

What's Behind the Recent Declines in U.S. Foreign Assistance?

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CGD Notes

U.S. development assistance to sub-Saharan Africa rose from \$2.1 billion in 2000 to \$6.9 billion in 2006, but then fell 15 percent to \$5.9 billion in 2007.

Total U.S. official development assistance declined sharply in the last two years from \$27.9 billion in 2005 to \$21.8 billion in 2007, according to official data released last week.¹ As the Bush administration comes to a close, we take the opportunity to examine the major trends in U.S. development assistance globally and to sub-Saharan Africa (SSA) in recent years. We also examine progress on the U.S. pledge, made on the eve of the 2005 G-8 summit in Gleneagles, Scotland, to double U.S. assistance to Africa between 2004 and 2010. Our analysis reaches the following conclusions:

With respect to U.S. development assistance globally

- After increasing steadily since 1997, total U.S. development assistance (measured in terms of funds actually disbursed) fell 22 percent over the last two years, from \$27.9 billion in 2005, to \$23.5 billion in 2006, to \$21.8 billion in 2007. After accounting for inflation (that is, measuring the flows in constant 2006 dollars), the two-year decline was 26 percent. Nevertheless, the 2007 amount is 83 percent higher than the 2000 level in real terms.
- The bulk of the increase since 2000 is due to increases in assistance to Iraq and Afghanistan and for funding for HIV/AIDS programs. Not including Afghanistan and Iraq, global assistance increased 39 percent between 2000 and 2007 in real terms. Not including Iraq, Afghanistan, and HIV/AIDS, funding for other programs increased by just 15 percent since 2000 in real terms, and the 2007 level is the lowest since 2001. By comparison, from 1997 to 2000, total U.S. foreign assistance increased 33 percent in real terms.
- Disbursements for HIV/AIDS programs world-wide increased from essentially zero in 1999, to \$1.6 billion in 2004, to

\$3.3 billion in 2007; they now account for 15 percent of total U.S. foreign assistance.

- Almost all of the increase in U.S. assistance since 2000 has been delivered through bilateral rather than multilateral channels. U.S. contributions to multilateral agencies have fallen in recent years (although they increased in 2007) and now account for only 13 percent of all U.S. development assistance.

With respect to U.S. development assistance to sub-Saharan Africa

- U.S. development assistance to SSA (bilateral and multilateral) rose from \$2.1 billion in 2000 to \$6.9 billion in 2006, but then fell 15 percent to \$5.9 billion in 2007 (about \$7.25 per African). In constant 2006 dollars, U.S. assistance to SSA rose 139 percent, from \$2.4 billion in 2000 to \$5.7 billion in 2007.
- The decline in 2007 was due to the fact that 22 percent of the 2006 figure was comprised of several major one-time debt relief deals. Excluding debt relief and measured in real terms, U.S. assistance to SSA has increased by about \$350 million per year since 2004, and increased by \$306 million in 2007.
- HIV/AIDS programs accounted for almost \$1.4 billion in disbursements to SSA in 2007, or about 23 percent of total U.S. assistance to SSA.
- With respect to other programs in SSA, excluding HIV/AIDS and debt relief, U.S. assistance to SSA has remained essentially unchanged in real terms since 2004.

1. The official source for definitions, data and information on official development assistance (ODA, the formal name for foreign aid) is the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD).

- The allocation of U.S. development assistance to Africa has weakened in recent years, with much smaller shares of funding going to the poorest countries and to the best-governed countries.

The U.S. pledge at Gleneagles to double U.S. foreign assistance to SSA between 2004 and 2010 is well behind schedule in terms of funds disbursed to date, but since funds are in the pipeline, it is possible that the pledge will still be met.

