Policy Brief

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Foreign Aid and Crises: Examining 2012 Aid Data

Multiple crises are changing the landscape of foreign aid. Fiscal crises in donor countries are reducing the supply of aid, while humanitarian crises, such as Syria, are increasing aid demands. Contrary to the prediction of aid watchers – that the cuts to Canadian aid announced in 2012 would damage Canada's standing internationally – Canada's rank among DAC donors, in terms of absolute aid volume, rose from ninth in 2011 to sixth in 2012. The amalgamation of the Canadian International Development Agency (CIDA) with the Department of Foreign Affairs and Trade to form a new Department of Foreign Affairs, Trade and Development is an opportunity for Canada to think bigger on development, even with less money.

This policy brief examines how multiple crises are changing the landscape of aid and international development. It also compares Canada with other aid donors and reflects on changes in Canadian aid.

The Global Snapshot

The Organisation for Economic Co-operation and Development's Development Assistance Committee (OECD-DAC) has released their data on foreign aid spending for 2012 (OECD 2013). The data show how multiple crises are changing the landscape of foreign aid.

Total aid from OECD-DAC countries fell from US$ 133.7 billion in 2011 to US$ 125.5 billion in 2012. In real terms (excluding inflation and exchange rate movements), this represents a four per cent decline in aid, following a two per cent decline the previous year. The ODA/GNI ratio (Overseas Development Assistance, or aid, as a share of donor country Gross National Income) for the DAC countries as a whole also fell from 0.31 to 0.29.The sharpest declines in aid are in the countries at the heart of Europe's ongoing financial crisis – Spain, Italy, Greece and Portugal. But none of the major providers of foreign aid increased their aid in 2012, with the exception of EU institutions (see Table 1).

A different sort of crisis is the reason behind cases where countries increased their aid. The largest increases were by relatively small non-DAC donors, for example Turkey, from US$ 1.2 billion in 2011 to US$ 2.5 billion in 2012, a whopping 98% increase in real terms (see Table 1). The main reason behind this increase is support for refugees arriving on Turkish soil from Syria, and support to countries of North Africa following the Arab Spring. In 2012 aid to middle income countries rose, while aid to Sub-Saharan Africa and to Least Developed Countries fell sharply.

Table 1: Foreign Aid in 2012

		Net ODA 2012 (USD millions, current - prelim data)	Percentage change in real terms 2011 to 2012
United States	DAC	$30,460M	-2.8%
EU Institutions	Other	$17,570M	8.0%
United Kingdom	DAC	$13,659M	-2.2%
Germany	DAC	$13,108M	-0.7%
France	DAC	$12,000M	-1.6%
Japan	DAC	$10,494M	-2.1%
Canada	DAC	$5,678M	4.1%
Netherlands	DAC	$5,524M	-6.6%
Australia	DAC	$5,440M	9.1%
Sweden	DAC	$5,242M	-3.4%
Norway	DAC	$4,754M	0.4%
Switzerland	DAC	$3,022M	4.5%
Denmark	DAC	$2,718M	-1.8%
Italy	DAC	$2,639M	-34.7%
Turkey	Non-DAC	$2,532M	98.7%
Belgium	DAC	$2,303M	-13.0%
Spain	DAC	$1,948M	-49.7%
Korea	DAC	$1,551M	17.6%
Finland	DAC	$1,320M	-0.4%
Austria	DAC	$1,112M	6.1%
United Arab Emirates	Non-DAC	$942M	30.6%
Ireland	DAC	$809M	-5.8%
Portugal	DAC	$567M	-13.1%
New Zealand	DAC	$455M	3.0%
Poland	Non-DAC	$438M	12.4%
Luxembourg	DAC	$432M	9.8%
Greece	DAC	$324M	-17.0%
Czech Republic	Non-DAC	$219M	-4.2%
Israel	Non-DAC	$177M	-10.1%
Hungary	Non-DAC	$119M	-7.5%
Slovak Republic	Non-DAC	$78M	-3.5%
Slovenia	Non-DAC	$58M	-2.4%
Iceland	DAC	$26M	5.7%
Estonia	Non-DAC	$23M	-2.7%

