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Global aid in 2013

A pause before descending

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SUMMARY

Global aid has fallen in each of the last two years. Will 2013 be another year of cuts? Based on public information from the 15 largest donors, we estimate the direction and magnitude of changes in global aid from 2012 to 2013. The 2013 spending outcome is likely to show marginal growth relative to 2012 but the medium-term outlook is for further contraction.

KEY POINTS

- Global aid is likely to show marginal real growth in 2013, of less than one per cent. The outcome in 2012 prices is likely to be between $126 billion and $127 billion.
- The marginally positive growth outcome that we predict is entirely due to the sharp increase in UK aid in 2013, without which global aid would have fallen by three per cent in real terms. UK aid is set to increase by some $US3.7 billion in 2013. Aid from other major donors is set to decline by $US3.2 billion. The growth in aid from private sources and emerging official donors partially offsets reductions in aid from traditional donors.
- 2013 most likely represents a pause in the decline of global aid. Assuming UK aid remains roughly constant at its new, higher level, we can expect to see a further fall in global aid from 2013 to 2014. Research suggests that after a significant banking crisis or recession, aid budgets will generally continue to fall over a substantial period of time.

The Development Policy Centre is part of the Crawford School of Public Policy at the Australian National University. We undertake analysis and promote discussion on Australian aid, Papua New Guinea and the Pacific and global development policy.

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INTRODUCTION

After growing by more than 60 per cent over the decade to 2010 to reach $136.9 billion[1], global aid fell by a total of six per cent—more than $8 billion—in 2011 and 2012. Will it continue on this steep downward path in 2013, or stabilise and recover? To hazard an answer to that question, we've analysed, for the second year running, what the largest member countries of the OECD's Development Assistance Committee (DAC) have said publicly about their spending intentions.[2]

Surprisingly, nobody else does this. The OECD's Development Cooperation Directorate does conduct a survey of the forward spending plans of DAC donors and multilateral agencies each year and, based on the information received, forecasts levels of what it calls 'country programmable aid' (CPA).[3] However, CPA captures only about half of all spending from Official Development Assistance (ODA) budgets and is not useful, or indeed intended to function, as a measure of donors' fiscal effort.

In addition, the OECD's CPA forecasts for each of the last two years have been quite wide of the mark, erring on the side of optimism.[4] The Development Policy Centre's ODA forecast for 2012, by contrast, was accurate: a four per cent real decrease relative to 2011[5].

We set out to forecast ODA rather than CPA. Donor governments think and budget in terms of ODA. Most of them have clearly defined ODA envelopes (the US being a notable exception) and many of them have achieved or are pursuing ODA/Gross National Income (GNI) targets. ODA is the best measure of fiscal effort in favour of international development, if not the best measure of how much money crosses international borders or is available for long-term investment in development.

ODA budgets are sometimes fragmented and hard to capture in their entirety. They are occasionally exceeded, particularly when major crises call for extraordinary debt relief or large-scale humanitarian responses. Sometimes also they are underspent. For these reasons, we don't aim for complete coverage of all ODA spending or any great precision in our forecasts for individual donor countries. We seek only to predict the direction and approximate magnitude of any change in the global ODA aggregate from 2012 to 2013. We do this by generalising from information on changes that the 15 largest aid donors have themselves signalled in connection with the more predictable elements of their aid budgets.

Our analysis of budget and other documentation on projected ODA spending in 2013 indicates that global aid might well stabilise or even increase a little in real terms—probably less than one per cent—in 2013. However, this will be entirely due to the unprecedented and sudden increase in the UK's aid budget in 2013, which will jump from 0.56 to 0.7 per cent of the UK's GNI in a single year. Without this, global aid would likely have fallen by another three per cent in real terms in 2013.

Assuming UK aid remains fairly stable from 2014 at somewhere between $17.5 billion and $18 billion per annum, past experience would suggest we can expect to see a further, perhaps more gradual, decline in global aid in 2014 and at least the two or three subsequent years. It seems unlikely aid will return to its 2010 peak level until well after 2015.

