FINANCIAL RESOURCES FOR DEVELOPING COUNTRIES: 1991 AND RECENT TRENDS

SUMMARY

Total official development assistance (ODA) from DAC countries to developing countries and multilateral institutions increased in 1991 to $58.2 billion from $55.1 billion in 1990. With allowance for changes in prices and in exchange rates vis-à-vis the US dollar, this represents an increase of 2.1 per cent in real terms. Aid to Sub-Saharan Africa increased at more than twice that rate. ODA as a share of GNP for DAC Members remained at the 1990 level of 0.34 per cent. The 1991 increase continues regular steady growth in the volume of official development assistance from DAC countries over the past five years at an average annual rate of about 2.3 per cent.

Net total resource flows (ODA, other official flows and private sector resources) reaching developing countries from all sources, i.e. from DAC and non-DAC countries and multilateral institutions, reached, according to preliminary estimates, about $133 billion, a decline in constant prices and exchange rates of just over 1 per cent.

The Chairman of the DAC, Mr. Alexander R. Love, will report on Members’ aid policies and performance at a press conference on Monday 29th June at 3.30 p.m., at the OECD, 2 rue André Pascal, Paris 16e.
Aggregate DAC ODA increased in 1991 by 2.1 per cent in real terms to $58.2 billion. Most DAC Members recorded increases in the volume of their aid. Exceptions were Italy and Belgium. Substantial increases or recoveries in percentage terms were reported by Austria, Ireland, Spain, the United Kingdom, Portugal, Finland, Japan and Australia.

Norway, Denmark, Sweden and the Netherlands continue to stand out as the countries with the highest ODA/GNP ratios, with Norway in front at 1.14 per cent. Finland at 0.76 per cent reached the 0.7 per cent target for the first time.

The two largest donors are the United States and Japan, followed by France and Germany. The United States include in their ODA statistics substantial amounts of military debt cancellation which are not included in DAC totals.

ODA to Sub-Saharan Africa rose as a share of the total.

This press release on DAC Members includes for the first time data on the performance of Portugal and Spain, which joined the DAC in December 1991. As both countries’ ODA/GNP ratio was below the DAC average in 1990, their inclusion in the statistics has led to a revision of Members’ collective ODA/GNP ratio in that year from 0.35 per cent to 0.34 per cent.

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A note on the recording of debt forgiveness in DAC aid statistics

In order to give recognition to Member governments’ financial efforts in alleviating the debt burden of developing countries, the DAC Statistical Reporting Directives provide for reporting as ODA, under specified conditions, of forgiveness of non-ODA debt, corresponding to the amounts due in the respective reporting years.

Questions have arisen over the recording of debt forgiveness on military debt and other non-ODA debt. In September 1991 the Committee agreed to review the appropriate recording of debt forgiveness generally, in particular of military debt and export credits. Pending the outcome of the DAC review, the aid data for 1990 presented in 1991 DAC publications were noted to be preliminary and subject to revision. The data presented include forgiveness of non-ODA debt reported by some Members, with appropriate footnote indications.
and further explanations where required in the country notes. However, pending the completion of the review, these amounts were not included in the figures for total DAC aid.

During the preliminary discussion of this question in 1991 all DAC countries confirmed the basic DAC rule that grants, official loans, or credits (guaranteed or not) for the supply or financing of military equipment or services, including the direct participation in military expenditures and other contributions linked to a specific defence effort should not be included in DAC statistics. It was pointed out by some Members that forgiveness of military debt is not military aid. If undertaken in the context of an international aid effort in support of effective policy programmes, its economic effect is similar to that of programme assistance. In this view, there is no difference between the economic effects of forgiveness of military debt and of other debt. Other Members took the view that the inclusion of forgiveness of military debt in ODA was inappropriate, particularly in a situation where developing countries are encouraged by donors to reduce military expenditures and arms imports, and also because of the possible adverse effect on public opinion.