Source: OECD-DAC 2013

Canada Among the DAC

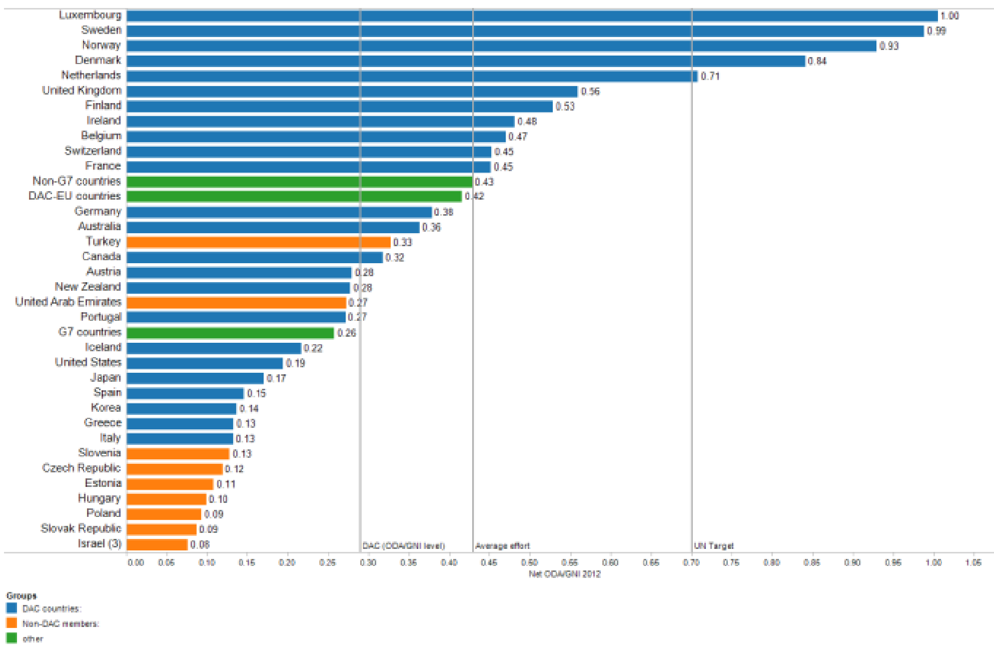
Canada's aid increased approximately four per cent between 2011 and 2012.[1] The ODA/GNI ratio at 0.32 was just above the DAC average of 0.29, but short of the 'average country effort' among DAC donors and the 0.7 ODA/GNI target established by the United Nations (UN)[2] in 1970, and reconfirmed at the Monterrey Consensus in 2002. Only five donors – Luxembourg, Sweden, Norway, Denmark and the Netherlands – continue to exceed the UN target (see Figure 1). The United Kingdom has made commitments to meeting the 0.7 target in 2013, Australia has made commitments to achieving 0.5 by 2016, and Korea aims to reach 0.25 by 2015 (OECD 2013).

[1] There are slight differences between OECD-DAC reported figures and those reported in Canada. These are on account of differences in time period (OECD-DAC uses calendar year, Canada uses fiscal year) and exchange rates (OECD-DAC uses USD, Canada uses CAD). Using Canadian data on aid between 2011 and 2012, there was very little change, at CAD 5.66 billion in 2011 and CAD 5.67 billion in 2012. For more see: "Canada's Foreign Aid" on the Canadian International Development Platform at: http://cidpnsi.ca/blog/portfolio/canadas-foreign-aid/

[2] In 1969, the Pearson Commission proposed a target of 0.7 per cent of donor GNP to be reached "by 1975 and in no case later than 1980." This suggestion was taken up in a UN resolution on 24 October 1970. See: http://www.oecd.org/dac/stats/the07odagnitarget-ahistory.htm

Canada is the sixth largest DAC donor in terms of aid volume. Notably, as Table 1 shows, a few key countries – the United States, United Kingdom, Germany, France, Japan and European Union (EU) institutions – provide the bulk of DAC foreign aid. Canada's share of total DAC and non-DAC foreign aid in 2012 was 4.3 per cent.

Figure 1: ODA/GNI Ratios



Source: OECD-DAC, 2013

When Canada's aid cuts were announced in the 2012 budget, several analysts predicted Canada's global reputation and standing within the DAC "club of donors" would be damaged (see for example Davidson 2012; Sheikh 2012). While there are few, if any, objective measures by which to assess the impact of the cuts on Canada's reputation, especially given the short time frame, it is instructive to look at what the data show.

Ironically, Canada's rank as a DAC donor in terms of absolute aid volumes has actually risen, not fallen, from ninth in 2011 to sixth in 2012. This is due to fairly large declines in aid for two donors: aid from the Netherlands fell by 6.6 per cent in real terms and from Sweden fell by 3.4 per cent in real terms. Both these countries ranked higher than Canada in the previous year.

