

Overseas Aid and the 1995 Budget

Research Paper 95/122

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This paper provides information on the UK Aid Budget incorporating figures from the 1995 Financial Statement and Budget Report which was made to the House on 28 November 1995. This paper shows that the Aid Budget is planned to fall in cash and real terms over the coming two years compared with the 1995/96 level and with previously agreed plans for 1996/97 and 1997/98. Nevertheless the UK will remain the world's fifth largest aid donor in aggregate terms. A detailed breakdown of the British Aid Budget and its effectiveness will be the subject of a forthcoming Library paper, which will be available shortly after the publication of the edition of the British Overseas Aid Statistics for 1991/92-1994/95.

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"On average, the governments of developing countries have been devoting only about 10% of their annual budgets to nutrition, water supply, primary health care, primary education and family planning. Similarly only about 10% of all international aid for development has been specifically devoted to these human priorities. This means that many governments of the poor world have been spending less on meeting human needs than on meeting military bills and debt-servicing obligations. And it means that the total amount of aid being given for the specific purpose of meeting these most obvious needs is less than the amount the people of the industrialised world spend each year on sport shoes" [UNICEF¹].

I What is Overseas Aid?

Overseas aid is the provision of assistance by richer countries (mainly the industrialised western economies but also other countries such as Saudi Arabia, Kuwait and Japan). to poorer developing countries in Africa, Asia and Latin America². The main donor countries - including the UK - are members of the OECD's Development Assistance Committee.

Developing countries can, and do, benefit from trade and foreign direct investment but these financial flows are outside the scope of this paper. Aid can take a number of forms. There are two main categories; bilateral aid - assistance that the UK gives directly to developing countries - and multilateral aid - which the UK gives to international organisations such as the EC, the World Bank and UN agencies for use in, or on behalf of, developing countries. The main form of bilateral aid is project aid which is used to help finance investment in areas such as water supply, sanitation, communications and energy production. Such help can either be in the form of financial grants and loans or in the provision of technical assistance (eg paying for specialists to help countries with specific projects). The UK also provides emergency aid to help countries faced by abnormal natural or man-made disasters, crop failures or war. Programme aid is a form of general support for a recipient's economy in contrast to the more specific support provided under project or sector aid. Programme aid is used for financing a range of general imports. It strengthens the balance of payments through the provision of foreign resource, it provides additional budgetary resources.

It is important to distinguish between official development assistance (oda), Overseas Development Administration (ODA) programmes and gross public expenditure on aid (GPEX). For the purposes of international comparisons, which are usually based on reports made to the OECD Development Assistance Committee (DAC) there are two different concepts: official development assistance (oda), which consists of concessional flows for development to developing countries, and other official flows (oof) which cover all other official flows. The sum of oda and oof is total official flows. All these concepts may be measured gross or net of debt repayments. Oda is defined as those flows to developing

¹ Briefing Note for House of Lords debate 15.6.94

² The UK overseas aid budget includes assistance to the former Soviet Union and Central and Eastern Europe. Although some of these countries are classified as developing countries, most are not. Aid flows to these countries that meet the DAC test of development and concessionality are excluded from the definition of oda but are defined as Official Aid or Assistance.

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countries and multilateral institutions provided by official agencies or by their executive agencies, each transaction of which meets the following tests:

- a it is administered with the promotion of the economic development and welfare of developing countries as its main objective; and
- b it is concessional in character and conveys a grant element of at least 25 per cent. Official development assistance is shown both gross and net of loan repayments.

Figures on total oda spending by the UK and other DAC members in 1993 and 1994 are set out in Table 3 on page 15.

The main part of the UK aid effort, which comprises aid to developing countries, assistance to countries in transition in central and eastern Europe and global environmental assistance is the responsibility of the ODA. The ODA is also responsible for overseas superannuation. Total spending on these programmes includes both direct expenditure and the UK's share of spending on overseas aid by the European Community.

Gross Public Expenditure (GPEX) on aid includes developmental aid flows from all official UK sources and not just the central government's budget for overseas aid. GPEX combines aid to developing countries and to countries in transition. Tables 1A and 1B (on pages 7 and 8) set out the figures for UK overseas aid budget from 1990/91 to 1994/95, showing bilateral, multilateral aid allocations. Figures for total ODA programme, including aid to developing countries and GPEX on aid to developing countries are set out in bold print at the end of the table. In 1994/95 total UK public expenditure on aid was £2,617 million of which £1,374 million was bilateral, £1,175 million was multilateral and £68 million was administrative costs.

