

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

EB/CW/DC/85/5

August 9, 1985

To: Members of the Committee of the Whole
for the Development Committee

From: The Secretary

Subject: Report of the Task Force on Concessional Flows

The attached report of the task force on concessional flows is a background document for the second item of the provisional agenda of the October 7, 1985 meeting of the Development Committee.

Questions on this document may be referred to Mr. Burki (WB-IRD), ext. 572407.

Att: (1)

Other Distribution:
Department Heads
Development Committee Secretariat

REPORT OF THE
DEVELOPMENT COMMITTEE
TASK FORCE ON CONCESSIONAL FLOWS

August 1985
Washington, D.C.

THIS DOCUMENT IS RESTRICTED TO
OFFICIAL USE ONLY UNTIL OCTOBER 8, 1985

Foreword
by
John P. Lewis, Chairman

"Concessional flows" is a synonym for official development assistance (ODA). Economic aid of this kind goes from developed to developing countries either directly, i.e., bilaterally, or through international, i.e., multilateral, institutions. It has a grant element of at least 25 percent* and is defined as being given for development-promoting purposes.

Such ODA is essentially a post-World War II phenomenon. Previously, governments of sovereign states rarely made concessional transfers to other independent states with which the donors had no juridical connection. But some three dozen governments now engage in this practice, some having done so for 35 years, many more for 20-25 years.

Development assistance, therefore, has become a major aspect of the international community's effort to promote third-world development. It has been a matter of continuing concern to the Development Committee, a ministerial committee on "the transfer of real resources to developing countries." In early 1981 a number of governments concluded that special attention should be given to concessional flows through the mechanism of a Development Committee task force. The initiative came from the Nordic countries, the Netherlands, and Canada.

The Committee had commissioned two previous task forces -- one on private foreign investment, the other on nonconcessional flows to developing countries. Each engaged in study and discussion over an extended period before reporting to the Committee. After deciding in principle at its meeting in Libreville in May 1981 that a similar exercise should be conducted with respect to concessional flows, the Committee formally established the Task Force on Concessional Flows at its May 1982 meeting in Helsinki. Eighteen countries, divided equally between industrialized and developing countries, comprised the Task Force and I, as someone not currently in governmental employ but acceptable to the members, was recruited to chair the group. **

All concerned agreed that the Task Force should draw on but not duplicate the work of OECD's Development Assistance Committee (DAC). A fact motivating the establishment of the Task Force and differentiating it from DAC was the joint participation in the Task Force of aid-supplying and aid-receiving countries -- 11 of the former, including nine DAC members and two Arab-OPEC countries, together with seven aid recipients.

* In most ODA the grant-equivalent fraction is much higher.

** Seventeen of the eighteen members were Canada, China, Costa Rica, Dominican Republic, Finland (on behalf of the four Nordic countries), France, Germany, India, Indonesia, Japan, Kuwait, Netherlands, Saudi Arabia, Senegal, Tanzania, United Kingdom, and United States. In addition, Italy and Belgium shared representation.

I quote the terms of reference given to the Task Force by the Development Committee.

1. "The Task Force will carry forward and widen the continuing study of the problems affecting the volume and quality and effective use of concessional flows, both in the shorter and longer-term.
2. The Task Force will evaluate the effects of concessional flows in the developing countries and on international economic developments in general, bearing in mind other relevant factors.
3. The Task Force will examine:
 - (a) possibilities for increasing concessional assistance to developing countries, including -- inter alia -- measures which could facilitate the approval through the budgetary processes of the appropriate levels of ODA;
 - (b) possible ways and means of improving the quality of ODA;
 - (c) actions which it might be appropriate to take in order to improve the effective use of concessional assistance, including measures for enhanced absorptive capacity;
 - (d) the deployment of concessional flows, including the possibilities of directing an increased proportion to the low-income countries and consideration of sectoral priorities;
 - (e) the complementarity between concessional assistance, other official flows and private sector involvement; and
 - (f) measures designed to generate public interest in and support of development cooperation.
4. The Task Force will make appropriate arrangements to avoid duplication of efforts undertaken by other multilateral fora.
5. The Task Force will present the results of its endeavors and possible recommendations to the Development Committee."

In the three years during which the work of the Task Force was carried out, some of its principal representatives from member countries served throughout; others changed. The various participants are listed in the supporting materials to the report. The Task Force held eight meetings in the period from October 1982 to August, 1985.

The World Bank provided a secretariat headed by Mr. S. J. Burki. The secretariat, particularly Mr. Robert L. Ayres, prepared a great variety of background and issues papers, literature searches, drafts, and other materials. I am also grateful to Mr. Percy Mistry, the World Bank's representative on the Task Force, for his many contributions. The Task Force was also assisted by materials supplied by consultants it retained -- in particular, a group of experts headed by Professor Robert Cassen of the Institute of Development Studies, Sussex, on the subject of aid effectiveness. The costs of the effectiveness study, which is described in the volume of the report's supporting materials (see below), were covered by contributions from a number of the governments of the Task Force and from the World Bank.

