

MEASURING OFFICIAL DEVELOPMENT ASSISTANCE FROM DONOR COUNTRIES. THE CASE OF DAC COUNTRIES ^(*)

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Abstract

It is well known that Official Development Assistance (ODA) represents one of the most important external financial resources for developing countries together with Foreign Direct Investment and Workers' Remittances. It is also known that the current efforts from the more developed countries are deemed not sufficient and for most of them still below the UN target (i.e. ODA as 0.7 percent of GNI).

In the wake of a previous author's contribution (Ferrieri 2004), this paper is intended to offer a more comprehensive quantitative approach to measuring the performances of the DAC countries (i.e. the members of the Development Assistance Committee) over the last decade, by taking into account not only the assumed target but also their relative importance in the related aggregates.

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1. INTRODUCTION

It is well known that Official Development Assistance (ODA)¹ represents one of the most important external financial resources for developing countries together with Foreign Direct Investment and Workers' Remittances.

It is also known that the current efforts from donor countries, and particularly OECD countries, are generally deemed not sufficient. These efforts are notoriously measured in relation to the UN target: ODA as 0.7 percent of Gross National Income (GNI)². Indeed, for most of OECD countries the ODA to GNI ratio is still below 0.7 percent and some of them seem to be far from attaining such a level.

Following a previous author's contribution (Ferrieri 2004), this paper intends to provide a more comprehensive quantitative approach to measuring the performances of the donor countries, with the help of some applications to OECD-DAC countries.³

2. DATA AND METHOD

ODA data are available and downloadable in electronic format from the OECD – DAC website (OECD 2009b); they are well detailed, disaggregated, and updated.

ODA and GNI figures downloaded and used herein are expressed in US current dollars at the market exchange rates.

Whereas ODA flows are subjected to not irrelevant fluctuations from year to year, two-year averages are considered for applications. Data comparison is made at two reference periods over a decade: 1996-97 and 2006-07.

The usual ODA to GNI ratio is a measure of the countries' donations relative to their national richness. It is possible to measure the countries' efforts in relation to the global effort of the other countries through a simple index, suitably adapted and depurated, as follows:

$$IODA_A = \frac{ODA_C / GNI_C}{(ODA_T - ODA_C) / (GNI_T - GNI_C)} \quad 4$$

¹ As reported by the OECD glossary, ODA flows are grants and loans to countries and territories belonging to the DAC list of recipients (developing countries) and multilateral agencies (World Bank etc.) "which are: (a) undertaken by the official sector; (b) with promotion of economic development and welfare as the main objective; (c) at concessional financial terms (if a loan, having a grant element of at least 25 per cent). In addition to financial flows, technical co-operation is included in aid. Grants, loans and credits for military purposes are excluded. Transfer payments to private individuals (e.g. pensions, reparations or insurance payouts) are in general not counted" (OECD 2009a).

² See UN, *Millennium Development Goals*

³ The Development Assistance Committee (DAC) is the OECD's body responsible for development co-operation issues, including compiling and updating ODA statistics. It is actually composed of 23 members, with the inclusion of the European Commission (OECD 2009a).

This analysis takes into account the traditional 22 member countries who are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Italy, Ireland, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

⁴ As is easy to verify, the index can be also formulated as follows:

$$IODA_A = \frac{ODA_C / (ODA_T - ODA_C)}{GNI_C / (GNI_T - GNI_C)}$$

In which the letters C and T do indicate, respectively, Country and Total DAC Countries. A depuration is applied to eliminate the influence of the data country in the related aggregates (ODA and GNI).

The index value expresses how much a country does outperform or underperform the average of the other countries. In general terms, a value equal or superior to one indicates a better performance compared to the average of the other countries; likewise, a worse performance occurs when the index is below one.