More details on the UK Aid Budget, including effectiveness and the issues surrounding the division between bilateral and multilateral aid are the subject of a forthcoming Library paper.

Table 1A

Gross Public Expenditure on Aid (1990/91 -1994/95)		£ thousand				
	1990/91	1991/92	1992/93	1993/94	1994/95	
BILATERAL						
ODA PROGRAMME						
Project Aid (excl ATP)	590,745	593,362	601,200	606,594	608,337	
of which:						
Financial Aid	173,909	140,005	121,053	119,430	110,649	
Technical Cooperation	416,836	453,357	480,147	487,164	497,688	
Aid & Trade Provision	94,427	101,157	93,071	84,686	60,297	
of which:						
Technical Cooperation	6,004	6,944	5,394	4,263	4,267	
Programme Aid	151,921	119,046	138,360	122,098	115,672	
of which:						
Budgetary Aid	6,238	4,344	5,068	4,566	4,377	
Emergency Aid	60,159	138,433	142,813	179,601	208,886	
of which						
Food Aid	15,472	48,394	36,848	40,777	36,304	
Disaster Relief	35,506	76,785	90,858	119,738	143,317	
ODA Debt Relief	637	489	382	1,698	3,104	
Other Technical Cooperation	77,002	61,500	74,641	85,875	90,947	
Exchequer Advances to CDC	75,000	60,000	75,000	75,000	32,900	
Total ODA programme Bilateral	1,049,891	1,073,988	1,125,466	1,155,552	1,120,143	
of which:						
Technical Cooperation (incl ATP)	499,842	521,801	560,180	577,302	592,902	
OTHER OFFICIAL PROGRAMMES						
CDC Investments	158,819	124,210	223,301	183,354	228,748	
Other (2)	50,728	38,668	80,192	44,786	58,245	
Total Other Bilateral Programmes	209,547	162,878	303,493	228,140	286,993	
TOTAL BILATERAL AID	1,184,438	1,176,867	1,353,959	1,308,693	1,374,234	
(excluding flows from ODA to CDC)						
of which:						
Aid to developing countries	1,169,764	1,125,415	1,306,200	1,247,042	1,301,440	
Assistance to CEE/FSU(3)	14,681	52,642	87,122	124,457	132,504	

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Table 1B

£ thousand

	1990/91	1991/92	1992/93	1993/94	1994/95
MULTILATERAL					
ODA PROGRAMMES					
European Community	316,544	413,416	464,447	516,054	620,178
World Bank Group	158,825	228,198	249,682	229,613	227,699
IMF	1,500	1,500	10,000	20,000	90,000
IFAD	2,875	2,847	1,680	1,000	2,463
Global Environmental Assistance(4)	-	-	-	-	9,078
Regional Development Banks	32,346	69,122	91,933	76,386	71,212
UN Agencies	72,334	87,905	98,578	118,433	101,525
Commonwealth	8,590	7,734	9,480	7,372	8,310
Research	7,940	8,679	8,600	8,661	8,404
Total ODA Programmes Multilateral	600,954	819,402	934,400	977,518	1,138,869
OTHER PROGRAMMES					
European Community	21,501	45,947	11,618	13,769	12,582
UN Agencies	21,963	24,970	23,788	23,524	22,760
Commonwealth	728	738	801	894	1,082
Research	628	628	570	336	213
Total Other Programmes Multilateral	44,820	72,283	36,777	38,523	36,637
TOTAL MULTILATERAL AID	645,774	891,685	971,177	1,016,041	1,175,506
of which:					
Aid to developing countries	645,768	828,066	873,827	894,023	1,030,958
Assistance to CEE/FSU(3)	5,201	65,313	112,465	138,018	158,899
ADMINISTRATIVE COSTS					
ODA Admin. Costs	44,213	48,697	49,093	53,715	53,449
Other Admin. Costs	13,691	14,458	14,883	11,628	14,481
Total Administrative Costs	57,904	63,155	63,976	65,343	67,930
TOTAL ODA PROGRAMMES(5)	1,695,058	1,942,087	2,108,959	2,186,786	2,312,459
of which:					
Aid to Developing Countries	1,680,388	1,855,410	1,964,280	2,004,827	2,095,960
Assistance to CEE/FSU(3)	14,670	87,866	199,151	259,997	290,201
TOTAL GPEX ON AID	1,888,116	2,131,707	2,389,112	2,390,077	2,617,670
of which:					
Aid to developing Countries	1,873,436	2,016,636	2,244,003	2,606,488	2,400,327
Assistance to CEE/FSU(3)	19,882	117,955	199,587	262,475	291,403

Notes

1 Comprises aid to developing countries and assistance to countries in transition

2 This is mainly non-ODA debt relief, but also includes small amounts of drug related assistance funded by the Home Office and FCO

3 This represents all countries covered by the Know How Fund, some of which are also included in the developing country total.