(iii)

The world has changed significantly in the three years the Task Force has been at work. Much of this time the global economy has been in recession and many developing countries have been in economic crisis. Problems of debt, drought, famine, and, in places, weakening development have darkened the developing-country scene. While the needs for ODA have been mounting, so, for many donors, have the difficulties of supplying it. Thus while the Task Force has been at work, its assignment has taken on even greater salience.

Yet our terms of reference have remained appropriate and obliged the Task Force to give consideration to three broad subjects. They are aid effectiveness, public support for aid, and aid volume.

We saw from the beginning that the three subjects are intricately interlinked. Thus there is no single logical sequence for discussing them. Volume depends importantly on public support; the latter depends in part on effectiveness; effectiveness can promote support and volume, and sometimes partly substitute for volume; a more generous supply of aid makes possible more effective operations and, with their successes, can reinforce the appreciation that both lenders and their publics have for the aid enterprise.

The report is one I view with considerable satisfaction. Not only have its inputs been worthy and extensive -- from the secretariat, the consultants, member-government agencies, and from the deliberations of the members themselves -- but the product is also substantial and timely. It reports the most searching review of the effectiveness issue yet made by a joint recipient-donor body (a review that is candid, that recognizes failures as well as successes, and that, while assessing the past positively, emphasizes the extent to which donors and recipients share opportunities to improve effectiveness). The Task Force goes on to a balanced examination of public and governmental support for aid in donor countries. While emphasizing the country-to-country diversity of what I sometimes call "aid politics," the report draws some lessons that seem to apply across all donors. One of these is that, while public support for aid is relatively diffuse and quiescent, there is -- as responses to the current African emergency suggest -- a potential for more enthusiastic support.

The Task Force then turns to the question of volume. It finds a probable "mismatch" between the needs for ODA, especially of the low-income countries, during the balance of the 1980's and the supplies that now seem likely from donors. In this period of budgetary constraints and ODA scarcity, most members of the Task Force have had a very real concern to find other ways to meet needs without pushing appropriated ODA above the growth path now predicted for it. Thus in the report a variety of "coping options" are carefully examined. We concluded that there is considerable potential mileage in several of them, but not enough.

Hence the Task Force concludes by asking for increased, as well as more imaginative, efforts to raise traditional appropriated ODA (including that channelled through some multilateral institutions) during the years ahead. The needs are great -- but so are the opportunities for funding major progress by recipients toward self-reliance.

This would be a strong, provocative report if it came from 18 individuals. It is even stronger as a statement unanimously adopted by a wide array of senior governmental representatives. The delegates to the Task Force deserve great credit for their efforts to find a common ground. They also share considerable enthusiasm for the persuasiveness of their common case.

It took all of our meeting time to achieve full consensus on the language of the present report, which sets forth a number of briefly argued conclusions. However, much more extensive materials were prepared in the course of reaching these conclusions. They could be brought fully into line with the conclusions only after the final meeting of the Task Force, and it has not been possible, therefore, to present them to the members for their approval. However, the Task Force has authorized the secretariat, under my guidance and responsibility, to organize these supporting materials into a companion volume to the present report.

On behalf of the Task Force, it remains to thank the members of its secretariat and other contributors to its work, to convey its gratitude to all of those who provided venues for its meetings, and to express the hope that the Development Committee will find this report constructive and useful.

NOTE: John P. Lewis is Professor of Economics and Public Affairs at the Woodrow Wilson School of Public and International Affairs, Princeton University. He has been a member of the U.S. President's Council of Economic Advisers, Minister-Director of USAID/India, and Chairman of the Development Assistance Committee of the Organization for Economic Cooperation and Development.

Main Conclusions
of the
Task Force on Concessional Flows

Aid Effectiveness

1. Most aid has been productive and helpful to development.
2. There is considerable room for improvement in the way in which aid is provided by donors and used by recipients. Effectiveness can be increased by: (i) donor policies and procedures (e.g., greater awareness of the impact of donor aid and economic policies on the development prospects of recipient countries, learning from their own experience and those of other donors); (ii) recipient actions (e.g., institutional and policy reforms); (iii) more effective dialogue, where needed, between donors and recipients on policies and actions needed to promote development; and (iv) better coordination of aid by donors and recipients.
3. There is an effectiveness case for channelling a high level of ODA through multilateral aid agencies.
4. Communicating the effectiveness of aid in meeting developmental objectives can contribute to strengthening public support for aid in both donor and recipient countries.

