Human Development Report 2005

Human Development Report Office
OCCASIONAL PAPER

Aid Data Report

Development Initiatives. 2005.

2005/6

HDR Aid data report working draft to be read alongside
A 2020 Vision: New Thinking on Aid and Social Security **1-Nov-05 16:01**

Since this paper was produced, DAC figures for 2004 have now become available. New commitments on aid have also been made during the G8 Summit in July 2005 and the UN Review Summit in September 2005. If you would like any more information on these figures, please contact Development Initiatives directly. The information will also shortly be made available on our website www.devinit.org

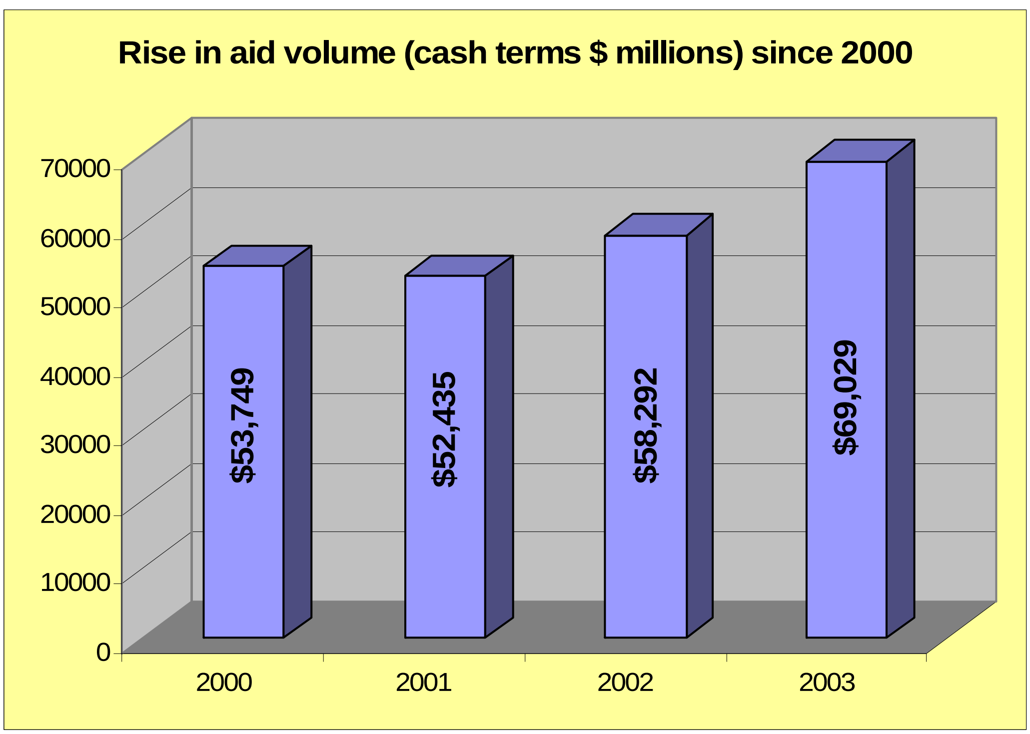
COMMENTS DIRECT TO di@devinit.org or + 44 1749 831141

Note: in this paper, aid is quoted at $69 billion in 2003. This is the actual cash figure. But when aid for 2003 is shown at $61 billion, this is the figure in real terms (at 2002 prices) to enable comparison with earlier years.

The origins of the international aid system can be traced back to the period of post war reconstruction and decolonisation from the late 1940s through to the 1960s. In 1960 the OECD established its Development Assistance Committee and by 1970 the Pearson Commission's Report resulted in the adoption by the UN of the 0.7% target for aid – so it makes sense to assess the progress of the modern aid regimes over the last 35 years.

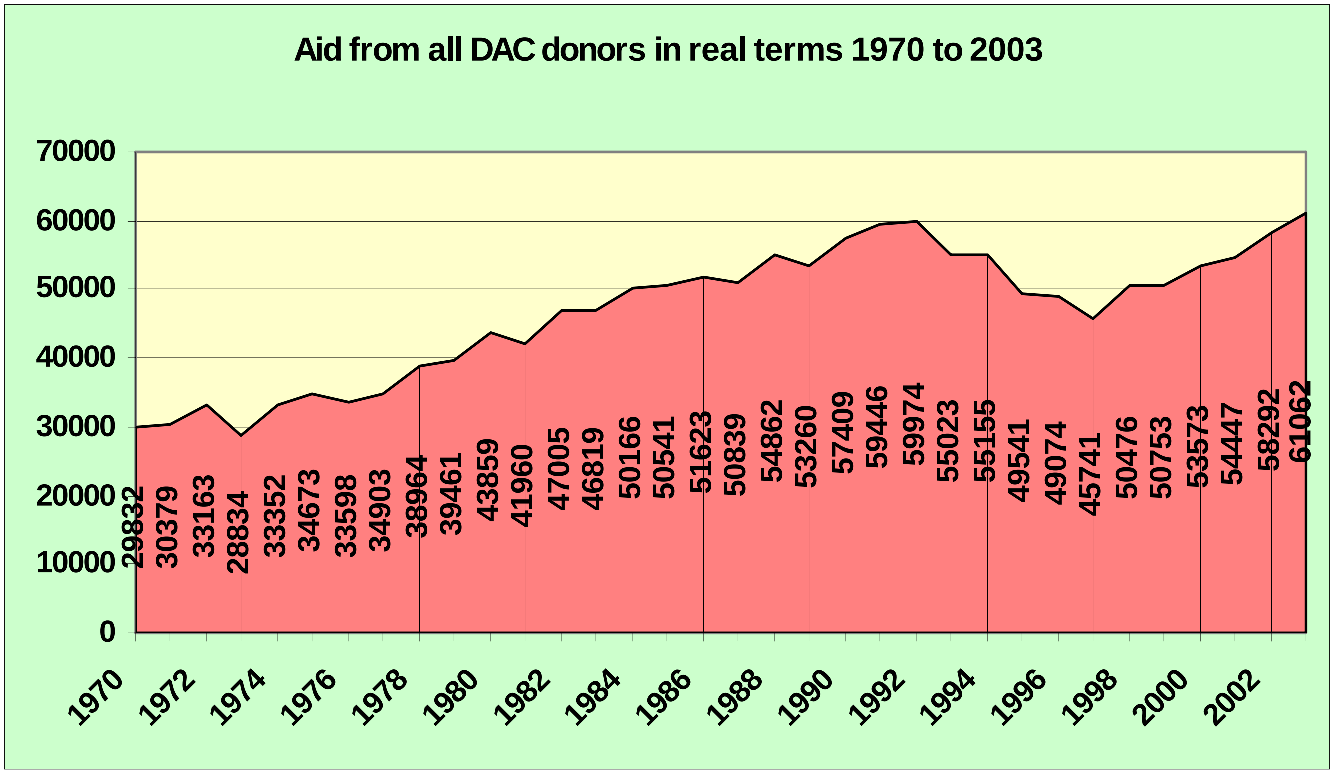
In 2003, aid from DAC's 22 donor countries reached $69,029 billions – up (in cash terms) from $58 billions in 2002, the year of the Financing for Development Summit in Monterrey.

Figure 1



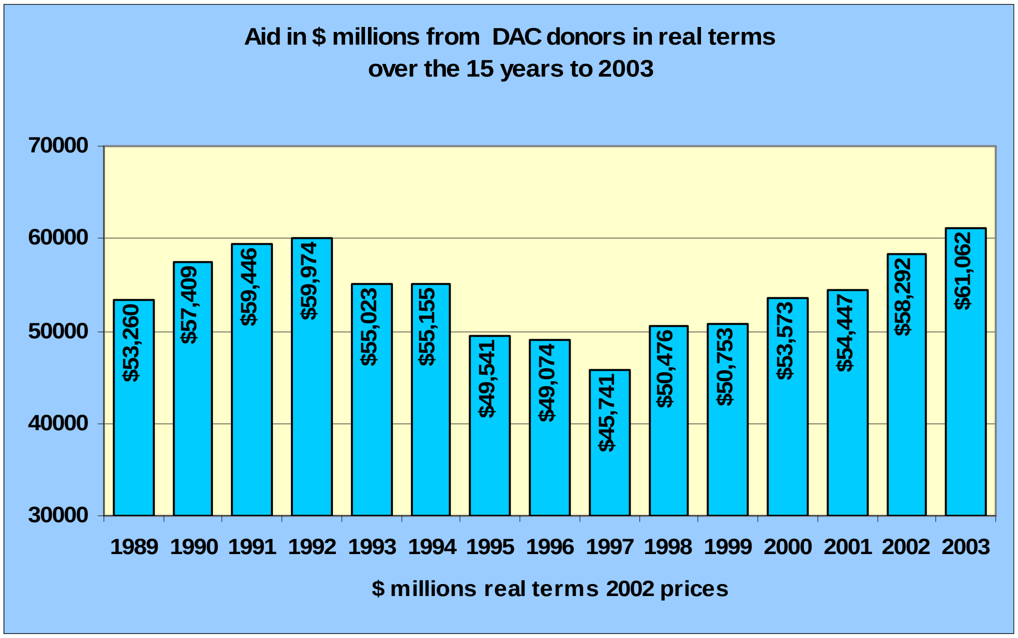
To get a realistic picture of the growth in aid volumes over time, it is necessary to look at the real terms picture. Figure 2 shows that aid has more than doubled in real terms since 1970.

Figure2



But the long term growth in aid has not been entirely steady. Just when some people expected that the end of the cold war would result in a peace dividend which could be spent on development, aid went into sharp decline, falling by 24% in real terms between 1992 (the year of the Earth Summit) and 1997.[1] Since then, ODA has returned to a path of steady growth in real terms, to reach an all time high in 2003.

Figure 3



At the Financing for Development Summit, donors pledged an additional $16 billions a year in aid – to be delivered by 2006. Taking into account rises in spending between 2002 and 2003 and the spending plans that several donors have made, the real terms growth in aid volume looks set to continue, at least for the next couple of years, though the medium and long term prospects are much less predictable.

It is not only DAC member countries who give aid on any scale. A very large number of countries support humanitarian response – both in their regions and more widely - and an increasing number of countries have long term aid programmes, some of which are monitored by the DAC. In 2003, over $3.6b was reported by the OECD to come from non-DAC donors including $800 million from Korea, $2.6 billion from Saudi Arabia, Kuwait and UAE combined and $169 million from the Czech Republic. This reported aid may not conform exactly to the standards of ODA but for some countries it is a significant part of GNI. For Saudi Arabia, Kuwait and UAE for instance it represents more than 0.7% of their combined national incomes and, among the EU accession countries, the Czech Republic has achieved 0.21% of GNI in aid in 2003.

When Portugal joined the DAC it had a per capita income of around $5,000. There are 50 countries who are either countries which joined the EU in 2004 or have a per capita income of more than $5,000. Recognising the aid efforts of these countries – and many with a lower per capita income – should be part of the process of the global goal of ensuring finance for poverty eradication.

Countries with a GNI per capita of more than $5000 in 2002

Luxembourg	39470
Norway	38730
Switzerland	36170
United States	35400
Japan	34010
Denmark	30260
Iceland	27960
Sweden	25970
United Kingdom	25490
Hong Kong, China	24500
Finland	23890
Austria	23860
Netherlands	23390
Ireland	23030
Belgium	22940
Germany	22740
Canada	22390
France	22240
Singapore	21180
Australia	19530
Italy	19080
Kuwait	16340
Israel	16020
Bahamas, The	15110
Spain	14580
New Zealand	13250
Greece	11660
Korea, Rep.	11280
Bahrain	11260
Portugal	10720
Slovenia	10200
Malta	9260
Barbados	8790
Antigua and Barbuda	8770
Saudi Arabia	8530
Oman	7830
Palau	7090
Seychelles	6910
Trinidad and Tobago	6600
St. Kitts and Nevis	6440
Mexico	5940
Czech Republic	5490
Hungary	5240
Poland	4670
Croatia	4620
Estonia	4190

Slovak Republic	4050
Lithuania	3730
Latvia	3490

Figure 4

Three quarters of DAC aid comes from 5 of the DAC's 22 donors, the USA, Japan, Germany, France and the UK – all G8 countries.

The two other G8 donors, Italy and Canada, each provide over $2 billion a year.