4 This comprises 84% of the UK's contributions to the Global Environmental Facility and Montreal Protocol. These amounts have been defined by DAC as overseas development assistance since 1994.

5 This includes ODA administration costs only. Total administration costs are included in GPEX total.

Source: Table 3, British Aid Statistics, 1989/90-1993/94 and provisional figures from ODA

II Run up to the 1995 Budget

A. Reports of cuts during the final stages of the 1995 Spending Round

During the run up to the Budget Statement on the 28 November 1995 stories of threatened cuts in the overseas aid budget appeared in the press. A selection of press extracts is set out below:

Example 1

MINISTERS are planning savage cuts in Britain's foreign aid programme as an act of revenge against the department which exposed the illegal use of aid money to fund Malaysia's Pergau Dam project, senior government officials said last night. The planned cuts of around 40 per cent in direct aid to poor countries - the equivalent of scrapping the entire aid programme to Africa - are strongly backed by the Treasury and will come before a Cabinet committee this week.³

Example 2

According to a BBC report, the Government is considering cutting the budget of the Overseas Development Administration - currently pounds 2.2 billion-a-year - by 12% in real terms over the next three years. Cuts on that scale would reportedly lead to bilateral aid to developing countries being reduced by 40%, with some African nations losing their entire aid allocation. The emergency aid programme - which funds Britain's aid effort in countries such as Bosnia and Rwanda - could also be cut by as much as 50%. The report comes amid intense pre-Budget manoeuvring by Whitehall departments ahead of what is expected to be a particularly tough public spending settlement.

However, ODA officials were said to feel that they were being particularly hard hit as ministers searched for spending cuts in order to fund a reduction in taxation.⁴

Example 3

THE GOVERNMENT is planning to withdraw aid from much of the developing world, including the West Indies, Latin America, South-East Asia and Eastern Europe, in a dramatic reappraisal of Britain's role as a leading international donor. Resources will be focused instead on the least developed parts of Africa and the Indian sub-continent, under proposals being put before Foreign Secretary, Malcolm Rifkind, and Overseas Aid Minister, Baroness Chalker. The plan follows hard on the heels of proposals to cut the overall aid budget by 12 per cent.⁵

³ "Ministers slash aid in revenge for Pergau": *The Sunday Independent*, 17 September 1995

⁴ "Politics: Overseas Aid Budget 'To Be Slashed': *Press Association*, 16 September 1995

⁵ "Britain to cut aid to all but the poorest: Voluntary agencies say Chalker plans will force impoverished Caribbean islands to become drug havens": *Observer*, 8 October 95

B. Reaction to media reports of cuts

Although such reports of threatened cuts are not uncommon during the final stages of the spending round, they nevertheless provoked a sharp response, especially from pressure groups and charities involved in developing countries.

A coalition of non-governmental organisations (NGOs) including, Actionaid, Cafod, Christian Aid, Oxfam, VSO and WDM have published a joint parliamentary briefing⁶. The briefing stated:

Even if the aid budget remained frozen at its current level of £2.3bn as planned, UK bilateral (country to country) assistance would be cut next year as the ODA has to make increased contributions to the EU aid budget. Even without further cuts:

- * Bilateral aid to Africa would fall from £308 million in 1995-6 to £291 million in 1996-97, a fall of £17 million or 5.5% in real terms (1994-95)
- * Bilateral aid to Asia and the Pacific would fall from £228 million in 1995-96 to £203 million in 1996/97, a fall of £25 million or 10.9% in real terms.
- * Total bilateral aid would fall from £1,065m in 1995-6 to £963m in 1996/97, a fall of £102m or 9.6% in real terms⁷.

Now it appears that the Treasury is preparing to make further cuts in the order of 12% in the ODA's budget. As most contributions to multilateral agencies such as the World Bank and the EU are non-negotiable, the bulk of the cuts would have to be cut from the ODA's bilateral programme. A 12% reduction in the total aid budget could lead to cuts of up to 40% in the UK's bilateral.