Public Support for Aid

5. Public support for aid varies across countries, and even within countries, at different points in time and for different forms of aid. However, available evidence suggests that, while general and diffuse, such support has not weakened in recent years. In some countries there is strong public support for aid, and in some cases this has been translated into increased ODA transfers. Support is particularly strong to alleviate poverty and respond to emergency situations.
6. Some governments have demonstrated relatively weak support for aid while others have placed aid high in their scale of priorities. In some cases governments have increased aid substantially in advance of high levels of public support for aid. If executive and legislative leaders strongly support aid, this can be expected to strengthen further the public support that exists.
7. Maintaining and strengthening public support for aid can be facilitated by more effective communication of its role in the development process and the successes that, in combination with recipients' own self-help efforts, aid has achieved. In this endeavor, development education programs and non-governmental organizations (NGO's) have major roles to play.

Volume

8. The circumstances impeding the sustained development of ODA-receiving countries require consideration of a variety of actions, including an increase in ODA flows. Such actions are needed to support the extraordinary efforts being made by these countries.

9. Against the background of the major development challenges which ODA recipients now confront, official development assistance today is forecast to grow in real terms by only about 2% annually during the balance of this decade.

10. All concerned in both developed and developing countries should try to help ODA recipients cope with increased needs for resources by one or more of the following options:

- a. increasing the effectiveness of official aid;
- b. changing present country allocations of ODA;
- c. concentrating the expected increments in ODA on low-income countries;
- d. combining ODA with less concessional flows — mainly "other non-concessional official flows" — in ways which would result in a higher overall volume of external resources; and
- e. supplementing ODA flows by encouraging one or more of the following:
 - increased flows of voluntary contributions (from PVO's/NGO's);
 - contributions of ODA from new donors, who should be actively encouraged to join in the ODA effort;
 - earnings from trade;
 - foreign private investment.

Each of these options was examined carefully by the Task Force.

11. Although aid effectiveness should be improved under any circumstances, in practice there are clear limits to the extent to which it can substitute for increases in volume. Indeed, there can be complementarity between increased effectiveness and increased flows of aid.

12. In considering prospects for the reallocation of ODA, a distinction should be drawn between:

- The possibilities for reallocation to low-income countries from other ODA recipients; and
- The possibilities for reallocation within the low-income country group.

On development grounds, reallocation of ODA to low-income countries is highly desirable and would make a major contribution to meeting their needs. But the scope for such reallocations, in practice, is likely to be

limited. The possibilities for further reallocation within the group of low-income countries is also limited.

13. Concentrating increases in ODA flows on low-income countries offers interesting but limited possibilities.

14. There are various ways of combining highly concessional ODA with nonconcessional flows in order to achieve a higher volume of combined external flows to ODA-recipient countries. It was apparent that the options considered offered only limited possibilities.

15. A re-examination of "non-traditional" options for raising concessional resources outside national budgets suggests that there is no real scope for increasing ODA flows from these sources.

16. Private voluntary organizations now play an important role all over the world in providing development services. They have demonstrated their ability to raise additional resources and deploy them effectively, both during emergency situations and for long-term development. But there are inherent limitations on their financial resources.

17. Opportunities for significantly expanding private flows and earnings from trade are mainly limited to middle-income countries and a few low-income countries at the present time. Donors and recipients should be encouraged to adopt policies which would enhance the flow of these resources over the long run, although expectations about the expansion that can be achieved over the short run can only be modest.

18. A number of developing countries, many of whom have received or are receiving ODA, have become donor countries. Others should be welcomed. While ODA flows from such sources may be modest in the immediate future, such countries should be encouraged to share in the international responsibility for ODA.

19. We conclude that no single one of the measures considered above, nor any combination of them, will cope adequately with the challenge of development in the low-income countries. Since there is no escaping the need for predominant reliance on traditional, appropriated concessional assistance, donor governments should exert redoubled efforts to increase the supply of ODA as a matter of urgency.

20. For all its flaws, the aid revolution has been one of the great innovations of the second half of the twentieth century. In an increasingly interdependent global economy that is deeply fragmented politically, the practice of development assistance has raised the norms of international conduct.

Report of the Development Committee
Task Force on Concessional Flows

Introduction

0.1 The record of many developing countries over the last thirty years, based principally on their own efforts and resources, has been one of great achievement and development; in some others much less has been achieved. In the early years of official development assistance (ODA) the case for giving aid to virtually all developing countries was compelling. Poverty was endemic -- mass poverty in the poorest countries, significant pockets in those that were more advanced economically. The need to boost food production argued for substantial aid to agriculture. Domestic savings and investment, though substantial given the poverty of these countries, were still inadequate to promote long-term development.