1 US dollars at 2011 prices. All aid disbursement figures in this brief are expressed in US dollars unless stated otherwise.
2 The corresponding policy brief on aid in 2012 is 'End of the Aid Boom? The Impact of Austerity on Aid Budgets,' by Kathryn Zealand and Stephen Howes, Development Policy Centre Policy Brief No. 5, May 2012.
3 Survey responses are provided by officials and for the most part not made public. The OECD publishes responses from a handful of countries, but this group includes only one of the top 15 donors (Belgium).
4 The OECD did not foresee the 2011 decline in global aid. It predicted a two per cent increase in global CPA from DAC donors and multilateral agencies for 2011. In fact CPA fell by 2.3 per cent and ODA by two per cent. For 2012, the OECD predicted a six per cent increase in global CPA, to be followed by a decline from 2013. In fact, CPA fell by one per cent and ODA by four per cent. The OECD has most recently predicted a nine per cent increase in CPA for 2013, to be followed by several years of stagnation.
5 Although we got the aggregate growth change right last year, we missed the mark for several individual donors. However, we have better information this year for some key donors.

Given the ongoing economic turmoil in many developed countries, and expectations of a slow and uncertain recovery, even our prediction for a pause in the decline of aid in 2013 must be considered somewhat contentious.

A BRIEF NOTE ON MEASURES OF AID

Donor countries' aid efforts are monitored and compared by the OECD on a historical, calendar-year basis, with something of a time lag owing to reporting lags and the varying fiscal years used by donors. As donors' fiscal years end variously in March, June, September and December, preliminary aid aggregates[6] for 2012 only became available in April 2013. Detailed 2012 data will not be available until toward the end of 2013. Thus even preliminary aid aggregates for 2013 will not be available until about April 2014.

ODA is the concept of aid most often used by the OECD for the purpose of monitoring and comparing donors' fiscal efforts in favour of international development, not least because it is the concept of aid that figures in the UN's 0.7 per cent ODA/GNI target and in a number of related donor-specific targets. ODA is defined as a flow of resources from the official sector to developing countries or multilateral organisations for the primary purpose of promoting the economic development and welfare of developing countries, where the flow is concessional in character and conveys a grant element of not less than 25 per cent.[7]

ODA in the above sense is aid viewed from the donor perspective, measured as it exits donor budgets en route to developing countries or multilateral organisations. It is an outflow. The OECD also tracks a subtly different construct—ODA as an inflow to developing countries—as part of its reporting on Official Development Finance (ODF). ODF is a measure of all financing that flows from the official sector in DAC member countries to developing countries, including flows on market terms but excluding short-term finance and military expenditure. The ODA component of ODF captures concessional flows received by developing countries. It will differ in magnitude from contemporaneous concessional outflows from developed countries in two respects. First, some flows can arrive in developing countries after a time lag of more than a year if they have passed through a multilateral organisation. Second, some flows to developing countries are generated by multilateral development banks and other international organisations on their own accounts, not having originated in bilateral donor budgets. For present purposes, our interest is in the concept of ODA as an outflow from developed countries.

The ODA concept is regularly criticised for being either too inclusive or not inclusive enough. At present, there are some who argue that certain loans should be excluded from ODA and some who argue that certain measures that aim to promote private sector development, but involve no concessional flow of resources, should either be included in ODA or reflected in a broader measure of external development finance. For both of these reasons, the most recent DAC High-Level Meeting, in December 2012, asked the OECD to explore new measures of external development finance.[8] Nevertheless, the existing ODA concept is so embedded in policy and in budgeting practice that it is unlikely to diminish in relevance overnight.

The OECD, as noted above, has defined a further aid construct, CPA, in order to monitor trends in the provision of what some call 'core aid' or, more emotively, 'real aid'—which is, roughly speaking, aid that actually crosses borders and can be freely used in support of poor countries' national development strategies. CPA, like ODF, takes a recipient country perspective, measuring inflows. It excludes many things, including debt relief, core funding for NGOs in developed countries, in-donor refugee costs, administrative costs of donors and emergency assistance. As a

6 Comprising a global figure and totals for each donor, but not estimating flows from individual donors to individual countries, organisations or sectors.
7 The DAC maintains a list of countries considered to be developing countries, and occasionally graduates countries from the list when they achieve high-income status. It also maintains a list of development-oriented multilateral organisations and in some cases applies coefficients to determine what proportion of a donor's contribution to a given organisation should count as ODA. 'Concessional in character' means that a flow must include some element of subsidy. The 'grant element' of a flow, if less than 100 per cent, is the present value of the flow to the recipient net of repayments, calculated at a rather arbitrary discount rate of 10 per cent per annum.