A cut of this scale would have a devastating impact on the UK's assistance to the poorest countries. It could for example:

- * wipe out bilateral assistance to Africa (£318m this year) at a stroke or
- * wipe out bilateral assistance to the whole of Asia/Pacific (£235m), eastern Europe and former Soviet Union (£80m) and the funds earmarked for predictable emergencies (£67m) combined.

Aid agencies believe that such wide-ranging cuts would be totally unacceptable and the assistance to the world's poorest people should not be sacrificed in order to contribute meagre sums towards pre-election tax-cuts.

Other press coverage included:

The latest proposal, confirmed by senior Overseas Development Administration officials, provoked a furious reaction last night from politicians and Church and voluntary agencies involved in aid and relief work. Many said they were concerned that, without British aid, several Caribbean islands would have to become drug havens to survive.⁸

⁶ *Squeezing tax cuts out of the poorest*

⁷ Quoting Fourth Report of the Foreign Affairs Committee, HC 424 1994/95, evid. 34

⁸ "Britain to cut aid to all but the poorest: Voluntary agencies say Chalker plans will force impoverished Caribbean islands to become drug havens": *Observer*, 08 October 1995

C. The Government's Case

When asked by Mrs Clwyd about the reaction to the reports that overseas aid is to be cut by 12%, the Prime Minister replied⁹:

...at something more than £2.2 billion, we have the fifth largest overseas aid programme in the world. It is not only one of the largest aid programmes in the world but, as the hon Lady herself has acknowledged in the past, one of the best. I assure the hon Lady that after my right hon. and learned Friend the Chancellor's Budget, we shall continue to have a highly effective aid programme.

A commitment to maintain a substantial overseas aid budget was made in the Queen's Speech on 15 November 1995:

A substantial aid programme will be maintained, focused on the poorest countries, to promote sustainable development and good government, including respect for human rights.

The Government also insists that the UK is helping developing countries in other ways. For example, the UK Government has taken the lead in debt relief initiatives, especially for official sector debt, and the UK is an important source of private capital to the developing world.¹⁰

The effectiveness of the UK's aid programme was underlined in the Development Assistance Committee (DAC) of the OECD in its 1994 review of the UK aid programme. That review¹¹ stated:

The United Kingdom has a truly world-wide aid programme including some 135 recipient countries, with 81 per cent of bilateral allocable oda in 1991/92 extended to 20 recipients .[p7].

In its summary, the DAC reported¹²:

The United Kingdom has a highly concessional business-like bilateral programme largely oriented towards the poorest developing countries. Its role as a major donor has been particularly important in several geographical areas, notably Sub-Saharan Africa and Asia, and in key sectors such as education, agricultural research, health and population, and private enterprise. The United Kingdom has many prominent institutions in the development field and an enormous amount of expertise, building on long experience in developing countries.

Notwithstanding the above strengths, there is serious pressure on the British bilateral programme

⁹ HC Deb 17 October 1995 c143-144

¹⁰ ODA Press Release, 65/95, 28 November 1995

¹¹ OECD/DAC Development Co-operation Review Series, United Kingdom, 1994, p7

¹² ibid

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which could, if sustained, begin the distinctive contributions of the United Kingdom as a major DAC donor. A "squeeze" on the British bilateral programme stems from the fact that the United Kingdom's oda/gnp ratio has declined markedly since 1980 and has only recently begun modest recovery. At the same time the Government continues its major multilateral role and has undertaken growing responsibilities through the EC programme.

III The level of the UK's Overseas Aid Budget in the past?

Table 2 below sets out the figures for UK net oda from 1970 to 1994 in cash, constant prices and also as a percentage of gross national product.

Table 2

UK net official development assistance, 1970-1994

Calendar year	£ million Cash prices	£ million Constant 1994 prices	Change on year Real Terms	% of GNP
1970	186	1,473	..	0.36%
1971	231	1,672	14%	0.40%
1972	243	1,626	-3%	0.37%
1973	246	1,539	-5%	0.33%
1974	307	1,671	9%	0.36%
1975	389	1,666	-0%	0.37%
1976	462	1,719	3%	0.37%
1977	638	2,084	21%	0.44%
1978	763	2,234	7%	0.45%
1979	1,016	2,600	16%	0.51%
1980	797	1,707	-34%	0.34%
1981	1,081	2,078	22%	0.42%
1982	1,028	1,836	-12%	0.37%
1983	1,062	1,802	-2%	0.35%
1984	1,070	1,736	-4%	0.33%
1985	1,193	1,831	5%	0.33%
1986	1,195	1,776	-3%	0.31%
1987	1,168	1,654	-7%	0.28%
1988	1,489	1,989	20%	0.32%
1989	1,578	1,968	-1%	0.31%
1990	1,485	1,740	-12%	0.27%
1991	1,815	1,998	15%	0.32%
1992	1,848	1,949	-2%	0.31%
1993	1,937	1,978	1%	0.31%
1994	2,091	2,091	6%	0.31%