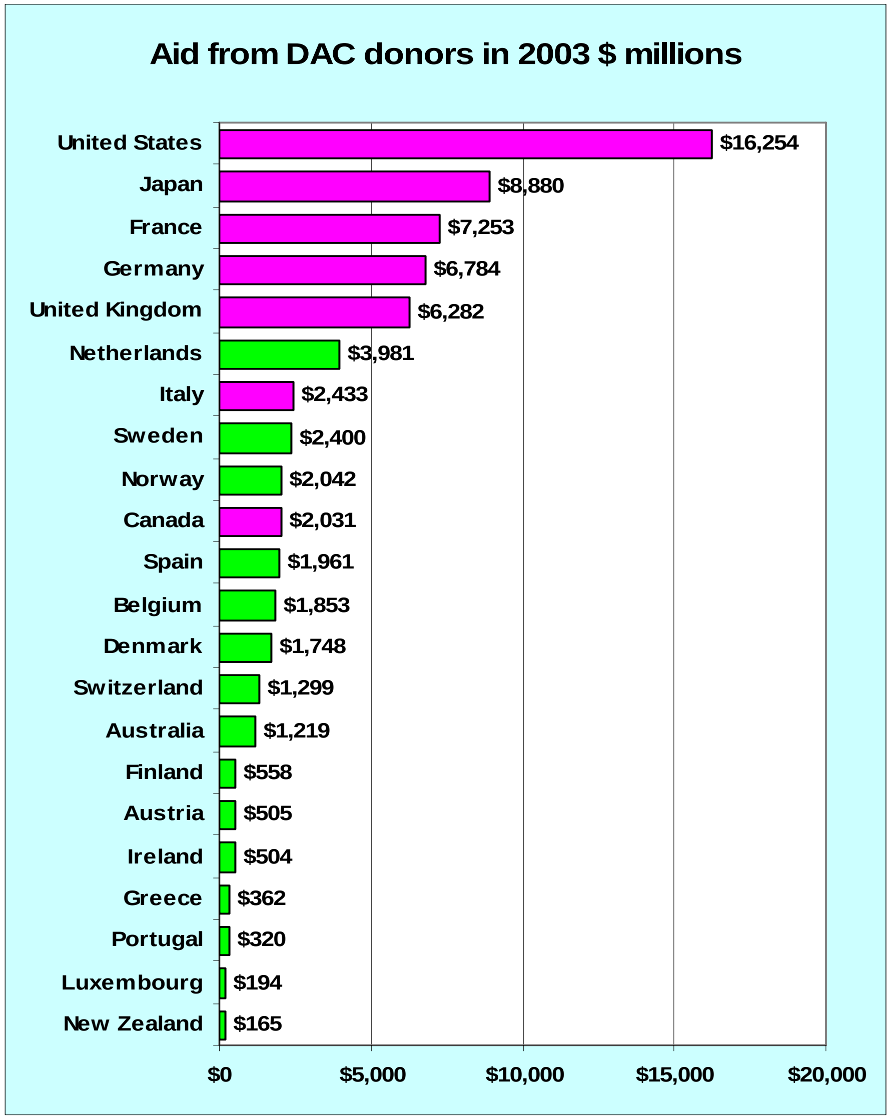
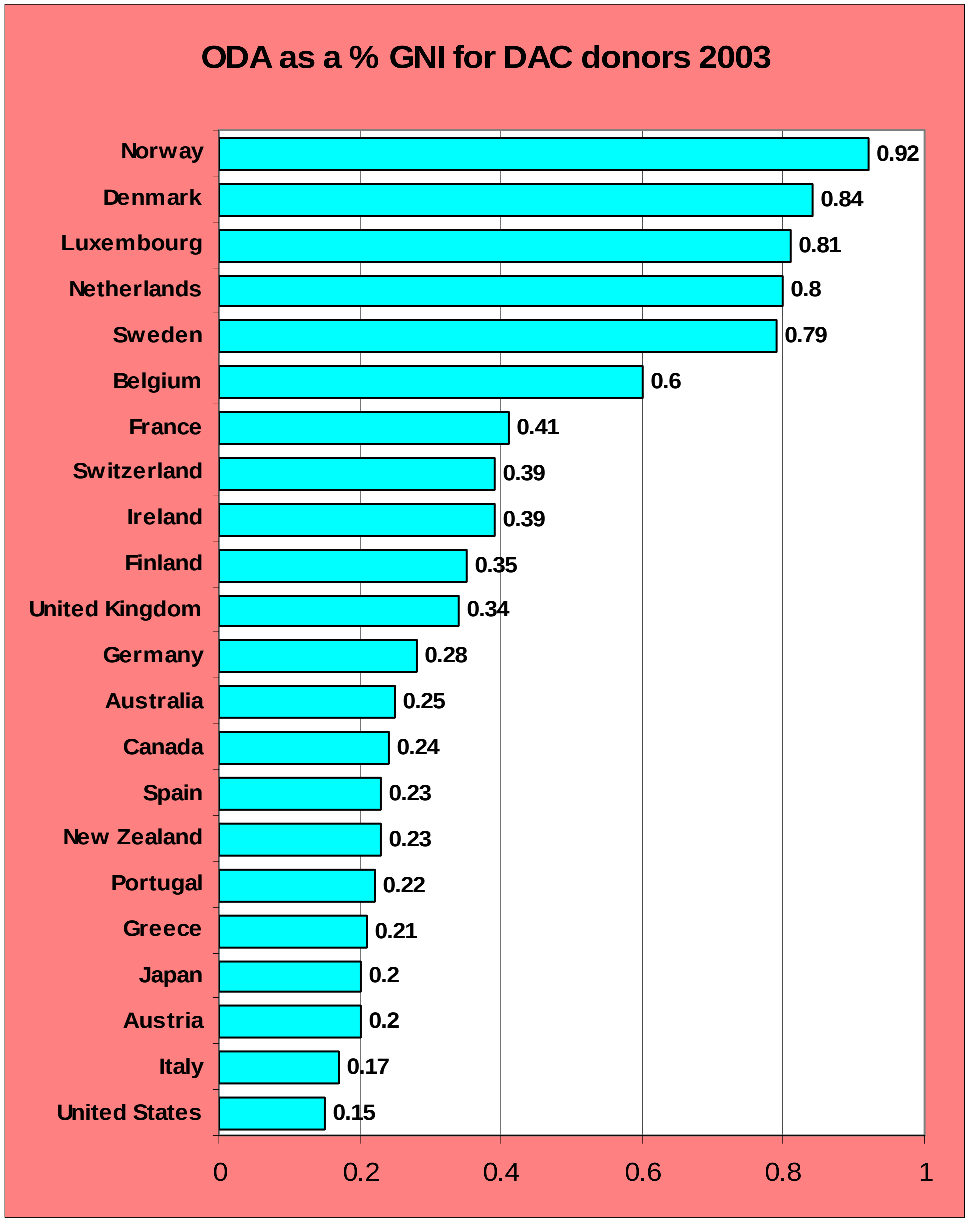


Figure 5

Whilst the sheer volume of aid a country gives is one measure of aid performance, a better measure of commitment to the international goal of eradicating poverty is how much aid a country gives as a proportion of its national income.



The benchmark established in 1970 is the UN 0.7% target.

In 2003, only 5 donor countries reached or exceeded the UN target.

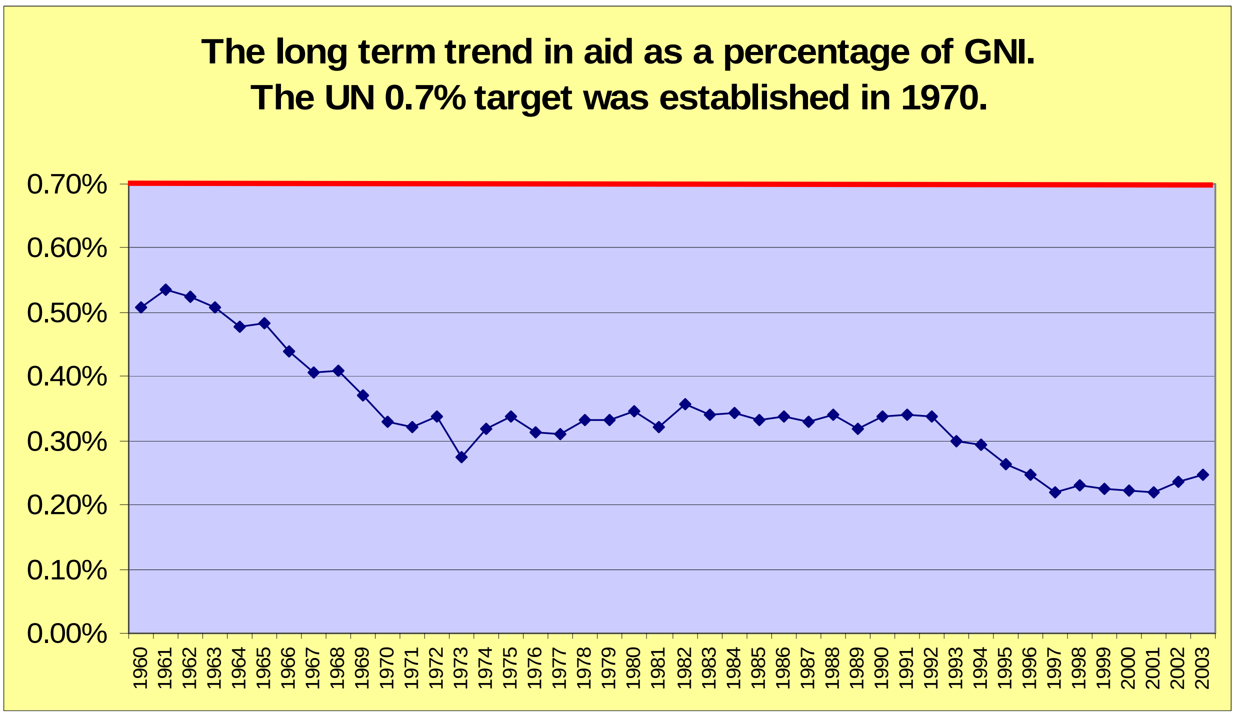
Four of these donors - Norway, Sweden, Denmark and the Netherlands - have consistently met the UN target for over 25 years – and in some years each of these donors have actually exceeded 1.0% in ODA.

Since Luxembourg became a donor in 1980, it made very steady progress to reach the UN target in 2000. The only other DAC donor to reach the target since it was established is Finland, whose aid rose every year from 1977 to reach 0.8% in 1991, but then fell back sharply to less than half this level for a decade.

Among G8 donors, France performs best in the ‘generosity league table’ at 0.41% in 2003, and the UK has significantly improved its performance over the last 5 years, but the USA, Italy and Japan occupy 3 of the 4 bottom places when their aid is assessed against what they can afford (or in terms of ‘burden sharing’).

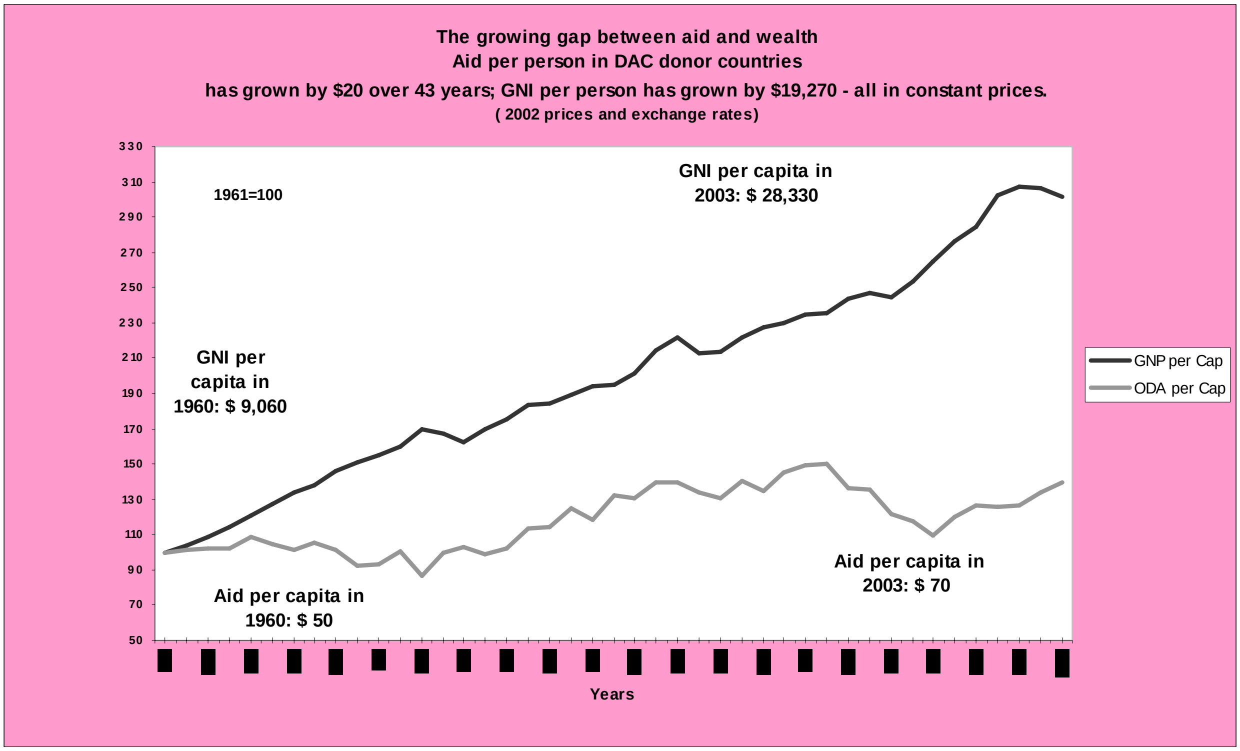
Looked at over the long term, the collective performance of donor countries has deteriorated substantially. Indeed at the time of the Financing for Development Summit - the purpose of which was to address the financing needed to achieve the MDGs - donors had never been richer and never been meaner: GNI for OECD DAC donors was at an all time high and aid as a percentage of GNI was at its lowest point since records began.

Figure 6



The picture is more striking still when the trend in aid from people in donor countries is compared with the growth in personal wealth in donor countries over the same period. As Figure 7 shows, income per capita in real terms has tripled since 1960 – going up by over $19,000 per person. But aid per capita gone up by just $20 in 43 years – from $50 per person in donor countries in 1960 to $70 in 2003.

