

Key points

- 8 of the top 15 donors are cutting aid in 2012.
- Total aid spending in 2012 will decline relative to 2011. The budgets of the top 15 donors show a real aid cut of 4.9% in 2012. Their aid levels will be about \$12 billion less than indicated as recently as a year ago.
- ODA (excluding debt relief) is estimated to decline to about 0.28% of DAC income in 2012, its lowest since 2008.
- The UK and Australia are the two countries doing the most to stem this crisis of aid.
- Neither private philanthropy nor aid from emerging donors will meet the immediate shortfall.
- Developing countries without strategic importance and multilateral organizations will suffer the steepest cuts.

About the authors

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About us

The Development Policy Centre is part of the Crawford School of Economics and Government at the Australian National University.

We undertake analysis and promote discussion on: aid effectiveness; the Pacific and PNG; and development policy.

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End of the Aid Boom? The Impact of Austerity on Aid Budgets

Kathryn Zealand and Stephen Howes

With slower than expected recovery to the Global Financial Crisis, continued uncertainty in the Eurozone and austerity programs being pursued by many governments, foreign aid budgets are coming under increasing pressure. This brief brings together the latest information on the aid budgets of the world's largest donors.

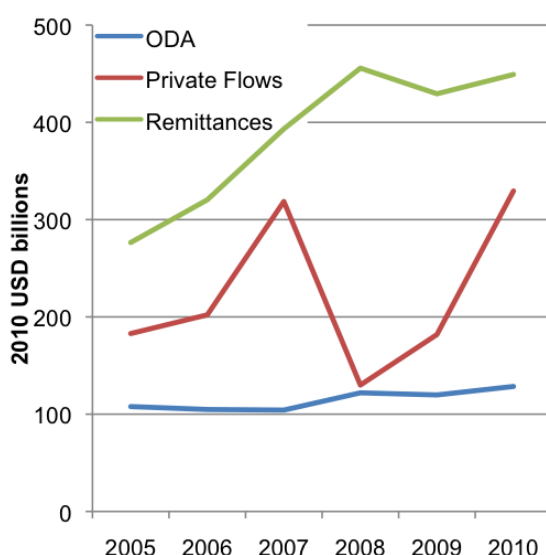


Figure 1 Flows into developing countries.

In the wake of the 2008 financial crisis, aid initially seemed remarkably robust – as Figure 1 shows.¹ Aid [grew](#) by 0.6% from 2008 to 2009 and then by 7.3% from 2009 to 2010 (though mostly through extra debt relief, not expansion of core aid programs).

Yet while private flows and remittances into developing countries have bounced back, the foreign aid budgets of donor countries are now coming under pressure from austerity measures, lower than predicted growth, and calls to reduce “unnecessary” spending.

[OECD data](#) for Official Development Assistance (ODA) in 2011 have just been released, and already show a 3% real decline in aid. This brief summarizes the outlook for aid budgets for the world's largest donors and estimates the combined effect of budget cuts on global aid flows for 2012. It also considers whether non-traditional donors, private philanthropy or innovative sources of finance can meet the shortfall in development financing.

¹ ODA disbursements and private flows data from [OECD database](#), remittances data from [World Bank](#). Private flows include direct investment, portfolio investment and export credits (net).

Who's doing what?

Aid volumes are normally compared internationally in calendar years, but budget figures provide the most recent data on trends and are in terms of fiscal years. We compare the most comparable fiscal years. So, for example, 2012 is the calendar year for all the European countries we study except the UK (April 2012-March 2013: also used for Japan and Canada) and Italy (July 2011-June 2012: also used for Australia). For the US, 2012 corresponds to October 2011-September 2012. These differences in fiscal years reduce the precision of the comparisons, but provide more up-to-date estimates of aid trends. Similarly, not all our sources are equally reliable and precise, and we do not have full coverage of all ODA (more on that later). But what follows below are, nevertheless, the most up-to-date estimates available.

The 15 countries listed below in descending order of total aid given in 2011 account for more than 90% of all ODA from DAC donors (DAC is the OECD club of rich-country donors). Dollars are current US dollars. Aid is often measured as a percentage of the donor's Gross National Income (GNI) with 0.7% being an often cited but rarely met target, and we also report on aid/GNI ratios where possible.