It would be also useful to gauge the performance of each country compared to its own potential. This might be given by a simple index formulated as follows:

$$IODA_B = \frac{ODA}{(ODA^* + ODA^{**})/2}$$

The index is expressed in terms of ratio of ODA really provided to the average between potential ODA flows (indicated as ODA* and ODA**), in which:

ODA* are derived under the hypothesis that all countries achieve the UN target (i.e. ODA/GNI = 0.7percent). Obviously, this implies a change in total DAC ODA

ODA** are derived under the hypothesis that all countries have a weight in total DAC equal to that in total GNI, keeping DAC total unchanged

The index value indicates how much real ODA from a country do outperform or underperform its potential ODA. In general terms, a value equal or superior to one means a better performance of the related country compared to its own potential; vice versa, an index inferior to one.

Key results are reported in the following section.

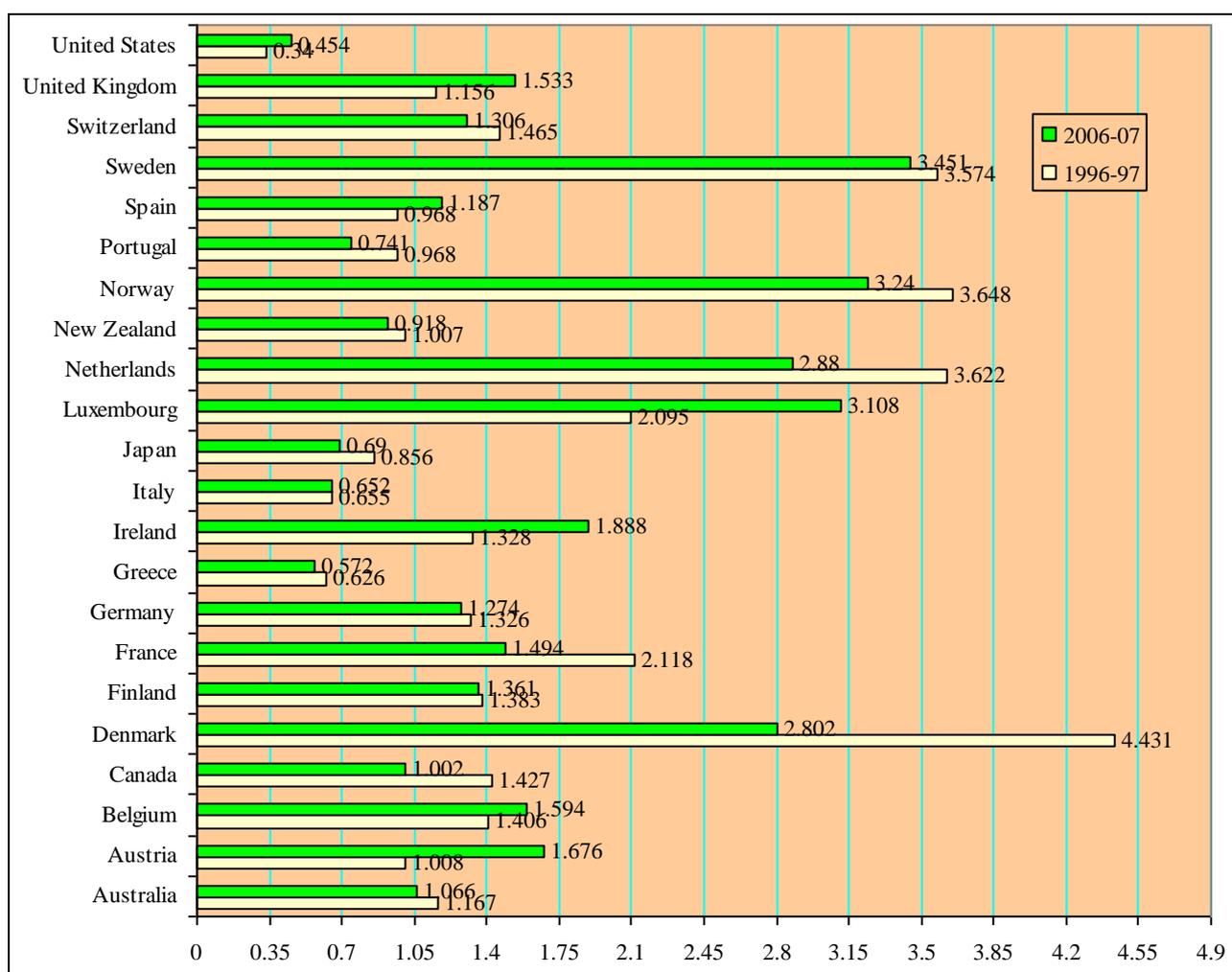
3. RESULTS

The first term of comparison for performances of donor countries is obviously the ODA to GNI ratio. The average of all DAC countries in 2006-07, although better than ten years before (0.29 percent compared to 0.23 percent), remains considerably far from the UN target (0.7 percent). Only five countries out of the 22 DAC components outperform the UN target in 2006-07 (one more than ten years before); they are respectively: Sweden, Norway, Luxembourg, the Netherlands and Denmark. The worst performance in the same period belongs to Greece and the United States (0.17 percent).

Figure 1 shows the values of the index measuring the capacity to donate of a given country in relation to the average of the other DAC countries.

FIGURE 1

Official Development Assistance Index IODA_A: DAC Countries averages 1996-97 and 2006-07



Source: elaboration on OECD data (2009b)

A number of countries are able to do better than the average of the other DAC countries. 16 out of the 22 DAC countries show an index value superior to one in 2006-07: the same number as in 1996-97, with Spain coming in and New Zealand out. Sweden, the best performer in 2006-07, has a capacity to donate equivalent to about 3.5 times the

average of the other DAC countries. The US stands at the bottom of the ranking, with a capacity equivalent to less than half the average of the other DAC countries.