U.S. Global Development Assistance

U.S. Official Development Assistance (ODA)² fell sharply in the early 1990s, both globally and to Africa, as a result of the end of the Cold War and stiff opposition to foreign assistance by certain members of Congress. It reached its nadir of \$8.4 billion in 1997 (measured as amounts actually disbursed, rather than commitments, and in constant 2006 U.S. dollars) and then increased 38 percent to \$11.6 billion in 2000, as shown in Figure 1. It then grew rapidly to \$28.8 billion in

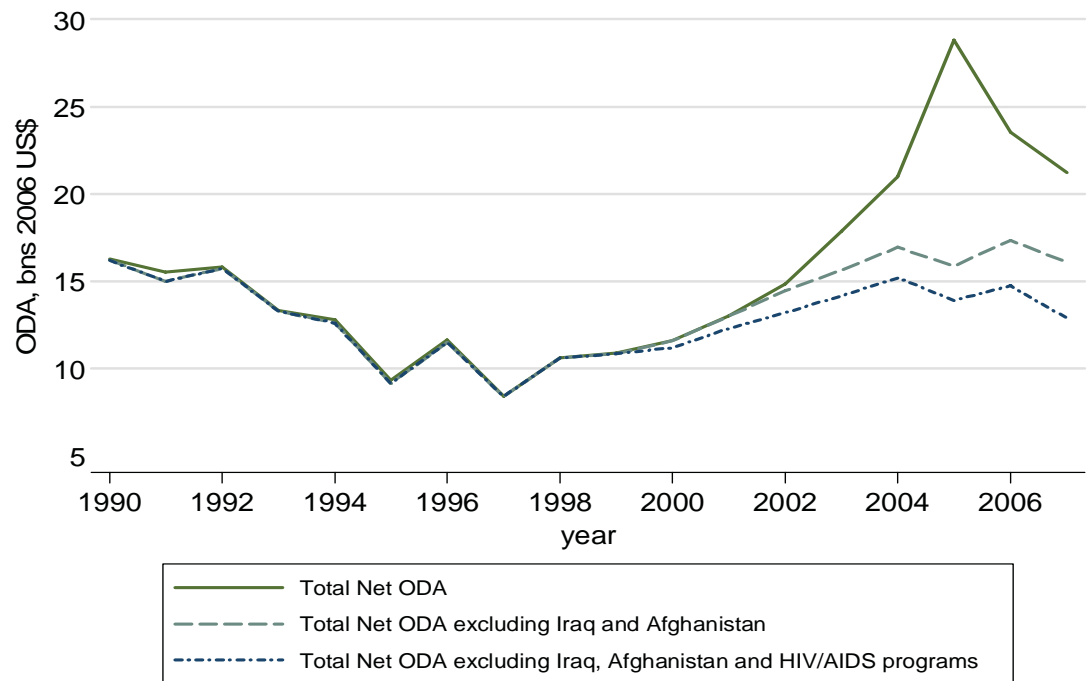
2005, mainly as a result of a one-time \$3.9 billion debt relief package for Iraq. *However, U.S. ODA fell by 26 percent over the next two years, down to \$23.5 billion in 2006 and \$21.2 billion in 2007.* Nevertheless, the 2007 figure is more than 80 percent larger than the 2000 figure. The vast majority of the increase in U.S. development assistance since 2000 has been for assistance to Iraq and Afghanistan and funding for HIV/AIDS programs.

Iraq and Afghanistan

Development assistance to Iraq and Afghanistan was \$5.1 billion in 2007, accounting for 24 percent of all global U.S. development assistance. This is a 60 percent decrease from 2005, when ODA to Iraq and Afghanistan peaked at \$12.9 billion due to the large Iraq debt relief operation. In 2006, after the debt deal, ODA for Iraq and Afghanistan fell to \$6.2 billion and then declined to \$5.1 billion in 2007.

Excluding assistance to Iraq and Afghanistan, global U.S. ODA increased 39 percent in real terms between 2000 and 2007, from \$11.6 billion to \$16.1 billion (Figure 1).

Figure 1. Excluding assistance to Iraq and Afghanistan global U.S. ODA increased 39 percent between 2000 and 2007 in real terms. Excluding funding for HIV/AIDS programs, it increased 15 percent.