In the meantime DAC Members have, in conformity with their decision of September 1991, further reviewed the appropriate recording of debt forgiveness on military debt and export credits.

While the Committee notes the view that the economic effects of forgiveness of military debt and of export credits are the same, that the act of forgiveness is a new and separate transaction dissociated from the purpose of the original transaction, that the inclusion as ODA is based on the development motivation of the act of forgiveness, that this logic is also the basis for including as ODA forgiveness of debt arising from export credits and that therefore both types of debt forgiveness should in principle be treated statistically in the same way, in deference to concerns expressed over possible public opinion impacts, the Committee accepts a differentiated approach as follows.

Members agree that in future reporting, forgiveness of military debt will be recorded but not as ODA. Members will make arrangements to ensure that debt forgiveness on export credits relating to military supplies is also omitted from ODA reporting.

Forgiveness granted on export credits will be recorded as ODA in accordance with the existing DAC statistical directives.

Administrative arrangements for the implementation of this agreement will take time. Reporting on 1991 and 1992 will consequently still be based on the preliminary agreement set out in the second paragraph.

Members agree to review more generally the definition of official development assistance and current reporting practices. They plan to complete this review by mid-1994.
ODA DISBURSEMENTS IN 1991 BY INDIVIDUAL DAC MEMBERS

Australia

Australian aid disbursements increased in 1991 to $1.055 billion which represented a growth of 9 per cent in real terms (1990 prices and exchange rates). The ODA/GNP ratio moved up to 0.38 per cent from 0.34 per cent a year earlier. This increase in ODA volume was the first after two years of decline and is due to considerably larger contributions to multilateral organisations (+59 per cent), most of which was for IDA, for which a delay in legislation in 1990 affected the deposit of Australia’s first contribution to the 9th replenishment, which was made in 1991, together with the contribution for the latter year. Bilateral ODA decreased by 4 per cent over the previous year. Medium-term prospects for Australia’s aid volume depend on budgetary circumstances. Every effort is being made to continue introducing improvements in aid performance despite a difficult economic situation.

Austria

The volume of Austrian ODA rose strongly for the second consecutive year to reach $546 million, an increase in real terms of 37 per cent. The ODA/GNP ratio also improved substantially: it was 0.34 per cent in 1991 after 0.25 per cent a year earlier. The volume growth was mainly due to another strong increase of bilateral ODA by 43 per cent. The data include $4 million of ODA reported as forgiveness of non-ODA debt; if this amount were not taken into account, Austria’s ODA/GNP ratio in 1991 would have been 0.33 per cent. Austria has now almost attained its medium-term objective of achieving the DAC average ODA/GNP ratio in 1993/94. A further increase in its aid volume can be expected.

Belgium

Belgium’s net ODA disbursements dropped by 9 per cent in real terms to $820 million. The ODA/GNP ratio fell back by 5 points to 0.41 per cent. The decline in disbursements from their 1990 level is essentially due to the interruption of Belgium’s co-operation with Zaire. Given time constraints, the funds could not be reprogrammed elsewhere; they will be reallocated in 1992. There was also a decline in contributions by Belgium to United Nations institutions and regional development banks.

Canada

In 1991, the volume of ODA disbursed reached $2.6 billion, roughly the same amount in real terms as a year earlier. The ODA/GNP ratio rose to 0.45 per cent. Despite continued budget constraints arising from the current economic situation Canada will continue to make progress towards achieving the ODA/GNP ratio target of 0.7 per cent.
Denmark

Net ODA disbursements grew further in 1991 to $1.2 billion, corresponding to 0.96 per cent of GNP, a rise in real terms of 4 per cent. Contributions to multilateral organisations rose by 10 per cent, but bilateral disbursements were 1 per cent lower than in 1990. If $14 million reported as forgiveness of non-ODA debt were excluded from the record, Denmark’s 1991 ODA/GNP ratio would have been 0.95 per cent.