0.2 In some respects, great progress in meeting these challenges has been made. As a group, developing countries have shown remarkable performance. Their overall growth rate has been much faster than that achieved by today's industrial countries at a comparable stage of their development. Life expectancy has risen by nearly 50% since 1950, infant mortality rates have been cut in half, literacy has more than doubled and per capita cereal production has increased by nearly one percent annually since 1970. Average per capita incomes in today's middle-income countries have risen almost 2-1/2 times in real terms over the past 30 years; many of these countries have advanced to the point where, while still classified as developing, they no longer require ODA.

0.3 And yet a staggering number of people still live in absolute poverty. For some countries food security is still an elusive goal, exacerbated by rapid population growth. Unemployment and underemployment contribute to a growing number of migrants, both within and between countries. Per capita income in low-income countries rose only by about one-half, from \$150 (1980 dollars) in 1950 to \$230 in 1980, a gain of only \$80 per person in 30 years. For some countries, the recent world recession has not only slowed growth, but caused per capita incomes to decline; some countries have lost a decade of growth. Thus, development is seen to be much more complex than when ODA was in its infancy.

0.4 Aid can be a powerful catalyst for constructive change, but more often than not it is but one of many factors determining development outcomes. The principal responsibility lies, as it always must, with the developing countries themselves. By mobilizing domestic resources and by adopting growth-oriented domestic policies, countries have a far more profound influence upon their development than can the resources and technical assistance provided by donors. At the same

time, developing countries' growth and development are importantly affected by changes in their external environment and the availability of external flows.

0.5 With this background in mind, the Task Force on Concessional Flows has unanimously reached the following conclusions on the major issues it considered concerning aid effectiveness, public support for aid and aid volume.

Aid Effectiveness

1.0 Most aid has been productive and helpful to development.

1.1 We carefully examined aid's contribution to development. Based on available evidence, including that assembled by independent consultants commissioned by the Task Force, we are convinced that aid has clearly and importantly contributed to growth and development. While it has had mixed success in alleviating poverty, when properly used it has led toward self-reliance at rising levels of welfare. The evidence of many specific successes of aid programs leads us to conclude, even though it is difficult to quantify scientifically, that the overall aid record is comparable to that of many large domestic programs in industrialized countries.

1.2 Aid can claim successes in many areas; for example, in agricultural research and development, in the provision of essential physical infrastructure, and in institution-building and human resources development through health, population, education and training programs. Vast numbers of poor people have benefited from programs designed to alleviate poverty in rural and urban areas.

1.3 Aid is closely connected with bilateral donors' foreign policies. As such it is both intended to help development and to serve other objectives in donors' relationships with recipient countries. The assessment of these other non-developmental goals was beyond the scope of the Task Force. Nevertheless, the fact that in such a context aid has played a productive developmental role overall serves to emphasize its basic effectiveness.

1.4 The general conclusion that aid has effectively contributed to development should not obscure the fact that there are aid failures as well as successes. This is not surprising given the extremely difficult environment within which aid efforts are undertaken. But despite this setting, the number of failures can be reduced, and donors and recipients alike should emphasize the need to increase the effectiveness of ODA. Their aid managers owe such a concern equally to the people they seek to assist and to the taxpayers whose funds they administer.

2.0 We concluded that there is considerable room for improvement in the way in which aid is provided by donors and used by recipients. Effectiveness can be increased by: (i) donor policies and procedures (e.g., greater awareness of the impact of donor aid and economic policies on the development prospects of recipient

countries; learning from their own experience and those of other donors); (ii) recipient actions (e.g., institutional and policy reforms); (iii) more effective dialogue, where needed, between donors and recipients on policies and actions needed to promote development; and (iv) better coordination of aid by donors and recipients.

2.1 Donors and recipients have been learning to improve aid's effectiveness and more can be done. Experience has taught perceptive aid managers a number of ways donors can increase the desired impact of their assistance, e.g., by simplifying procedures, by being more attentive to lessons learned by other donors, and by recognizing the ways in which the donor community's non-aid (for example, trade) policies can modify aid outcomes. Certain lessons for recipients have become equally plain: external resources need to complement, not substitute for, indigenous resource raising; resources of all kinds can be swamped by bad policies; good policies can only issue from and be nurtured and implemented by sound institutional structures; and effective institutions depend on adequate human resources development.

2.2 In this connection, the consultants' report commissioned by the Task Force contains many useful conclusions and recommendations, among which the following should be highlighted:

2.3 Learning from experience requires a functioning evaluation system and an effective feedback mechanism; the establishment of a more systematic international exchange of information would be of great assistance. Donors and recipients are urged to increase their capacity to learn from their own experience and that of others; this would be helped if evaluation mechanisms were built into the design of all projects. It is, for example, particularly important, based on the experience found in evaluation reports, to pay greater attention to socio-cultural factors, including the important role of women in development. We applaud the efforts of the DAC Evaluation Experts Group to encourage greater exchange of evaluation lessons.

