

That One Per Cent Aid Target (Some Reflections on the Arithmetic of International Targetry)

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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 per cent 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 declaratory value; neither represented any binding or legal commitment. (Indeed in the case of the 5 per cent growth target it was difficult to see how a legal commitment could possibly have been entered into.) The unanimous acceptance of the 1 per cent 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 per cent target) towards this target figure.

In the circumstances, it would have been defensible to dismiss the whole 1 per cent 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 per cent target precisely because it was considered

meaningless and empty. This however has turned out to be not the case. Once proclaimed, the 1 per cent target, like Milton's books, could be said to be 'not absolutely dead things', but to 'contain a potency of life'. This became clear almost from the outset when the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (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 organisation representing the donors had not existed, including a Secretariat with a direct interest in taking up this 1 per cent 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 goodwill and support for a genuine 1 per cent 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 per cent target + DAC/OECD = potency of life.

From the beginning it became clear that to have any 'potency of life' the 1 per cent 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

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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 crystallised a distinction between the total flow of financial resources and the concessional or aid element *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,² 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 per cent target (e.g. only 0.35 per cent of gross national product (GNP) of OECD countries in 1967 out of 0.75 per cent).

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 per cent 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 per cent of all public aid should be given at less than 3 per cent rate of interest, with a minimum loan duration of 25 years for 82 per cent of all loan commitments, and a weighted average grace period of 7 per cent 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 financial resources are optionally given to the member countries.

While these subtargets define a degree of softness and hence the presence of real aid, and 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 subtargets.

The original target – 1 per cent of national income of donor countries – was subsequently raised to 1 per cent of GNP at market prices. This effectively amounted to raising the target by about 20 per cent.³ The question arises: Why not maintain the old basis of national income and raise the 1 per cent target to, say, 1.25 per cent? Presumably the answer is the beautiful simplicity and symbolic value of 1 per cent. Just possibly it could be argued that the GNP is conceptually preferable to NNI (net national income) 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. 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 (two-thirds 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 per cent of national income many more items had come to be included as within the 1 per cent 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 per cent of national income to 1 per cent 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 per cent overall target of 0.7 per cent 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 is more directly within the power and control of governments to determine. It is perhaps interesting to speculate that 0.7 per cent of GNP – the new Pearson subtarget – is not too different from 1 per cent of national income. Thus we are back to the old Kennedy idea that 1 per cent of national income should be given in real aid. On top of this we now have the implicit additional Pearson target of 0.3 per cent 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 per cent 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 per cent in public aid has been considerably under-fulfilled, 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 cent per annum while public aid costs them say 2 per cent per annum, the present mixture of British resources for underdeveloped countries which is practically 1:1 as between public and private flows would cost the recipient countries 6 per cent per annum, whereas the Pearson mixture of 3:7 would cost them 4.4 per cent 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 per cent of GNP for public aid should be reached 'by 1975 or shortly thereafter, but in no case later than 1980'.⁴ 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 per cent as against 0.39 per cent), so that the UK has a shorter way to go to reach 0.7 per cent; 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 cent per annum, significantly less than the OECD average of 14.1 per cent. The acceptance of the target by all concerned is therefore distinctly in the UK interest, particularly if the achievement of the target is combined with some degree of untying of aid, whether by agreement or multilateralisation.

Previously in this note we have mentioned the idea of burden-sharing as accounting for the surprising 'potency of life' of the 1 per cent 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 per cent of GNP may be, it is clearly better than nothing and will do for a start. Some equality in the distribution of 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.⁵

However, if the 1 per cent 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 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. the USA, Canada, Australia, etc.), but rather by the commercial food importers (the 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 per cent 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.

Notes

- 1 The 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 per cent target in COMECON or any other eastern counterpart of the DAC/OECD.
- 2 I believe that John Pincus was the first to calculate the grant element within the flows of financial resources.
- 3 For instance UK 1968 national income at market prices £31,100m; GNP at market prices £39,500m, a difference of 27 per cent on the lower figure.
- 4 *Partners in Development*, Pall Mall Press (1969: 149).
- 5 Particularly if some kind of clearing arrangement can be achieved in connection with an agreed untying of aid.