

or early 2011. Volatility of aid flows is [detrimental](#) both for aid recipients and for donor agencies that might be left unable to finish multi-year projects and programs. This year, aid agencies of the top 15 donor countries will receive as much as **\$12 billion less funding than they would have anticipated** based on their own governments' earlier strategy documents and budgets. Note that the \$12 billion discrepancy is much greater than the \$3.2 billion cut from 2011 because several countries which did not reduce their absolute aid levels nevertheless abandoned their plans to scale-up aid.⁵

Is this the end of the aid boom?

Over the decade from 2000-2010, [ODA grew](#) at an average yearly rate of 8.4% p.a. at current prices or 5.1% using inflation-adjusted adjusted prices. [Preliminary data](#) for 2011 show the first sign of trouble, with a 2.7% real decline in ODA from 2010, the first since 1997 (excluding debt relief). The 2012 estimated growth rates of -2.3% (current prices) and -4.7% (inflation adjusted) respectively are a full **10 percentage points below the historical average**.

To make our estimates comparable with historical ODA data, debt relief has been excluded from 2011 and earlier ODA figures. To allow for uncertainty in the ~17% ODA we could not explicitly identify in budget documents, we present a range of estimates. The upper bound assumes that this unattributed component of ODA remains the same size in 2012 as it was in 2011. The lower bound assumes it decreases at the same 4.5% rate as the 83% of ODA we could account for.⁶ The range of ODA/GNI comes from the uncertainty in ODA and the uncertainty in GNI growth rates. For countries that did not provide their own 2011 and 2012 ODA/GNI estimate, we extrapolated GNI using the growth predictions in the IMF January 2012 [World Economic Outlook Update](#).

The figure below summarizes our estimates for ODA in 2012 compared to historical spending, in constant 2010 dollars. Our best estimate, with these assumptions, is that ODA (excluding debt relief) in 2012 will be about \$114 billion, back to 2008 levels (after inflation) and that the ODA/GNI ratio will be between 0.27% and 0.29% of GNI with a most likely estimate of ODA at **0.28% of total DAC GNI**, its lowest level since 2008.⁷

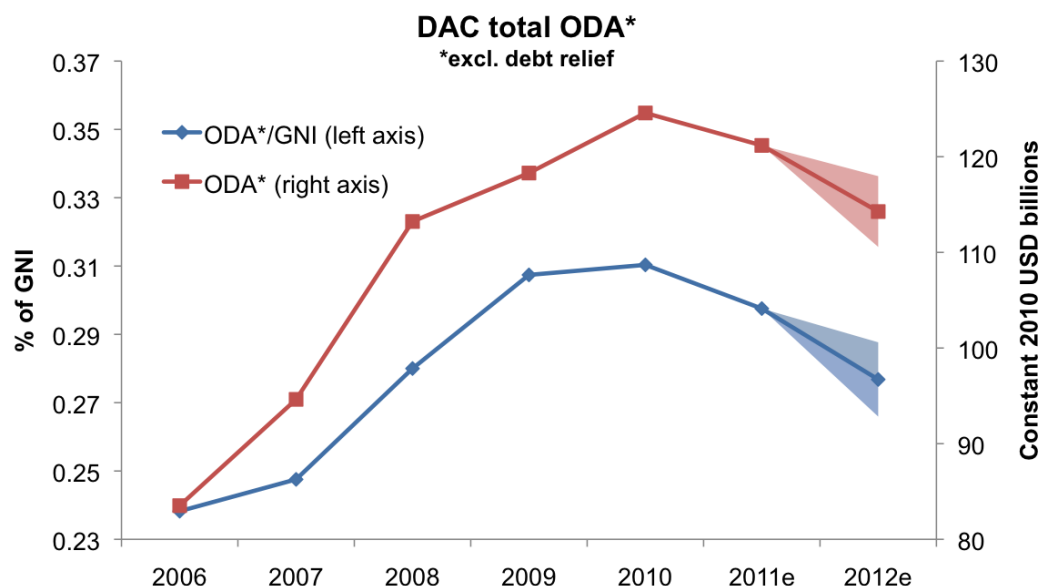


Figure 3 Estimated ODA, excluding debt relief, from DAC donors since 2006

⁵ An independent [estimate](#) from Oxfam of a fall in aid from developed nations of at least \$9.5 billion by the end of 2012 is between our estimates, but details of their methodology are not publically available.

⁶ As noted earlier, another significant source of uncertainty comes from combining budgetary data from countries with different fiscal years. It is possible that some of cuts we attribute to 2012 will actually occur in late 2011 or early 2013.

⁷ For the underlying data, go [here](#).