The United States represents by far the best donor in absolute terms, with US\$ 22,660 million on average in 2006-07: 21.80 percent of total DAC ODA. However, the efforts of the US could be higher, considering its weight in total DAC GNI (38.05 percent in 2006-07), and taking also into account that development assistance differently from other international macro-economic aggregates (e.g. trade, foreign direct investment) depends essentially on the capacities and decisions of the donor countries.

Table 1 illustrates the potential ODA flow calculated on the basis of two different hypotheses and the difference between real and potential ODA.

TABLE 1
Potential Net Official Development Assistance (ODA) from DAC Countries: averages 1996-97 and 2006-07. Millions of US dollars

| DAC Countries | ODA* | | ODA** | | Difference between real and potential ODA*** | |
|------------------|---------------|---------------|--------------|---------------|--|---------------|
| | 1996-97 | 2006-07 | 1996-97 | 2006-07 | 1996-97 | 2006-07 |
| Australia | 2747 | 5414 | 917 | 2250 | -764 | -1436 |
| Austria | 1518 | 2389 | 507 | 993 | -501 | -38 |
| Belgium | 1794 | 2988 | 599 | 1242 | -358 | -150 |
| Canada | 4074 | 9322 | 1360 | 3874 | -797 | -2717 |
| Denmark | 1182 | 2091 | 395 | 869 | 916 | 919 |
| Finland | 854 | 1609 | 285 | 669 | -176 | -231 |
| France | 10456 | 17047 | 3492 | 7085 | -95 | -1824 |
| Germany | 15690 | 21984 | 5239 | 9137 | -3736 | -4198 |
| Greece | 851 | 1937 | 284 | 805 | -389 | -909 |
| Ireland | 413 | 1418 | 138 | 589 | -92 | 103 |
| Italy | 8259 | 13782 | 2758 | 5728 | -3668 | -5949 |
| Japan | 31896 | 31535 | 10651 | 13106 | -11875 | -12914 |
| Luxembourg | 126 | 258 | 42 | 107 | 4 | 150 |
| Netherlands | 2675 | 5063 | 893 | 2104 | 1312 | 2254 |
| New Zealand | 410 | 758 | 137 | 315 | -136 | -247 |
| Norway | 1094 | 2538 | 365 | 1055 | 579 | 1545 |
| Portugal | 724 | 1405 | 242 | 584 | -249 | -561 |
| Spain | 3843 | 9137 | 1283 | 3797 | -1320 | -1990 |
| Sweden | 1604 | 2975 | 536 | 1237 | 795 | 2041 |
| Switzerland | 1991 | 3083 | 665 | 1281 | -360 | -514 |
| United Kingdom | 8661 | 18184 | 2892 | 7557 | -2461 | -1717 |
| United States | 54942 | 95149 | 18347 | 39545 | -28517 | -44687 |
| TOTAL DAC | 155803 | 250067 | 52028 | 103931 | -51887 | -73068 |