8 The OECD was asked to 'elaborate a proposal for a new measure of total official support for development, explore ways of representing both "donor effort" and "recipient benefit" of development finance, and investigate whether any resulting new measures of external development finance (including any new approaches to the measurement of donor effort) suggest the need to modernise the ODA concept'.

result, it accounts for not much more than half of all ODA. CPA is not a widely used or understood concept of aid, involves some questionable inclusions and exclusions and competes with other concepts of 'real' aid.[9] It does not figure in donors' budget deliberations or aid volume commitments.

The OECD also tracks certain private flows relevant for development, comprising private donations through non-government organisations and long-term private flows at market terms, but excluding remittances.[10] Neither of these categories of flow is currently regarded, for the purposes of international comparison, as part of a donor country's overall effort in favour of developing countries.

METHODOLOGY

The aim of the present forecasting exercise is to estimate the direction and approximate magnitude of changes in ODA from 2012 to 2013. Our approach is to look at information that is available publicly on the 2013 aid spending intentions of the 15 largest donors, who account for about 95 per cent of total DAC ODA, and compare this with the corresponding information available in the early part of 2012 on those donors' 2012 spending intentions.[11] In other words, we are looking at changes from budget to budget. On this basis, we can project a percentage change for a large proportion of global ODA in 2013, which is likely to be reflected quite closely in the percentage change for all ODA in 2013.

Some donors spent less than intended in 2012, owing to within-year cuts implemented as part of wider austerity programs. Because few or no donors will have spent more than their budgets by the end of 2013, this introduces a pessimistic bias into our estimates. For a given donor, if we find an increase of x per cent from budget to budget, the actual increase, relative to the actual 2012 spending outcome, can only be greater. If we find a reduction of y per cent from budget to budget, the actual reduction, relative to the 2012 outcome, can only be less.

9 See, for example, *Real Aid 3: Ending Aid Dependency*, ActionAid, September 2011. See also AidWatch's estimates of 'genuine aid' as a proportion of GNI for European donor countries.
10 See the DAC's 'Statistics on resource flows to developing countries', Table 14.
11 There are now 26 DAC member countries but many of the more recent members of the committee, and a few of the more long-standing members, provide very small amounts of aid.

