Official Development Assistance (ODA)

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It is worthwhile to have a preview of the background of official economic assistance. In the wake of independence of a large number of former colonies in Asia and Africa, at the end of the second World War and around the time when the Marshal Plan was being implemented in Europe, the former colonies started to get the attention of their erstwhile colonisers who, in a vast majority of cases, did not want all ties with the periphery sapped all of a sudden. There were political, strategic, commercial and humanitarian consideration for this. The vast new world was viewed in the centres as a potential market for their exports. In addition was the thought of building up zones of influence in these newly independent countries where the way of life would be, given adequate support, on the pattern of the centres. Economic advancement of these countries was viewed as a major factor for sustaining non-inflationary growth in the industrial countries. A sort of interdependence of welfare functions of the peoples living in the two largely disparate worlds was also perceived by many in the industrial countries. There should not be a partage of the world between the very rich and the very poor, many felt obliged to concede. Aid was viewed as 'present day largesse produced by a feeling of post imperial guilt'.[1]

These perceptions expressed differently, @ different fora, over the last four decades are important and extremely relevant in understanding the concepts of 'resource transfers' and 'resource sharings' to which repeated allusions are made all the time. The transfers were/are supposed to have been from the capital surplus to the capital deficient countries. Resources were to be 'shared' by the resource poor countries in order to

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make better use of them at the margin. The former perception gave birth to the concept of Official Development Assistance (ODA), and the latter to regional groups. Our question & analysis however remain restricted only to ODA. In this essay we would take a look at ODA and its intertemporal configurations. We begin by defining the relevant terms/ideas :

a) **ODA** : Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD) defines ODA as all contributions which are administered with the promotion of economic development & welfare as the main objectives and whose financial terms are concessional.[2] This definition includes grants and concessional or soft loans as ODA. Current UN target for ODA as a fraction of GNP : 0.7 per cent.

b) **Aid** : For the sake of simplicity & brevity the generic term can be used to represent or symbolise (i) the total flow of resource and, where relevant, (ii) grants by private voluntary organisations and charities. DAC (1972) recommendation on terms and conditions of aid defines the concessional element of ODA on the basis of a 25 per cent grant element threshold.[3] The justification for this was provision of a single overall criterion for financial terms, based on a minimum grant element.

c) **Grant element** : Grant element in ODA is the face value (nominal value or worth) of a financial commitment less the capitalized value (discounted present value) of the required amortization+interest payment]. A 10 per cent discount rate is usual.

History of ODA :

The Organisation for Economic Co-operation and Development (OECD) was set up, under a convention signed in Paris, on the 14th of December 1960 by the members of the organisation for European Economic Co-operation, Canada and the USA. OECD was in place on 30 September 1961.4 It set up a number of specialized committees to help in its functioning. The Development Assistance Committee is one such committee whose members (all OECD members, except Finland, Greece, Iceland, Ireland, Luxembourg, Spain and Turkey) have agreed to work for an increase in the flow of total aggregate resources to the less developed countries (LDCs) and to ensure its effective use. For achieving this objective the members periodically review together their efforts, represented by the amount and nature of their contributions to bilateral aid programmes. Improvement of performance (absorption by the recipient LDCs) is the purpose of this review.

ODA flows from OECD countries was US $ 7.7 billion in 1971,[5] the main components being as follows :

i)	Bilateral grants and grant-like flows :	48 per cent
	— Technical assistance	22 per cent
	— Other grants	19 per cent
	— Food aid grants	7 per cent
ii)	Bilateral loans	36 per cent
	— Food aid loans	7 per cent
	— Other loans	14 per cent
	— Project assistance	15 per cent
iii)	Multilateral flows :	16 per cent
	— Capital subscriptions and grants to other multilateral agencies	10 per cent
	— Grants to UN agencies	6 per cent
		100 per cent

ODA as percentage of DAC members' combined Gross National Product (GNP) was a mere 0.35 per cent in 1971.