- The **United States** is by far the biggest donor. The 2012 aid program escaped defunding by Republicans in the House of Representatives, some of whom [called for USAID's budget to be slashed](#) by 84%. The [approved budget](#) allocates \$42.1 billion to State and Foreign operations - [\\$6.0 billion below 2011 levels](#) and \$8.7 billion less than the President requested. Aid not related to war or reconstruction in Iraq and Afghanistan was [cut by \\$2.2 billion](#) and USAID operations by \$258 million. Bilateral economic assistance is down \$2.9 billion (16%) compared to 2011 levels. Overall, our best estimate is a 2012 aid reduction of \$3.5 billion.
- **German** ODA has ["barely increased"](#) compared to 2009 figures and remains less than 0.4% of GNI. The [2012 aid budget](#) is €6.4 billion, only 2.5% larger than in 2011, and Germany has abandoned plans to reach the 0.7% of GNI goal in the near future.
- The **United Kingdom** is committed to meeting its 0.7% of GNI aid target by 2013, but has reduced its scale-up of aid by [cutting £1.1 billion](#) (\$1.6 billion) spread over three years to meet this target exactly (previous plans would have overshoot the target, in part due to lower than expected GNI forecasts).
- **France** authorized only €2.7 billion new aid spending, compared to €4.6 billion in 2011. However due to a delay in spending the funds, actual aid disbursements are expected to be [€3.3 billion for both years](#) [pdf, pg 193]. Total ODA from all government departments was expected to [increase by 8%](#) [pdf, pg 78], but the most recent budget indicates only a 1% increase in 2012 and a [3% decrease in 2013](#).² ODA reportedly sits at 0.5% of GNI, but using the official figures yields ODA at only 0.39%. France will [not increase](#) aid to meet the 0.7% target in the foreseeable future. France is also giving more ODA [as loans](#) (17% in 2009 compared to 7% in 2008) and less in grant form.
- **Japan** [reduced its 2011 aid by 10%](#) (drawing mainly from multilateral commitments) to fund domestic disaster recovery, and the [2012 budget](#) [pdf] shows a further 2% decrease to \$7.2 billion of ODA.
- The **Netherlands** is [cutting aid](#) to €4,420 million in 2012, €917 million (\$1.2 billion) less than previous estimates. This corresponds to a decline from 0.8% to 0.7% of GNI.
- **Sweden** is [maintaining its aid levels](#) at 1% of GNI.
- **Canada** has abandoned its plans to scale-up aid by 8% each year, initially deciding to [cap its International Assistance Envelope at \\$5 billion](#) [pdf] for an indefinite period, Canada has since

² One-third of ODA comes from the item "Aide économique et financière au développement" which is funded mostly from "extrabudgetary resources" raised on international financial markets, rather than the annual budget.

announced it will [shrink aid more than 7%](#) by 2014-15 [pdf, pg 272]. This makes the 2012 aid budget \$1 billion less than expected, equates to \$7.9 billion in cuts over the next four years, and will mean a fall in ODA from the expected 0.33% of GDI to 0.25% in 2015.

- **Norway** is continuing to [increase its aid](#) budget to keep ODA greater than 1% of GNI, although it is under [growing pressure](#) to reduce aid, particularly its funding of the UN.
- **Australia**, having been spared the worst of the financial crisis, has so far [maintained its scale-up](#). Aid increased from \$4.3 billion in 2010-11 to \$4.8 billion (0.35% of GNI) in 2012 (i.e., July 2011-June 2012).
- The **Spanish** agency has had its budget more than [halved](#) to [€380 million](#) [pdf, pg 95, 102]. Total ODA is expected to decline from 0.4% in 2011 to 0.19% of GNI in 2012.
- **Italy**, unsurprisingly, is implementing the most devastating cuts to foreign aid. The budget of the Directorate General for Development Cooperation has been [reduced by 88% since 2008](#) to [€166 million](#) in FY2011 and a modest €86 million (\$114 million) in FY2012 (July 2011-June 2012). Italy will only meet two-thirds of its commitments to the African Development Bank and multilaterals, falling €1.1 billion short.
- **Switzerland** has reaffirmed its commitment to [increase aid](#) and with \$140 million more than last year; ODA is set to exceed [\\$2 billion in 2012](#) [pdf, pg. 34].
- **Denmark**, already one of the countries exceeding the 0.7% of GNI target, [has increased its ODA](#) [pdf, pg 40] by 15% to \$2.7 billion in 2012 (0.83% of GNI).
- After €280 million cuts in 2010, **Belgium** is restoring its aid program with a €186 million increase to €2.2 billion (0.56% of GNI) in the [2012 budget](#) [pdf, pg 150].

Figure 2 summarizes the estimated aid spending changes compared to 2011 levels and previous estimates of 2012 levels. As discussed above, the United Kingdom boosted aid, but less than previously promised, and Germany, the Netherlands and Canada all backed away from ambitious increases in aid spending. More donors are cutting aid than increasing it.