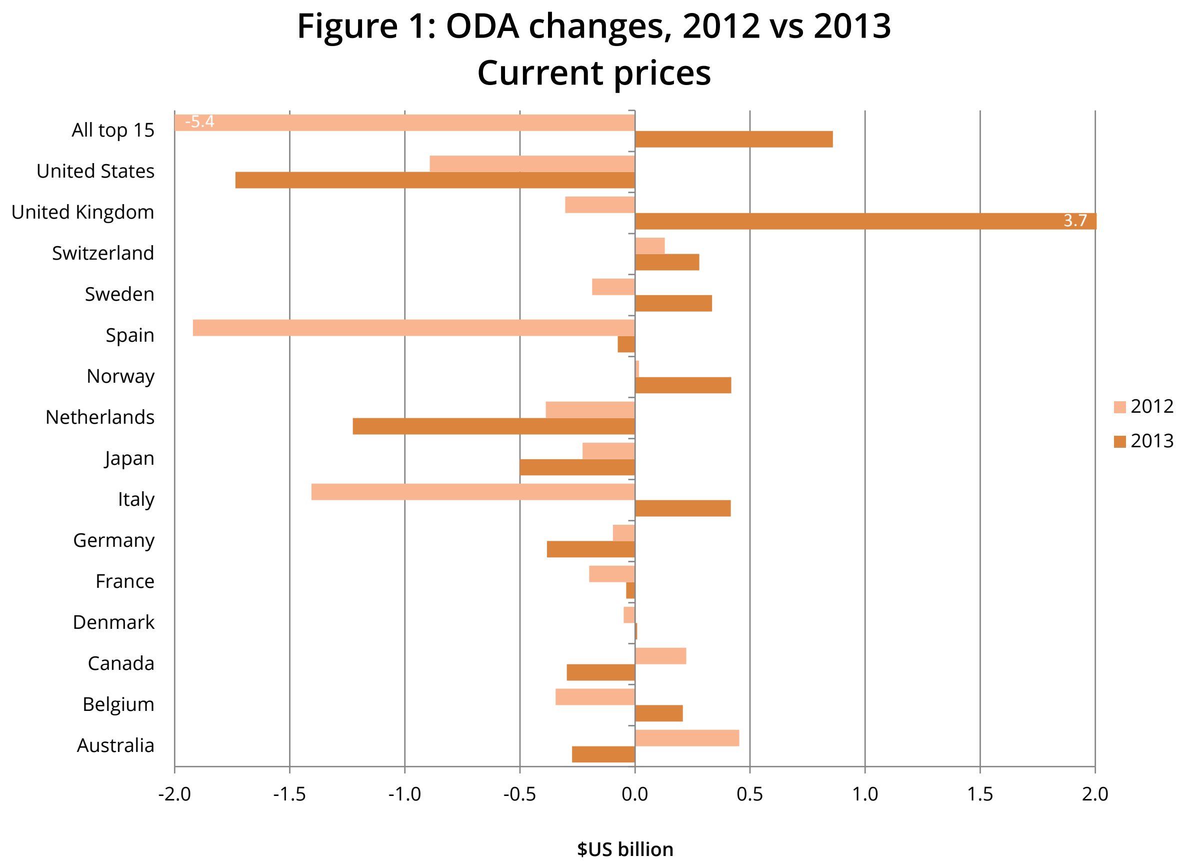
To take one example, Spain said it would spend $2.7 billion in 2012 but actually spent $1.9 billion. Spain intends to spend $2.6 billion in 2013. We show Spain as decreasing aid from budget to budget and we apply that percentage decrease to its actual 2012 outcome figure, implying that it could be a little below $1.9 billion. Clearly the Spanish government's intention is actually to improve upon the 2012 outcome, and it might well do so. However, we take the view that underspending in one year increases the probability of underspending in the next. More generally, we take the view that a pessimistic bias is desirable in a fairly rough forecasting exercise of this nature.

The figures we have used are drawn wherever possible from official documents. We have also relied to some extent on credible media reports and on reporting and analysis undertaken by research organisations, where official sources alone were not sufficient. It should be noted that the information base on which we rely does not cover all the ODA provided by the top 15 DAC donors. It is difficult to guarantee full coverage of debt relief, for example, and in some cases responsibility for ODA spending is distributed among many different official agencies.

Nevertheless, the projected expenditures that we have included cover about 96 per cent of the 15 donors' collective ODA, and therefore about 91 per cent of all ODA from DAC donor countries.

It should also be noted that, while we speak in terms of 2013 ODA, the information available to us does not always relate precisely to the 2013 calendar year owing to the diversity of fiscal years already noted above. In most cases the fiscal years of the major donors correspond exactly or quite closely to the calendar year. Two donors, Australia and Italy, have July-June fiscal years; in these cases we have used projected spending for the 2013-14 fiscal years as being most representative of the direction and magnitude of likely change.

To compare like with like, we express 2013 aid projections in constant 2012 prices, converted to US dollars at the 2012 annual exchange rates used by the OECD. Inflation and GNI growth projections for 2013 are drawn from the 2013 IMF World Economic Outlook. ODA and GNI figures for 2012 are drawn from preliminary DAC data released in April 2013, on 2012 ODA flows.



Source: OECD preliminary data (April 2013) for 2012 aid flows and Development Policy Centre estimates for 2013 flows.

To estimate the likely outcome for total ODA in 2013, we define somewhat arbitrary upper and lower bounds, then take the mid-point. In order to do this, we first calculate the difference between total 2012 ODA and the amount of 2012 ODA covered by our information sources. This is the 'missing' ODA. The upper bound figure is arrived at by increasing the missing ODA by the same amount as the ODA we have been able to include in our estimate for the 15 largest donors, and adding it to the projected 2013 ODA for those donors. The lower bound is arrived at by holding the missing ODA constant in nominal terms and adding it to the projected 2013 ODA for the 15 largest donors.