Note:

(a) revalued using unadjusted GDP deflator

ODA "British Aid Statistics, 1989/90-1993/94", & earlier editions

CSO database (series GIBF, DJAF, DJCX)

Overseas Development Administration

Although there are annual variations, the amount of oda, has grown steadily in cash terms over the years¹³. When expressed in real terms, the year on year change in the last five years has varied from *minus* 12% in 1990 to *plus* 15% in 1994. Table 2 also shows that, when expressed in 1994 prices, the 1970 provision was just under £1,500 million. In 1994 the provision had increased in real terms by about 42% or some £600 million compared with the level in 1970. When expressed as a percentage of GNP, the oda has been steady at 0.31% for the last three years. The subject of the UN target of 0.7% of GNP is considered below.

IV How does the UK compare to other countries?

As noted above, the OECD's Development Aid Committee (DAC) monitors the performance of the main donor countries by using a common definition of aid, overseas development assistance (oda), which includes concessional flows for development in developing countries. Oda has three elements: concessionality, economic development and developing countries.

The United Nations set a target that net oda should represent 0.7% of GNP. This was adopted in 1970 by the UN General Assembly (Resolution 2626) which initially called for its achievement by the mid 1970s.

It was the newly-elected UK (Labour) government of February 1974 which accepted the target in principle¹⁴. The current government remains committed to the 0.7% target but has declined invitations to specify a date for its attainment. The Government's position is to meet the target as soon as resources allow. The following response to a written question¹⁵ is typical:

Aid Target

Mr Beggs: To ask the Secretary of State for Foreign and Commonwealth Affairs when he expects the 0.7% GNP target level for overseas aid to developing countries to be reached by her Majesty's Government.

Mr Lennox-Boyd: We have not set down a timetable for reaching the 0.7% target. Progress towards the target will depend upon our economic circumstances and on other priorities for public expenditure.

Table 3 below compares the UK with other members of the OECD's Development Assistance Committee (DAC). (The UK figures have been updated with a slight amendment since this

¹³ The provision made in calendar year 1979 is unusually large. This is, in part, a technical blip arising from the fact that the UK and some recipient countries operate on financial years that are different from the calendar years and that some payments made during the correct financial year actually scored during the 1979 calendar year. The net result is that the 1979 (calendar year) provision is somewhat overstated. The level is smoothed out when the same figures are looked at by financial years.

¹⁴ Source: HC Deb 11.11.92 c796W

¹⁵ Source: HC Deb 6.11.92 c455W

press notice was published.) Only four DAC countries (Norway, Denmark, Sweden and Netherlands) met the 0.7% target in 1994. The UK's ratio of 0.31% was above the weighted DAC average of 0.29% but this average was heavily influenced by the low ratio (0.15%) for the USA. In cash terms, the UK was the fifth largest aid donor in 1994 after the US, Japan, France and Germany.

Table 3

ODA disbursements of DAC countries in 1993 and 1994

	\$ million			Percent of GNP			% change 1994/1993
	Actual 1994	Actual 1993	Volume * 1994	1992	1993	1994	Volume *
Japan	13,238	11,259	12,148	0.30	0.27	0.29	7.9
United States	9,851	10,149	9,648	0.20	0.16	0.15	4.9
France	8,447	7,915	8,167	0.63	0.63	0.64	3.2
Germany	6,751	6,954	6,475	0.38	0.36	0.33	-6.9
United Kingdom	3,085	2,920	2,964	0.31	0.31	0.31	1.5
Netherlands	2,531	2,525	2,434	0.86	0.82	0.76	-3.6
Canada	2,230	2,373	2,347	0.46	0.45	0.42	-1.1
Italy	1,967	3,043	1,954	0.34	0.31	0.20	-35.8
Sweden	1,703	1,769	1,640	1.03	0.99	0.90	-7.3
Denmark	1,450	1,340	1,373	1.02	1.03	1.03	2.5
Spain	1,247	1,213	1,258	0.27	0.25	0.26	3.7
Norway	1,137	1,014	1,128	1.16	1.01	1.05	11.2
Australia	1,087	953	1,001	0.37	0.35	0.38	4.9
Switzerland	978	793	890	0.45	0.33	0.36	12.1
Belgium	677	808	641	0.39	0.39	0.30	-20.7
Austria	561	544	535	0.30	0.30	0.29	-1.7
Finland	289	355	258	0.64	0.45	0.31	-27.4
Portugal	250	248	247	0.36	0.29	0.28	-0.3
New Zealand	111	98	99	0.26	0.25	0.24	1.2
Ireland	105	81	101	0.16	0.20	0.24	24.1
Luxembourg	59	50	56	0.26	0.35	0.40	13.4
Total DAC	57,754	56,405	55,362	0.34	0.31	0.29	-1.8
<i>memo (included in above):</i>							
EU countries	29,122	29,765	28,102	0.45	0.43	0.40	-5.6