² According to the definitions of the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD-DAC), foreign assistance to low-income countries—technically referred to as Official Development Assistance (ODA)—consists of grants and subsidized loans (including technical assistance and commodities) that are designed to promote economic development and welfare as their main objective (thus excluding assistance for military or other non-development purposes). This definition of development assistance is not perfect, and it is sometimes criticized for not distinguishing among different types of assistance (e.g., humanitarian or food aid versus assistance for economic development), for excluding certain types of assistance (like the value of peacekeeping forces), or for other reasons. Nevertheless, the DAC data are based on internationally recognized agreements and standards, and have the advantage (by and large) of consistency over time and across countries, so we rely on them for this analysis.

The U.S. pledge at Gleneagles to double U.S. foreign assistance to SSA between 2004 and 2010 is well behind schedule, but with funds in the pipeline, the pledge may still be met.

The increase in assistance to Iraq and Afghanistan has been accompanied by a rise in the role of the Department of Defense (DoD) in providing foreign assistance, since DoD funds a substantial share of U.S. ODA to these two countries (69 percent to Iraq and 29 percent to Afghanistan in 2007). DoD's share of total U.S. ODA rose to 22 percent in 2005 but declined to 16.5 percent in 2007.

PEPFAR and the MCA

One of the most important new U.S. foreign assistance programs is the President's Emergency Plan for AIDS Relief (PEPFAR). President Bush initiated the \$15 billion, five-year program in 2003, aiming to triple U.S. commitments from about \$1 billion to \$3 billion per year. Annual *obligations* for funding have increased from \$2.3 billion in 2004 to \$4.3 billion in 2007, for a four-year total of \$12 billion, which is well on course to exceed the \$15 billion in commitments over five years. Of these obligated amounts, about 83 percent (\$10 billion) has been for bilateral programs, with an additional 16 percent (\$1.9 billion) for the Global Fund to Fight AIDS, TB, and Malaria, and about 1 percent for UNAIDS. Actual *disbursements* have been smaller than obligations (as is always the case), increasing from \$1.6 billion in 2004 to \$3.3 billion in 2007, for a four-year total of \$9.4 billion. In 2007, HIV/AIDS disbursements accounted for 15 percent of total U.S.

foreign assistance, and about 20 percent of the total excluding Iraq and Afghanistan.

Other programs have increased more modestly since 2000 and have not increased at all since 2002. *Excluding funding for Iraq, Afghanistan, and HIV/AIDS programs, U.S. global assistance in 2007 was just 15 percent larger than in 2000 in real terms and was the smallest amount since 2002*, as shown both in Figure 1 and Table 1. The 2007 figure was about 15 percent lower than the 2004 figure in real terms. By comparison, in the previous three years it increased 33 percent from \$8.4 billion in 1997 to \$11.2 billion in 2000.

Another major new U.S. foreign assistance program, the Millennium Challenge Account (MCA), has had much less impact of the overall figures. *MCA obligations* increased from essentially zero in 2004 to \$1.8 billion in 2007. Actual *disbursements* have been much lower, but they did double from \$155 million in 2006 to \$310 million in 2007.

Debt Relief

Another major contributor to changes in U.S. ODA in recent years is debt relief.³ Debt relief is accounted for differently than other components of ODA. The value of debt relief is the charge to the creditor country's budget for writing off the debt

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Table 1. U.S. Global Official Development Assistance (disbursements)

	1997	2000	2004	2007
<i>(current \$, millions)</i>				
Global Total	6,879	9,955	19,705	21,787
Iraq and Afghanistan	0	2	3,800	5,264
HIV/AIDS programs	0	344	1,625	3,286
Total, excluding Iraq, Afghanistan & HIV/AIDS programs	6,879	9,609	14,280	13,237
<i>(constant 2006 \$, millions)</i>				
Global Total	8,404	11,604	20,984	21,231
Iraq and Afghanistan	0	3	4,047	5,129
HIV/AIDS programs		402	1,731	3,202
Total, excluding Iraq, Afghanistan & HIV/AIDS programs	8,404	11,199	15,206	12,900

