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Aid targets and development

Analysis

By Andrew Walker

BBC economics correspondent

Aid has long had a central role in the rich countries' approach to encouraging development.

But the very idea of aid is controversial.

There are plenty of critics who say it is counter-productive, that it encourages corruption and entrenches bad policies.

Still, the prevailing view is that, if well managed, it can do a lot of good. And that is reflected in the development policies of all the rich countries.

How much to give is a more touchy subject. For 35 years, there has been a target for how much the rich countries should allocate - 0.7% of national income.

It was re-affirmed at a United Nations summit on finance for development in Monterrey in Mexico in 2002, although there was no direct promise from the rich countries to achieve it.

The target is sure to be discussed again at the UN Millennium Development Summit in New York, which starts on Wednesday.

Biggest donors

Only five countries are currently meeting the target - Norway, Denmark, Sweden, the Netherlands and Luxembourg - out of the 22 main aid donors in the industrial countries.

For the US, the target would mean more than \$80bn a year; for the UK over £8bn.

Several countries, Britain and the rest of the 15 'old' European Union countries (the members before expansion last year),



Few industrial countries meet agreed UN aid targets

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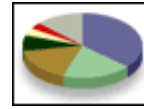
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have made a commitment to reach the target by 2015.

For the developed world as a whole the latest figure, for last year, is 0.25%.

“ Using the right measures, Americans are the most generous people in the world ”

Carol Adelman, Hudson Institute

Lloyd's faces £1.4bn Katrina bill

And it is the biggest donors of all who are furthest from that target.

The US and Japan give the largest amount of aid in dollar terms, but they are near the bottom of the league table for aid in relation to national income, with 0.16% and 0.19% respectively. Italy came in last in 2004, just below the US.

'Generous Americans'

These comparisons can cause quite a lot of resentment in some quarters in the US.

Some argue that they underestimate Americans' true contribution to the developing world.

They only cover official government aid. They don't include private philanthropy or government spending on overseas security - which some say contributes to creating a climate for development.

The figures also leave out other private financial flows, such as foreign investment and money sent home by migrant workers that contribute to development.

Carol Adelman, of the Hudson Institute, argues that "using the right measures, Americans are the most generous people in the world".

There are also criticisms of the target, and they don't just come from groups who are sceptical about aid - who tend to be at the conservative end of the political spectrum.

Peaks and troughs

Two researchers at the Center for Global Development, a Washington think-tank which generally supports the use of aid, put it like this:

"The 0.7% target began life as a lobbying tool, and stretching it to become a functional target for real aid budgets across all donors is to exalt it beyond reason. That no longer makes any sense, if it ever did."

Still, they do think that well-targeted aid does make a lot of sense.

In the past few years, aid flows from the rich countries have been rising, after drifting lower in the early and mid-1990s.

In real terms, 1992 was a peak while 1997 was the trough. In 2003, the figure passed that earlier peak, and has continued to rise. Last year, the figure was \$78bn.

Quality, not quantity

July's G8 summit at Gleneagles, in Scotland, came up with a commitment to increase aid to Africa by \$25bn a year - which is a doubling - and an increase of \$50bn for the developing world as a whole.

It won't get the G8 collectively to the 0.7% target. Some members of the group - Canada and the US - don't much care for the target.

And in any case, will the G8 deliver on what they have promised?

Two European G8 members, Germany and Italy - and separately Portugal - issued a warning that they might not be able to make the increases in aid that they in principle agreed when the EU announced in May its plans to get to 0.7% by 2015.

The reason is the weak state of their public finances, with all three countries exceeding eurozone borrowing limits. of 3% of GDP.

If there's an improvement in the meantime, they plan to meet the targets; otherwise they might not be able to.

But for many observers it is not the quantity of aid that matters most.

It is the quality of the projects it pays for and ensuring that it is not diverted from its proper use by corruption.

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