2.4 Reaching the poorest people is an exceedingly difficult development task but one which deserves increased attention by recipient countries and donors alike. The consultants' report suggests several measures which may help address the problem more directly (e.g., incorporating poverty impact in project design, directing a higher proportion of aid to poverty-oriented projects).

2.5 Donors should be more aware of the impact of their aid and economic policies on the development prospects of recipients. A generous ODA policy may be undermined by some donor macroeconomic policies. We are aware, for example, that trade and aid policies are frequently developed without reference to each other and urge donor governments to pay greater attention to coordinating their actions. We further note the findings of our consultants that aid tying reduces the effectiveness of many concessional transfers; we urge further attention to this problem.

2.6 Recipient attention to institutional and policy reforms is critical to aid effectiveness. The consultants' report emphasizes the importance of strengthening institutions and of adopting appropriate economic policies. One lesson which emerges clearly from a study of aid successes and failures is that distortions in a country's economic policies (agricultural pricing policies and/or exchange rates are examples in some cases) can frustrate economic development and the alleviation of poverty.

2.7 The rate of future economic development also depends in large part upon increasing the efficiency of productive sectors, strengthening physical infrastructure and improving human resources. Because many aid recipients need to revise their public investment priorities, the agencies that evaluate and choose among proposed public investments must be strengthened. This would help assure that investment decisions are consistent with priorities necessary to achieving national development objectives. Policy dialogue and donor assistance, particularly technical assistance, should continue to support improvements in these areas. Policy dialogue can only succeed where it is a truly collaborative exercise.

2.8 Aid coordination mechanisms need to continue to be strengthened. The growth of many bilateral and multilateral aid programs has created a new challenge to aid effectiveness. The multiplicity of donors and of donor projects imposes a sometimes overwhelming burden on the developing-country ministries required to coordinate them. The coverage and effectiveness of World Bank-led Consultative Groups and UNDP Roundtables need to be further enhanced; greater attention should also be given to in-country coordination. The recipient country should take the central role in such coordination, but in many cases technical assistance is needed to develop the coordination functions. Where appropriate, a leading donor, bilateral or multilateral, should be asked to assume a coordination role in a specific sector or subsector.

3.0 There is an effectiveness case for channelling a high level of ODA through multilateral aid agencies.

3.1 The advantages of multilateral development agencies which led to their creation and growth are widely acknowledged. Among these are:

- In general they are able to sustain a comprehensive, well-informed view of overall economic and sectoral conditions in a wide array of countries. This information is widely disseminated and actively used in program and project design.
- The multilateral agencies can give greater weight to developmental criteria in allocation of resources between and within countries since they have no national commercial or strategic interest to serve; this also helps in more efficient utilization of aid resources.
- Some of the multilateral organizations are in a position to play a leading role in policy dialogue with recipients and in the coordination process among donors and recipients.

- These characteristics, along with their high volume of operations, also permit some multilateral agencies to take the lead on issues and programs which are too difficult or too large for individual bilateral donors to undertake.
- Some multilateral organizations have specialized functions which enable them to provide vital technical and related assistance based on their wide experience and high-quality international expertise.
- Through multilateral channels donors are able to participate in major programs in many countries. This is a particular advantage for smaller donors with limited administrative resources for their assistance programs.

3.2 While multilateral assistance agencies have many advantages, they, like other large organizations, also have weaknesses. Positive efforts should be made to avoid the ill-effects which may arise from lack of direct accountability, resistance to change, inadequate coordination with other multilateral and bilateral donors or excessive bureaucratic concerns. Each multilateral organization should be judged on rigorous standards of effectiveness and efficiency. While these standards should relate to the specific developmental mission of each organization, criteria of effectiveness might address: project design and implementation, policy environment, use of non-governmental modes of assistance, and the like. The performance of each institution should have a direct bearing on its future levels of funding.

4.0 **Communicating the effectiveness of aid in meeting developmental objectives can contribute to strengthening public support for aid in both donor and recipient countries.**

4.1 In many cases citizens are not well informed about the nature, scope and effectiveness of a country's assistance program -- possibly thinking it is larger than it is or confusing developmental and humanitarian assistance with other foreign policy objectives. Aid failures are news. Unfortunately, aid success stories have less immediacy and, as a result, are less newsworthy. While conveying our conclusions about the effectiveness of aid may be difficult given its complexities, both donors and recipients should make strong efforts to do so. In this connection the role of development education is particularly important (see item 7 below).