Figures for Portugal are preliminary

* at 1993 prices

Source:

OECD press notice Sg/press(95)46 dated 21.6.95

V The 1995 Budget Outcome for the ODA Programme

A Treasury press release¹⁶ published the day after the Budget day announced that the Chancellor had provided extra money for, amongst other things, overseas aid. The ODA's press release¹⁷ which was published on the day of the 1995 budget, announced that:

Britain will continue to be the fifth largest aid donor in the world next year with an Aid Budget of £2,154 million. The Aid Budget is then planned to rise by £47 million to £2,201 million in 1997/98, and by a further £69 million to £2,270 million in 1998/99.

In another press release¹⁸ the ODA announced:

Britain's total external assistance programmes are to be maintained at their previously agreed levels.

- The aid budget, covering aid to developing countries and assistance to central and eastern Europe and the former Soviet Union, is set to rise by £83 million by 1996/97 - or 4% in cash terms - compared with the 1993/94 provision.

- Aid for the poorest countries in Africa and Asia and the provision of know-how to central and eastern Europe and the former Soviet Union remain particular priorities for ODA assistance. In all countries we pay close attention to good government and the pursuit of economic reform.

- Increased provision is made for global environment assistance, rising to £24 million by 1996/97, in order to provide for Britain's share of the replenishment of the Global Environment Facility and of the Montreal Protocol funding mechanism.

Changes in the level of spending can be expressed in cash terms, real terms or compared with previous plans. The ODA press release compares the planned level in 1996/97 with the cash level in 1993/94, which puts the spending figures in a favourable light. However, the pattern of spending is somewhat different when the spending plans for next year (1996/97) are compared with the current level (1995/96) and with previously agreed plans for next year as contained in this year's FCO/ODA Departmental Report.¹⁹

¹⁶ HMT, 29 November 1995, 1 of 7.

¹⁷ ODA 28 November 1995, 65/95

¹⁸ ODA, 30 November 1993, 85/93

¹⁹ Cm 2802

A. In Cash Terms

Table 4 (page 18) sets out the figures for the various components of the ODA's total programme from 1993/94 to 1998/99 in cash using figures provided from the last two Financial Statements and Budget Reports, Departmental Reports and ODA press releases.

1. Aid Budget

The new spending plans show that the Aid Budget is now planned to be £2,154 million. This is £124 million lower than the previously agreed plans for 1996/97 of £2,278 million. This represents a reduction of 5.4 per cent compared with the previous plans for 1996/97, which were contained in the 1995 FCO/ODA Departmental Report earlier this year. Compared with the current year (1995/96), the cash allocation for next year is now planned to fall from £2,246 million to £2,154 million; a fall of £92 million or 4 per cent on the current level.

Compared with the plans made in the 1994 Departmental Report for 1996/97, the new cash allocation for next year (1996/97) is some £62 million (or 2.8 per cent) lower; a reduction from £2,216 million to £2,154 million. Over the next two years, (between 1996/97 to 1997/98), the Aid Budget will now be reduced by £251 million (about 5.5 per cent) from £4,606 million to £4,355 million compared with the cash plans that were previously contained in the 1995 Departmental Report.

