

THAT ONE PERCENT AID TARGET

(Some Reflections on the Arithmetic of International Targetry)

by Hans Singer*

The idea of an international "target" for aid to underdeveloped countries in terms of the available resources of the richer or donor countries originally formed part of the proposals for the First United Nations Development Decade of the 1960s. This in turn had its origin in the group of economic advisers to President Kennedy when he assumed office early in 1961, although the idea has historical roots further back into the 1950s. It had a counterpart in a similar "target" of a 5% growth rate for the national income of the underdeveloped or recipient countries themselves.

Neither of these targets was very clearly defined, nor was there any specific consistency model developed at the time to link these two targets. Both targets initially had little more than declamatory value; neither represented any binding or legal commitment. (Indeed in the case of the 5% growth target it was difficult to see how a legal commitment could possibly have been entered into.) The unanimous acceptance of the 1% target by the donor countries did not, therefore, amount to more than a statement of good intention to follow policies - presumably more direct policies in the case of public aid than in that of private investment - which would move total "aid" (as defined for inclusion in the 1% target) towards this target figure.

In the circumstances, it would have been defensible to dismiss the whole 1% business as completely meaningless and hypocritical, an "absolutely dead thing". It is possible that some donor countries at least were quite ready to "accept" the 1% target precisely because it was considered meaningless and empty. This however has turned out to be not the case. Once proclaimed, the 1% target, like Milton's books, could be said to be

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"not absolutely dead things", but to "contain a potency of life". This became clear almost from the outset when the Development Assistance Committee of OECD, the donors club, took up this target. Attempts to put teeth into it by making it more precise were not slow in developing. Again, one may speculate that the target might well have remained a meaningless symbol if an international organization representing the donors had not existed, including a Secretariat with a direct interest in taking up this 1% target as a point of departure for discussions and negotiations among the member countries. Lest this view be considered too cynical let us hasten to add that there was also, in the early 1960s, a great deal of good will and support for a genuine 1% target; without this the OECD might never have been able to give this target real content.¹ Moreover, this view neglects a vital fact referred to in the concluding paragraph of this note: the idea of burden-sharing which is a real factor in the aid situation and which the DAC and its staff represents. It was more than bureaucratic interests which led to 1% target + DAC/OECD = potency of life.

From the beginning it became clear that to have any "potency of life" the 1% target would require some kind of definition of "aid". It was immediately obvious that the target as proclaimed was a complete misnomer. It did not at all relate to aid - which is presumably a quid without a quo - but to the total flows of financial resources from rich to poor countries, including such things as private investment, guaranteed export credits, hard loans on commercial rates of interest, etc. - all items with a definite quo (some would say that the quo is often bigger than the quid!). Very soon, therefore, there crystallized a distinction between the total flow of financial resources and the concessional or aid element

¹The eastern countries - outside the OECD - although having equally voted for the target, have never to the best of my knowledge attempted or pretended to implement it, and I am not aware of any corresponding discussions of the 1% target in COMECON or any other eastern counterpart of the DAC/OECD.

within the total flow. This distinction took two forms. The first was the development of the concept of the "grant element"; this represents the value of what is being given minus the present discounted value of any repayment obligation involved (i.e. the quid minus the quo). Originally developed by private analysts,¹ the concept was quickly taken up in the DAC/OECD and has in fact been regularly calculated in its annual Reviews of Development Assistance. The actual calculation of the "grant element" is not always easy: the use of the proper time discount rate, the treatment of grace periods or waiver clauses in loans, repayments in local currency, etc. are among the items which give some trouble in calculations of the grant element. However, the calculations of the grant element dramatically brought home the point that in terms of real aid only a minor part of the flow of financial resources would qualify against the 1% target (e.g. only 0.35% of Gross National Product (GNP) of OECD countries in 1967 out of 0.75%).

The second form which the distinction between real aid and flow of financial resources took, was the elaboration of a series of subtargets - within the 1% overall target - regarding the terms on which aid was to be given. Thus, in its 1965 "Terms Recommendation", the OECD has enjoined upon its member countries that at least 81% of all public aid should be given at less than 3% rate of interest, with a minimum loan duration of 25 years for 62% of all loan commitments, and a weighted average grace period of 7% or more. The DAC then calculates comparative "terms performance" by its member countries.

In fact, these subtargets have become extremely complicated since various alternative combinations indicating a certain "softness" of the flow of public

¹I believe that John Pincus was the first to calculate the grant element within the flows of financial resources.

financial resources are optionally given to the member countries.

While these subtargets defining a degree of softness and hence the presence of real aid, also have a rather vague status and cannot be considered more than a declaration of good intentions, they, too, have had a considerable effect in softening the terms of transfers of public capital to poorer countries. One can perhaps notice a tendency for this influence to be more marked in countries where there was in the first place an intention to increase real aid and soften terms, and perhaps less effect in bringing sinners into line. In that sense, it is legitimate to question the real effectiveness of the sub-targets.

The original target - 1% of national income of donor countries - was subsequently raised to 1% of GNP at market prices. This effectively amounted to raising the target by about 20%.¹ The question arises: Why not maintain the old basis of national income and raise the 1% target to, say, 1.25%? Presumably the answer is the beautiful simplicity and symbolic value of 1%. Just possibly it could also be argued that the GNP is conceptually preferable to ~~NNI~~ as a basis for determining aid giving capacity - since the GNP measures resources which could either be channelled back into the replacement, maintenance and repair of capital used up in production - thus bringing us back to the lower national income figure - or else could be used for giving aid to poorer countries. This, however, is not a particularly convincing line of reasoning. One must assume that the replacement of their own domestic capital basis is considered by donor countries as a prior charge on total resources, and the relative priorities of foreign aid in relation to other claims are only considered in respect of resources left over after replacing capital, i.e. in relation to national income.

