted resources from development.[45] Some see the problem as one of inadequate control over recipients and how they use aid. But increasingly the problem is also the temptation for donors to use development assistance as a broad incentive for geostrategic compliance rather than for development purposes.

Regional and global security concerns, particularly of the most powerful countries in world affairs, have often been merged and been presented (and funded) as problems of security in developing countries. The aid driven by this agenda has historically been the least conducive to human development. At present it raises tensions not just about the overall deployment of aid but equally about the uses of existing aid budgets. Concerns about good governance rapidly give way to shorter-term security goals (the case of Pakistan). Strategically important governments end up being encouraged by donors to control their populations rather than reform governance. At the more detailed level, aid within specific budgets becomes diverted so that trade capacity assistance which might be deployed to assist rural farmers, ends up focussed on strengthening customs capacity to interdict terrorists.

Shifting security concerns are playing out in different ways on the ground in developing countries. Properly to assess the impact and solutions `on the ground' requires country-by-country among donors and among recipients. Donors need more clearly to identify human security and development goals and to distinguish them from global security and geostrategic goals. Put another way, the `coherence' debate needs to be refined - not at the level of principle but at the level of agency functions within donor governments. A preliminary step in this direction would be for inter-agency meetings to take place focussing on individual countries, examining the trade-offs in goals among agencies and their various preferred modes of delivering aid.

Meanwhile, among development agencies two areas of coordination must continue to be pursued – particularly if the case for protected development assistance is to be made on the grounds of effectiveness (including towards longer term security goals). The first is a shared donor commitment to minimize 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. But perhaps the most damning findings of the study lie in its assessment 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.[46] 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 eroding such a possibility. Amidst 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. 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. This is now being recognized among donors in their `Rome Commitments' but as yet little more than new proposals for coordination have resulted.[47]

A second element of much-needed coordination within the development assistance community concerns the time-scale and predictability of aid flows. Donors need to coordinate in providing a long-term financial compact between donors and recipients. Volatile or unpredictable aid flows do little to bolster good governance, coherent government expenditure planning, and the development of sound institutions of accountability in recipient countries. Yet aid is proving to be yet more volatile than fiscal revenues in most developing countries,[48] in spite of the evidence that shortfalls in aid produce poor policies.[49] The new security-driven aid flows are already proving to be volatile and short-term. But so too, in other sectors where new resources are being promised such as the global fight against HIV/AIDs, there is little guarantee that new flows will be sustained long-term, or that the multiplicity of donor institutions which are supposed to disburse the assistance will not change priorities. Much needed is specific donor coordination with a view to committing long-term predictable flow of resources.

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 flows (largely to fund the war on terrorism as defined by the US) will dry up. The more stable budgets of development agencies will then be urged to give priority to the development needs of countries at the frontline of the war on terror.

Paradoxically, previously rational efforts to enhance coordination and coherence among donors may now in some instances be counter-productive. The EU case highlights that greater European coordination and coherence could in theory direct very significant aid flows towards the shared commitments of the MDGs. In practice, current institutional shifts and political pressures suggests 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.

An alternative scenario is one in which development agencies continue to prioritize the achievement of the Millennium Development Goals, leaving to other agencies the broader security goals. Rather than coordinating and harmonizing at the global level the general activities of donors, this scenario calls for a better differentiation and allocation of goals at the global level. Needed is a 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 a 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.

At the national level, the `separate goals' scenario requires that development assistance and conditionalities be protected to some degree from all other policy areas. Two approaches to protecting development assistance already exist. In the UK the International Development Act 2002 creates a clear legal stricture on the use of UK development assistance channelled through DFID. In the United States, the Millennium Challenge Account is a different attempt to insulate at least some aid from political pressures. Japan and the EU both lack any such insulation and recent policies in each leave them little protection from the pressures for more geostrategic uses of development assistance which are building in the system. Prior to `protecting' the development mission, however, donor governments need very clearly to define the development and security relationship, coordinating among agencies within government to define respective goals. This process could be explored in inter-agency conversations aimed at identifying and distinguishing different donor goals in respect of specific recipient countries.

Within and among development agencies, life must change. Once held to account at the global and national level for development outcomes, all agencies will need more than ever before to demonstrate the effectiveness of their aid, and to this aim, they will need to coordinate much more precisely and effectively. As noted above, the security and development remits will need careful definition among national donor agencies. This process must play close heed to how donor goals and instruments are affecting recipient countries. To this end, conversations - parallel to those among donor agencies proposed above – could be undertaken within recipient countries, to identify from the ground up specific areas of contradiction, overlap or neglect across the range of donor security and development goals and how these are affecting institutions and governance, as well as results on the ground.