The International Development Strategy (IDS) acknowledges 'the special importance of the role which can be fulfilled only by ODA,[6] and exhorts each economically advanced country to 'exert its best efforts to reach a minimum net amount of 0.7 per cent of its GNP at market prices by the middle of the decade (1970s).[7] In 1971, all but 4 DAC members

(Australia, Austria, Canada and Switzerland) increased their ODAs substantially. Belgium, Denmark, France, West Germany, Italy, Norway, Portugal, Sweden, the UK and the USA reported better records (on ODA as percentage of their respective GNPs). Expressed as per capita of the population of the receiving countries, ODA from DAC countries was $4.05 billion in 1971 as against $3.7 billion in 1970 and $3.05 billion in 1961, an increase (in nominal US dollars) of 10 per cent. Since 1961, real ODA (inflation & exchange rate adjusted) in fact fell by 15 per cent (1971) even though nominally it showed an increase of 10 per cent for the decade, 1961-'71.

The group of intergovernmental high level experts on the evolution of the international monetary system[8] stressed the importance of adequate provision of concessional finance for the LDCs. The need for augmenting net transfers had, almost as a ritual, been repeatedly articulated in the past. The UNCTAD Resolution No. 129 (V) had outlined a number of measures, like multi-year programming, setting aside of a fixed proportion of GNP for concessional finance, provision of technical assistance on a grant basis, etc. These were expected to contribute towards the placement of ODA on a more 'assured, continuous and predictable' basis.[9] But, events of the recent past have shown that the target of 0.7 per cent GNP transfers from OECD/DAC/OPEC countries to the LDCs in general and the least developed countries in particular is still a long way off. However, the member countries of OPEC have, in recent years, provided an increasing proportion of their GNP as ODA to the LDCs 'even though such aid did not result in exports from developing donor countries as was the case with the aid from developed countries'.[10] According to another report of the UNCTAD,[11] the volume of concessinonal flow of assistance has been disappointing. Between 1975 and 1982, gross disbursements of ODA to developing countries increased in nominal terms by nearly 54 per cent, reaching the figure $ 25 billion for 95 countries reporting, but net debt on ODA account more than doubled. Adjustment for exchange rate changes and inflation would transform net transfers through ODA in fact into a negative 5 per cent.

Total DAC ODA, which makes up 80 per cent of LDCs receipts of concessional assistance, declined from 0.09 per cent of their (donors') GNP in 1980 to 0.08 per cent in 1984.

TABLE 1

ODA to LDCs from DAC and OPEC member countries

	Per cent of GNP				(Current prices $ million)				
	1981	1982	1983	1984	Average 1976-1980	1981	1982	1983	1984
Australia	0.05	0.10	0.08	0.07	64.6	84.6	154.6	116.2	118.5
Austria	0.04	0.04	0.03	(0.05)	12.0	26.3	23.4	20.6	(29.0
Belgium	0.16	0.15	0.15	(0.14)	126.0	157.7	126.6	118.9	(107.8)
Canada	0.11	0.12	0.13	0.13	269.6	309.8	328.5	412.7	408.9
Denmark	0.25	0.28	0.29	0.30	124.7	137.2	155.0	157.1	158.1
Finland	0.09	0.08	0.11	0.13	24.7	41.4	39.9	53.2	63.0
France	0.12	0.12	0.13	0.15	442.6	687.7	642.6	691.0	771.2
Germany, Federal Republic of	0.12	0.12	0.13	0.12	679.2	839.2	789.5	824.7	731.7
Italy	0.06	0.07	0.08	(0.12)	116.8	218.8	249.9	287.4	(409.2)
Japan	0.05	0.05	0.06	(0.07)	461.4	577.7	558.3	717.7	(939.5)
New Zealand	0.03	0.03	0.03	(0.03)	7.9	8.0	6.9	6.5	(6.7)
Netherlands	0.29	0.29	0.25	0.30	294.1	408.1	396.2	332.4	365.1
Norway	0.28	0.36	0.37	0.31	115.2	159.4	198.8	201.2	171.0
Sweden	0.26	0.31	0.26	0.22	238.8	285.9	298.3	229.3	201.7
Switzerland	0.09	0.08	0.11	0.10	50.8	83.0	77.1	106.6	99.8
United Kingdom	0.11	0.11	0.10	0.09	383.8	577.3	522.4	444.7	396.8
United States of America	0.03	0.05	0.04	0.04	792.3	939.0	1,396.5	1,393.5	1,365.1
TOTAL DAC	0.08	0.08	0.08	0.08	4,204.6	5,540.9	5,964.4	6,113.9	6,323.1
Algeria	0.08	0.07	0.04	..	22.4	34.4	31.3	20.2	..
Iran, (Islamic Republic of	0.00	0 00	0.00		19.3	0.1	0.02	4.4	..
Iraq	0.07	0.06	0.04	..	51.8	15.5	16.3	9.5	..
Kuwait	0.71	0.83	0.97	..	181.4	227.3	214.9	252.5	..
Libyan Arab Jamahiriya	0.22	0.10	0.18	..	36.4	58.6	25.0	42.1	..
Nigeria	0.12	0.03	0.02	..	25.8	89.5	21.1	16.0	..
Qatar	0.41	0.29	0.22	..	20.1	29.8	18.9	13.6	..
Saudi Arabia	0.31	0.59	0.71	..	534.0	500.2	905.2	784.2	..
United Arab Emirates	0.28	0.41	0.20	..	142.7	82.7	113.3	48.2	..
Venezuela	0.04	0.04	0.05	..	15.7	26.2	25.9	37.8	..
TOTAL OPEC	0.19	0.25	0.25	..	1,049.6	1,064.3	1,372.0	1,228.5	..