Source: OECD/DAC

3. All debt relief figures are for bilateral relief and do not count the U.S. share of multilateral debt relief.

in the year the relief is given; it does not represent new funding to the recipient. Of course debt relief is beneficial to the debtor since it represents a future cash flow savings (in the form of debt service that has been forgiven). But the ODA accounting for debt relief can be misleading since it shows a large amount of assistance in the year of the write-off even though it is not an inflow of cash to the debtor. Moreover, since it is a one-time deal, it is typically followed by a sharp decline in measured ODA in the following year.

Debt relief affects ODA figures every year by different amounts. In 2005, the impact was substantial: including the Iraq debt operation, it accounted for 15 percent of the total. In 2006 debt relief accounted for 7 percent of total ODA. However, in 2007 there were no major operations, so debt relief accounted for just 0.5 percent of the total.

Bilateral vs. Multilateral Assistance

Another important characteristic of the recent increases in development assistance is that it has been delivered predominately through bilateral rather than multilateral channels (such as the World Bank, the African Development Bank, the

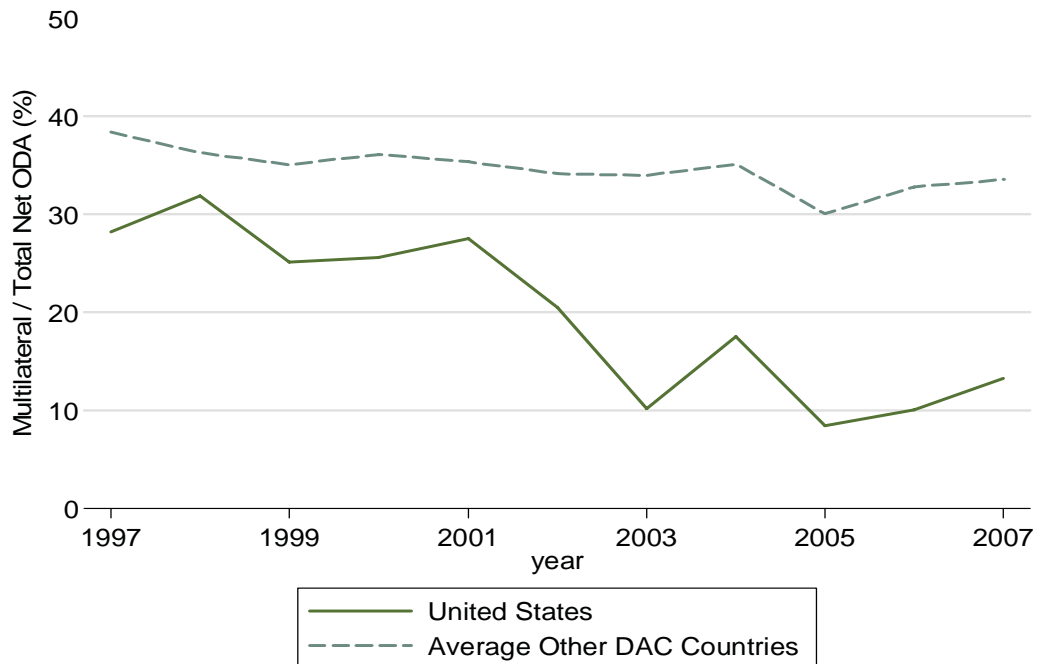
United Nations, and the Global Fund). Despite the rise in total development assistance, U.S. contributions to multilateral institutions actually fell from \$3.6 billion in 2001 to \$2.4 billion in 2006 before rebounding to \$2.8 billion in 2007. As a result, the share of multilateral assistance has fallen from 26 percent to 13 percent, compared to the average of all other major donors of 34 percent (Figure 2).