¹For instance UK 1968 national income at market prices £31,100m; GNP at market prices £39,500m, a difference of 27% on the lower figure.

To this extent, one feels that it would have been more direct and honest to keep the national income basis and raise the target percentage instead. The raising of the target at the second UNCTAD meeting (2/3 of the way through the development decade) can perhaps best be considered as a recognition of the fact that under the old accounting system of 1% of national income many more items had come to be included as within the 1% target than had been dreamed of by President Kennedy and his economist advisers (who had been thinking of real aid). Of course, if this was the motive, the change-over from 1% of national income to 1% of GNP was a very indirect and rough and ready way of dealing with this, as compared with the approach through the grant element or through subtargets relating to softness of aid.

The culmination of this effort to disentangle real aid from the flow of financial resources is the recent recommendation of the Pearson Commission to establish as a subtarget within the 1% overall target of 0.7% of GNP in the flow of public (Government) aid. This can of course be justified on two grounds: (a) it is only in connection with public capital transfers that the question of aid in the sense of a quid without a quo really arises; and (b) that it is only public aid which it is more directly within the power and control of governments to determine. It is perhaps interesting to speculate that 0.7% of GNP - the new Pearson subtarget - is not too different from 1% of national income. Thus we are back to the old Kennedy idea that 1% of national income should be given in real aid. On top of this we now have the implicit additional Pearson target of 0.3% of ~~GNP~~ in terms of private investment, export credits, etc. This must remain largely non-operational since the flow of private investment is not really in the power of governments except very indirectly. (The Pearson Commission points out that this is only a minimum target but this does not quite dispose of the doubt).

In the specific case of the UK, the Pearson minimum subtarget of 0.3% of GNP in the form of private investment and guaranteed export credits has been reached in the latest available year (1968). However, the other subtarget of 0.7% in public aid has been considerably underfulfilled, and expansion of public aid by almost three-quarters would be needed to reach it. If we assume that the cost of private investment and export credits to the recipient countries is at the rate of 10% per annum while public aid costs them say 2% per annum, the present mixture of British resources for under-developed countries which is practically 1:1 as between public and private flows would cost the recipient countries 6% per annum, whereas the Pearson mixture of 3:7 would cost them 4.4% per annum - a difference of over a quarter.

It is obvious that a target without a firm date attached to it at which it is to be reached is essentially meaningless, even as a statement of good intentions. The Pearson Commission has recommended that the new operational target of 0.7% of GNP for public aid should be reached "by 1975 or shortly thereafter, but in no case later than 1980".¹ Even this range and formulation leaves a good deal of uncertainty. It may be noted that the increase in public aid required from the UK, on the assumption that the target is reached by everybody in 1975, would be substantially less than for the average OECD member. This is the result of two factors: (a) the British share of public net aid in GNP is already slightly above the OECD average (0.42% as against 0.39%), so that the UK has a shorter way to go to reach 0.7%; and (b) the assumed growth rate of the UK GNP between now and 1975 is less than for the OECD average. As a combined result of these two factors, the increase in public aid required of the UK between 1968 and 1975 would be at the rate of 10.4% per annum, significantly less than the OECD average of 14.1%. The acceptance of the target by all concerned is therefore distinctly in the UK interest, particularly if the achievement of the target is combined

¹ Partners in Development, Pall Mall Press, 1969, page 149.

with some degree of untying of aid, whether by agreement or multilateralization.

Previously in this note we have mentioned the idea of burden-sharing as accounting for the surprising "potency of life" of the 1% target. It is reasonable to assume that the willingness of any donor country to give aid, or to increase or untie its aid, is increased by the willingness of other donor countries to do the same in some recognised and agreed degree, resulting in an agreed distribution of the burden. However rough the flat rate of 1% of GNP may be, it is clearly better than nothing and will do for a start. Some equality in the distribution of the total burden of aid would also lay the foundation for some kind of agreed untying, because this demonstrably would increase the value of the aid to the recipients without hurting the donors collectively, nor necessarily hurting any individual donor separately.¹

However, if the 1% target is rightly put forward as justified by the concept of "burden-sharing" obvious new complications arise. The "burden" on the donor country will depend not only on the "value" of the transfer - even if this could be clearly and unambiguously determined - but also on the particular circumstances of the donor country. A donor country in full employment, with inflationary pressures and balance of payments troubles will obviously feel the giving of any determined proportion of GNP in the form of aid as a heavier burden than a country with unemployed resources, deflation, and balance of payments surpluses. Moreover, the burden will be greatly affected by the form of aid. The best example is food aid. If the food is genuinely surplus, arising from domestically oriented agriculture policies, the burden may be zero or even negative, particularly if it is remembered that food

¹ Particularly if some kind of clearing arrangement can be achieved in connexion with an agreed untying of aid.

aid if genuinely additional would serve to raise or maintain world market prices. In that case, the real "burden" of the food aid would not be carried by the "donors" (e.g. US, Canada, Australia, etc.), but rather by the commercial food importers (UK, Japan, etc. including also a number of underdeveloped countries). Yet it is the food exporters which are "credited" with the food aid against their 1% target, not the food importers who carry the real burden.

There are many other complications arising from international aid targets which cannot be discussed here. But perhaps enough has been said to show that international targetry is complicated as well as potent.