Finland

Following the decision taken by the Finnish Government in 1980 to achieve 0.7 per cent of GNP in terms of ODA appropriations by the end of the decade, the growth of Finnish ODA has been one of the most rapid and sustained among DAC Members. In 1991 net disbursements increased by 14.3 per cent in real terms as compared to 1990, reaching $930 million. Bilateral aid disbursements increased by 29.6 per cent while multilateral contributions remained steady. The ODA/GNP ratio increased from 0.63 per cent to 0.76 per cent (one-third of this increase is the statistical effect of a 4.8 per cent decline in GNP). The temporary abandonment of the 0.7 per cent target announced by Finland in 1991 along with a 5.2 per cent reduction in the aid budget can be expected to affect future disbursement levels.

France

France’s net ODA disbursements (excluding flows to the Overseas Departments and Territories -- DOM/TOM) increased by less than 2 per cent to 1991 over 1990. Virtually all of the increase was accounted for by multilateral contributions which rose 7.5 per cent, catching up on relatively low contributions the previous year. Net bilateral disbursements rose by less than 1 per cent. The ODA/GNP ratio rose from 0.55 to 0.56 per cent (the cancellation of non-ODA debt should in principle be identified separately, but the data for 1991, for technical reasons, are not yet available separately). Net ODA disbursements including the DOM/TOM grew by 2.2 per cent in real terms to $9.5 billion.

Germany

In 1991, the volume of official development assistance corresponded to $6.8 billion, a growth of 5 per cent in real terms after an increase of 6 per cent in 1990. Bilateral ODA remained stable after last year’s exceptionally high growth of 17 per cent which was due, in particular, to the extension of a large volume of assistance to countries affected by the Gulf War. This assistance continued in 1991. Multilateral contributions, whose volume had dropped by 14 per cent in 1990, increased by 18 per cent, mainly benefitting the EC and the UN family. According to German medium-term budget planning, only small increases in aid volume can be expected in the near future, although the rate of increase will be greater than that of the federal budget as a whole. The 1991 data are for the unified Germany. The small decline in the 1991 ODA/GNP ratio is in part due to the fact that the ODA figure is now related to the combined GNP.
Ireland

The volume of Irish aid recovered markedly in 1991 to the equivalent of $73 million. This increase of 27 per cent in real terms more than compensated for last year’s drop by 4 per cent to $57 million. The ODA/GNP ratio increased to 0.19 per cent after 0.16 per cent in 1990. Bilateral ODA increased 30 per cent and contributions to multilateral organisations 26 per cent, most of which for the EC.

Italy

Italian development assistance in 1991 amounted to $2.9 billion which corresponded to 0.25 per cent of GNP. These data are based on preliminary reporting and exclude several transactions, in particular emergency assistance to Albania. The 1991 ODA volume declined by 18 per cent in real terms, after the drop witnessed in 1990, when the volume was $3.4 billion and the ODA/GNP ratio 0.31 per cent. On the multilateral side, contributions dropped by 30 per cent following exceptionally large drawings by IDA and the regional banks in 1990. Bilateral assistance in 1991 was 11 per cent lower than in 1990, excluding cancellation of non-ODA debt in 1991 for which statistics are not yet available, and should in principle be identified separately. The decline was mainly due to the effect on disbursements of administrative uncertainties related to the Italian Parliament’s decision to terminate the Special Fund for Development Co-operation. The decision to terminate the Fund has recently been reversed. Its activities will be resumed in the near future and a progressive normalisation of the disbursement situation can be expected.

Japan

Japan’s ODA net disbursements increased by 10.1 per cent in real terms to $11 billion. All of the increase was attributable to an increase in bilateral disbursements which rose 19 per cent in real terms. In 1991 loans increased by 32 per cent in real terms while grants increased by less than 1 per cent. Multilateral net disbursements decreased in real terms by the same percentage due to timing of drawings by the multilateral institutions. Japan’s ODA/GNP ratio increased by one percentage point to 0.32 per cent. Japan was the main contributor to DAC aid growth in 1991 as it has been in recent years. Prospects are for continuing substantial Japanese aid growth in future years.