Source : UNCTAD secretariat calculations, based on infrmation provided by the OECD secretariat, the Government of France and information collected by the UNCTAD secretariat. Reported in the Least Developed Countries 1985, Report UN 1986.

a. Including imputed flows to LDCs through multilateral channels.

It would be obvious from the table that DAC ODA/GNP ratio has been stagnating at the low 0.08 per cent since 1981. Possible explanation for this can be a) stagnation of the level of contributions of the largest donors ; b) the earlier target of 0.15 per cent was exceeded only by those donors(Denmark, the Netherlands, Norway and Sweden)which had always exceeded it in the past (before the Paris Conference). Belgium and France were the new countries to reach the target, in 1981 and 1984 respectively; c) except for Canada, of the remaining DAC countries, none accepted the deadline of 1985 for reaching the target ; d) while a few countries have doubled their ODA to LDCs in nominal terms (e.g.,Austria in 1981 and 1984, Australia in 1982, Italy in 1982-84, Switzerland in 1983) their relative contributions remained far below the 0.15 ODA/GNP target ratio; e) the USA, Australia and New Zealand never really endorsed the SNPA target of 0.15 per cent.[12]

Net disbursement of ODA from the DAC member countries were around $37.0 billion in 1986, 2.5 per cent more than in 1985 and this statistic represented 0.36 per cent of these countries GNP.[13] Only Denmark, France, the Netherlands, Norway and Sweden reached the 0.7 per cent of their GNP in development aid, i.e., fulfilled the target set by the UN for the second and third development decades. Provisional data for OPEC for the same year show a 0.9 per cent of the member countries' development assistance contributions on net disbursements in the form of united aid. Saudi Arabia and Kuwait returned the impressive figures of 4.5/3.0 percent of GNP contributions in ODA.

Notwithstanding this, the debt burden of the least developed countries did not become any easier largely because OPEC countries as a group are a much smaller donor than the DAC/OECD countries who dominate the world of external economic assistance almost totally. This burden is light compared to the debt problems of the Latin American countries but nonetheless they do contribute to the complex economic problems of the least developed countries.

The debt burden of the least developed countries increased, in the '70s through 1980, inspite of the high grant elements in DAC/OECD ODAs, as well as in the IDA credits.

Table 2

Year	Debt outstanding (disbursed)	Service Payments	(in billion dollars) Per cent of exports.
1970	2.28[a]	0.14[a]	8.5[a]
1971	2.69[a]	0.17[a]	9.7[a]
1972	3.14[a]	0.21[a]	10.5[a]
1973	4.24	0.25	09.2
1974	6.05	0.27	8.4
1975	7.50	0.38	11.9
1976	8.99	0.36	8.8
1977	10.60	0.41	8.4
1978	12.50	0.49	10.7
1979	13.44	0.73	12.7
1980	14.77	1.13	16.9

Source : UNCTAD Secretariat, based on the World Bank 'Debtor Reporting System' (DRS).

a. Excluding Bangladesh
b. Goods only.