But absolute volumes may be misleading, particularly in determining and comparing how 'generous' donors are. This is why aid, or ODA, as a share of donor GNI, is a better way to compare donor countries. Canada's rank of 14th among DAC donors in ODA/GNI terms was unchanged between 2011 and 2012. If non-DAC donors[3] are included, Canada's rank fell from 14th in 2011 to 15th in

[3] Non-DAC donors are aid-providing countries that are not part of the DAC but still report spending to the OECD-DAC in accordance with the accepted definition of ODA. These include: Turkey, United Arab Emirates, Slovenia, Czech Republic, Estonia, Hungary, Poland, Slovak Republic and Israel.

2012, due solely to the large increase in Turkey's aid. While Canada ranks in the bottom half of the "DAC club", it is more generous than the DAC average, and this differential increased over the year. From this data, it is hard to argue there has been much change in Canada's position among other donors, at least not yet.

The Definition of Foreign Aid

What counts as ODA or foreign aid has been a source of much debate. There are three important components of the technical definition: 1. That the flows are provided to a specified list of eligible countries and institutions. 2. That the flows are provided by official agencies with the promotion of economic development and welfare as their main objective. 3. That the flows are concessional in character with a grant element of at least 25 per cent calculated at a discount rate of 10 per cent.

Some observers may be surprised to learn that a large share of foreign aid is not foreign at all – expenditures on the settlement of refugees in donor countries, scholarships and subsidies to foreign students in donor countries, and the administrative costs of aid agencies all count as foreign aid. Such administrative and in-donor expenditures amount to around US$ 11 billion a year, or eight to ten per cent of total aid.[4] A more accurate figure for the amount of foreign aid that is actually received by developing countries and over which they have meaningful control is "country programmable aid" (CPA). By this definition total foreign aid in 2011 was only US$ 54.7 billion, or about 53 per cent of what is reported as bilateral aid by OECD-DAC donors.

Definitional issues have come to the fore again as the former chair of the OECD-DAC has argued that 2012 data understates the real decline in aid. OECD finance ministers are "getting away with murder as they seek to massage reported aid upwards" by allowing a large volume of loans to be counted as aid, even though they do not meet the OECD-DAC's own standard of concessional financing (Manning 2013). Most of these loans go to middle-income countries.

The Impact of Canadian Aid Cuts

The full impact of Canada's cuts to aid, which were part of a broader austerity plan, are yet to take effect. While there has been much commentary and analysis of the potential impact of the cuts in the media, among aid watchers and non-government organizations, most of this has been speculative, as few details were available. The picture is now clearer thanks to key data from CIDA documents (CIDA 2013a; CIDA 2012a; CIDA 2012b).

Compared to actual CIDA expenditure of about $ 3.81 billion in 2011-12, planned expenditure in 2015-16 is only $ 3.03 billion. This represents a significant decline, which can be analyzed by CIDA's programming priorities.

[4] Based on 2011 figures.