Netherlands

The Netherlands’ aid volume declined by 1.4 per cent in real terms, remaining at $2.5 billion in 1991. Contributions to multilateral organisations increased by 8 per cent, mainly on account of higher payments to the EC. Bilateral ODA showed a decline of 4.8 per cent. The Netherlands’ ODA/GNP ratio in 1991 was 0.88 per cent (0.92 per cent in 1990, or 0.91 excluding forgiveness of non-ODA debt). Aid volume is expected to remain at its relatively high level but may only grow modestly.
New Zealand

After a limited recovery in 1990, ODA net disbursements in 1991 measured in dollars declined to $93 million, but remained stable in real terms, leaving the ODA/GNP ratio unchanged at 0.23 per cent. Lower bilateral disbursements (-5 per cent) were compensated by a strong increase of contributions to multilateral organisations (+28 per cent), which accounted for almost one-fifth of total ODA disbursements in 1991.

Norway

After substantial growth in 1990 (+14 per cent), the volume of ODA net disbursements remained unchanged in real terms in 1991, corresponding to $1.2 billion and an ODA/GNP ratio of 1.14 (1990: 1.17), still the highest ratio among DAC Member countries. A small decline in bilateral disbursements was compensated by a slight increase in contributions to multilateral organisations, mainly to the United Nations and regional development banks and funds.

Portugal

Portugal rejoined the DAC in December 1991. Its net aid disbursements which had expanded significantly in recent years continued to grow in 1991, reaching $190 million, i.e. an increase in real terms of 14 per cent. The ODA/GNP ratio rose from 0.25 per cent in 1990 to 0.28 per cent in 1991. This increase was the result of higher net loan disbursements which more than doubled in 1991; there was a slight decline in bilateral grants, mainly on account of smaller technical assistance. Multilateral contributions remained at their previous year’s level of some $40 million.

Spain

Spain became a Member of the DAC in December 1991. Spanish net ODA disbursements grew significantly in 1991 for the third consecutive year, although at a slower pace than during the two previous years and reached $1.2 billion, i.e. an increase of 17 per cent in real terms; they had more than doubled in 1989 and expanded by 80 per cent in 1990. The ODA/GNP ratio rose from 0.14 per cent in 1989 to 0.20 per cent in 1990 and to 0.23 per cent in 1991. This evolution was mainly due to sharply higher loans extended through the Fondo de Ayuda al Desarrollo (FAD), which are frequently associated with non-concessional export credits. Technical co-operation has also risen strongly over the last few years. Multilateral contributions, mainly to the EC, declined as a proportion of total net ODA.
Sweden

ODA volume increased by 0.6 per cent to 0.92 per cent, bringing the ODA/GNP ratio from 0.9 to 0.92 per cent. Bilateral ODA disbursements declined by 0.8 per cent, while contributions to multilateral organisations increased by 4 per cent, due to a considerable increase of contributions to UN organisations. Sweden’s aid volume is expected to be maintained at its present level, but prospects for medium-term growth are uncertain.

Switzerland

Swiss aid volume in 1991 was $767 million, $17 million more than in 1990, but in real terms the growth was negligible (0.4 per cent). While bilateral disbursements grew by 13 per cent, multilateral contributions declined considerably by 33 per cent. Switzerland’s ODA/GNP ratio remained at 0.32 per cent, as in 1990. Given the intention of the Swiss aid authorities to reach the DAC average ODA/GNP ratio, some increases in aid volume may be expected over the medium term.

United Kingdom

British ODA net disbursements increased in real terms by over 16 per cent in 1991 to reach $3.2 billion. Net bilateral ODA disbursements at $1.8 billion were 17.5 per cent higher in real terms, while multilateral contributions increased by 15 per cent in real terms to $1.4 billion. The ODA/GNP ratio rose from 0.27 to 0.32 per cent. The budget for 1992/1993 provides for an increase in ODA funding of the order of 6 per cent, which would imply a further small increase in real terms.