Public Support for Aid

5.0 Public support for aid varies across countries, and even within countries, at different points in time and for different forms of aid. However, available evidence suggests that, while general and diffuse, such support has not weakened in recent years. In some countries there is strong public support for aid, and in some cases this has been translated into increased ODA transfers. Support is particularly strong to alleviate poverty and respond to emergency situations.

5.1 The politics of aid vary from country to country, and as a result lessons about the "mandate" for aid can be transferred from one donor country to another only selectively and with care. In some donor countries, publics, catalyzed by pro-aid interest groups, further the cause of development assistance with legislatures and executive leadership. In other countries, governments feel constrained by public opinion and the relative lack of strong interest-group activity on behalf of aid. The scope for initiatives of political leadership on aid is influenced by the broad framework of aid politics in particular countries.

5.2 We reviewed available evidence from various opinion surveys about aid. We found that levels of public support are generally high in donor countries and have not changed much in recent years. The support varies across countries, however, and is relatively weak in some of them. In most countries support is not well articulated; it is rather general and diffuse. While the majority of people generally say they are "in favor" of aid, opinion polls also suggest that aid ranks low in the scale of the public's priorities in many countries. While the public has a generally positive predisposition toward aid, in most countries this stops short of being a "mandate" in the usual sense of the term (in the sense, for example, that an overwhelming electoral victory is said to provide a political leader with a "mandate"). Nevertheless, obvious evidence of continuing support appears in the 1980s' growth in the amount of ODA being provided by most donors despite unfavorable domestic economic conditions.

5.3 Public expressions of support for aid in donor countries increase when the appeal is phrased in terms of humanitarian concern or the alleviation of world poverty and hunger. The recent public attention and response to the drought and famine in Sub-Saharan Africa are a particularly vivid demonstration of this. A key issue deserving greater attention is how to convert this reservoir of support into support for long-term development assistance efforts.

6.0 Some governments have demonstrated relatively weak support for aid while others have placed aid high in their scale of priorities. In some cases governments have increased aid substantially in advance of high levels of public support for aid. If executive and legislative leaders strongly support aid, this can be expected to strengthen further the public support that exists.

6.1 The aid level which a government can provide is a function of general public support as well as its own priorities. In general, public opinion provides the maneuvering room within which governments make their decisions. In determining what levels of aid can be provided, political leaders take into consideration economic and fiscal conditions, the priority attached to development assistance, and other governmental priorities.

6.2 Political leadership can play a major role in strengthening the mandate for aid. The priority that leadership assigns to aid is an important factor. In a number of cases, governments have sought

and won public support for substantially increased aid levels. In other cases increases in aid have come about mainly through the initiatives of the interested public, aid lobbies, or political parties.

7.0 Maintaining and strengthening public support for aid can be facilitated by more effective communication of its role in the development process and the successes that, in combination with recipients' own self-help efforts, aid has achieved. In this endeavor, development education programs and non-governmental organizations (NGO's) — or as they are sometimes called, private and voluntary organizations (PVO's) — have major roles to play.

7.1 The essence of the challenge is to assure that the public, including the taxpayers in donor countries who are the ultimate providers of aid resources, understand the purposes of assistance, know the facts about aid, and appreciate the record of its effectiveness. Only in this manner can they make informed judgments about the priority to be accorded development assistance expenditures. Such public understanding can be enhanced by the efforts of both private and public organizations in communicating aid's important role in development.

7.2 Broadly speaking, public support for aid appears greater in countries with substantial programs of development education. We urge a strengthening of such programs. Effective programs can increase the public's awareness of the nature of interdependence between developed and developing countries, promote a better understanding of development problems, and contribute to an appreciation of the role of aid in alleviating them. Such programs should provide information and understanding about the efforts being undertaken by developing countries themselves to further their own development. They can, without infringing upon legislative constraints on official efforts, also help to assure that the electorate receives sufficient information about foreign assistance so as to avoid the obvious negative effects upon public support when opinions are based primarily upon media reports of aid failures. Strong nationwide efforts of development education exist in a number of countries and others can learn from their achievements.

7.3 There is a special scope for continuing and enhancing the active development education role of non-governmental organizations, especially those which are themselves engaged in development work overseas. We call upon both bilateral and multilateral aid agencies to work closely with these organizations in providing a better understanding of development problems and the role of aid in alleviating them.

7.4 Official aid agencies, both bilateral and multilateral, also need to communicate effectively the record of performance they have achieved. Our findings are that development assistance has been effective. We believe public agencies should be vigorous in telling the story of their record. This would help to increase support for aid.

7.5 Countries that receive aid have a role to play as well. Their publics also need to be well informed about the role of aid. Moreover, their actions to assure a timely flow of information about aid's achievements to donor governments and their publics can play an important part in increasing public support for aid in donor countries.