Figure7


The growing gap between aid and wealth
Aid per person in DAC donor countries
has grown by $20 over 43 years; GNI per person has grown by $19,270 - all in constant prices.
(2002 prices and exchange rates)
1961=100
GNI per capita in
2003: $ 28,330
GNI per
capita in
1960: $ 9,060
Aid per capita in
1960: $ 50
Aid per capita in
2003: $ 70
GNP per Cap
ODA per Cap
Years
330
310
290
270
250
230
210
190
170
150
130
110
90
70
50

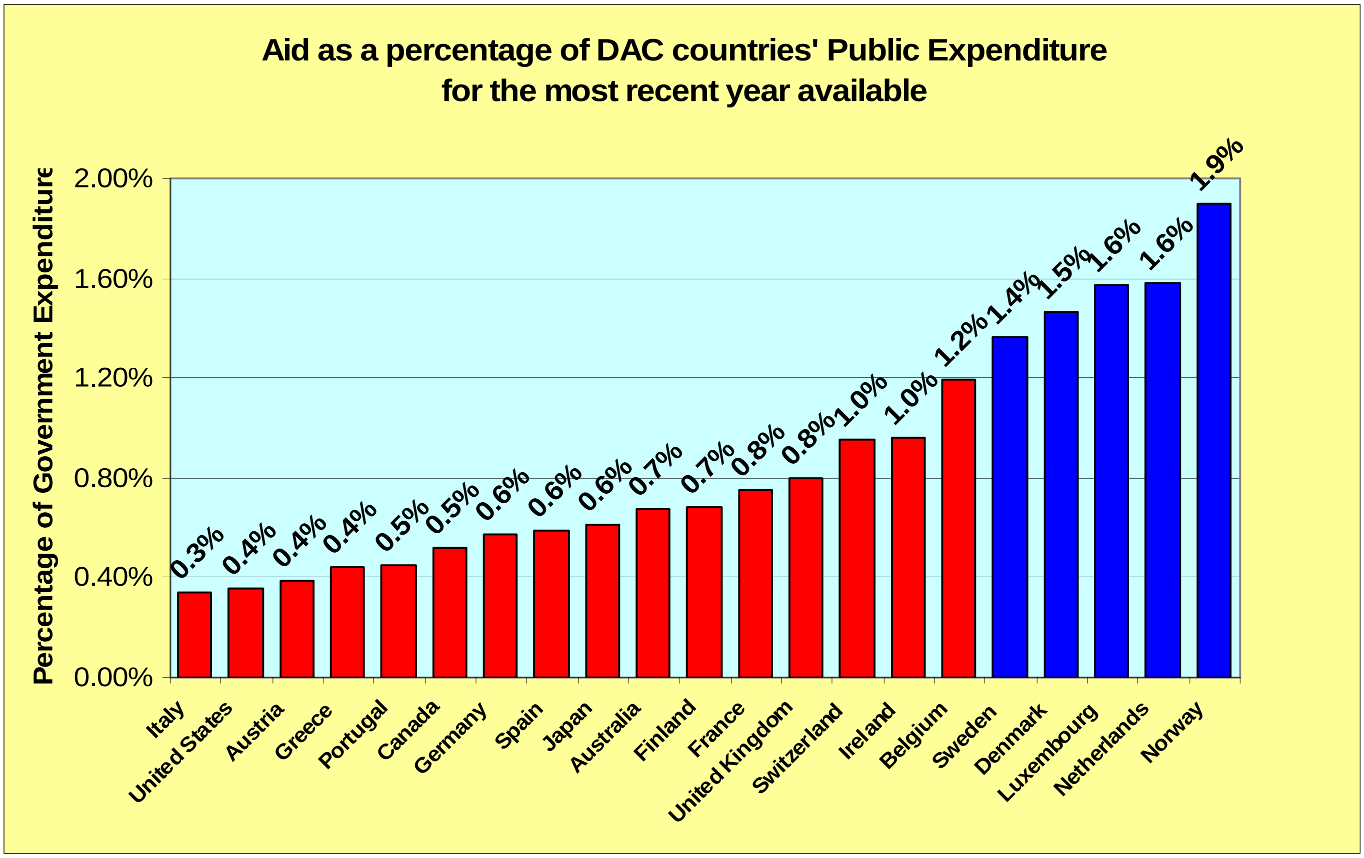


Figure 8

Whether or not a country demonstrates commitment to poverty elimination by making progress towards the 0.7% target is a matter of clear political choice. [1] This is evident from the graph in Figure 8, which shows how all of the countries who meet the target (marked in blue) have decided to allocate a bigger share of public spending to aid than the countries that miss the target.

Before the early 1990s decline in aid volumes, ODA reached its previous highpoint in 1992, the year of the Earth Summit, at which donors pledged ‘new and additional resources’ for development.

[1] Note that the United States has never accepted the UN target.

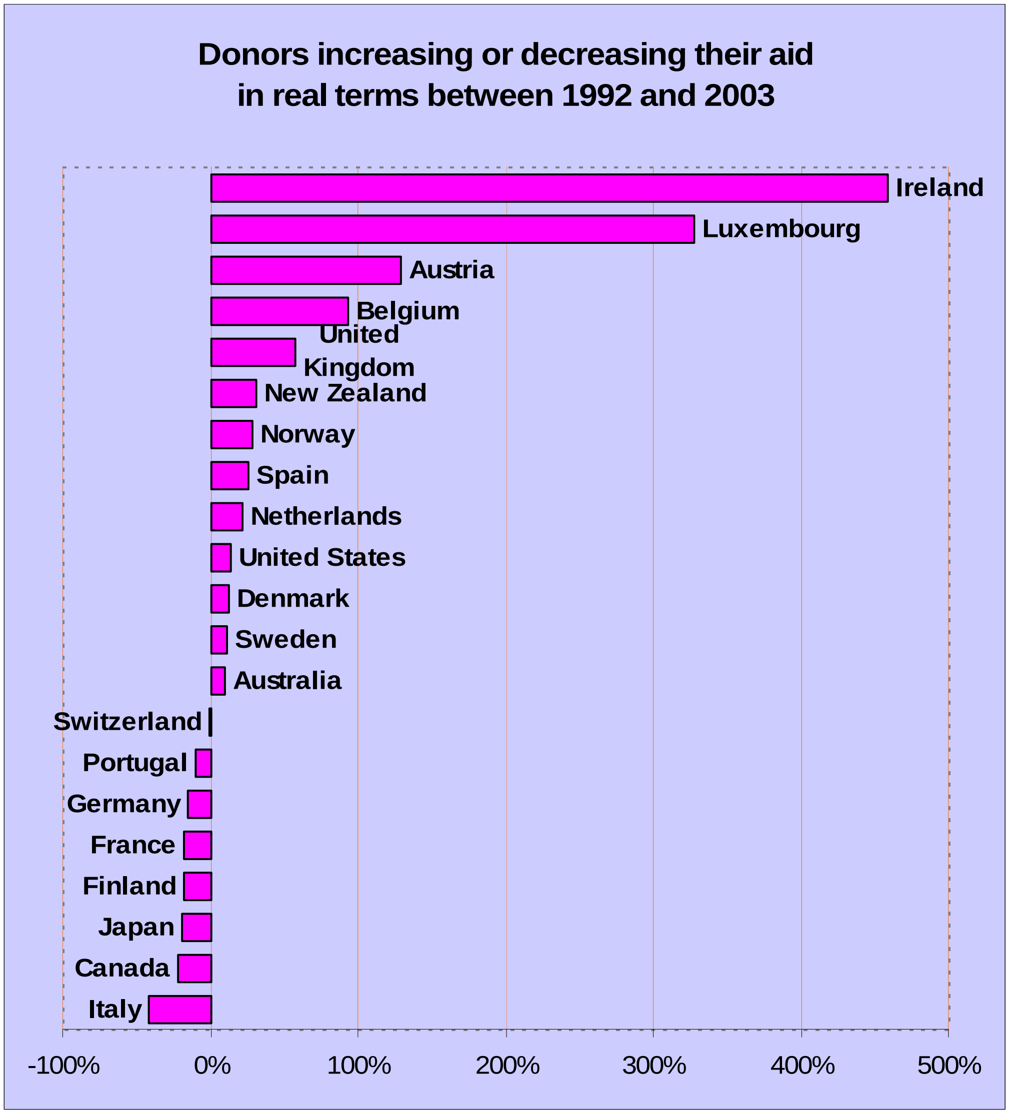


Figure 9

But immediately after the summit, aid started to decline, and Figure 10 shows, several donors (including G8 members Italy, Canada and Japan who purport to exhibit leadership) are far from restoring aid in real terms to what it was over a decade ago.

A key issue therefore is whether the Financing for Development Summit will mean that all OECD countries deliver on commitments.

Whilst normal year to year fluctuations must be taken into account, it is clear that some donors have a lot to do if they are to meet pledges to increase aid by 2006.

On the other hand, aggregate ODA from DAC donors did rise by over 4% in real terms between 2002 and 2003, with the number of donors increasing aid exceeding those allowing it to decline.

When the FfD Summit took place in 2002, the latest full year figures available on aid volume were for 2001, when aid totalled just over $50 billions.

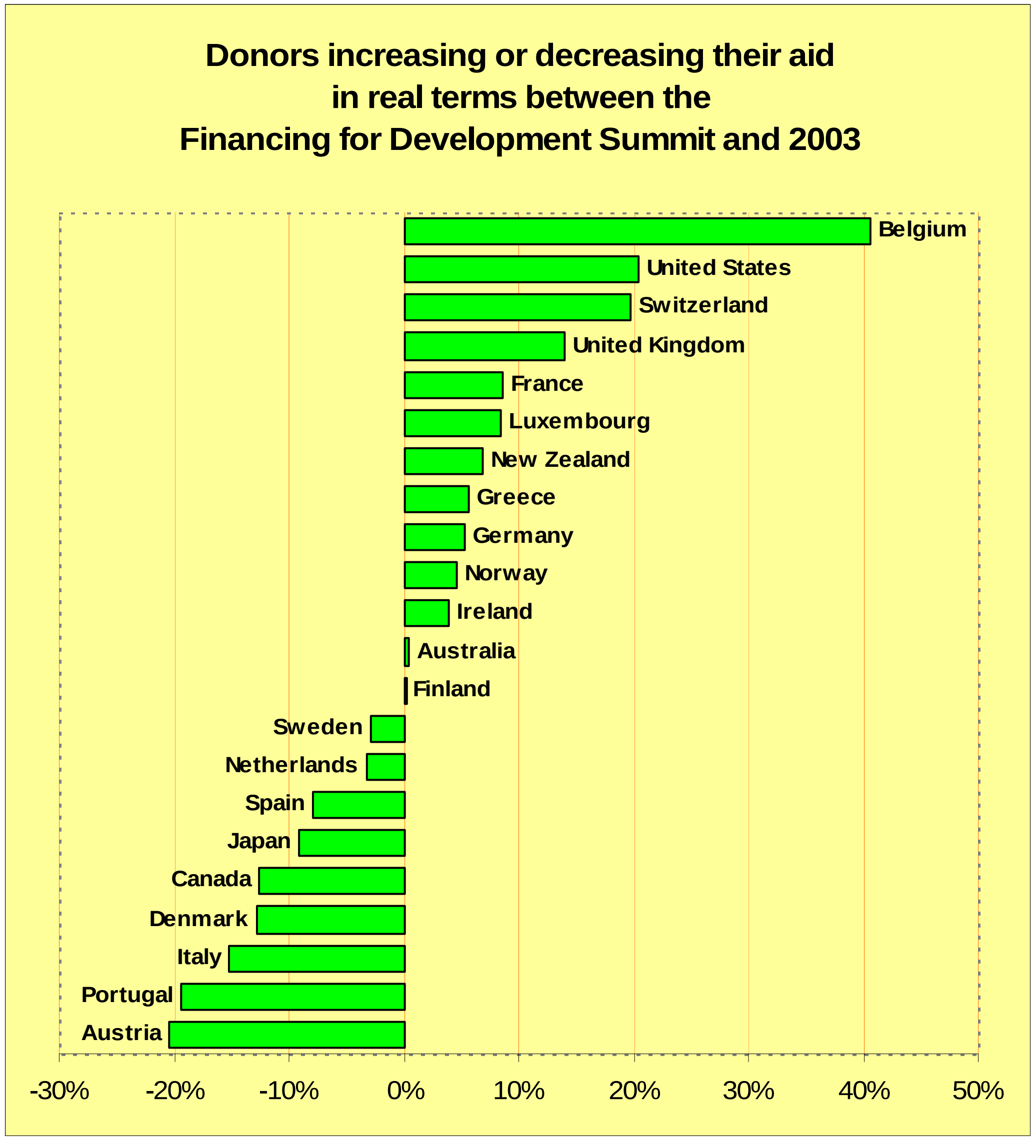


Figure 10

Estimates prepared for FfD by an eminent panel, led by former President of Mexico Ernest Zedillo, suggested that aid needed to be doubled to reach the Millennium Development Goals – a requirement for an additional $50 billion per year.

Based on actual aid in 2002 when FfD took place, it is possible to look at some scenarios of how the required volumes of aid compare to previous spending and the 0.7% target.

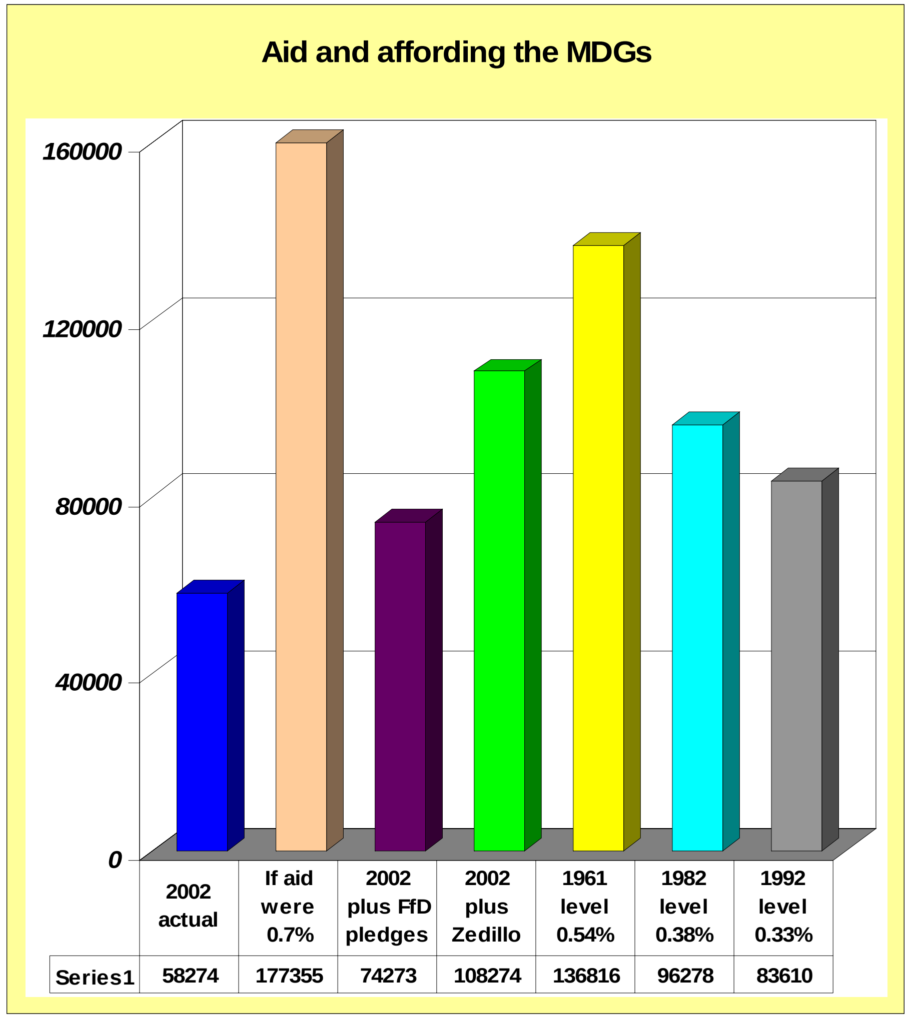
Figure 11

The Zedillo estimates (green) were roughly double 2002 actual spending (blue) – but well below the level of aid that would be available if donors were all meeting the 0.7% target (pink).

The $16 billion worth of pledges made at FfD when added to the actual 2002 figure left aid well short of the required level (compare the purple and green columns).