United States

United States aid decreased in real terms in 1991 by 2.7 per cent to $11.5 billion. This figure includes the forgiveness of $1.85 billion of claims on Egypt in respect of military debt (1990: $1.2 billion) which amounts have been omitted from total DAC ODA in the light of the review by DAC Members referred to in the note on the treatment of debt forgiveness. As a share of GNP, net disbursements reported by the United States dropped slightly from 0.21 per cent to 0.20 per cent (0.19 per cent and 0.17 per cent omitting the amounts of forgiveness). The statistical record of United States aid over the past decade, like that of some other donors, has been markedly affected by the timing of contributions to multilateral organisations. In 1991 contributions to multilateral organisations decreased by $1 billion to $2 billion, a drop in real terms of 36.5 per cent. The bulk of the decrease concerned regional development banks. Bilateral net disbursements increased in real terms by just under 10 per cent to $9.5 billion (3 per cent excluding the military debt forgiveness).
ASSISTANCE FROM NON-OECD COUNTRIES

No firm data are available for 1991 on aid from some non-DAC sources, in particular the former USSR. It is clear, however, that there were steep declines. Total non-OECD aid (including roughly $0.5 billion of ODA from non-Arab developing countries to other developing countries) is estimated at $4.2 billion, the lowest level ever recorded.

The fall in Arab aid was to be expected since its high level in 1990 had resulted from an unprecedented financial effort by the Arab Gulf States following the occupation of Kuwait.

Little information is available on aid from the former USSR and countries in Central and Eastern Europe. There is, however, no doubt that aid by the former Soviet Union declined further in 1991, while the CEEC countries either terminated their programmes or limited them to some small technical assistance programmes. Aid from Taiwan continued to increase, but still remained modest in absolute amount and in relation to GNP. There was a small, but unexpected decline in aid from Korea.
TOTAL NET RESOURCE FLOWS TO DEVELOPING COUNTRIES  
(Table 4)

Details on total flows are contained in the publication Financing and External Debt of Developing Countries, 1991 Survey, OECD, 1992. The text below gives the highlights of that survey.

Total net resource flows to developing countries at $133 billion remained roughly at the same level in real terms as in 1989 and 1990. The structure of the main components remained practically unchanged. The following developments should be highlighted. Private flows are estimated to have increased by some 2 per cent to $54 billion. Official development finance slipped back by just over 1 per cent to $56 billion. Export credits continued to decline, from over $4 to $3 billion. All in all, there has been a steady progression in the share of non-debt creating flows, which are now approaching two-thirds of total resource flows.

Official development finance (ODF), which includes ODA and less-concessional multilateral flows and certain bilateral flows (see definitions in annex) continues to remain the backbone of resource provision to developing countries, accounting for 56 per cent of the total recorded in 1991.

Total private flows maintained their steady recovery and in 1991 represented 42 per cent of overall flows to developing countries. Important features of 1991 patterns include:

-- a sharp drop in international bank lending from $18.5 billion in 1990 to $7 billion in 1991 due, in particular, to reduced lending to the "front line" states in the Gulf crisis;

-- a major jump in bond lending, from negative levels in 1990 to $9 billion in 1991, reflecting a move towards greater securitisation of loans;

-- after a fall in 1990, foreign direct investment recovered by over 5 per cent to $28 billion in 1991, representing just over half of total private flows;

Other private flows and grants by non-governmental organisations together amounted to $11 billion in 1991, representing an important and relatively stable component of overall private flows.

Aggregate debt service payments fell by over $8 billion to $141 billion in 1991, the largest yearly drop since 1987. There were significant declines in financial market payments but also in those related to export credit service. Multilateral service payments have grown in importance.
Annex

TERMS AND DEFINITIONS USED

DEVELOPMENT ASSISTANCE COMMITTEE (DAC): Members: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the United States and the Commission of the European Communities. Observers: the IMF and the World Bank.

