

The aid bundle

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What you need to know

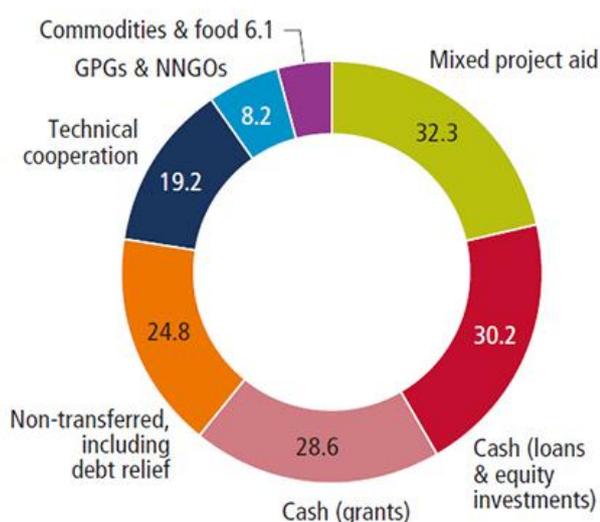
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Aid is a bundle of different things

Aid is not a homogenous resource; it comes in many forms. Some of it is transferred to the recipient country in the form of cash, some as in-kind contributions (such as food aid, non-food commodities and technical cooperation) and some as mixed project aid. Some of it never leaves the donor country and is used for debt-relief, grants for students, supporting refugees and development awareness. Recipient countries' aid bundles vary significantly depending on levels of growth, donor preferences and historic factors.



Unbundling aid in 2011

Bilateral and multilateral disbursements US\$ billions, 2011

Development Initiatives calculations based on DAC data (see [methodology](#)).

Developing countries do not receive what donors report as allocated

Official aid statistics do not provide an accurate account of the actual resources transferred to developing countries. The volume of aid that donors report as disbursed typically exceeds the aid reported as received by recipient governments. For example, during 2008–2011, net foreign assistance counted by Uganda was less than two-fifths of net official development assistance (ODA) reported by donors of the Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC). This may be because aid does not always go through the recipient country's budget and is disbursed directly to non-governmental organisations, multilateral bodies and private organisations instead.

Unbundling aid reveals differences in donor aid programmes

Both Denmark and Italy reported giving just over US\$2 billion in bilateral ODA in 2011. More than two-thirds of Denmark's aid was transferred to developing countries as cash grants/loans, project support and technical cooperation. In contrast, more than two-thirds of Italy's aid did not leave the country and was either used to relieve debt or support refugees in Italy.

The type of aid affects the impact it has on poverty reduction

A dollar spent on food aid, on technical cooperation or on debt relief will have a markedly different impact in recipient countries, depending largely on the specific context.

Including loans and debt relief exaggerates ODA statistics

Loans: loans with a grant element¹ of more than 25% count as ODA. The grant element of loans from different donors varies substantially, but ODA statistics show loans of higher and lower concessionality as being of equal value to the recipient. Different interest rates on loans lead to very different outcomes for the recipient country.

Interest: headline ODA statistics do not take into account or subtract the money paid from developing countries to donors as interest payments on ODA loans. This amounts to around US\$5 billion a year globally.

Debt relief: various types of debt relief may be counted towards a donor's reported ODA. Donors also count write-offs of accumulated interest as ODA. Although beneficial, this is not the equivalent of a new transfer of financial resources to developing countries.

The value placed by donors on aid in-kind is not always a true reflection of its worth to recipient countries

Food aid: the value donors place on food aid can include high transaction costs. Although some donors, such as the World Food Programme and European Union, have begun to source more of their food aid from local markets to bring down transaction costs, others, such as the US and Japan, favour international shipping of domestically-produced food. This distorts the value of such aid. For example, in 2010 the value reported in ODA of US sorghum shipped to Chad was 215% higher per tonne than the average in local markets.

Technical cooperation: the value of technical cooperation can be overstated by donors if the assistance provided is not aligned to recipient-country priorities. Inappropriate practices can widen the gap between the volumes of aid reported and the benefits received, such as 'tying aid' to the use of expatriate consultants rather than national expertise. In 2011, almost US\$7 billion of technical cooperation was not coordinated with the priorities of recipient countries.

Using aid effectively: the critical need to unbundle aid

Generating more and better data on aid composition: knowing exactly what is being spent, where and how is a fundamental baseline for making better decisions on allocating aid and ensuring that it has the greatest impact on reducing poverty. It also provides the information necessary for holding donors to account on their aid expenditure. Future assessments of aid should provide a breakdown of different types of aid and an assessment of worth, while donors should improve their documenting to make this possible.

Sharing data on donor aid bundles with recipient countries: if recipient countries are to effectively coordinate aid and government resources, they need to know how much aid is coming into the country, in what form, from whom, and for what purpose.

The DAC should reconsider including debt relief and loans as ODA:

- The DAC should use more realistic reference rates² for loans and should count only the grant element of each loan as ODA, as opposed to its full face value.
- The DAC should subtract interest paid by recipient countries on loans from donors' ODA statistics.
- The DAC should exclude debt relief from donors' ODA statistics when measuring performance against targets.

Donors should publish their transaction costs to strengthen transparency and ensure every dollar is being used effectively to end poverty.

¹ The grant element is the difference between the cost (in today's prices) of the future repayments a borrower will have to make on the loan and the repayments the borrower would have to make on the concessional loan.

² An approximation of the interest rate a lender could receive if lending at the market rate.

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