But the required level of aid (green) is less than donors would be giving if they had maintained aid at the level it was in 1961 (yellow). And even if aid were restored to GNP levels achieved in 1982 and 1992, ODA would be not far short of the Zedillo requirements.

Data on donor commitments[2] suggest a sharp rise in pledges since 2002. This may be a sign that donors are translating pledges into firm spending commitments that will feed through into significant



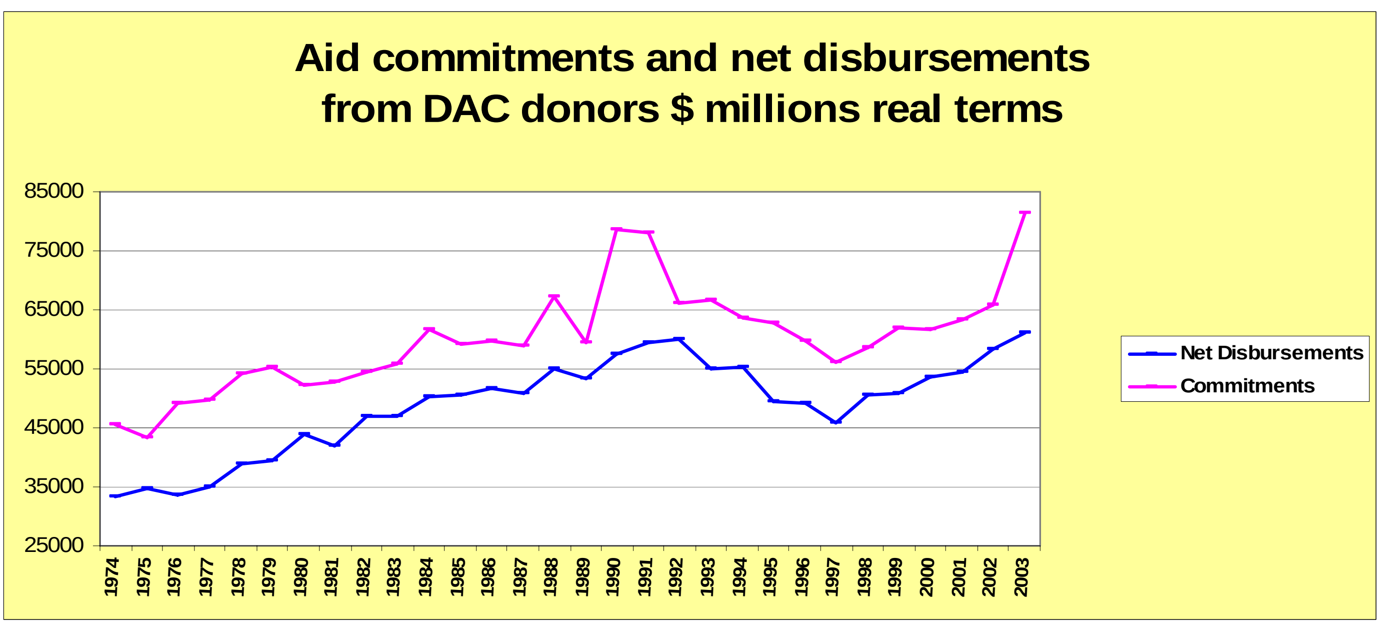


Figure 12

increases in actual disbursements. But the increased commitments remain a long way short of what is required and note should be taken of the fact that a sharp increase in commitments prior to 1992 was not sustained and did not result in substantial extra spending.

The more recent estimates of the costs of reaching the MDGs outlined by the Millennium Project will require substantial aid increases. In the Development Initiatives paper on New Thinking on Aid and Social Security, it is argued that progress is needed on both basic social security AND the investments needed to delivered the MDGs. Social investment and social assistance are clearly closely interlinked.

Millennium Project MDG cost estimates do not include a line for basic social security but they do emphasis the scale of change in investment needed to support MDG strategies. Progress on basic social security could be started with, realistically, around 1 -2% of LDC GNP – between $13b and $26b a year.

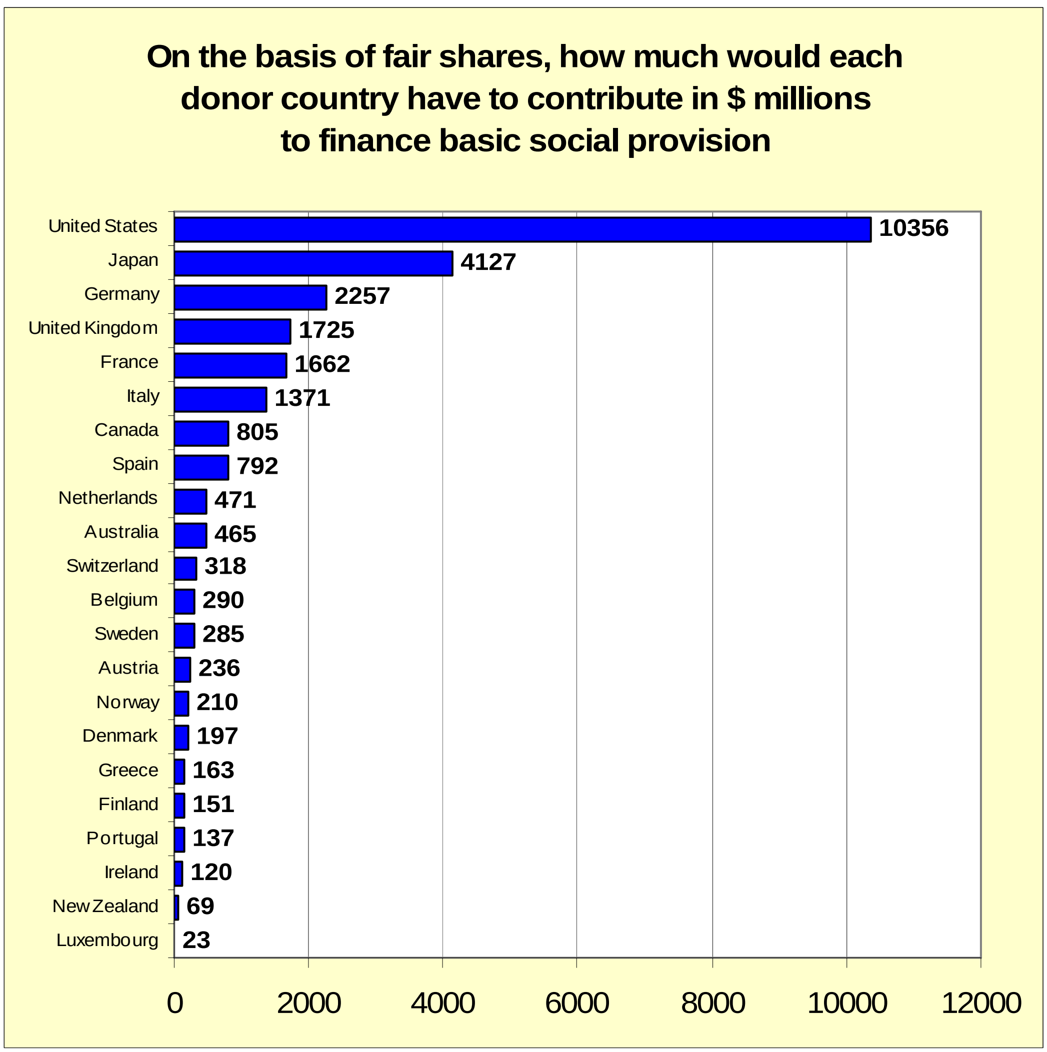


Figure 13

Clearly new resources are needed, but it should also be noted that the current allocation of ODA means that a relatively small proportion is actually available to finance government MDG strategies and there are opportunities to release funds through aid reform. The key question is therefore, what fiscal space is there for developed countries to find new resources? There are five areas which clearly demonstrate the capacity to both meet the MDG costs and finance basic social security. These are:

1. Meeting ODA commitments to 0.7% - fiscal and policy choices
2. Making progress via the International Finance Facility
3. Review of government priorities towards military spending
4. Consumer expenditure
5. Aid Reform

1. MEETING ODA COMMITMENTS TO 0.7% - FISCAL SPACE AND POLICY CHOICES

Figure 14

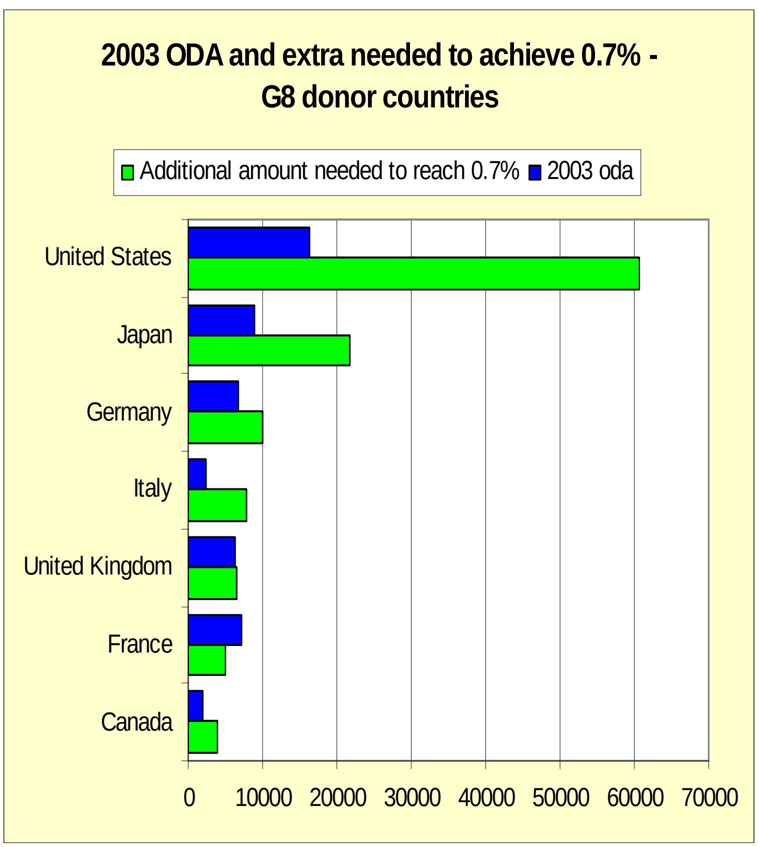
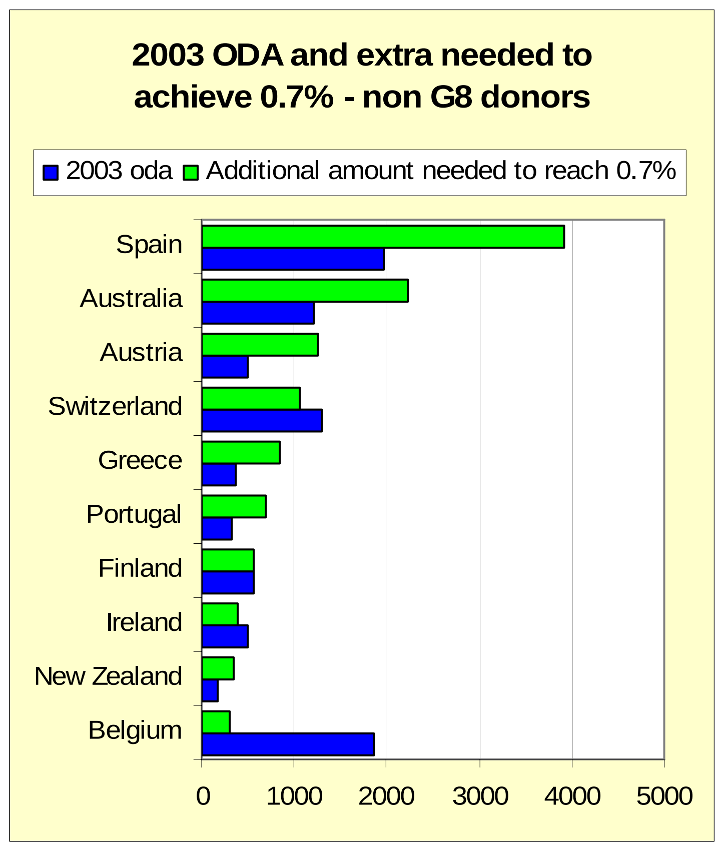


Figure 15

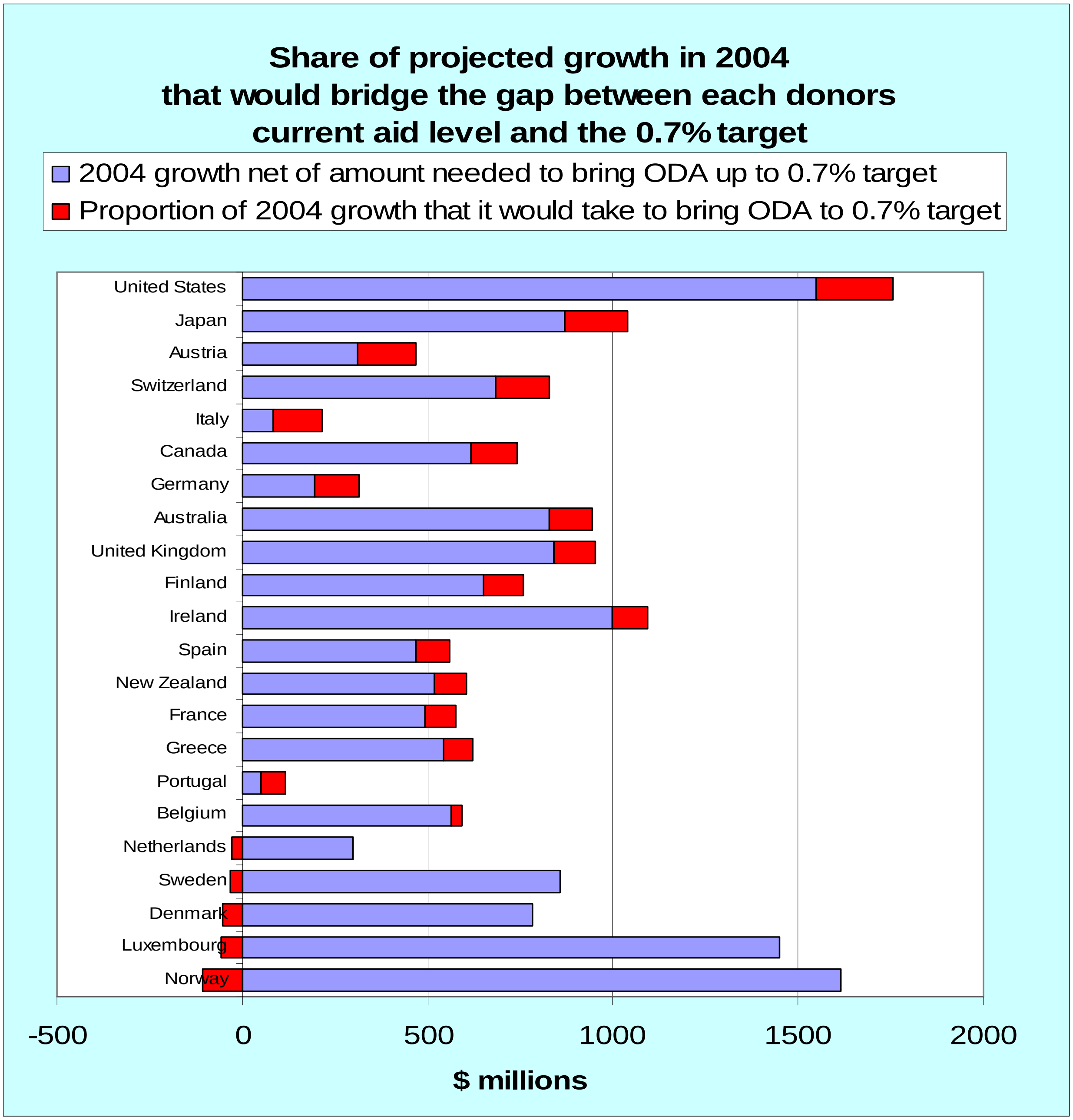


Five donors, Norway, Sweden, Netherlands, Denmark and Luxembourg are already meeting their 0.7% commitment. Figures 14 and 15 show how much the countries who are not reaching the target need to do.