Source: elaboration on OECD data (2009b). Net ODA are in million of US dollars at current prices and exchange rates. Data are two-year averages

ODA* are derived under the hypothesis that all countries achieve the UN target (i.e. ODA/GNI = 0.7%). Obviously, this implies a change in total DAC ODA

ODA** are derived under the hypothesis that all countries have a weight in total DAC equal to that in total GNI, keeping total DAC unchanged

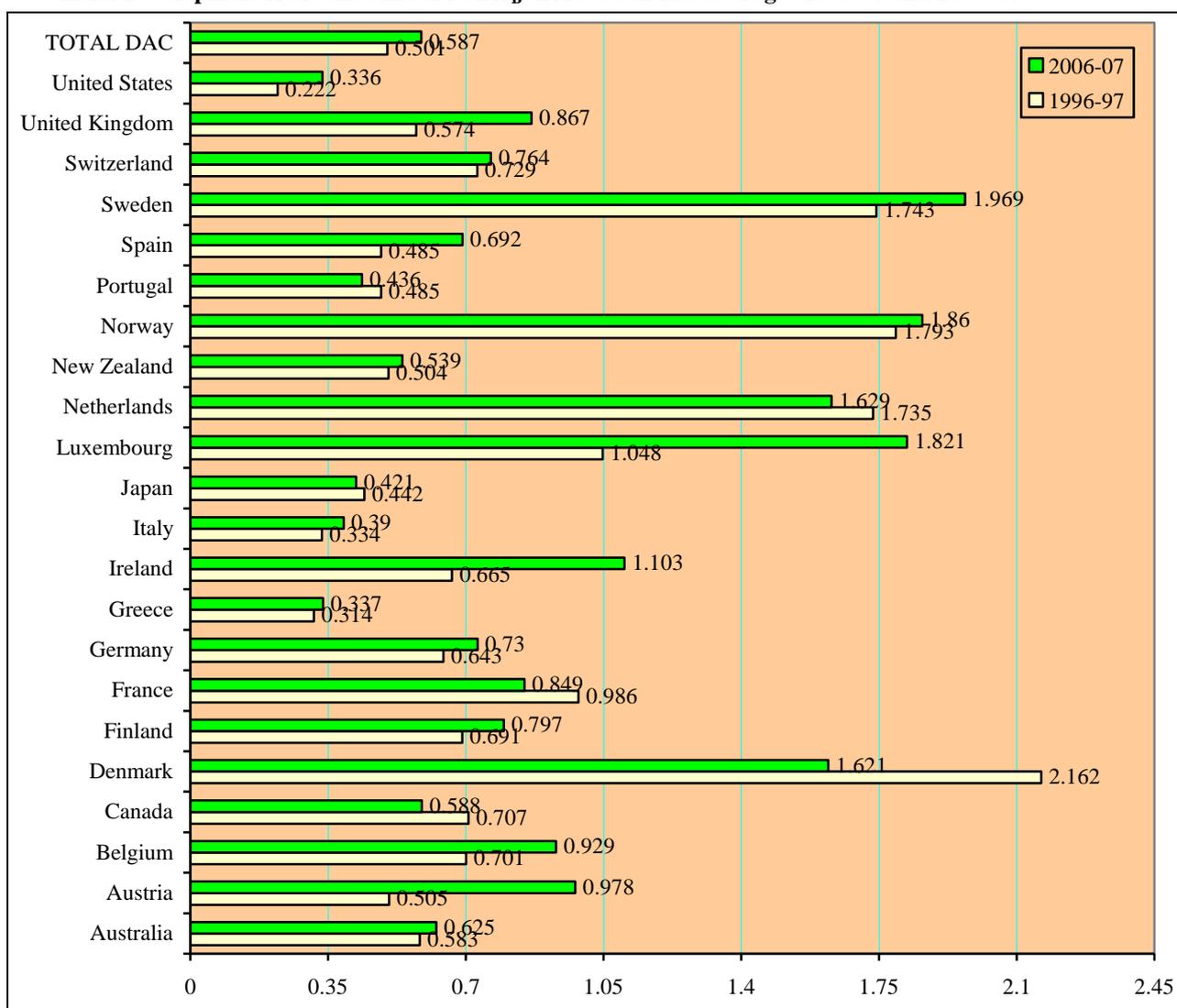
ODA*** is the average of ODA* and ODA** figures