In sum, the international development community has not yet been swept up into the war on terror but it stands on the threshold. Global development agencies need partly to protect their mission if they are to continue disbursing pro-poor aid effectively. But this cannot be a `heads-in-the-sand' strategy. Simply attempting to insulate aid will surely prove neither an adequate defence against political pressures nor an effective response to the changes taking place in the world. Development agencies need to deliver aid more effectively and to that end they must address a specific range of recipient-driven human and state-security concerns, and also to coordinate on specific policies. In regional and national institutions, aid agencies will need to strengthen and advance the institutional base from which they deliver on development goals. Finally, an international mechanism is needed which will hold multilateral institutions and governments to account for their contributions to globally shared goals. 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.

Abbreviations

ACP: African and Caribbean countries
ADB: African Development Bank
ADF: Asian Development Fund
AMG/OIC: Assistance Mobilization Group under the OIC
AML: Anti-Money Laundering and Financing of Terrorism assessments
ARSG: Afghanistan Reconstruction Steering Group
ASG: Afghan Support Group
CFSP: Common Foreign and Security Policy
CFT: Combat Financial Terrorism
CIA: Central Intelligence Agency
CPPs: conflict prevention pools
DAC: Development Assistance Committee
DFID: UK Department of International Development
DRC: Democratic Republic of Congo
EBA: Everything but Arms
EC: EU European Commission
ECGD: Export Credit Guarantee Department
EDF: European Development Fund
EIB: European Investment Bank
ETF: Economic Task Force
EU: European Union
EUR: Euro (European Monetary Unit)
FATF: Financial Action Task Force
FCO: Foreign and Commonwealth Office
FSAP: Financial Sector Assessment Programme (World Bank and IMF)
FY: Fiscal Year
GAERC: General Affairs and External Relations Council
GBP: UK Pound Sterling (currency)
HIPC: Heavily Indebted Poor Country
HIV/AIDS:Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
IBRD: International Bank for Reconstruction and Development
IDA: International Development Association
IG: Afghanistan Reconstruction Implementation Group
IMF: International Monetary Fund
IPPF: International Planned Parenthood Federation
JBIC: Japan Bank for International Cooperation
LICs: low-income countries
LRA: Lord's Resistance Army (rebel group in Uganda)
MCA: Millennium Challenge Account
MCC: Millennium Challenge Corporation
MDGs: Millennium Development Goals
MICs: middle-income countries
MOD: UK Ministry of Defence
MOFA: Japan Ministry of Foreign Affairs
MOU: Memorandum of Understanding
NGO: nongovernmental organization
OCR: ADB Ordinary Capital Resources
ODA: Official Development Assistance
ODI/EDC: UK Overseas Development Institute/ European Development Cooperation
OECD: Organization for Economic Cooperation and Development
OECD DAC: OECD, Development Assistance Committee
PMO: Program Management Office
RS: Republika Srpska
SWAps: Sector-Wide Approaches
TB: Tuberculosis
UK: United Kingdom
UNAIDS: Joint United Nations Programme on HIV/AIDS
UNDP: United Nations Development Programme
UNFPA: United Nations Population Fund
UNICEF: United Nations Children's Fund
US: United States
USAID: United States Agency for International Development
USSR: Union of Soviet Socialist Republics
WHO: World Health Organization
WTO: World Trade Organization

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Endnotes

[1] Lumsdaine (1993) dissects the basis of this moral case, proving empirically that government aid programmes cannot be explained without it. The well-known opponents to government-provided foreign aid include: Bauer (1981), Hayek (1976) and Nozick (1974).

[2] Alesina and Dollar (2000).

[3] In accordance with Security Council resolution 1390(2002), all States are required to ensure the following measures are applied to all the individuals, groups, undertakings and entities included in the list referred to above: (1) Freeze without delay any funds and other financial assets and economic resources; (2) Prevent entry into or the transit through their territories; (3) Prevent the direct or indirect supply, sale and transfer of all arms and related material, spare parts and technical advice, assistance or training related to military activities. All financial institutions are requested to consult the list and to report promptly to the Financial Services Commission any link found with the names on the list.