AID: The word "aid" or "assistance" refers only to flows which qualify as "Official Development Assistance" (ODA), i.e., grants or loans:

-- undertaken by the official sector;
-- with promotion of economic development or welfare as main objectives;
-- at concessional financial terms (if a loan, at least 25 per cent grant element).

In addition to financial flows, technical co-operation is included in aid. It consists almost entirely of grants to nationals of developing countries receiving education or training at home or abroad, and payments to defray the costs of teachers, administrators, advisers and similar personnel serving in developing countries.

OFFICIAL DEVELOPMENT FINANCE (ODF): Used in measuring the inflow of resources to developing countries, includes grants and development lending by multilateral financial institutions, bilateral ODA, and other official flows for development purposes, but with too low a grant element to qualify as ODA (e.g., the net acquisition by the official sector of securities issued by multilateral development banks at market terms). Certain refinancing loans which do not qualify as ODA are also included.

TOTAL FLOWS: In measuring the inflow of resources to developing countries (see Table 4), include, in addition to ODF, official and private export credits, long and short-term private transactions (including bank lending) and grants from private voluntary agencies. In measuring the outflow of resources from donor countries, exclude grants, loans and credits for military purposes and loans and credits with a maturity of less than one year.

Bilateral flows are provided directly by a donor country to a developing country. Multilateral flows are channelled via an international organisation active in development (e.g. World Bank, UNDP).
RECORDING OF MULTILATERAL CONTRIBUTIONS: Notes and similar instruments made out in favour of multilateral institutions and payable on demand are recorded in DAC statistics on their date of deposit or issue. Usually, only a few transactions are involved, each for a large sum, with issue following completion of parliamentary approval processes and the subsequent departmental authorisation procedures. Thus, even if notes are issued in each fiscal year (which is not always the case: delays are not infrequent), a country’s data for a calendar year may include the issues for two (or more) fiscal years -- or none. As a result, the data for a given country, or for Members combined, may appear to move erratically in some years, even if the underlying trend is much smoother.

GRANT ELEMENT: Reflects the financial terms of a commitment: interest rate, maturity (interval to final repayment) and grace period (interval to first repayment of capital). It measures the concessionality (i.e., softness) of a loan, in the form of the present value of an interest rate below the market rate over the life of a loan. Conventionally the market rate is taken as 10 per cent. Thus, the grant element is nil for a loan carrying an interest rate of 10 per cent; it is 100 per cent for a grant; and it lies between these two limits for a soft loan. Generally speaking, a loan will not convey a grant element of over 25 per cent if its maturity is less than 10 years, unless its interest rate is well below 5 per cent. If the face value of a loan is multiplied by its grant element, the result is referred to as the grant equivalent of that loan.

DEVELOPING COUNTRIES (and territories): The list used by the DAC includes: all countries and territories in Africa except South Africa; in America except the United States and Canada; in Asia except Japan; in Oceania except Australia and New Zealand; and the following in Europe: Albania, Cyprus, Gibraltar, Greece, Malta, Turkey and Yugoslavia. The consequences for the list of the emergence of the NIS (commonwealth of Newly Independent States) are under consideration.

VOLUME (real terms): The flow data in this release are expressed in US dollars. To measure the volume of flows, an adjustment is required for changes in price levels as well as for changes in exchange rates. The dollar equivalent of flows in other currencies is inflated when the dollar depreciates and vice versa. In 1991 there was practically no change in DAC countries’ currency parities on the average vis-à-vis the dollar; prices rose on average by 3.4 per cent. Since DAC Members’ ODA increased by 5.9 per cent in nominal terms, volume, i.e. at constant 1990 prices and exchange rates, increased by 2.1 per cent. (Strictly speaking, volume in this sense cannot be equated with flows "in real terms", which would involve taking into account the extent to which the currency structure of developing countries’ external payments differs from the currency structure of their resource inflows. This has not been attempted here.)