In terms of global result, there is difference of 70 percent between total real (US\$ 103,931 million) and potential ODA (US\$ 176,999 million) in 2006-07.

Looking also at Figure 2, it is possible to note how the disbursements of Sweden in 2006-07 correspond to about twice those theoretically justifiable by combining the achievement of the UN target and the weight of the same country in total DAC GNI.

FIGURE 2

Official Development Assistance Index IODA_p: DAC Countries averages 1996-97 and 2006-07



Source: elaboration on OECD data (2009b)

The disbursements of other outperformers, like Norway, Luxembourg, the Netherlands and Denmark, are consistently beyond their potential. For a number of countries, like the United Kingdom, France and Germany, real ODA are between half and one as compared to their potential. Conversely, the disbursements of the United States in the same period (2006-07) represent one-third of the potential of the same country. For another great economy like Japan, real ODA correspond to a little more than 40 percent of its potential.

4. FINAL DISCUSSION

The efforts of donors are normally analysed on the basis of a general target in terms of ODA to GNI ratio.

Following a complementary and easy way, it is possible to measure the performances of the various countries relative to their global score.

Comparing real and potential ODA may provide a further analytical perspective for donor countries, closer to their present context. In this regard, it seems to be unlikely that some economies like the United States can achieve in the short or medium run the UN target. Let make an example (see Table 1). If the US achieved the UN target, its ODA flow in the same period would amount to US\$ 95,149 million, equivalent to 38.05 percent of total (potential) ODA (US\$ 250,067 million): in other terms, the same weight of the country in total DAC GNI.⁵ Considering its weight in total DAC GNI and keeping unchanged the total DAC ODA flow (i.e. US\$ 103,931 million), the US would disburse US\$ 39,545 million. By averaging the two potential figures, the theoretical amount is US\$ 67,347 million. This figure seems to be closer to the present situation (US\$ 22,660 million) than the expected result in terms of achievement of the UN target (i.e. US\$ 95,149 million). Conversely, the potential amount of Sweden would be US\$ 2,106 million much lower than the current figure of US\$ 4,147 million. Capturing the differences between real and potential ODA seems to be important in order to individuate some intermediate targets or evaluation levels for donors.

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NOTE

Annex Tables with complete data are freely available upon request

⁵ Obviously, the percentage distributions of potential aggregates indicated as ODA* and ODA** (and consequently their average) correspond to that of GNI seeing that the constant proportion 0.7 percent is applied in the first case and the same GNI distribution in the second one.