Volume

8.0 The circumstances impeding the sustained development of ODA-receiving countries require consideration of a variety of actions, including an increase in ODA flows. Such actions are needed to support the extraordinary efforts being made by these countries.

8.1 Over the past several decades, the developing countries have increased their growth rates and improved their standards of living, largely through their own efforts. For example, they have redirected their own resources to increase the portion of output going into investment from 19% in 1965 to 24% in 1983. Net inflows of foreign savings in the form of public and private concessional and nonconcessional flows have added an important but relatively small 2% to the total resources available for investment each year to the developing nations. Such inflows, however, had a much greater impact in relieving foreign exchange constraints. These averages, of course, mask considerable individual differences. While net inflows of foreign savings declined for some countries -- especially the upper middle-income countries -- they increased in Sub-Saharan Africa from 2% of domestic output in 1965 to 8% in 1983.

8.2 Taking into account the very different problems facing low-income and lower middle-income countries, we have identified four key areas for which concessional assistance is urgently needed:

- to tackle the fundamental problems of poverty, particularly in the poorest countries. These are especially persistent, for example, in many African countries; real incomes and food production per capita have been falling and, in part due to the surge in debt-servicing requirements, net inflows of resources have been heavily eroded during the past three years, turning negative in many countries.
- to help a variety of developing countries complete needed structural adjustments. Many countries have shown courage in pursuing difficult policy changes in recent years. To keep the pain of these adjustments within politically tolerable levels and to restore development momentum, these countries, in particular the low-income countries, need additional amounts of ODA.
- to sustain investment and growth in low-income countries that pursue effective policies and succeed in establishing some development momentum. Development efforts and policies are not solely concerned with avoiding disaster. Some poor countries, including the two largest, China and India, have made outstanding economic progress in the past few years by combining effective policies and concessional assistance with the application of human energies. Further concessional flows to them now, in addition to being justified on humanitarian grounds, are good investments and can assist these countries to move to a position of self-sustaining growth.

-- to respond to emergencies in developing countries -- both natural and man-made disasters of a short-term nature and the more enduring crises currently afflicting many of the poorest countries.

8.3 In the longer term, developing countries' progress requires increased reliance on their own resources and less on external official support. We recognize that these countries must ultimately achieve self-sustaining growth without recourse to concessional finance. The time required to achieve economic "independence" will obviously vary from country to country. Developing countries should be encouraged to progress as rapidly as possible toward this end; it is equally important, however, that donor expectations be realistic about what can be achieved in the face of the daunting realities and that needed support not be withheld or curtailed prematurely.

8.4 We acknowledge that the present situation of developing countries poses a serious impediment to accelerated growth and development. Under these circumstances, stagnant or declining ODA flows threaten to weaken and, in some cases, disrupt developing countries' efforts to achieve long-term sustainable growth and, eventually, self-sufficiency. This situation calls for consideration of a variety of actions, including an increase in ODA flows.

9.0 **Against the background of the major development challenges which ODA recipients now confront, official development assistance is forecast to grow in real terms by only about 2% annually during the balance of this decade.**

9.1 Donor efforts have produced real rates of growth in ODA of 4% in the 1960's and 6% in the 1970's. As a result, ODA flows rose to over \$36 billion in 1980 and 1981 but declined in the following two years, falling to \$33.7 billion in 1983 (all figures in 1983 prices and exchange rates). Reductions in assistance from OPEC donors contributed to this decline although their aid still remained very high by DAC standards. In 1984 total ODA flows increased by 6% over the relatively low 1983 level. As a result, total ODA levels from 1980-84 remained essentially stagnant, although some DAC donors registered significant increases during this period. Exchange rate fluctuations also obscure the fact that several donors increased their aid contributions in national currency terms.

9.2 Growth of overall ODA in the 1960's was largely attributable to increases in aid programs, growing from previously low levels, of several DAC donors. Growth in the 1970's featured the significantly enlarged role of OPEC donors - especially the Arab OPEC countries - as major contributors. Indeed, as a proportion of their GDP's, their aid efforts exceeded by a multiple the aid contributions of DAC members. As already noted, in the 1980's OPEC donor contributions have fallen although their ODA/GNP ratios remain well above those of most DAC members. Over the same period DAC contributions to ODA grew at 3.3% annually.

9.3 Projections for the future are difficult to make, but a significant portion of future flows (i.e., between 1986-90) is determined by commitments already made. In recent years there has been a substantial decline in commitments which will be reflected in lower future disbursements. Also, as some donors initiated programs from a small base,

rapid expansion could be expected in the early stages - as has happened in recent years. As donors reach a higher level of ODA, however, the rate of growth could be expected to decline.

9.4 With these factors in mind, a real growth rate in total ODA of about 2% has been projected for the rest of this decade by the DAC Secretariat based on estimates received from some donors. Inevitably this projection is highly speculative, especially since indications of future supply are not available for some large donors.