U.S. Development Assistance to Sub-Saharan Africa

U.S. development assistance to SSA (bilateral and multilateral) rose from a low of \$1.6 billion in 1996 to \$2.4 billion in 2000, a 50 percent increase in four years, measured in constant dollars. It grew even more rapidly until 2006, reaching \$6.9 billion. It then *declined* 17 percent to \$5.7 billion in 2007 (all figures in constant dollars; see Figure 3). Overall, U.S. foreign assistance to SSA increased 139 percent between 2000 and 2007 in real terms. The large figure in 2006 was due to debt relief operations in the Democratic Republic of Congo and Nigeria. Excluding debt relief, the total increased from \$5.3 billion in 2006 to \$5.7 billion in 2007.

The United States channels much less of its development assistance through multilateral organizations than other major donor countries.

Figure 2: The share of U.S. assistance through multilateral channels has fallen sharply since 2001.



4. A specific country's share (in this case, the U.S. share) of multilateral assistance that goes to a particular country or region is calculated indirectly by the DAC. Each donor country's total contribution to each multilateral agency is pro-rated by the multilateral agency's assistance to that country or region.

Of the 2007 figure, about \$4.5 billion was delivered bilaterally, and about \$1.3 billion was contributed through multilateral organizations.⁴ In 2007, U.S. foreign assistance to SSA averaged \$7.25 per African.

A large share of the increase in assistance for SSA in recent years has come in the form of humanitarian assistance. Humanitarian assistance increased from \$118 million in 2000 to \$1.6 billion in 2007 (in 2006 U.S. dollars). Humanitarian assistance accounted for 9 percent of U.S. bilateral assistance to SSA in 2000; by 2007 it accounted for 36 percent.

Disbursements for HIV/AIDS programs have been a major factor in the increase in U.S. assistance to SSA in recent years. From 2004 to 2007, PEPFAR'S disbursements to SSA increased from \$442 million to \$1.4 billion (see Figure 4).

- Fifty-two percent of disbursements for global HIV/AIDS programs went to SSA in 2007.
- About 23 percent of total U.S. assistance to SSA in 2007 was for HIV/AIDS programs.

Funding for other programs in SSA has not increased in net terms in recent years. More specifically, *excluding debt relief and HIV/AIDS programs, U.S. assistance to SSA has remained essentially unchanged in real terms since 2004*, as shown in Figure 3.

Major Recipients in SSA

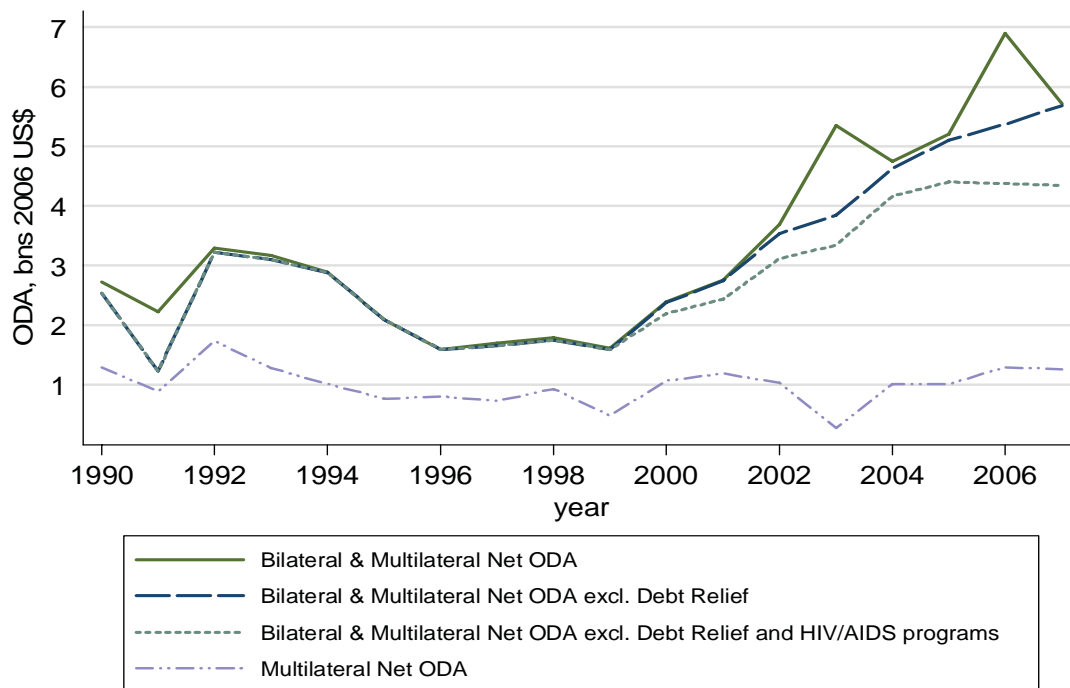
The five largest recipients of U.S. ODA in SSA in 2007 were Sudan (\$710 million), Ethiopia (\$372 million), Kenya (\$325 million), Uganda (\$302 million), and Nigeria (\$241 million). Sudan and Ethiopia were major recipients of humanitarian assistance.