The ministerial meeting of Trade and Development Board (March, 1978) of industrial donor countries decided to consider the terms of adjustment of the outstanding least developed countries ODA debts, retroactively (re-elution No. 165 (S-IX). But, the actual adjustsments did not come to much—as would be obvious from the following table-3.

Except for the USA and the Federal Republic of Germany, debt relief provided by other donors is rather insignificant. Nearly half of America's large contribution of $ 691.0 million went to Bangladesh. The reasons for this are not far to seek. Humanitarianism may have been an input here. Significantly, Afghanistan did not get any accommodation from the U.S.A. What could have been the possible strategic reasons for this ?

ODA flows and debts have, if we recapitulate the data reported so far, been moderate to o.k. Intertemporally, however, ODA from the DAC countries has stagnated in real terms. The sharpening of North-South debates and conflicts and, as a consequence, launching of many fora like the Group of 77 (which is probably a group of 125 by now), which is the single largest grouping of a diverse set of LDCs of many shades and col-

Nominal value of measures taken with respect to [illegible]
Board resolution 165 (SIX) of 1978 (Million of dollars)

Debtors	Creditors									
	Belgium A	Belgium D	Canada A	France A	Germany Fed Rep. of	Netherlands A	Sweden A	United Kindom A	United States C	TOTAL
Afghanistan			x							x
Bangladesh	1.9	0.05	x		x	13.7	2.0		317.3	335.0
Benin			x	1.0	x					1.0
Bhutan			x		x					—
Botswana			x		x		1.2	1.1		2.3
Burkina Faso			x	4.3	x	2.2				6.5
Burundi				0.1	x					0.1
Cape Verde										—
Central African Rep.				0.6	x					0.6
Chad				6.1	x					6.1
Comoros				1.4						1.4
Democratic Yemen										—
Djibouti				3.1						3.1
Equatorial Guinea										—
Ethiopia							2.0			2.0
Gambia					x					x
Guinea				0.3	x				27.0	27.3
Guinea-Bissau						0.1				0.1
Haiti									53.0	53.0
Lao People's Dem. Rep.			x							x
Lesotho					x			0.2		0.2
Malawi			x		x	0.4		1.5	2.4	4.3
Maldives										—
Mali			x	5.0	x					5.0
Nepal			x		x					x
Niger			x	2.0	x					2.0
Rwanda					x					x
Samoa										—
Sao Tome and Principa										—
Sierra Leone					x			4.0	10.1	14.1
Somalia					x				78.2	78.2
Sudan					x	5.9	1.8	0.8	175.0	183.5
Togo				1.0	x					1.0
Uganda			x		x	0.6		3.7		4.3
United Rep.of [illegible]	0.2		x		x	12.3	9.5	1.9	25.0	48.9
Yemen					x	0.6			3.0	3.6
Total	2.1	0.05	30.0	24.9	300.0	35.8	16.5	13.2	691.0	1113.6

Source : Information supplied by creditor countries to the UNCTAD secretariat and T/B(XXX)/CRP.3. Reported in "The Least Developed Countries and action in their favour by the international community, UN,1983.

Note : "x" indicates action taken by the creditor country in favour of the individual debtor country but amounts are not allocable by debtor country.

A Waiving of interest payments.
B Refinancing of debt interest.

ours, for championing the cause of underdeveloped South by demanding fairer resource share and fairer trade terms with the industrial North, has not helpedthe cause of the LDCs much, at least uptill now. ODA is one of the major forms that resource transfers from North to South can take, hence the persistent demand for increased ODA flows, not only in absolute but also in (real) relative terms. Tile North has, of course, taken due note of this already, but gets puzzled when they look at the large and swelling pipeline of already committed ODA. 'Why ask for more when you can not even use the existing grants/appropriations ?'