UK and Australia: bucking the trend

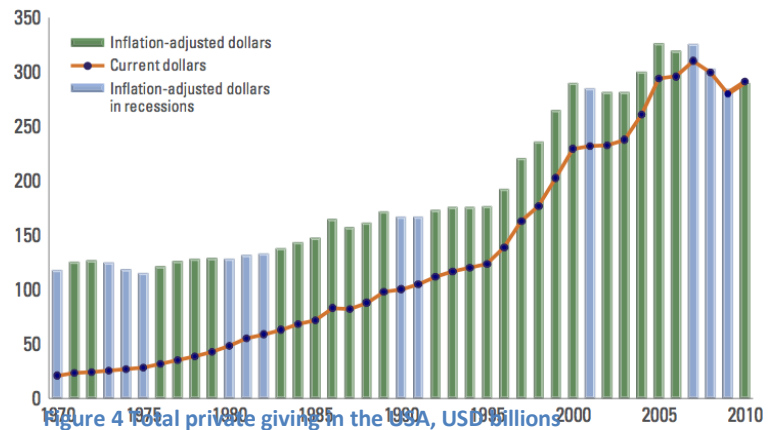
The UK – with its commitment to increase ODA to 0.7% of GNI by 2013 – and Australia – with its commitment to increase ODA to 0.5% of GNI by 2015 – are the two countries doing the most to help offset the recent and budgeted cuts to global aid. Norway, Denmark and Sweden are increasing aid despite being above the 0.7% mark. Australia is particularly strongly positioned to help take up some of the global slack. It is not suffering fiscal stress and has benefited greatly from the resource boom. And it is still well below average in terms of aid generosity (12th out of the top 15 in terms of aid/GNI in 2011).

Will private philanthropy fill this gap?

A recent [Reuters' poll](#) revealed that more than half of the aid agencies surveyed believed that governments will heavily cut aid budgets, yet 25% think that private donations will increase to fill this gap. This seems unlikely.

Private philanthropy is on the increase. The Hudson Institute's [2011 Index of Global Philanthropy and Remittances](#) [pdf] estimates global philanthropic flows at \$53 billion for 2009, having slowly but consistently increased over the last 5 years. Yet, this still amounts to well under half total ODA, and does not appear volatile enough to respond to immediate aid budget cuts.

[Giving USA](#) [pdf] provides a breakdown of philanthropic sources and trends in private giving in the USA. Figure 4, reproduced from this source, shows that private donations are also sensitive to economic hardship.⁸ In turn, this suggests that changes in private giving are unlikely to offset cuts in government aid over the short term.



What about emerging donors?

Aid from emerging or non-traditional donors is rising. Some have actually been giving significant aid since the early 1970s but are not members of DAC. Arab aid accounted for approximately [13.5% of global ODA](#) between 1974 and 1994, but has since become less important. Aid from the Arab donors has fluctuated with oil prices, is given mostly to Middle-Eastern countries, and it typically very generous. Average net aid from Saudi Arabia, Kuwait and the UAE was 1.5% of GNI between 1973 and 2008.

The Brazil government's most [recent estimate](#) from the Institute of Applied Economic Research put 2009 bilateral aid at \$362 million, although it is widely thought this figure underestimates the value of Brazil's extensive technical assistance. An [ODI study](#) puts Brazilian aid at more than \$1 billion.

India, which still [receives](#) some \$2.2 billion in ODA, raised eyebrows last year with the announcement that it would be [setting up](#) the Indian Agency for Partnership in Development (IAPD). Yet IAPD would initially have a fairly modest budget of \$11.3 billion for the next five to seven years.

Last year, China released its first [white paper](#) on foreign aid. It stated that Chinese aid increased by nearly 30% a year between 2004-9. The aid program has an annual budget of \$4 billion, which is less than 0.05% of GNI, and about an eighth of US ODA. However, note that a substantial volume of [other non-aid flows](#), such as commercial loans or export credits, are used as part of China's economic and development statecraft.

[Development Initiatives](#) released a [report](#) [pdf] last year looking at trends in non-DAC aid. The

⁸ It has also been [suggested](#) that the apparent recovery in private giving in 2010 is not indicative of a trend since it stems from the extra-ordinary number of humanitarian crises that year, including the Haiti earthquake, Pakistan floods, South Asia earthquake and Indian Ocean tsunami.

nominal growth of aid from the BRICS⁹ in particular is highlighted in Figure 5.

It is clear that aid from non-DAC donors is significant and growing. However, it is still small compared to DAC aid. Over the longer term, aid volumes from emerging donors may well fill gaps left by DAC donors, but this is unlikely in the short term.