The OECD has projected economic growth for every DAC donor country in 2004. These estimates suggest that growth will have generated nearly $900 billion in DAC donor countries in 2004.[3]

To reach 0.7%, $125b of this growth – or 14% of the increase in wealth would have to be allocated to aid. This would provide more than enough to finance the MDGs and the universal availability of modest social protection.

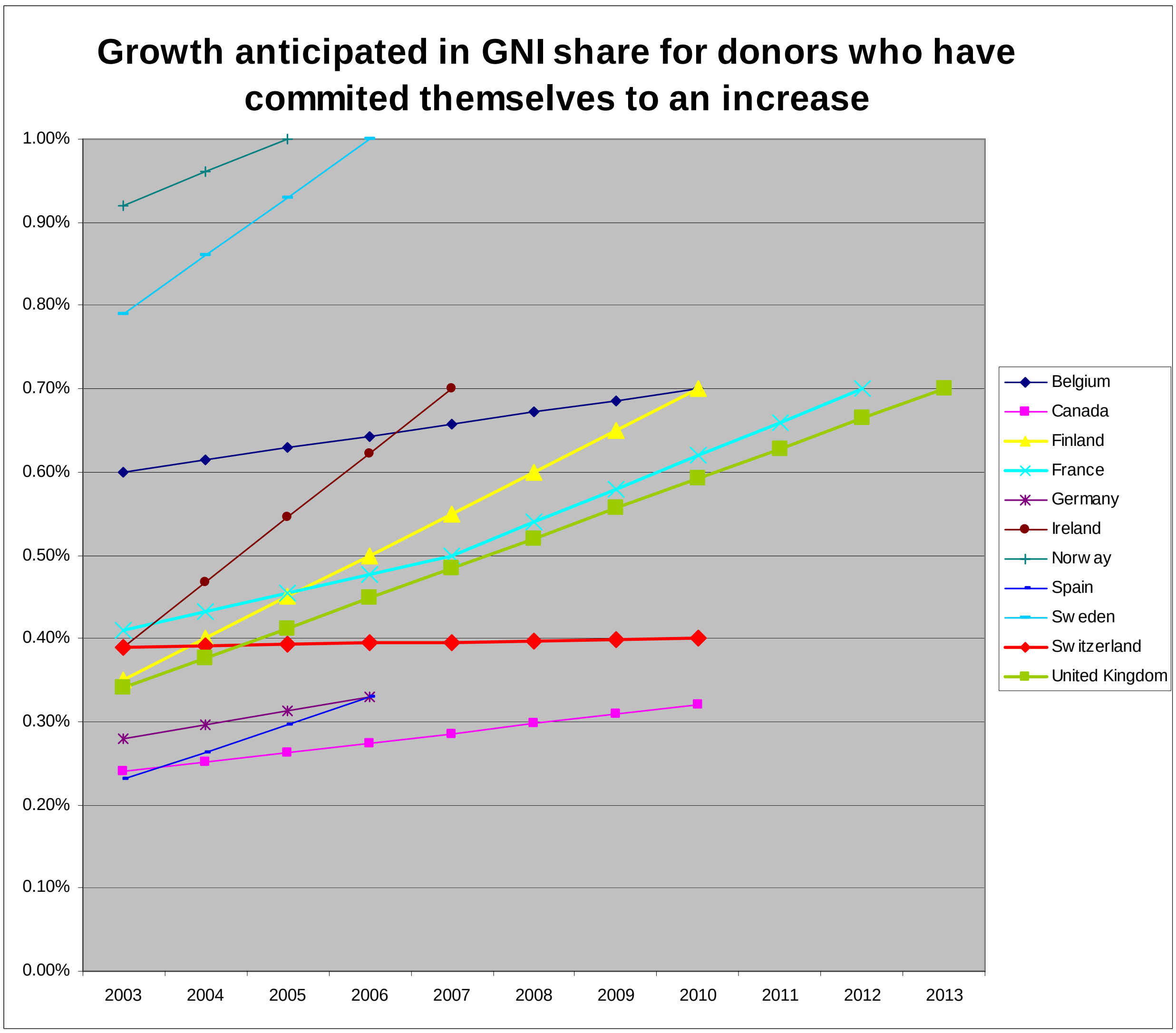
Figure 16


Share of projected growth in 2004
that would bridge the gap between each donors
current aid level and the 0.7% target
2004 growth net of amount needed to bring ODA up to 0.7% target
Proportion of 2004 growth that it would take to bring ODA to 0.7% target
United States
Japan
Austria
Switzerland
Italy
Canada
Germany
Australia
United Kingdom
Finland
Ireland
Spain
New Zealand
France
Greece
Portugal
Belgium
Netherlands
Sweden
Denmark
Luxembourg
Norway
-500
0
500
1000
1500
2000
$ millions

Around half of DAC donors have made timetabled commitments to increase their aid to a specific percentage of GNI. Sweden and Norway are committed to increases even though their ODA is already above 0.7%. France and UK have set a timetable for achieving 0.7% by 2012 and 2013 respectively.

These targets are set by governments on the basis of what is achievable within their own economies. It is notable that there are very marked differences between the rates of increase considered possible by different donors. Some, such as the UK, have anticipated a growth rate of around 12% per year; others like Switzerland have set a target that requires only 1% growth per year.

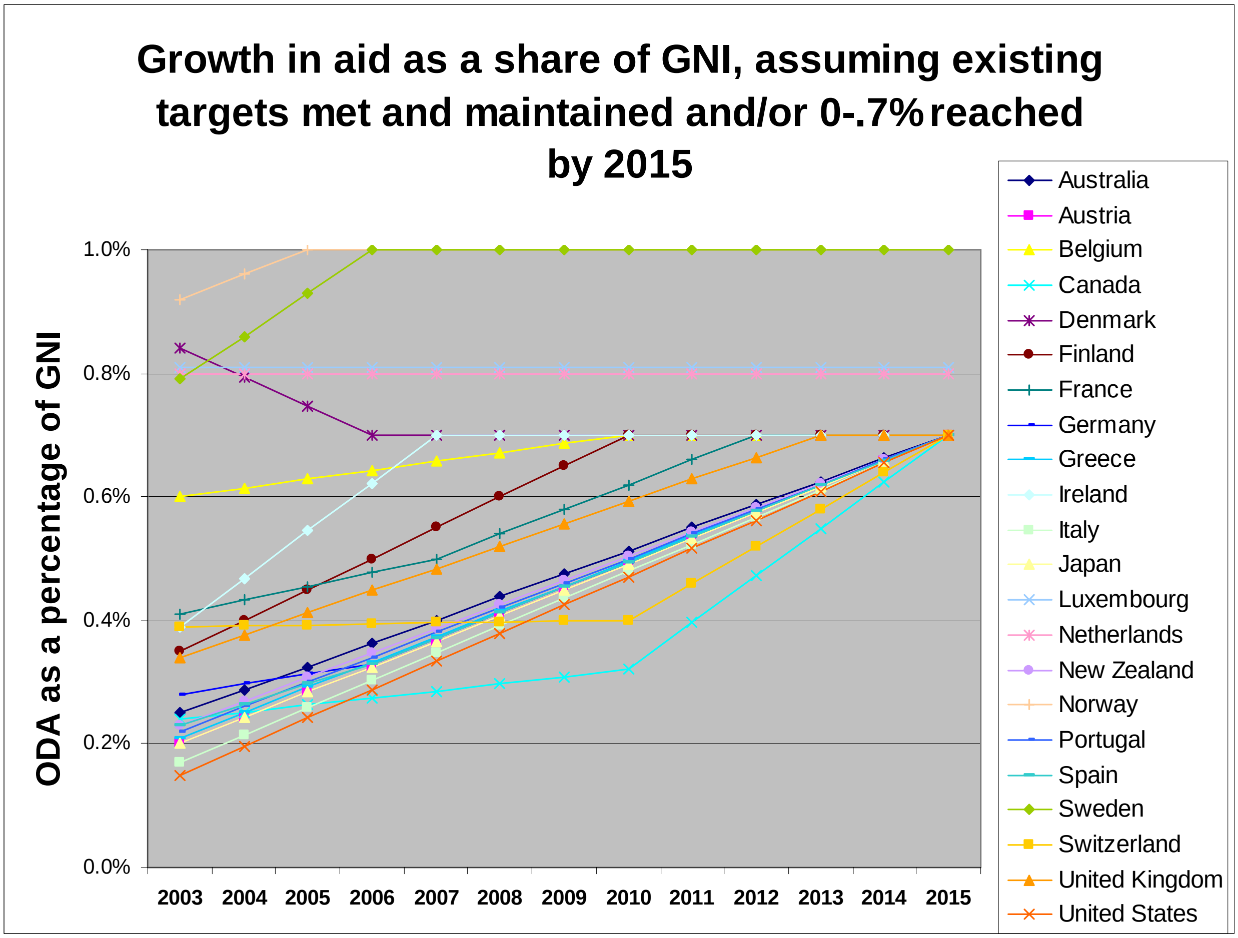
Figure 17



What is the fiscal burden like for these countries who are already committed to timetabled increases and what sort of fiscal burden would result from all donors achieving 0.7% by 2015?

Figure 18 shows the ODA-growth trajectories for all donors, assuming that they either reach 0.7% by 2015 (if they have not set a target for themselves) or that they reach and maintain their own targets and, where these fall short of 0.7%, that they achieve 0.7% by 2015.

Figure 18



How achievable are these growth trajectories? Based on the ODA that should be achieved in 2007 if donors are to be on-track, Figure 19 shows the shares of tax receipts, the volume of increase in national currency and, by way of comparison, the volume of change in defence spending between 1999 and 2003 in national currency.

The countries with the most to achieve are the USA, Italy, Japan, Portugal, Spain and Australia. On average donors would need to allocate 0.65% of tax receipts to aid but Japan, USA, Greece and Italy would need to allocate over 1% of tax receipts to aid to achieve the target. Ireland will need to allocate over 1.5% of tax receipts if it is to achieve its own aid target in the face of very fast growing GNI.

However, the issue is clearly not fiscal space but political choice. The Bush Administration has implemented tax cuts in the USA to the value of £372 billion[iv], over $1000 per capita and four times the amount necessary to achieve 0.7% in 2005, let alone by 2015.

Between 1999 and 2003 twelve aid donors increased their defence expenditure by MORE than the amount that would be necessary to be on track to achieve the 0.7% targets. These are: Australia, Canada, Denmark, France, Greece, Luxembourg, Netherlands, Norway, Portugal, Spain, UK, and United States. In the case of the USA, defence expenditure rose by $165 billion over the four years between 1999 and 2003. Aid spending would need to rise by $24b to be on track to achieve 0.7% in 2015.