We likewise calculate two DAC-wide ODA/GNI ratios using the upper and lower bound figures just described, and again take the mid-point.

OUTLOOK FOR AID IN 2013

The chart above (Figure 1) summarises expected changes in ODA disbursements in 2013, relative to 2012, for the 15 largest DAC donors. More detailed information is provided in Annex 1: 'Aid outlook for the 15 largest donors'.[12]

As reflected in Figure 2 (Page 6), aggregate ODA from the top 15 donors is projected to increase by 0.6 per cent, or $780 million, to $119.8 billion. Changes for individual donors should be regarded as indicative only, for the reasons outlined in the previous section.

ODA from the 14 non-UK donors is projected to fall by three per cent, or $3.2 billion, to $102.1 billion. However, this fall is $500 million less than the projected growth of UK aid, which is $3.7 billion.

For total DAC ODA, the outcome is likely to be between $126 billion and $127 billion. Because projected ODA growth is so small, our upper

12 The underlying data are here.

and lower bound estimates for ODA growth are only separated by $67 million with a mid-point estimate of $126.3 billion. This would be a 0.6 per cent or $700 million increase on the 2012 outcome, which was $125.6 billion.

Our figures show the combined ODA/GNI ratio for DAC donors would remain at 0.29 per cent, its 2012 level.[13] (It takes an additional $4 billion or so to achieve an increase of one basis point in the aggregate ratio.)

The projected outcomes for total DAC ODA, and for the combined DAC ODA/GNI ratio, are illustrated in the figure below—which also places them in historical context.

Because the very modest projected increase in global ODA is entirely due to the UK's additional effort, it could be noticeably reduced if the UK's GNI growth turns out to be lower than was anticipated in March 2013, when the increase was announced.

13 This is the ratio of total DAC ODA to total DAC GNI, sometimes referred to as the 'weighted' average ratio. The unweighted average ratio is the average of all DAC members' individual ODA/GNI ratios, and is higher than the weighted average ratio owing to the tendency for larger donors to have lower ratios, and smaller donors higher ratios.