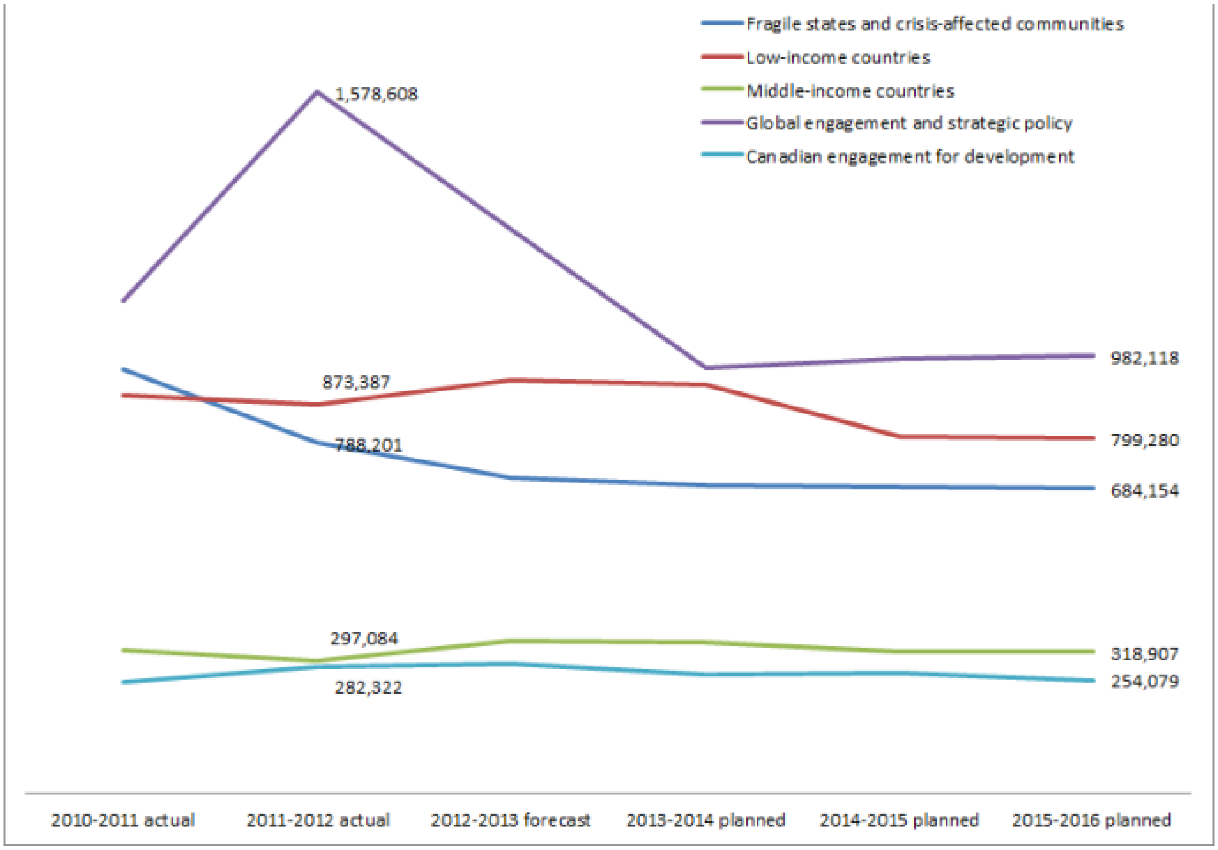
CIDA poverty reduction strategies are organized around five key programs (CIDA 2013a; CIDA 2012a; CIDA 2012b):

1. “Failed states and conflict-affected communities”, which includes humanitarian, food and non-food assistance, Afghanistan, Haiti, South Sudan, and West Bank–Gaza, representing 20 per cent of budgetary expenses in 2011-12;
2. “Low-income countries” (LICs), which includes Bangladesh, Ethiopia, Ghana, Mali, Mozambique, Pakistan, Senegal, Tanzania, Vietnam, other LICs of modest presence and LIC regional programs, representing 22 per cent of budgetary expenses in 2011-12;
3. “Middle-income countries” (MICs), which includes Bolivia, Caribbean region, Colombia, Honduras, Indonesia, Peru, Ukraine, MICs of modest presence and MIC regional programs, representing eight per cent of budgetary expenses in 2011-12;
4. “Global engagement and strategic policy”, which includes international development policy, multilateral relationships, multilateral and global programming, and health programming, representing 40 per cent of budgetary expenses in 2011-12; and
5. “Canadian engagement for development” representing seven per cent of budgetary expenses in 2011-12.

Nearly all of these programs will see significant declines between now and 2015-16, as Figure 2 illustrates. Planned cuts as a share of 2011-12 actual spending, in ascending order, are: 5.3 per cent for “global engagement”; 5.8 per cent for “fragile states”; 13.5 per cent for “middle-income countries”; 13.6 per cent for “Canadian engagement”; and 14.3 per cent for “low-income countries”. According to available documents, cuts are to be implemented primarily by exiting countries where there is “modest presence” and programs with “higher operating costs” (CIDA 2013a; CIDA 2012b).