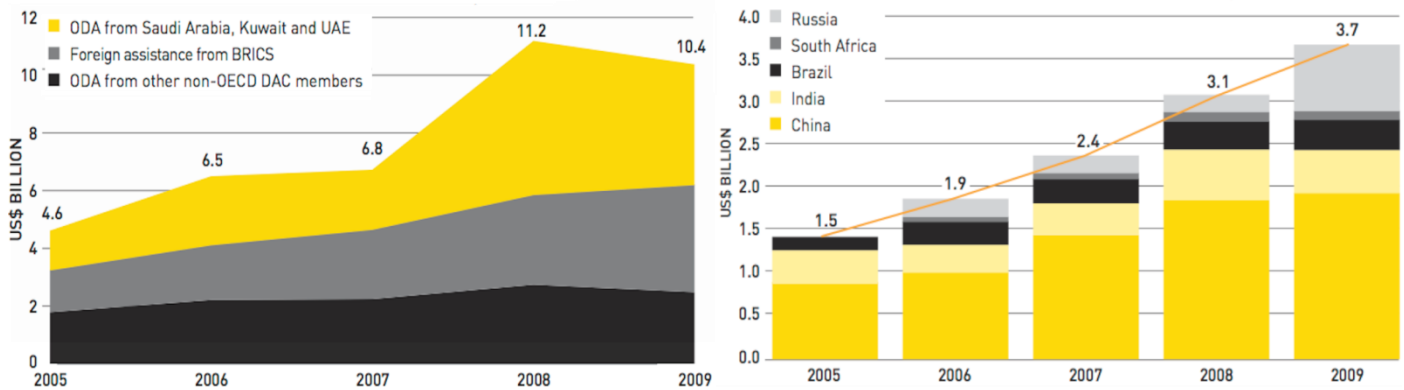


Figure 5 ODA from non-DAC donors (left) and estimated foreign aid from BRICS (right)

And those “innovative sources” of development finance?

When Bill Gates presented a [report](#) to the G20 summit in Cannes last year, he highlighted the continuing importance of ODA and the opportunity to raise the funds via three innovative methods: a tobacco tax, a financial transactions tax and an aviation and bunker fuel tax. Could these be the silver bullets?

Unfortunately, these “innovative sources” are more optimistic than practical, at least over the short term. The name ‘innovative’ is misleading, as these ideas have now been around for more than a [decade](#), and have only yielded about \$3 billion for global health causes (primarily through an EU tax on airline tickets), a long way off the \$49 billion a year that Bill Gates envisions.

In a recent Devpolicy post, Professor John Langmore [summarized](#) the common proposals for innovative development finance, which tend to focus on taxing damaging activities to fund constructive ones. The problems are two fold: lack of political support for taxes and fungibility of revenues. In Cannes the G20 discussed and [rejected](#) a financial transaction tax. A similar [EU proposal](#) is still opposed by several key countries. Even when implemented, there is no guarantee that governments will divert significant portions of extra revenue towards development. France is unilaterally imposing a Tobin tax on currency exchanges, but intends to use the revenue to [reduce the domestic budget deficit](#).

Innovative sources of finance have had [successes](#) on a small scale, particularly in health, and are promising future sources of revenue, but are very unlikely to raise large volumes of finance in the next few years.

Who loses?

Aid-dependent developing countries are the most at risk because of these aid cuts. In particular trouble are developing nations that are heavily exposed to Europe's continuing crisis. As well as facing lower aid levels, these countries [may see](#) reduced demand for their exports, financial contagion and reduced purchasing power of remittances due to depreciation of the Euro.

⁹ The BRICS are Brazil, Russia, India, China and South Africa.

The nature of aid is also changing, with [some](#) donors starting to give greater emphasis to commercial considerations, and many countries reverting to providing [loans rather than grants](#). Loans are not only favoured by emerging donors such as China. France has [restarted lending to Heavily Indebted Poor Countries](#). Aid from both traditional and emerging donors is likely to be closely tied to domestic and strategic interests in the coming years. The US has already been [shifting its aid](#) towards countries of strategic and diplomatic importance. Aid-dependent countries that are not of strategic importance are particularly vulnerable.

In terms of aid suppliers, multilateral agencies are likely to bear the brunt of government aid cuts. Countries can exercise significant year-on-year discretion in funding multilateral agencies, cuts in this area do not involve laying off any domestic staff, and governments lose none of the strategic advantage that comes from bilateral aid. China, perhaps the world's fastest growing donor, gives very little aid to multilateral institutions. The US and Germany have made significant cuts to UN contributions and the [Global Fund's money woes](#) are well known. Other agencies and countries reliant on the aid dollar will also face cutbacks. Not all aid is well spent, but ultimately cuts to aid spending must be expected to hurt the world's poor.

Conclusion

The decade from 2001-2010 saw an aid boom, with aid increasing from about US\$80 billion to about \$130 billion (in 2010 prices). That boom appears to be over, with negative real growth in aid in 2011 and negative real and nominal growth budgeted for 2012.

It is possible that in the next few years DAC donors will start increasing aid spending again. But it is also possible that this is the start of a larger, long-term shift of influence away from traditional government donors towards emerging donors and private philanthropy. Though neither of these sources will be able to make up the immediate shortfall in ODA, their relative importance will likely grow over time.

Policy Brief

Readers are encouraged to contribute comments by email (kathryn.zealand@gmail.com) or by posting a comment on our blog at devpolicy.org

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