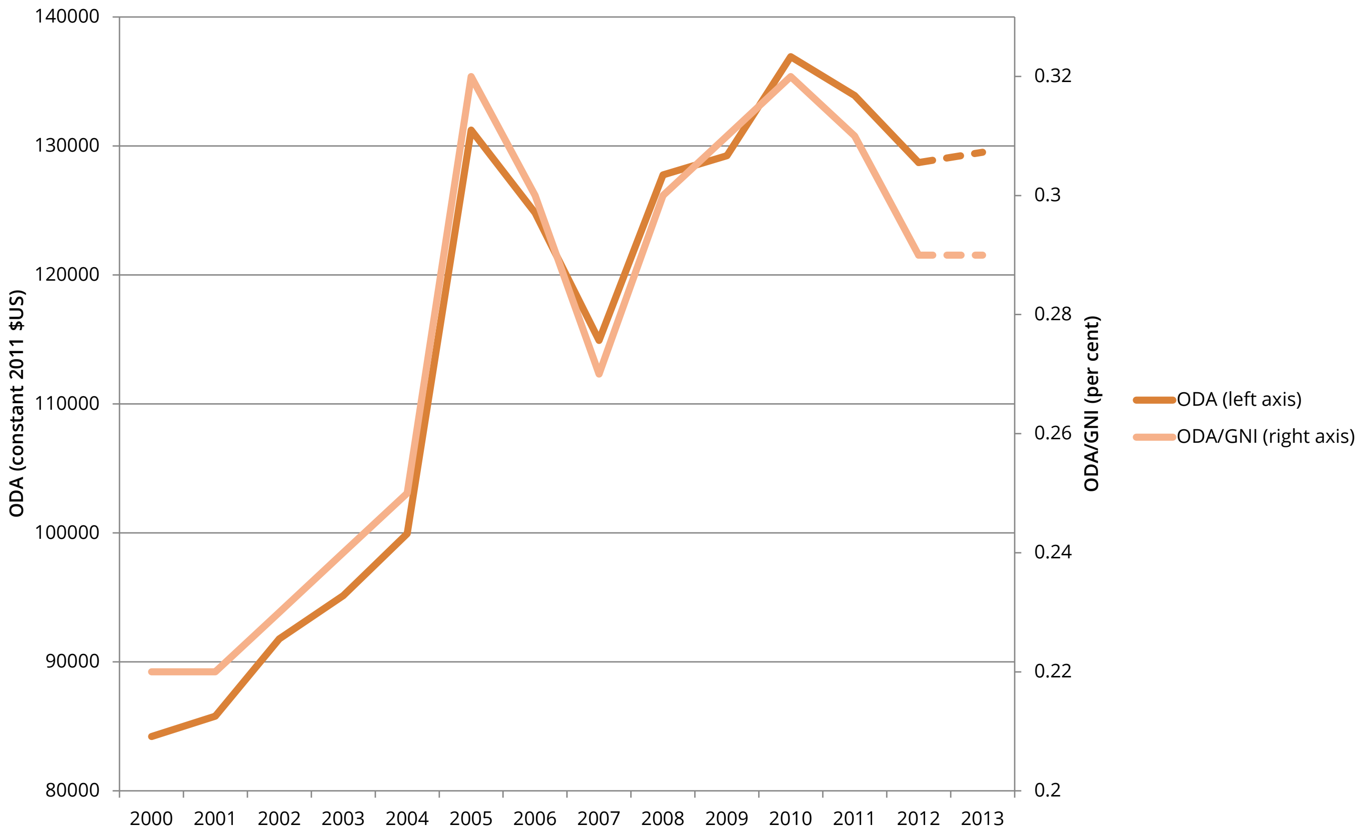
For example, a decrease of 0.5 per cent or $12 billion in the UK's GNI would correspond to a decrease of around $100 million in aid.

Aid from non-DAC sources is on the rise and will to some extent compensate for any stagnation or further decline in DAC aid. However, this effect should not be overstated. Figure 3 on Page 7 shows the level of aid from non-DAC official sources, as well as net grants from NGOs, over the period from 2007 to 2011. It includes the OECD's rough estimates of ODA-like flows from some major emerging donors who do not report their expenditures to the DAC.[14]

In constant-price terms, aid from these non-DAC sources combined has risen by several billions of dollars per annum each year, on average. If this were to continue, and DAC aid were to resume its decline from 2014 at the rate of several percentage points per annum, the overall level of external aid for developing countries would most probably remain fairly constant in real terms for several years.