How should this question be answered ? If one were to look at Japan. for example, who in i989 will surpass the USA and become the world's largest bilateral donor (at $ 10 billion estimated disbursement level per annum) and observe that the size of the aid programme alone does not make it good, one also needs to look at the quality of the aid. 'Japan also needs to improve the quality of the aid it gives. Too much of it is still mainly in the service of Japanese commercial interests. And too much is still in the form of loans, at too high interest rates and with too many strings attached'.[14] Japan has already started to recycle $ 30 billion of its phenomenal trade surpluses in third world aid, of which 70 per cent has already been committed (i.e., agreements signed with the concerned governments/agencies). But, the LDC complaints persist. In the meanwhile, Japan has augmented the amount of its trade surplus to be recycled to $ 50 billion. Should there be a gripe against Japan as an ODA donor ? The answer may not be straightforward.

Perceptions vary and it is but natural that they do. It may, therefore, be worthwhile to discuss here, briefly though, what one of the great minds of our times, Gunnar Myrdal, thought about aid in general and ODA in particular toward the end of his very full and creative life.

'My new thoughts on aid to underdeveloped countries have been formed under the influence of what has happened in the course of the present world crisis and its influence on both developed and underdeveloped countries... I have always felt skeptical about the reliability of the figures on economic growth in underdeveloped countries that are widely quoted in the literature. My skepticism is founded upon what I have seen of how the primary material for these statistics of average real income per head is collected, then summarised into an average figure for an underdeveloped country, afterwards translated into dollars (US) according to a nominal exchange rate, and published by the United Nations Statistical Office. These figures certainly can not be expected to understate what has actually happened. It is therefore significant when the 1982 UN Report on the World Social Situations concluded that 1981 was the first year in a quarter of a century for which the figures do not show growth.

... ...The depression in the industrial developed countries is a trend that has not been broken....The tremendously increased prices of oil have been burdening the great majority of underdeveloped countries who depend upon imported oil. They have been compelled to seek credits in the capital markets and their indebtedness has grown rapidly. ...Many underdedeveloped countries soon reached tlie level of indebtedness at which they find it difficult to pay interest and amortization....... Meanwhile secular changes that are independently tending to hold back underdeveloped countries are continuing as trends. The population explosion goes on. .. .. ..Another secular trend causing increasing difficulties in many underdeveloped countries is rapid deforestation, which destroys the soil and has undesirable effects even on the climate and population growth'.[15] Myrdal goes on to analyse the limited visible successes that development efforts by the LDCs have met with so far, with stress on the futility of their industrialization arid import substitution strategies. The growing unemployment, underemployment of the labour force, the city slums, the low productivity of land and man in agriculture and the difficulties of the assetless in finding work have all been aritculated in the essay. According to him, poverty has been increasing, across the board, throughout the third world. He does not fail to mention the global political conflicts which force many LDCs to bear heavier costs for weapons. 'Governments in the underdeveloped countries arc more and more going into the hands of the rich and powerful'.[16] Against this backdrop, financial (capital) assistance from the industrial countries have either been stagnating or in fact shrinking. 'The big industrial countries hold their official aid on a much lower level. In particular, aid from the United States is not distributed according to needs but adcording to US interests in tlie Cold War'.[17] Myrdal acknowledges the urgent need for steadier, enhanced flow of aid from the first to the third world. 'But the only "development aid" I would find room for under present circumstances would be directed to the simplest and least costly measures to increase food production, to provide sanitation facilities and to increase their utilization generally, to supply pure water and also as far as possible to improve healthcare'.[18] He specifically rules out aid for industrialization, particularly for large-scale ones. His argument for this is simple and straightforward : aid for such projects would leave little money for the poor. Such a change in the direction of aid, according to him, may not go against public opinion in the donor countries.