Figure 19

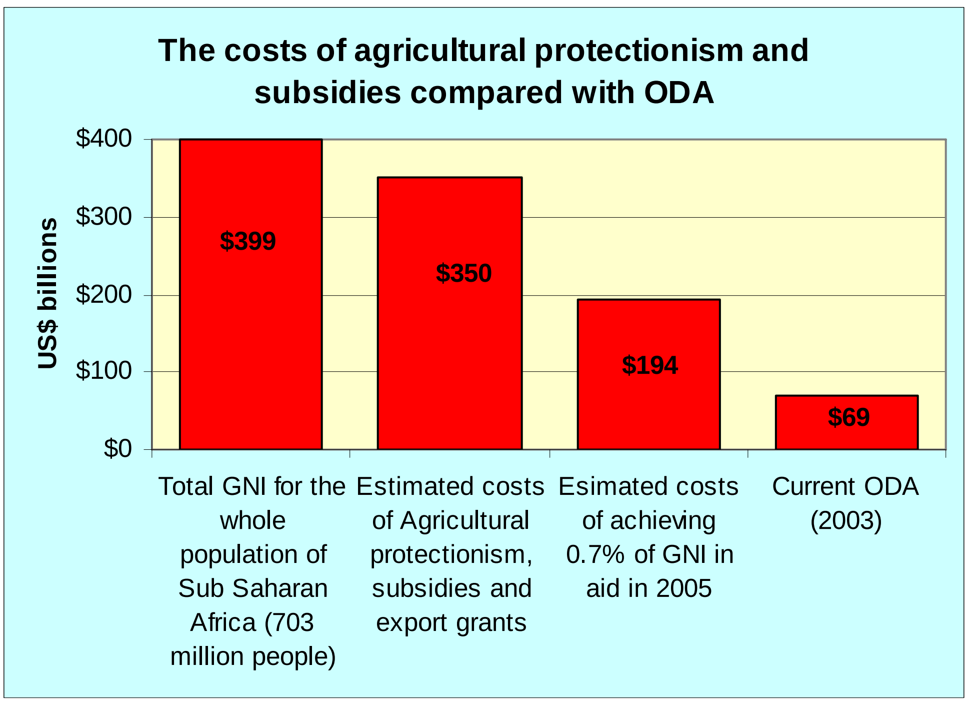
Additional aid needed to achieve targets compared with defence expenditure and tax receipts (Figures in bold show countries where military expenditure increases exceed the increases necessary to meet aid targets) Sources: OECD National Accounts, DAC Statistics and SIPRI Milex data

Donors	Amount of additional aid need - in national currency - to be on track to achieve the 0.7% targets in 2007	Amount of additional expenditure on defence between 1999 and 2003 in national currency	Share of tax receipts that would be needed to finance the increase in aid
Australia	$1,549	**$3,367**	0.65%
Austria	€ 418	€ 78	0.66%
Belgium	€ 260	€ 74	0.32%
Canada	$907	**$1,704**	0.27%
Denmark	-kr 1,328	**kr 2,507**	-0.21%
Finland	€ 356	€ 228	0.76%
France	€ 1,942	**€ 3,702**	0.47%
Germany	€ 2,231	€ 325	0.46%
Greece	€ 344	**€ 870**	1.01%
Ireland	€ 508	€ 197	1.65%
Italy	€ 2,427	€ 2,181	0.66%
Japan	JPY 991	JPY 20	1.23%
Luxembourg	€ 15	**€ 73**	0.22%
Netherlands	€ 105	**€ 670**	0.09%
New Zealand	$257	$46	0.61%
Norway	kr 2,579	**kr 5,251**	0.36%
Portugal	€ 222	**€ 533**	0.69%
Spain	€ 1,378	**€ 1,659**	0.86%
Sweden	6,271 kr	118 kr	0.71%

Switzerland	SFr. 95	SFr. -287	0.06%
United Kingdom	£2,160	**£3,549**	0.71%
United States	$24,148	**$165,351**	1.18%

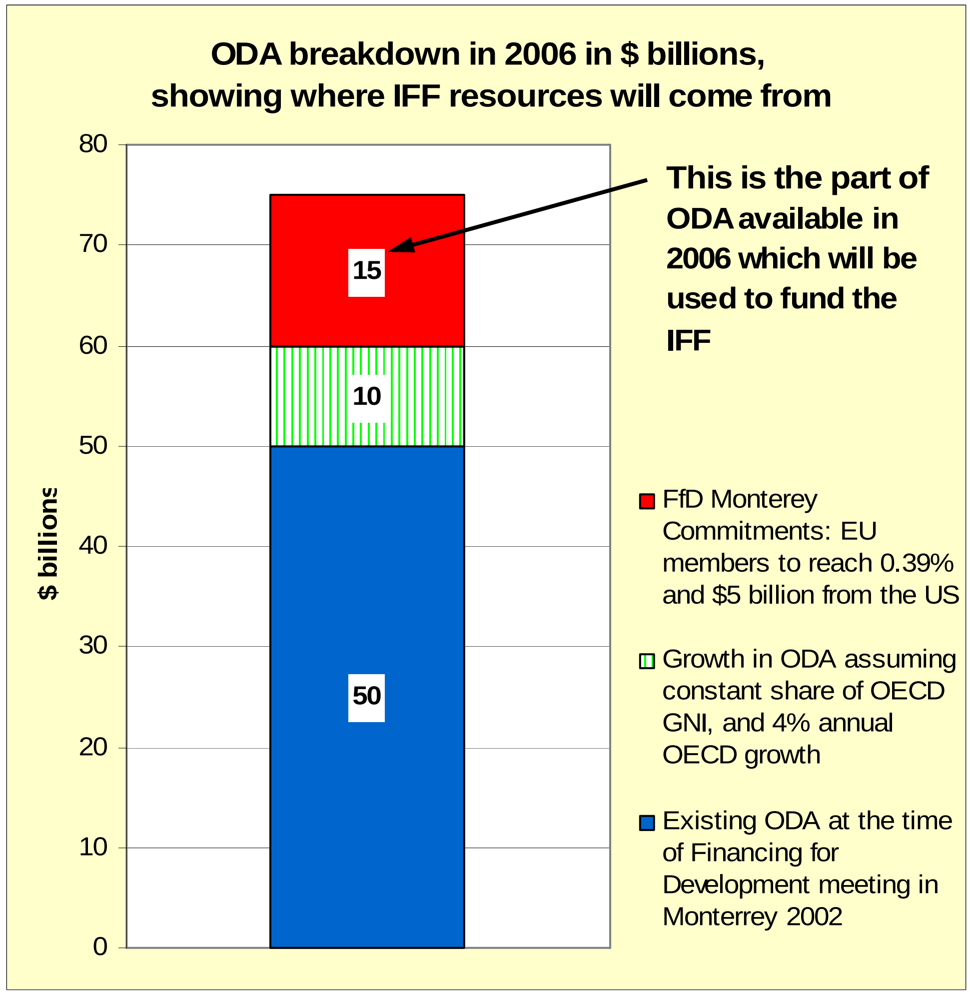
The cost of the Common Agricultural Policy in Europe was over $45 billion in 2002 – more than the amount necessary to achieve the EU Monterrey commitment of 0.39% of GNI in aid by 2005. The total cost in 29 OECD countries of agricultural protectionism, subsidies and export grants exceeds $350b a year - $150million more than would be needed to achieve 0.7% right now.

Figure 20



2. METHODS TO RAISE NEW RESOURCES – THE IFF

Figure 21



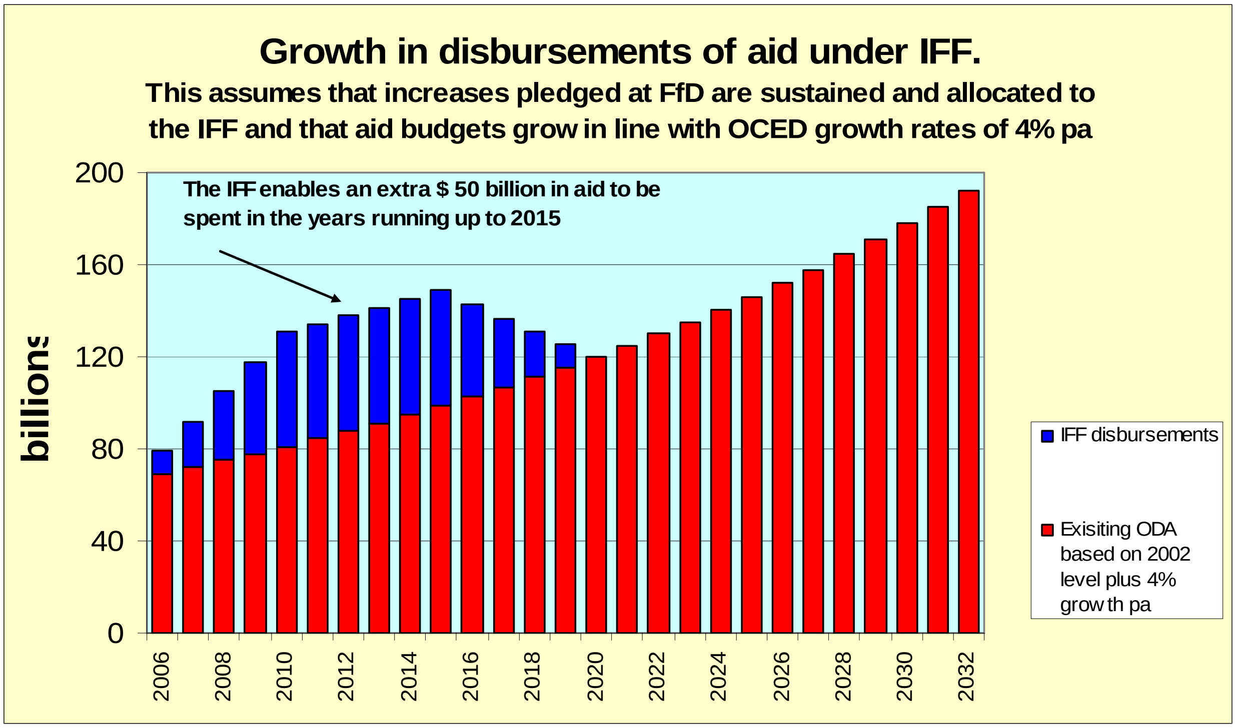
The difficulty that many donors face in finding the substantial amounts of money that would be required to reach 0.7%, and the urgent need to find additional resources prior to 2015, has resulted in a lot of discussion on different ways of raising money – including the Tobin Tax and the proposal for an International Finance Facility to frontload aid spending.

The IFF would take increases in aid pledged at FfD Monterrey, and use this additional $16 billion to back the issue of AAA Bonds, the income from which would raise approximately $50 billion for immediate spending in the run up to 2015.

Whilst the possibility of doubling aid by all donors joining the IFF looks remote, it does appear quite possible that a handful of donors will decide to frontload aid spending by the use such mechanisms. This means that whilst aid is still increasing relatively modestly the amount of money available for current aid spending may increase at a faster rate.

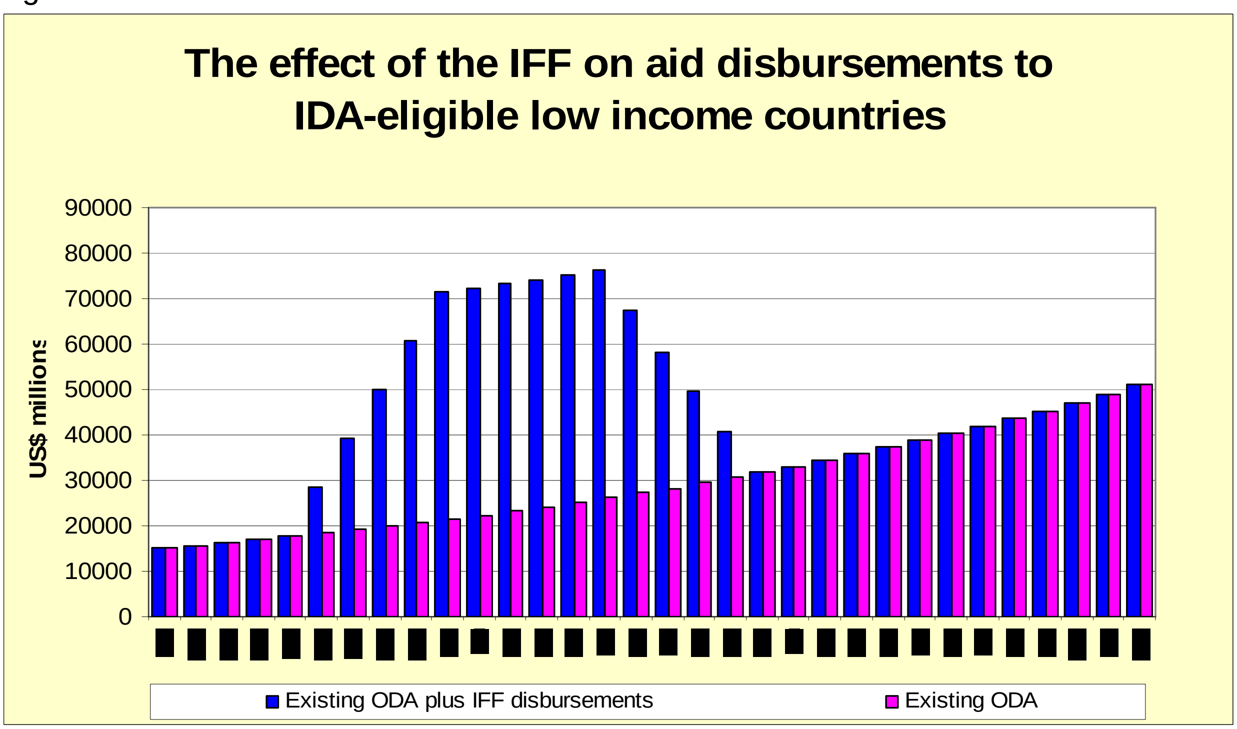
If all donors did use FfD increases to back the IFF, the effect on spending prior to 2015 would be dramatic.

Figure 22



The targeting of IFF funding on the poorest countries would mean that disbursements in IDA eligible LICs would benefit especially.

Figure 23



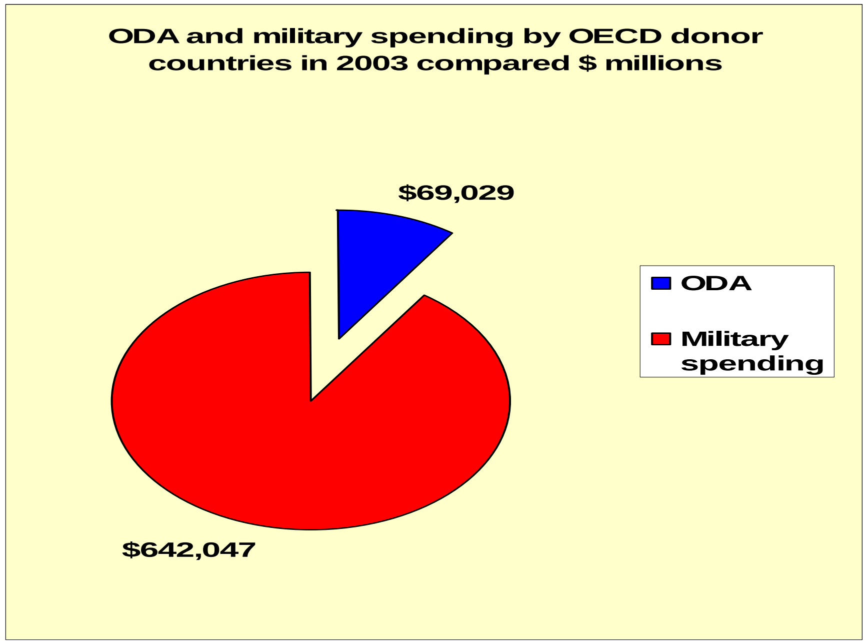
3. Review of government priorities towards military spending

This paper has already shown that aid absorbs a relatively small percentage of public spending even in countries who meet the UN 0.7% target.

By contrast, military spending takes a far greater share of both public spending and national income in most donor countries.

Relatively modest transfers of resources from military to ODA budgets could see the 0.7% target met, the MDGs achieved, and universal access to social protection.

Figure 24



Collectively, DAC donors spent $642 billions on the military, almost ten times the $69 billions spent on ODA.