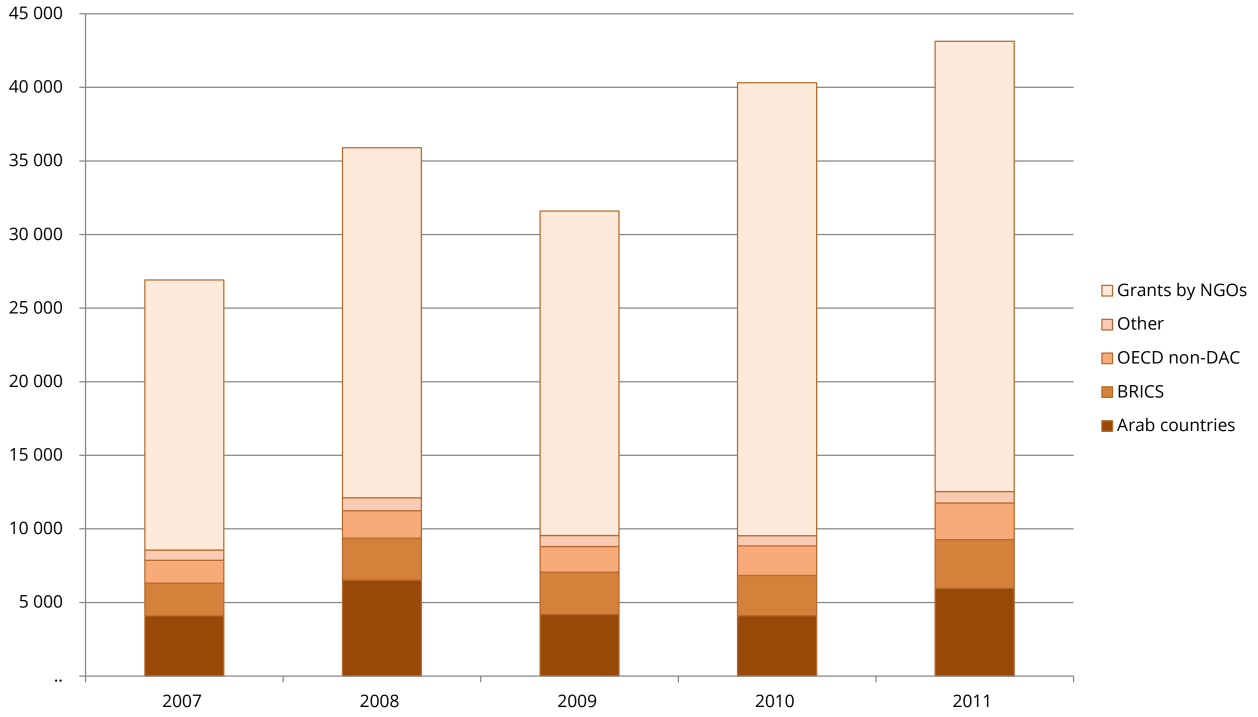
14 Based on DAC tables 2, 33 and 33a.

Figure 2: ODA and ODA/GNI, 2000 to 2013



Source: OECD statistical database for aid flows from 2000 to 2012 and Development Policy Centre estimates for 2013 flows.

Figure 3: ODA and ODA-like flows from non-DAC sources, 2007-2011 ($US million, current prices)



Source: OECD statistical database (DAC tables 2, 33 and 33a).

CONCLUSION

Though the global financial crisis prevailed mainly in 2007 and 2008, its impact on ODA began to be felt from 2010. Research suggests that in the wake of a significant banking crisis or recession, aid budgets will continue to fall over a substantial period of time. A working paper prepared by staff of the World Bank that studied OECD aid from 1977 to 2007 found that after a crisis a donor country's aid falls by an average of 20 to 25 per cent, relative to the counterfactual, and improves only a decade after the crisis hit.[15] Thus it must be considered unlikely that the projected 2013 pause in the decline of ODA will be followed by a recovery.

More likely, since the UK is taking a large step up in 2012 and, given its low GNI growth outlook, will probably level off at that higher plane (toward $18 billion per annum), the overall aid outlook is for a pause in the decline of DAC aid in 2013, followed by a period of more gradual decline or at best stagnation from 2014. Increases in aid from non-DAC sources might approximately offset this further decline, such that the overall level of external aid for developing countries remains flat for several years.

15 Dang, Hai-Anh, Steve Knack & Halsey Rogers. 2009. 'International Aid and Financial Crises in Donor Countries'. World Bank Policy Research Working Paper 5162.

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Annex 1: Aid outlook for the 15 largest donors

Below we summarise the outlook for aid from each of the 15 largest donors, from the US to Spain, in order of 2012 aid volume. Percentage changes are in real terms. All dollar figures are expressed in 2012 prices. Links to the main information sources in each case are provided underneath country names. Projected ODA outcomes for individual countries should be considered indicative only as the purpose of generating these figures is primarily to arrive at an aggregate projection for the 15 donors combined.