'In the underdeveloped countries governments are everywhere in the hands of upper-class elites, even in countries that are not under military dictatorship. It is with the governments in power that all business deals have to be negotiated and concluded. And it is with them that even aid matters have to be settled. It has been pointed out that as a result poor people in developed countries are taxed to "aid" rich people in underdeveloped countries.[19]

He then mentions the North-South confrontations of the recent years, the demand from the recipients that they should have more control in the use of aid money and that aided projects should fit into their priorities. Myrdal felt that this perception was largely accepted by a vast majority of donors—a 'concession' which he did not approve of. 'I believe that the voters in aid giving...countries, if properly informed. would agree with me in **demanding more control over how their** aid **is used** and where the money is going'.[20] Myrdal recommends greater use of the non-governmental channels in the recipient countries for the flow even of ODA. This may be interpreted as an expression of doubts in the capabilities of the governmental systems in putting aid to its optimum or best valued (from a social point of view) uses. 'The underdeveloped countries have, I believe, turned demands for a new economic world order into a sort of alibi for not reforming the way in which they are governed'.'' It is obvious from the Myrdal review that his main concern is for optimum use of aid to give succour to the poor and the disadvantaged in the capital deficit recipient countries and this may not be possible under the existing institutional arrangements in place there. **A** question of ideology, culture, politico-economic, legal-juridical systems in fact seems to divide the worlds of donors and recipients of ODA. Belief in the 'magic of the market' is firm in the donor decision making, but not at all so in the recipient's. The perception of the latter is that market or the so-called price-market system works beautifully, but only for the limited few—the rich and the powerful class, a point which would find sympathy with many, including J.K. Galbraith, in the donor countries' liberal academics. 'This skepticism about market and the absence of any cushion therein for the vast majority of the disadvantaged economic groups who predominate in the population of the LDCs make out a prima facie case for heavy handed government interventions in the economy. If the market can not do it for the poor, the government or 'people affected with public interest' would. This perception however does not have many sympathisers in the donor world, Hence, Myrdal's advocacy of non-governmental channel for funneling out aid money targeted for those who can not compete at the marketplace. i.e., the poor.

I have no intention, or competence, to enter into a debate on which conduit is better for channeling aid money for poverty alleviation. There are countless arguments for and against either approach. The only purpose of my mentioning the issue here is to focus on the divergent perceptions. It would be just about enough to point out in the context that ODA has as many shades and colour in its kaleidoscope as had the Marshall Plan for the European recovery which meant many things to many people. In my humble judgement, for the limited objectives that it is meant to serve or attain, the best way to classify ODA would be to treat it as a constrained resource, a form of highly supervised credit, whose optimum use can result only from a spirit of full cooperation and understanding between the creditor and the debtor-understanding of each other's compulsions, imperatives, limitations and interests. Confrontation may not bring about the best results for either. The spirit of mutual accommodation (in the true sense of bilateralism) that I touch upon here is a set which also contains elements of meaningful confrontation. This may sound paradoxical, but, in fact, is not.

Foot Notes :

"Views expressed are personal and do not represent those of the Governmnt of Bangladesh or the Public Administration Training Centre where the author works.

1. The Economist, **16-22** April, **1988.** on Ethiopia.
2. Development Co-operation **1972** Review. OECD. Report by Edwin M. Martin, Chairman, DAC.
3. Ibid.
4. Australia, Austria, Belgium. Canada, Denmark, Finland, France, Federal Republic of Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, UK, and the USA are OECD members.
5. Development Co-operation **1972** Review, op.cit.
6. Ibid.
7. Ibid.
8. UNCTAD Report No. TD/B/823 Rev. I, 1982.
9. Ibid. p.11.
10. Ibid.
11. Current problems of economic integration. UNCTAD/UN. 1986.
12. The Least Developed Countries' **1985** Report, UN, **1986** (SNPA Substantial New Programme of Action).
13. Australia, Austria, Belgium. Canada, Denmark, Finland, France, the Federal Republic of Germany, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Sweden, Switzerland, the UK, the USA ,and the Commission of the European Communities.
14. The Economist, **4-10** June, **1988.** p. **28.**
15. Myrdal, International Inequality and Foreign Aid. pp. **159-160.**
16. Ibid. **p. 161.**

17. Ibid.

18. Ibid.

19. Ibid. p. 162.

20. Ibid.

21. Ibid. pp. 164-165.