Figure 25

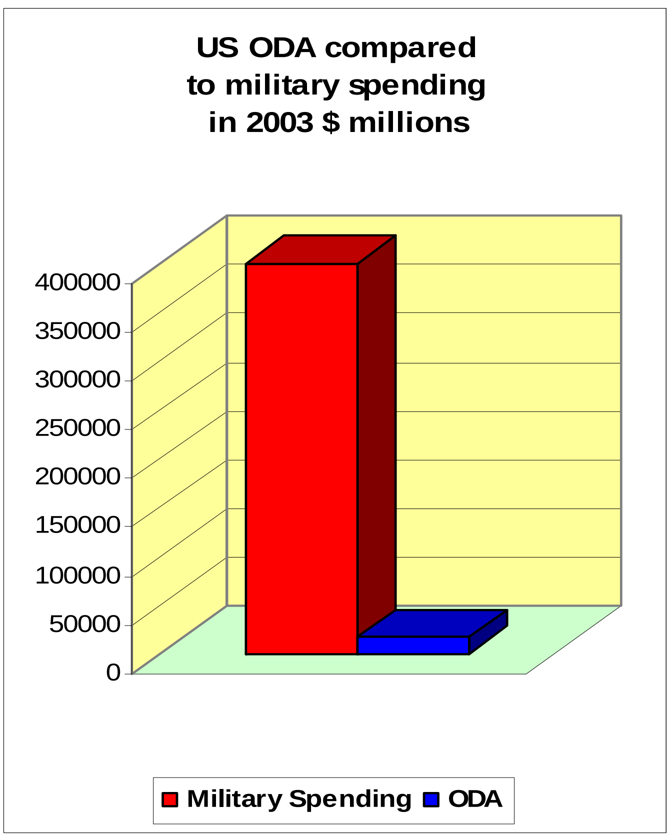


Figure 26

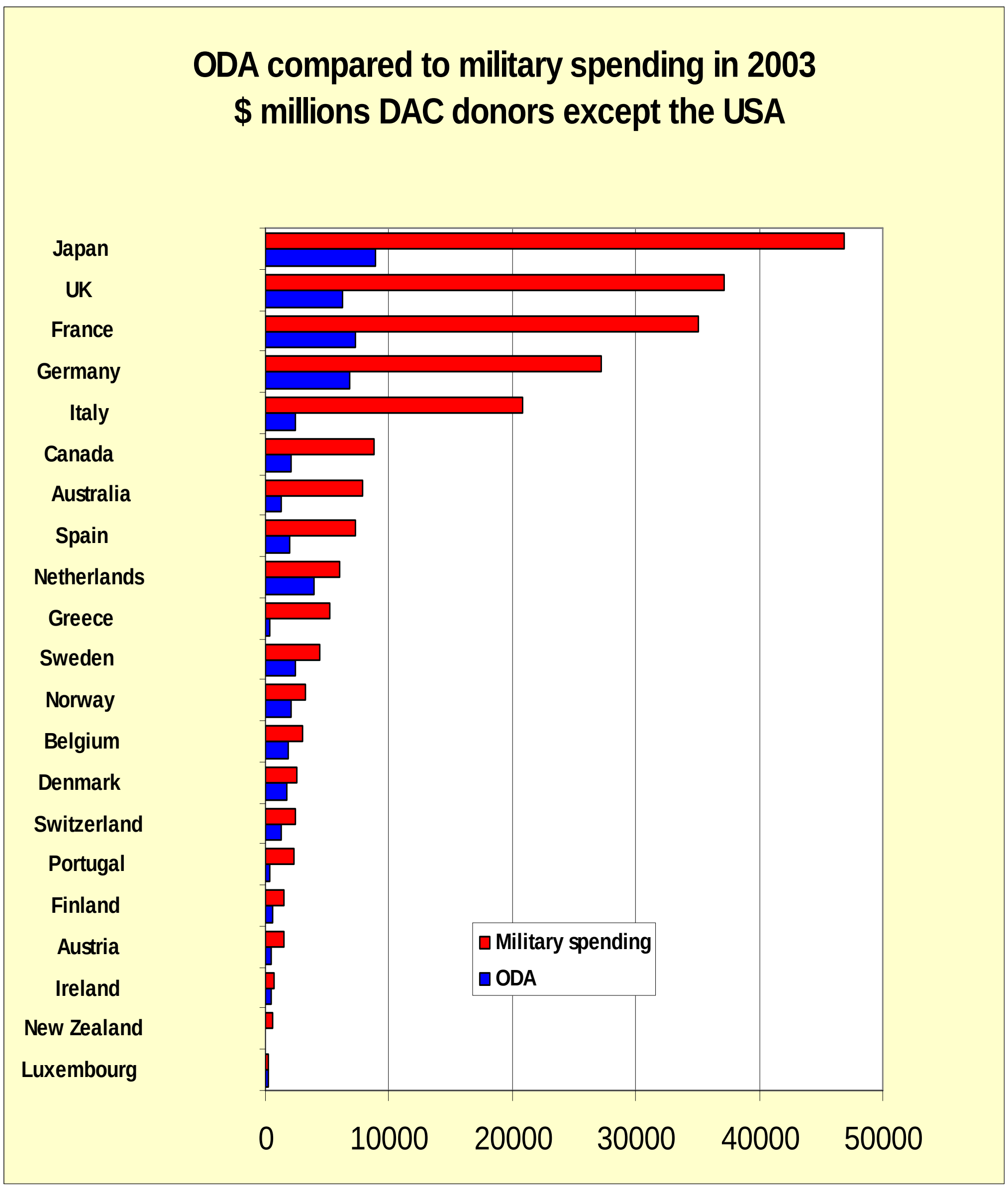
Country	ODA $m 2003	Military $m 2003
USA	16254	417363
Japan	8880	46895
UK	6282	37137
France	7253	35030
Germany	6784	27169
Italy	2433	20811
Canada	2031	8769
Australia	1219	7821
Spain	1961	7325
Netherlands	3981	6055
Greece	362	5241
Sweden	2400	4363
Norway	2042	3292
Belgium	1853	3005
Denmark	1748	2534
Switzerland	1299	2391
Portugal	320	2303
Finland	558	1526
Austria	505	1513
Ireland	504	721
New Zealand	165	606
Luxembourg	194	176

By far the largest spender was the USA at $417 billions, compared to an aid level of $16.2 billions.

Amongst other donors, only Luxembourg spends more on aid than on the military. All G8 donors devote at least 4 times more spending to the military than they spend on ODA.

Figures 26 and 27 give a full comparison of aid and military spending in 2003.

Figure 27



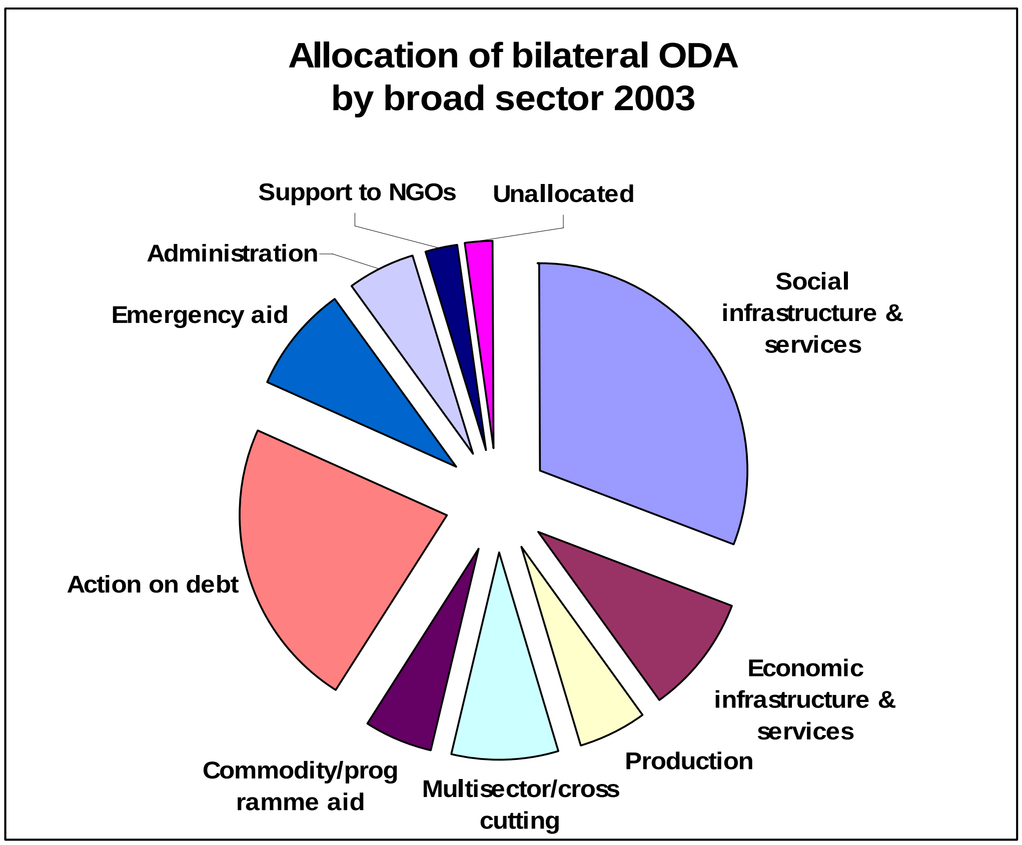
4. CONSUMER SPENDING

A key role of government is not simply to reflect public preferences but to offer leadership in shaping public priorities on important issues. To date global political leadership has signally failed to strike the right balance, and has paid too much attention to the need for consumption-led economic growth and too little attention to issues of equity and the fulfilment of basic rights.

Global taxation and trade regimes foster a global culture which results in a “prestige” global cosmetics market of around $25 billion (part of a broader cosmetics market worth $200 billion) and a global pet food market worth $27.5 billion in 1998 and projected to grow to $40b by 2010. Spending at these levels would comfortably fund basic social protection for low income countries. But there is an assumption that such social protection is likely to be unaffordable, whereas no-one questions the long term sustainability or desirability of the luxury goods market. Consumption of wide range of non-essential consumer goods may contribute to growth in the short term – but in the medium and longer term, social protection and investment is likely to make a more substantial contribution to aggregate growth.

5. AID REFORM: IMPROVING THE IMPACT OF AID ON POVERTY

Figure 28



Whilst the case for new spending on aid and human security is overwhelming, it is also true to say that aid reform could generate some of the resources needed for more effective investments in poverty reduction and social protection.

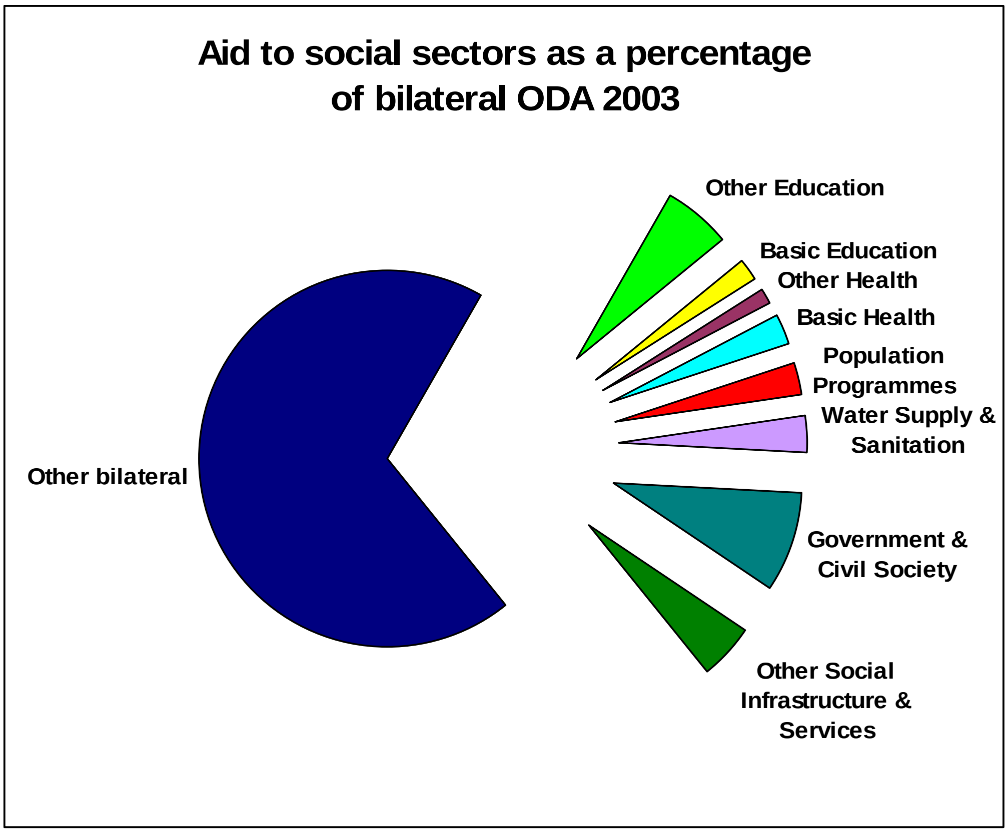
ODA is spent on a very wide range of activities. Some ODA spending, such as aid to basic social services, directly targets poor people.

But large amounts of aid are spent on development interventions intended to promote growth or better governance or infrastructure, some of which have a long chain of causation between the spending and ultimate (presumed) benefit to people in poverty

At the 1995 Social Summit a proposal was put forward that developing countries should allocate 20% of their budgets to basic social services and donors should allocate 20% of their aid to these areas.