Country	2012 ODA outcome ($US billion)	Real change from 2011 to 2012 (per cent)	Projected 2013 ODA outcome ($US billion)	Projected real change from 2012 to 2013 (per cent)	Projected real change from 2012 to 2013 ($US billion)	ODA/GNI in 2012 (per cent)	Projected ODA/GNI in 2013 (per cent)	Comment
United States (a), (b)	30.5	-2.8	28.7	-5.7	-1.7	0.19	0.18	US aid is expected to fall further in 2013 as a result of 'sequestration'—automatic, across-the-board reductions to most US federal programs triggered by the failure of 2011 negotiations between the President and Congress on raising the US's debt ceiling. Sequestration went into effect on 1 March 2013.
Germany (a), (b)	13.1	-0.7	12.7	-2.9	-0.4	0.38	0.37	Germany's Development Ministry (BMZ), which allocates roughly 60 per cent of German ODA, will in 2013 face budget cuts of €87 million relative to 2012. This is €124 million less than originally planned for 2013.
United Kingdom (a), (b)	13.7	-2.2	17.4	27.2	3.7	0.56	0.71	UK aid is set for a dramatic turnaround in 2013. The Chancellor of the Exchequer, George Osborne, confirmed in March 2013 that the UK's coalition government would meet its commitment to increase the UK's ODA/GNI ratio from 0.56 per cent in 2012 to 0.7 per cent in 2013. The UK posts by far the most significant donor budget increase in 2013.
France (a)	12.0	-1.6	12.0	-0.32	0.0	0.45	0.45	France aims to achieve an ODA/GNI ratio of 0.46 per cent and increase the size of its budget in 2013. On our projection, its ratio would remain at 0.45.
Japan (a), (b)	10.5	-2.1	10.0	-4.75	-0.5	0.17	0.16	Despite a rise in budget estimates for the Japan International Cooperation Agency (JICA), Japanese aid will continue to fall in 2013 as core aid spending in the federal budgets which make up more than half of total spending is cut.
Canada (a)	5.7	4.1	5.4	-5.23	-0.3	0.32	0.30	Canada's government has announced cuts to ODA over the period 2013 to 2015. Estimates suggest the bulk of the cuts will occur in bilateral spending, which is set to decline by 26 per cent.
Netherlands (a), (b)	5.5	-6.6	4.3	-22.2	-1.23	0.71	0.55	Late in 2012, the Netherlands government enacted a harsh austerity program that will cut €1 billion from Dutch aid.
Australia (a), (b)	5.4	9.1	5.2	-5.03	-0.27	0.36	0.34	Australia posted the largest percentage increase in 2012 and, prior to the September 2013 federal election, was expected to increase ODA by

Country	2012 ODA outcome ($US billion)	Real change from 2011 to 2012 (per cent)	Projected 2013 ODA outcome ($US billion)	Projected real change from 2012 to 2013 (per cent)	Projected real change from 2012 to 2013 ($US billion)	ODA/GNI in 2012 (per cent)	Projected ODA/GNI in 2013 (per cent)	Comment
								a considerable amount again in 2013. However, the incoming Coalition government announced it will cut aid by 12 per cent within the 2013-14 financial year and subsequently increase aid in line with inflation.
Sweden (a)	5.2	-3.4	5.6	6.3	0.33	0.99	1.04	Sweden's aid levels are determined by its commitment to maintain aid at one per cent of GNI. The actual outcome is therefore likely to be less than projected here.
Norway (a), (b)	4.8	0.4	5.1	7.0	0.33	0.93	0.97	Norwegian aid fell short of its one per cent ODA/GNI target in 2012. Norway intends to meet that target in 2013 but might again fall short.
Switzerland (a)	3.0	4.5	3.3	9.24	0.28	0.45	0.49	-
Denmark (a)	2.7	-1.8	2.7	0.36	0.0	0.84	0.84	-
Italy (a)	2.6	-34.7	3.1	15.8	0.42	0.13	0.16	Italy's drastic 2012 aid cut was exceeded only by Spain's in percentage terms but it is planning for a modest increase in 2013.
Belgium (a)	2.3	-13.0	2.5	9.04	0.21	0.47	0.51	Belgian aid fell in 2012 owing to a decision to freeze non-essential spending late in the year. The latest budget aims to increase Belgium's ODA/GNI to 0.5 per cent in 2013.
Spain (a), (b)	1.9	-49.7	1.9	-3.8	0.0	0.15	0.14	Spanish ODA suffered by far the heaviest percentage cut in 2012. We project a small further reduction in 2013 but a slight increase on the 2012 outcome is possible.
All 15 above	119.0	-4.3	119.8	0.58	0.78	0.30	0.29	
All DAC	125.6	-4.0	126.3	0.56	0.7	0.29	0.29	