[4] IMF (2003), p12

[5] Data sourced at http://www.worldbank.org/annualreport/2003/pdf/v2_5.pdf

[6] The Administration is seeking $2.5 billion for the MCA and $2.2 billion in "Foreign operations" funding for HIV AIDS in FY 2005 ($1.5 billion in new funding, and $0.7 billion in funding for existing US AID programs), but is likely to get less.

[7] Table 10 reports data on the distribution of USAID development and economic aid, including the development aid component of the major supplementals. This data does not include the many alternative channels for providing funds to frontline states in the war on terrorism. The country-by- country breakdown excludes State Department military aid, for example (a proposed $5.2 billion in FY 05, up from $3.9 billion FY 02). It also leaves out support provided through Defense Department channels (for example, payments for basing rights and funds for intelligence cooperation provided through the CIA. Consequently, the flows presented here this represent only a fraction of the total financing the U.S. has made available to frontline states. For example, this understates the total financial support the United States provides to a country like Uzbekistan – a country that is providing the U.S. with bases to support its operations in Afghanistan (Coll (2004)) although it scores poorly on most measures of governance or good economic policy and indeed it was reported on 15 July 2004 that the US State Department would cut some of its funding to Uzbekistan for its failure to improve its human rights record (The Times (2004)).

[8] World Bank (1998).

[9] Radelet and Herrling (2003).

[10] FY 04 appropriation for Africa is $1.04 billion, FY 05 request is $1.08 billion

[11] Figures and comparisons are provided in World Bank (2004).

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[12] Iraq Revenue Watch estimates $6 billion in FY 03 funding for Iraq. One possible source of the difference is the use of Iraq's frozen assets. These assets are not counted in the $4 billion total here, which includes only appropriated funds.

[13] Chandrasekaran (2004).

[14] New York Times (2004a).

[15] New York Times (2004b).

[16] See *www.whitehouse.gov/news/releases/2003/01/20030129-1.html* for a description of the President's new plan. See Wall Street Journal (2004a) 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 U.S. safety tests.

[17] A large proportion of Japanese bilateral ODA is disbursed in the form of loans, which constituted nearly 55 percent 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).

[18] Economic Cooperation Bureau, Ministry of Foreign Affairs, Japan (2001).

[19] The populist version of the argument is reported by Large (2003).
[20] See the debate between government and leading opposition party on this, reported in The Yomiuri Shimbun/Daily Yomiuri and reproduced in translation by the Financial Times Information (2003).

[21] The early efforts are detailed in Ch. 2 of Economic Cooperation Bureau, Ministry of Foreign Affairs, Japan (2001).

[22] EU progress towards the goals is reported in European Commission (2004a).

[23] EuropeAid (2004).

[24] The likely impact on EU development policy has been explored by the European Commission in a report they commissioned: Migliorisi (2003).

[25] Grimm with Woll (2004).

[26] GAERC (2003a).

[27] OECD/DAC (2004).

[28] Nielson.

[29] European Commission (2004b).

[30] The others are: humanitarian aid; pre-accession; a neighbourhood instrument for cross-border cooperation; and macro-financial assistance.

[31] Mackie and Rossini (2004).

[32] GAERC (2003b).

[33] The EU budget does not break down sub-headings for regional cooperation to show the allocation to individual states. We can only report from the EuropeAid annual report 2003 which details total allocations (i.e. EU Budget plus EDF) by recipient (Table 15).

[34] Spending Review (2004).

[35] Ministry of Defence (2003).

[36] DFID (2004).

[37] It is worth noting here that while the International Development Act can be read strictly to apply to the whole of DFID's Budget (that is, to multilateral allocations as well), some degree of latitude must be granted here in practice since – by DFID's own admission – the EU Budget currently fails to meet the test of allocating resources to poverty reduction.

[38] McKechnie (2003).

[39] Rubin, Stoddard, Hamidzada, and Farhadi (2004).
[40] Cousens (2002).

[41] See www.afdb.org/about_adb/worldbank.htm

[42] The OECD/DAC have documented the way in Rwanda donors failed to coordinate even in setting policy, with each instead following their own priorities with disastrous results (OECD/DAC 1999). The Working Party is detailed in OECD (2003).

[43] UNDP (2002).

[44] Benn (2004).

[45] Uganda Human Rights Commission (2002); Donor Group on Northern Uganda (2004); Human Rights Watch (2003); Christian Aid (2004).

[46] Allen, Schiavo-Campo, and Garrity (2004).

[47] OECD (2003).

[48] Bulir and Hamann (2003).

[49] Gemmell and McGillivray (1998).

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