The allocation of bilateral U.S. ODA to SSA has changed significantly in recent years. The United States provides a much *smaller* share of its development assistance to the poorest countries in SSA, and a much *smaller* share to the best-governed countries.

With respect to income, in 2000, about 37 percent of all U.S. bilateral assistance to SSA went to the poorest quartile of

U.S. development assistance to sub-Saharan Africa in recent years has shown a decreasing preference for the poorest countries and for the best-governed countries.

Figure 3. U.S. Assistance to sub-Saharan Africa has risen rapidly since the late 1990s. The increase since 2004 is fully due to debt relief and HIV/AIDS programs.



countries in SSA, and about 70 percent went to the poorest half. By 2007, only about 25 percent went to the poorest quartile, and about 49 percent to the poorest half.

With respect to governance, in 2000 about 25 percent of funding went to countries in the top quartile of the World Bank Institute's governance indicators in SSA, and about 59 percent to countries in the top half. By 2007, only 14 percent went to countries in the top quartile, and 40 percent to the top half.

The Pledge to Double Assistance to Africa

On June 30, 2005, on the eve of the G-8 summit at Gleneagles President Bush announced, "The United States has tripled overseas development assistance to Africa during my presidency and we're making a strong commitment for the future: between 2004 and 2010, I propose to double assistance to Africa once again, with a primary focus on helping reforming countries."

At the time, the United States actually had not tripled assistance to Africa, but had doubled from \$2.1 billion in 2000 to \$4.5 billion in 2004 (measured in current dollars), still a considerable increase. To meet the president's pledge, the United States would have to double ODA to SSA to \$8.9 billion in 2010, and focus more assistance on reforming countries.

Three years into the pledge, the results are mixed. In terms of putting "a primary focus on helping reforming countries," as noted earlier the data show a *smaller* share of U.S. funding going to the best-governed countries in Africa. In terms of funding, total ODA to SSA increased from \$4.5 billion to \$5.9 billion in 2007, a 32 percent increase over three years, far below the pace required to double assistance over five years. Therefore, to achieve the goal, disbursements would have to increase by \$3 billion over the next two years (a 50 percent increase), a tall order.

Still, because of large commitments in the pipeline, it is possible that the amounts disbursed in the next two years will increase enough to fulfill the pledge. First, disbursements for HIV/AIDS programs are continuing to grow rapidly. Second, the United States has introduced a new malaria program that should add to the totals in the near future. Third, MCA disbursements are likely to accelerate in the next several years.

If bipartisan support continues for these programs, and if the implementing agencies are able to accelerate disbursements quickly enough, it may still be possible for the United States to successfully double assistance to Africa by 2010.

To make good on the pledge to double assistance to Africa by 2010, the U.S. would have to increase disbursements by \$3 billion over the next two years.

Figure 4. U.S. Official Development Assistance (ODA) for HIV/AIDS, 2004–2007