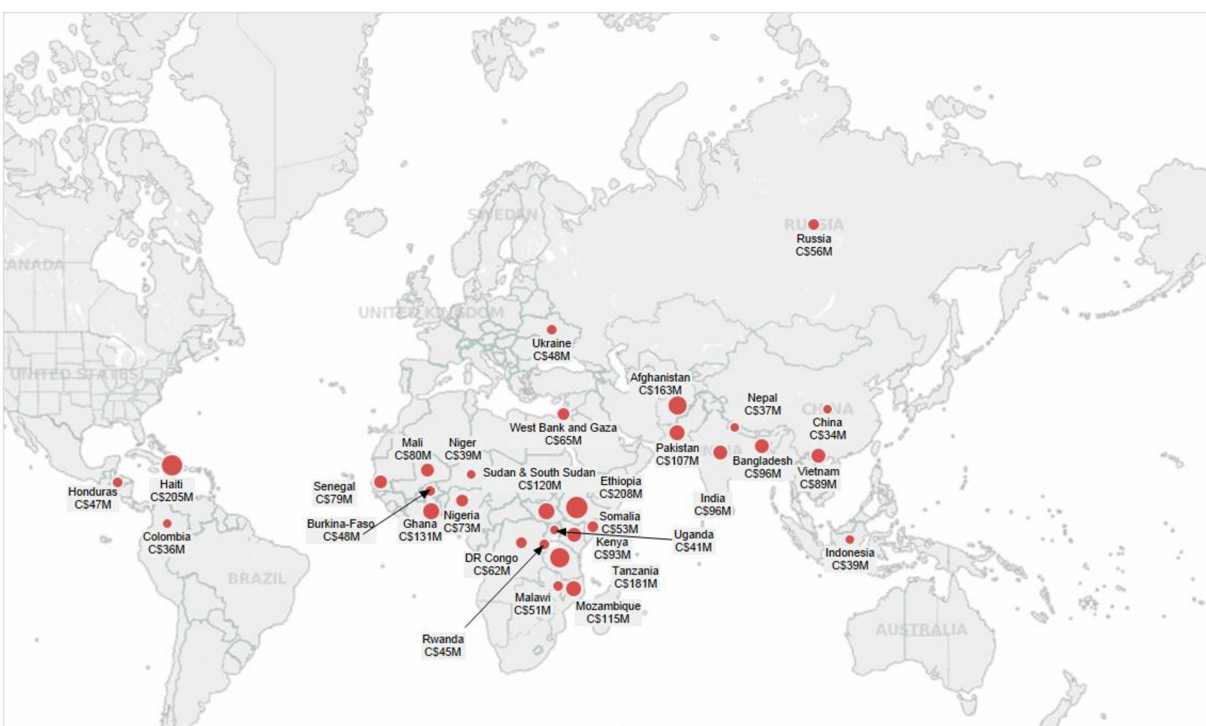
Cuts total around \$ 151 million in 2012-13, \$ 191 million by 2013-14, and \$ 319 million by 2014-15. The bulk of the cuts have already taken effect in the “fragile states”, “global engagement”, and “Canadian engagement” programming areas. For instance, the latest data shows a decline in aid to Haiti of \$ 149 million (which represents a 42 per cent reduction in aid compared to the previous year), and a decline in aid to Afghanistan of \$ 138 million (which represents a 46 per cent reduction in aid compared to the previous year), both fragile states. The vast majority of the cuts still to take effect will be among the “low-income” and “middle-income” groups, and to a lesser extent “internal services”.

Figure 2: CIDA Funding by Program Type



Source: CIDA 2013a

Figure 3: Top 30 Recipients of Canadian Aid in 2012



Changes to Canada's Foreign Policy Architecture

In its 2013 budget, the Government of Canada announced the amalgamation of CIDA with DFAIT to form the new Department of Foreign Affairs, Trade and Development. While it is hard to glean anything solely from whether a bilateral aid agency is independent, or part of a wider foreign ministry, this merger offers a unique opportunity for Canada to think bigger on development, despite the ongoing cuts to Canada's aid budget (Bhushan and Ingram, 2013).

A key risk is that amalgamation may become an excuse for policy paralysis and indifference as far as the role of aid in Canadian foreign policy is concerned. It is easy to lose sight of the critical role foreign aid plays in Canada's engagement with the wider world. Both geographically and in terms of mindshare, Canada is far removed from the developing world. Yet historically it has occupied an enviable reputation in developing countries. As a middle power on a global stage, foreign aid has played a unique role in projecting Canadian values overseas. In addition to contributing to poverty alleviation and economic development, the return on foreign aid can be calculated in terms of new trade and investment opportunities for Canadians. Indeed, many of our largest aid recipients today are the emerging economies of the coming decades.

The creation of the new Department of Foreign Affairs Trade and Development is an opportunity to refresh our expectations of foreign aid. Big changes are already afoot in the aid and international development landscape (see Higgins 2013). As outlined above, donor budgets continue to be under pressure; at the same time, many developing countries are increasingly concerned with ending "aid dependence". Based on current trends, in the coming years, many countries will outgrow the need for aid, and in others the mode of development assistance will need to change to respond to emerging challenges and vulnerabilities. Looking forward, perhaps the most important trend we can see is a more explicit repositioning of aid as a catalyst for other flows, including domestic and foreign investment, trade and migrant remittances, as well as a catalyst for innovation in public service delivery, government accountability and democracy.

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