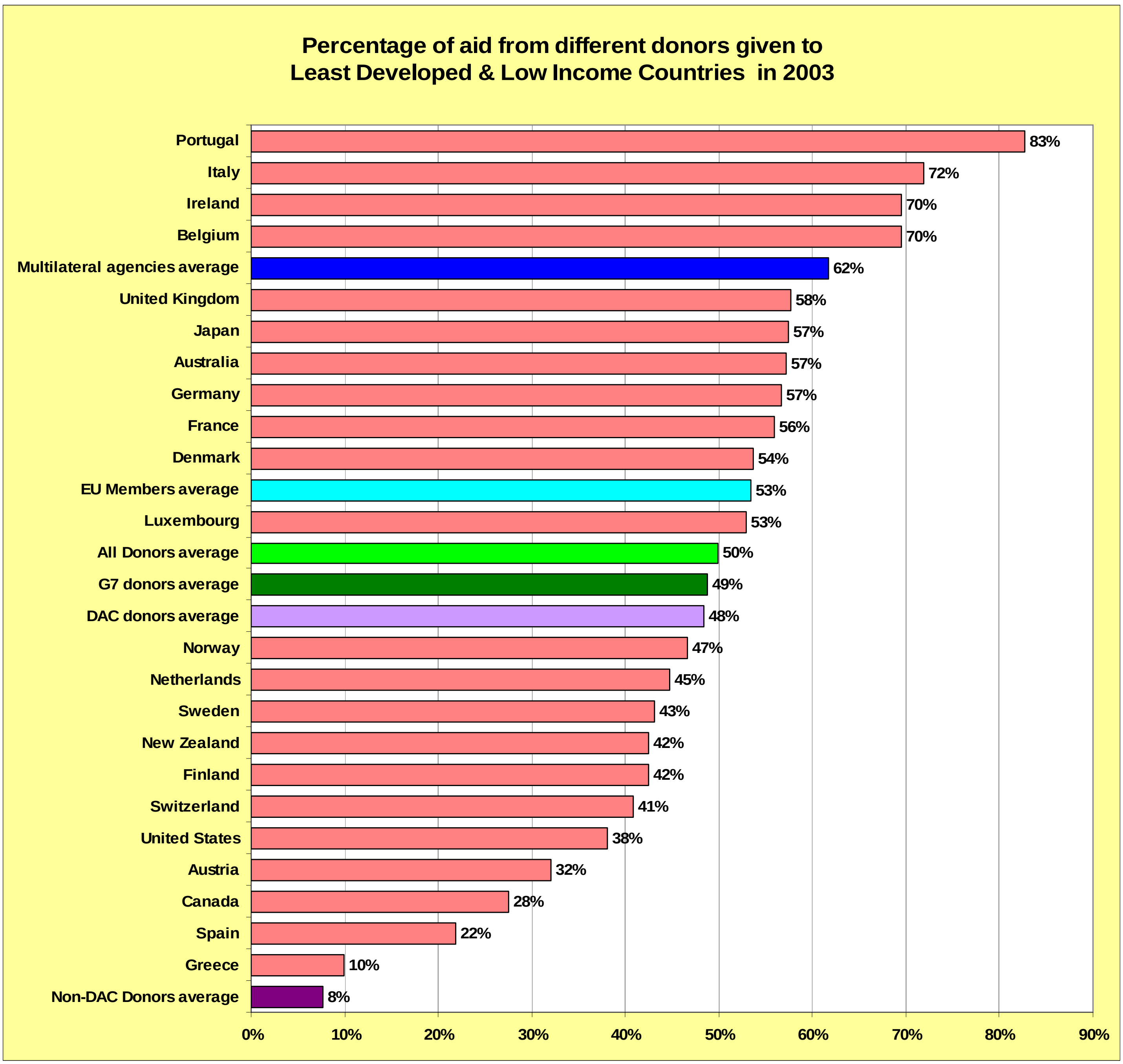
But a decade on as Figure 29 on social sectors shows, spending on basic social services remains very low.

Figure 29



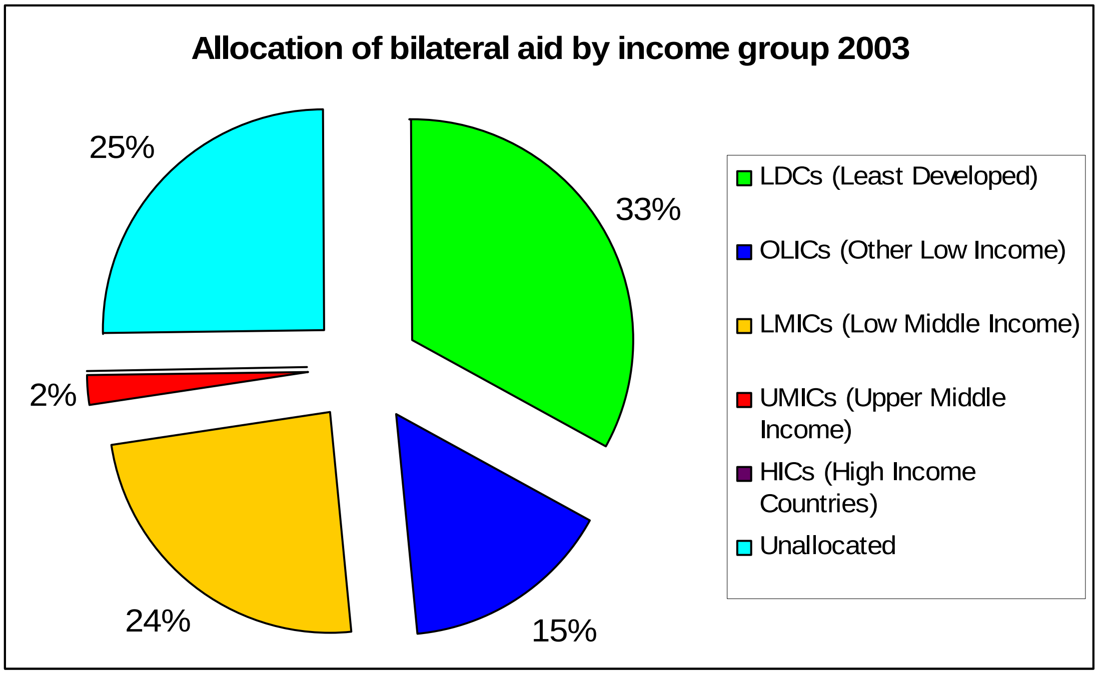
An important determinant of aid quality is whether ODA is allocated to the countries most in need – the Least Developed Countries and other Low Income Countries. As Figure 30 shows, there is a wide variation in the extent to which donors do allocate ODA to these 2 groups of countries. Taken overall, only 50% of aid from all donors is known to go to these most needy countries.[v] It is clear from the graph that multilateral agencies (blue bar) are more likely than most bilateral donors to allocate ODA to LLDCs and LICs.

Figure 30



In 2003 one third of bilateral aid went to Least Developed Countries and 15% to Other Low Income Countries including India.

Figure 31



What funds could aid reform release?

A common sense perception of aid, is that it is about real transfers of resources. Most people for instance refer to 'giving' aid. They do not see aid as just a matter of transfers between developed country budget heads.

But a substantial part of ODA never leaves the donor country. In 2003 this amounted to 25% of ODA, or $17.6 billion. Examples of such 'aid' include transfers between donor government departments whereby expenditure classed as ODA finances costs imputed to students from developing countries or the costs of accommodating refugees for their first year of residence ($3153 million in 2003); tied aid of various kinds ($2104 million); administrative costs ($3524m) and debt relief ($8710m).

While debt relief is necessary and desirable, it does not result in a transfer of resources. The Chair of the DAC noted in his 2003 Development Cooperation Report that much net debt relief fails to generate new flows of cash – it generates net ODA by converting previously reported non-aid, 'other official' or 'private' flows into ODA, and by recording as a new grant, the sum of interest arrears that should have been paid, but have not.

Taken together, around a quarter of reported aid disbursements do not result in the transfer of a single dollar to a developing country.

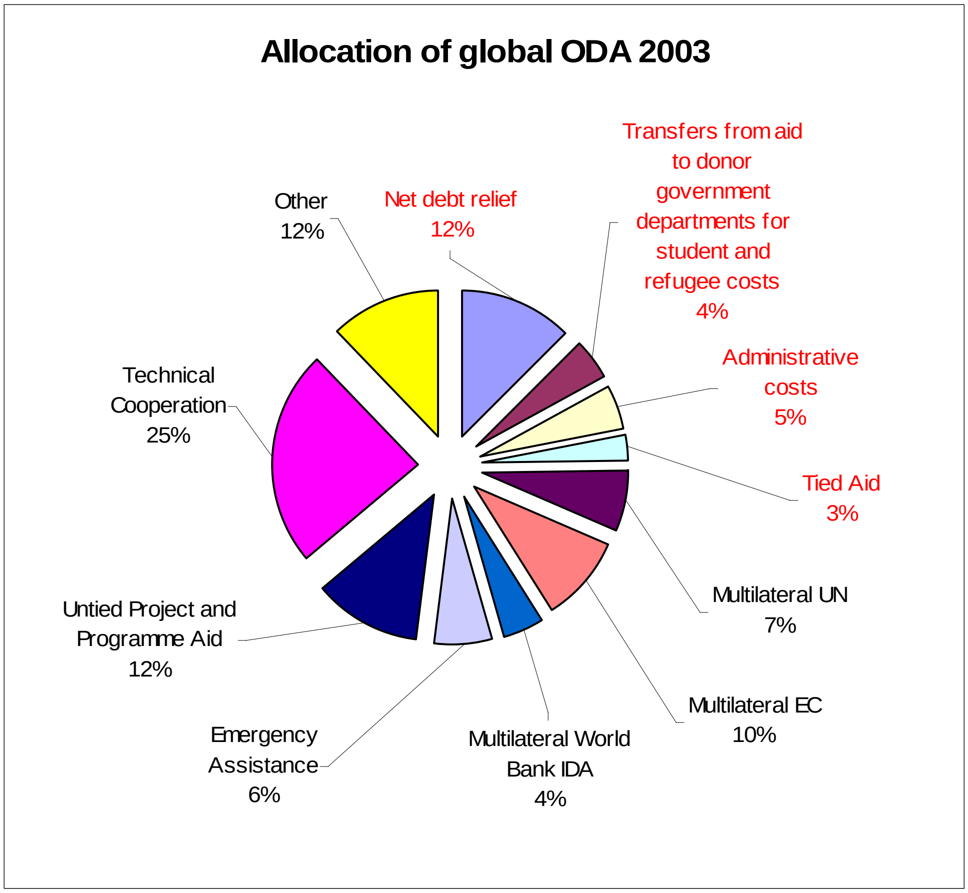
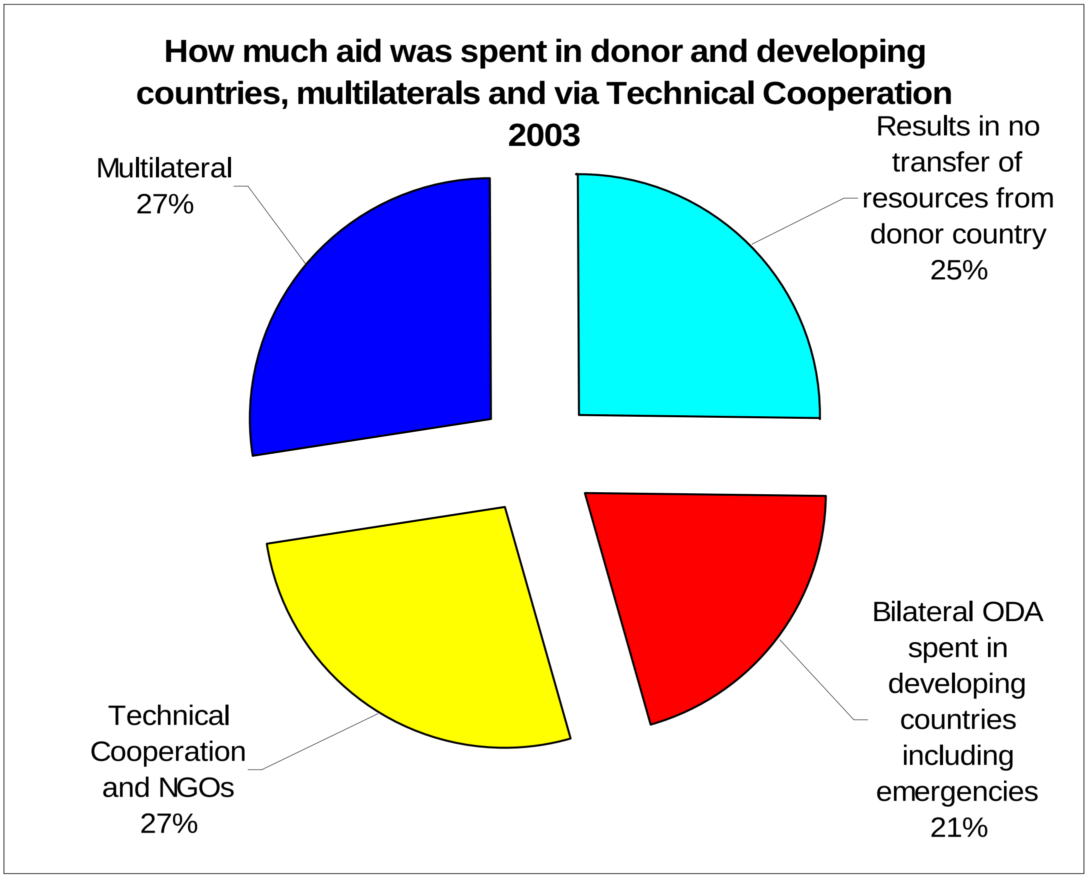


Figure 32

There has been consensus for nearly ten years that developing-country government ownership is critical to effective and sustained poverty reduction. The MDG strategies are seen to depend on delivery of an effective government-managed strategy more than any other single factor. The Millennium Project has estimated that around $84b a year will be needed to invest in these government strategies. Comparing that with existing ODA allocations, shows how much remains to be done.

Figure 33



The actual amounts available to developing country governments to spend on their own priorities are very limited as a share of ODA – aid reform – in particular of TC, would release funding to governments to pursue their MDG strategies and they could choose, or not, to buy donor country expertise.

---

[1] OECD DAC Statistics Table 1

[2] A commitment is a firm written obligation by a government or official agency, backed by the appropriation or availability of the necessary funds, to provide resources of a specified amount under specified financial terms and conditions and for specified purposes for the benefit of a recipient country or a multilateral agency. Members unable to comply with this definition have to explain to the DAC the definition that they use. Bilateral commitments comprise new commitments and additions to earlier commitments, excluding any commitments cancelled during the same year. In contrast to bilateral commitments, commitments of capital subscriptions, grants and loans to multilateral agencies should show the sum of amounts which are expected to be disbursed before the end of the next year and amounts disbursed in the year reported on but not previously reported as a commitment. (OECD DAC reporting directives)

[3] See OECD National Accounts, Annex Table 1. Read GDP percentage change from previous year 1990 - 2005

[iv] The Bush Tax Plan: How Big is the Tax Cut. May 29 2003, updated August 27 2004 Tax Foundation Individual Tax Model

[v] A number of donors have very large shares of ODA unallocable by income group.