2. Total ODA programme

The new spending plans for the total ODA programme for 1996/97 is now planned to be £2,291 million. This is £128 million lower than the previously agreed plans for 1996/97 of £2,419 million and represents a reduction of 5.3 per cent compared with the plans for 1996/97 contained in the 1995 Departmental Report. Compared with the current year, the ODA programme for 1996/97 is now planned to fall by £36m (1.5 per cent lower) from £2,372 million to £2,291 million. Over the next two years, the cash allocation for the ODA programme is planned to fall by £240 million (4.9 per cent lower) from £4,897 million to £4.657 million compared with the cash plans previously made in the 1995 Departmental Report.²⁰

²⁰ Cm 2802

Table 4

ODA's Total Programme		£m cash				
	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99
PES Aid Budget (Outturn)						
<i>1994 Dept. Report</i>	2,133	2,182	2,230	2,216		
<i>1994 FSBR</i>		2,270	2,230	2,279	2,328	
<i>1995 Dept. Report</i>		2,237	2,230	2,278	2,328	
<i>1995 FSBR</i>			2,246	2,154	2,201	2,270
Outturn	2,111	2,240				
Global Environment Assistance						
<i>1994 Dept. Report</i>	11	8	16	24		
<i>1994 FSBR</i>		8	16	18	20	
<i>1995 Dept. Report</i>		11	16	18	20	
<i>1995 FSBR</i>			12	17	23	26
Outturn	8	11				
Overseas Superannuation						
<i>1994 Dept. Report</i>	132	118	117	123		
<i>1994 FSBR</i>		118	117	123	130	
<i>1995 Dept. Report</i>		118	117	123	130	
<i>1995 FSBR</i>			114	120	142	125
Outturn	120	118				
Total ODA						
<i>1994 Dept. Report</i>	2,276	2,308	2,363	2,363		
<i>1994 FSBR</i>		2,396	2,363	2,419	2,478	
<i>1995 Dept. Report</i>		2,366	2,363	2,419	2,478	
<i>1995 FSBR</i>			2,372	2,291	2,366	2,421
Outturn	2,231	2,369				

(a) The PES Aid budget for 1995-96 is £7m lower than that published in the FSBR. It is reduced by £11 million in order to increase the EFL of the CDC by £10 million and that of the crown Agents by £1million but increased by £4 million because of reduced requirements with the Global Environment Assistance sub-programme

Source:

FCO/ODA 1995 Departmental Report, Cm 2802

FCO/ODA 1994 Departmental Report, Cm 2502

FSBR, ODA press releases, 99/94 and 65/95

B. In Real Terms

Table 5 shows the figures in constant 1994/95 prices in order to show the real level of the ODA spending plans. Given that the cash allocations for next year are planned to fall below previous plans and current levels, it is not surprising that the outcome for next year shows planned real reductions.

1. Aid Budget

In real terms, the new plans for next year (1996/97), show that the Aid Budget is now planned to fall to £2,040 million compared with the previously agreed sum of £2,158 million for 1996/97 as contained in the 1995 Departmental Report. This is a reduction of £118 million or 5.5 per cent lower on the previously agreed plans. When compared with the size of this year's Aid Budget, next year's is now planned to fall in real terms by £146 million, or 6.7 per cent, from £2,186 million to £2,040 million.

Table 5

ODA's Total Programme		£m 1994/95 prices				
	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99
PES Aid Budget (Outturn)						
1994 Dept. Report	2,173	2,182	2,170	2,099		
1994 FSBR		2,270	2,170	2,159	2,151	
1995 Dept. Report		2,237	2,170	2,158	2,151	
1995 FSBR			2,186	2,040	2,034	2,052
Outturn	2,151	2,240				
Global Environment Assistance						
1994 Dept. Report	11	8	16	23		
1994 FSBR		8	16	17	18	
1995 Dept. Report		11	16	17	18	
1995 FSBR			12	16	21	23
Outturn	8	11				
Overseas Superannuation						
1994 Dept. Report	134	118	114	116		
1994 FSBR	0	118	114	116	120	
1995 Dept. Report	0	118	114	116	120	
1995 FSBR			111	114	131	113
Outturn	122	118				
Total ODA						
1994 Dept. Report	2,319	2,308	2,300	2,238		
1994 FSBR		2,396	2,300	2,291	2,290	
1995 Dept. Report		2,366	2,300	2,291	2,290	
1995 FSBR			2,309	2,170	2,186	2,188
Outturn	2,273	2,369				

(a) The PES Aid budget for 1995-96 is £7m lower than that published in the FSBR. It is reduced by £11 million in order to increase the EFL of the CDC by £10 million and that of the crown Agents by £1million but increased by £4 million because of reduced requirements with the Global Environment Assistance sub-programme

Source:
 FCO/ODA 1995 Departmental Report, Cm 2802
 FCO/ODA 1994 Departmental Report, Cm 2502
 FSBR, ODA press releases, 99/94 and 65/95

2. Total ODA programmes

When expressed in real terms (1994/95 prices) the ODA programme is now planned to be £121 million²¹ lower than previously agreed plans for the same year. And £139 million lower compared with the current year's estimated outturn. Over the next two years and compared with the plans made in the 1995 Departmental Report, the ODA programme is planned to fall in real terms by £225 million (4.9 per cent) from £4,581 million to £4,356 million.