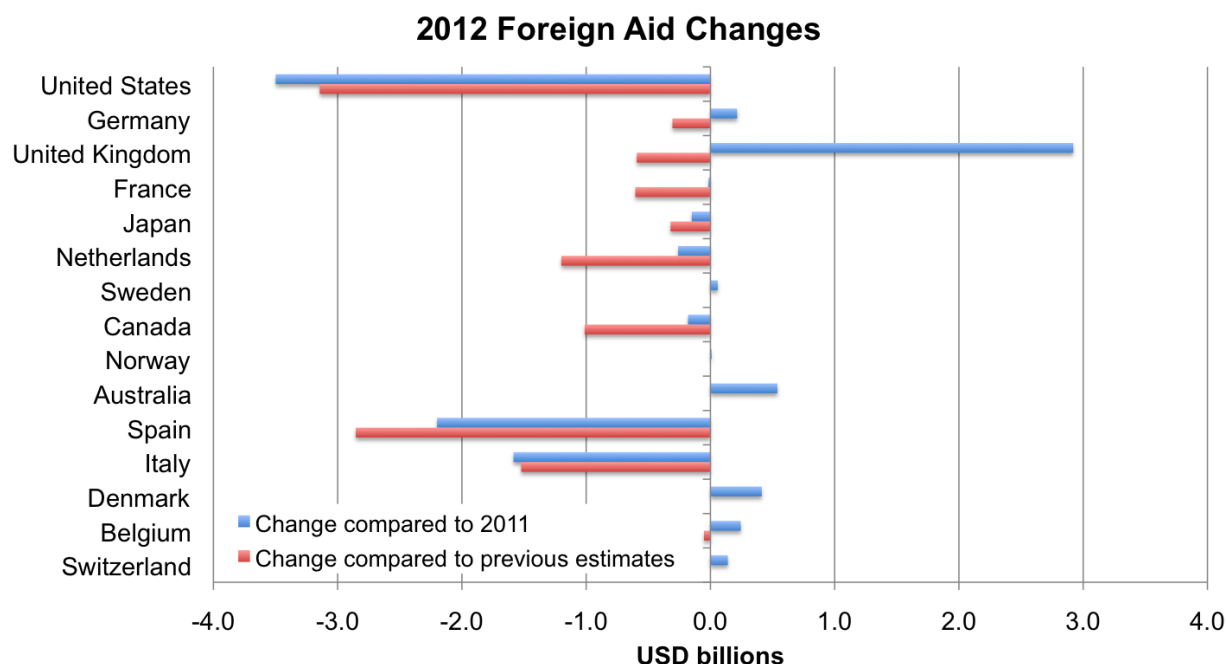


Figure 2 Estimated foreign aid changes of the 15 largest donors over the relevant financial year most overlapping the 2012 calendar year. For Australia, FY2011-12 has been taken.

Where does this leave aid?

Official Development Assistance (ODA) is complicated and focusing on donor-country budget documents fails to capture all aspects of ODA. For example, we have not included debt relief. Nevertheless, the budget items we have identified accounted for about 87% of ODA from the top 15 donors in 2011 and 83% of all ODA.

There are several ways to analyze the combined effect of donor budget cuts. We compare budgeted aid spending in 2012 to actual levels in 2011, various commitments made by donors, previous predictions for 2012 spending, and historical trends over the last decade.

The aid budgets we considered together forecast 2012 aid spending at \$99.8 billion, which is **\$3.4 billion less** than 2011.³ Adjusting for inflation across individual donors, we find that the real value of the aid budgets of the top 15 donors is **4.9% less than in 2011**, or \$5.9 billion less in constant 2011 dollars.⁴

What has happened to earlier commitments?

Many countries are failing to meet earlier commitments and promises. President Obama made an [election promise](#) in 2007 to double aid to \$50 billion by 2015, and while he increased aid significantly from 2008-10, the United States would have to increase ODA by around 50% over 2013-15 to meet this commitment, which seems unlikely. Germany gives only around half the EU 2010 commitment of 0.51% of GNI. Canada cancelled its plan to scale up aid.

At the Gleneagles G8 Summit in July 2008, some donors made [firm commitments](#) [pdf] for future ODA spending which together amounted to an ODA "increase by around \$50 billion [60%] a year by 2010, compared to 2004." The OECD provide a [summary](#) of which donors were meeting their commitments in 2010, and found that ODA had only increased by about \$30 billion in 2004 dollars. That number will be lower now.

We can compare the most recent estimates for 2012 aid spending to estimates donors made in 2010

³ As noted in the text, this decline is across comparable budget items from 2011 to 2012, and does not represent gross ODA.

⁴ Inflation values are taken from predictions in the Apr 2012 IMF [World Economic Outlook](#) report.