²¹ £2,291m less £2,170m

C. Conclusion and Reaction to the Budget

The 1995 Red Book²² states that:

The reduction in plans reflects significantly lower projections of the cost to the UK of multilateral aid. The proposed allocations will enable the UK to maintain a well-focused, substantial bilateral aid programme. The UK will remain the fifth largest donor in the world.

To the extent that the Aid Budget over the next two years is planned to fall below what was previously agreed for those years and below current levels, it is difficult to argue that the real level of the UK Aid Budget and Total ODA spending have been maintained.

The coalition of non-governmental organisations (NGOs) including, Actionaid, Cafod, Christian Aid, Oxfam, VSO and WDM commented on the planned reductions in the Aid Budget in a Parliamentary Briefing²³. The briefing stated:

As a result of figures announced in the Budget, the ODA will suffer £124 million or 5.4 per cent cash in next year's budget. Last year, the Chancellor announced that the aid budget would be £2,278m for 1996/97 but in this year's Budget, this figure has been reduced to £2,154m.

In real terms (1994/95 prices) this cut amounts to £146m or 6.7 per cent.

A further cut of 5.4 per cent in cash terms is also planned for the following year (1997/98) from £2,328m, announced in last year's budget, to £2,201m an additional fall of £127m.

£124m would be enough to fund:

- * Nearly 40 per cent of the existing bilateral programme to Africa (£318m) or
- * More than the existing bilateral budget for education (£117m).
- * One and a half times the amount currently ear-marked for bilateral emergency aid (£75m).
- * The combined programmes of Oxfam, Save the Children Fund, Christian Aid, ACTIONAID, CAFOD and WWF in Africa this year.

In terms of the effect on the bilateral programme, the Briefing stated:

Aid agencies are pleased to note that the Chancellor announced that the planned allocation for bilateral aid would be little changed from that set out in last year's Budget. However as bilateral aid was scheduled to fall from £1,100m in 1995/96 to £1,019m in 1996/97, this still represents a cut of over 7 per cent.

²² HC 30, 1995/96

²³ *Briefing on impact of aid cuts in the Budget*, 29 November 1995

Furthermore while we welcome such protection for the bilateral programme, we regret that in the light of the overall cuts, this can only be bought at the expense of large reductions in contributions to multilateral organisations such as UN agencies and the Regional Development Banks.

The following exchange took place in the House of Lords on 30 November 1995²⁴:

Lord Judd: My Lords, does the noble Baroness recall that only a year ago she gave an undertaking in this House that by 1997-98 the aid programme would have increased by £146 million? What has happened to that undertaking, and why? The noble Baroness says that ours is the fifth largest aid programme in the world. Does she not agree that of greater significance is the fact that in terms of our aid programme as a proportion of our national wealth--our GNP--we stand 13th rather than fifth in the international league? Does she agree that that is a sorry position for one of only five permanent members of the Security Council?

Baroness Chalker of Wallasey: My Lords, when we speak about forward plans the only year that is probably safe is the following year. The fifth largest aid programme in the world will be £2,150 million next year. That is extremely good value for money. One of the reasons for a reduction in the figure next year is that we have lower forecasts for the draw-down by multilateral agencies, namely the regional banks and the European development funds, of funds already pledged.

We are the third largest source of private capital to the developing world. Private capital is playing an increasingly important role. We give 1.5 per cent. of our GNP, which is 50 per cent. above the UN target for private capital. Development assistance is not only about giving aid; it is about developing the private sector. We stand at 0.31 per cent. compared with the average of the DAC countries of 0.29 per cent., so we are above the average.

²⁴ HL Deb 30 November 1995 c695

Recent papers on related subjects have been:

Employment & Training

Research Paper

Economic Policy & Taxation

Research Paper

95/106	Economic Indicators: November 1995	1.11.95
95/68	Crown Agents Bill May 1995	31.5.95
95/106	Commonwealth Development Corporation Bill March 1995	15.3.95