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

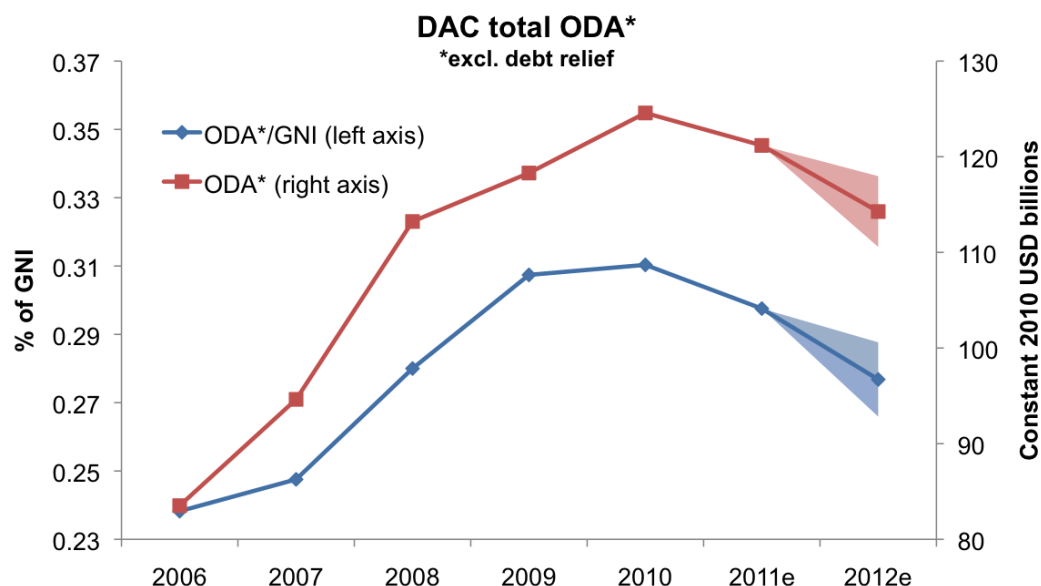


Figure 3 Estimated ODA, excluding debt relief, from DAC donors since 2006

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.

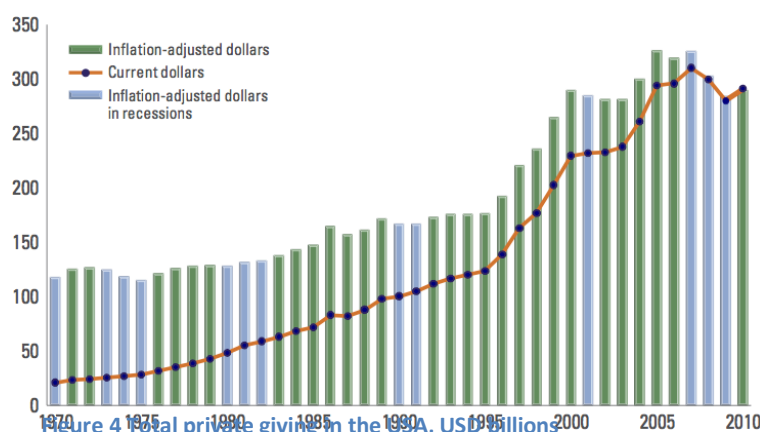


Figure 4 Total private giving in the USA, USD billions

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.

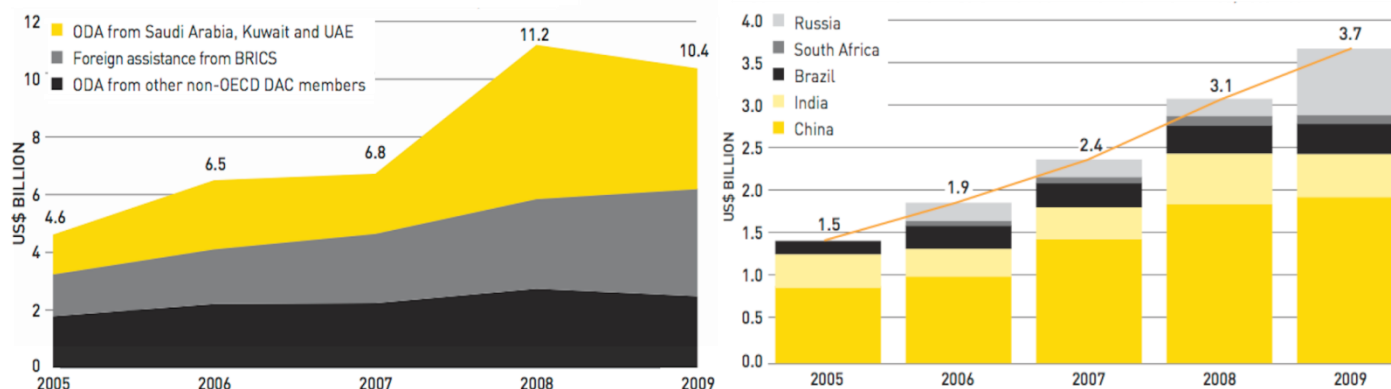


Figure 5 ODA from non-DAC donors (left) and estimated foreign aid from BRICS (right)

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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