9.5 Before proceeding with our conclusions, it is important to characterize the line they follow. Based on our previous conclusions -- that ODA-recipient countries face critical challenges (which may, inter alia, call for increased ODA) and that, under present indications, total ODA is likely to grow more slowly than during the 1970's -- we might have immediately reached the conclusion that ODA should be pushed to higher levels than those DAC is forecasting. We do not make that jump. We know this is not an era of easy ODA expansion. Therefore, logically, the first step in confronting the apparent imbalance between needs and supply is to look for answers to the dilemma other than extra supply.

10.0 All concerned in both developed and developing countries should try to help ODA recipients cope with increased needs for resources by one or more of the following options:

- a. increasing the effectiveness of official aid;
- b. changing present country allocations of ODA;
- c. concentrating the expected increments in ODA on low-income countries;
- d. combining ODA with less concessional flows, mainly "other non-concessional official flows" in ways which would result in a higher overall volume of external resources; and
- e. supplementing ODA flows by encouraging one or more of the following:
 - increased flows of voluntary contributions (from PVO's/NGO's);
 - contributions of ODA from new donors, who should be actively encouraged to join in the ODA effort;
 - earnings from trade;
 - foreign private investment.

10.1 The contributions that each of these "coping options" might make toward meeting the development challenge are reviewed in turn below.

11.0 Although aid effectiveness should be improved under any circumstances, in practice there are clear limits to the extent to which it can substitute for increases in volume. Indeed, there can be complementarity between increased effectiveness and increased flows of aid.

11.1 We concluded above that most aid has been helpful and productive, having achieved most of the developmental objectives for which it has been provided. Nevertheless, we have also recognized that there have been failures and there is room for improvement in the

ways in which aid is provided by donors and used by recipients. There is particular scope for improvement in the low-income countries of Sub-Saharan Africa where evidence shows declining rates of return on aided projects in recent years. As noted in the effectiveness section above, many lessons have been learned from thirty-five years of aid experience, and as we continue to learn, more needs to be done to share and apply that learning more widely.

11.2 Such improvements are necessary in their own right, but gains will be gradual and incremental and there are clear limits to the extent to which enhanced effectiveness can substitute for increased volume. Many of the problems experienced by aid programs are a reflection of the difficult conditions under which aid is delivered - an especially severe problem in the poorest countries. Countries struggling to develop a basic infrastructure where, for example, primary education has only recently expanded to reach a majority, are challenging environments in which to work.

11.3 Another set of constraints on effectiveness derives from the circumstances which motivate some assistance. Where commercial export-promotion motivations predominate, or where assistance is guided by political or strategic considerations, achievement of these goals may conflict with those of developmental effectiveness.

11.4 In many cases there is a complementarity between increased effectiveness and larger flows of aid. Very tight budgeting may inhibit experimentation and risk-taking that can increase effectiveness. Similarly, a greater availability of aid may be needed to encourage and underwrite policy reforms that enhance efficiency. In some situations, however, the provision of too much aid could weaken development efforts. Where ODA exceeds absorptive capacity, "aid dependency" may be created. Excessive food aid, for example, has at times undermined incentives to farmers to increase agricultural development.

11.5 Overall, increased attention to effectiveness - in project concept and design, in implementation, in policy environment and in coordination - is essential. Aid delivery, while generally effective, can be made better and we urge donors and recipients alike to accept the challenge.

11.6 Increased effectiveness can help "stretch" ODA and speed up development; it is a necessary, but not sufficient, response to the needs of development.

12.0 In considering prospects for the reallocation of ODA, a distinction should be drawn between:

- (A) The possibilities for reallocation to low-income countries from other ODA recipients; and
 - (B) The possibilities for reallocation within the low-income country group.
- (A) On development grounds, reallocation of ODA to low-income countries is highly desirable and would make a major contribution to meeting their needs. But for the reasons discussed below, the scope for such reallocations, in practice, is likely to be limited.

12.1 In the context of acknowledged concessional resource scarcity, we discussed the possibility of diverting a greater portion of ODA flows to low-income recipients. Such a shift appeared attractive because it would -- if it could be achieved practically -- go some distance toward alleviating the pressures on donors to increase ODA contributions to meet the urgent needs of the low-income group. We acknowledged that if traditional developmental criteria -- poverty, creditworthiness (or lack thereof) and performance -- were to be strictly applied, the low-income group, and especially the poorest and least-developed countries, would deserve higher priority for allocations of scarce ODA than middle-income countries.

12.2 In considering the issue, however, we recognized that there are practical limitations on how much ODA could be moved away from middle-income countries. One reason is that a number of donors have already gone quite far in this direction. This is clearly evident in the case of several European donors whose bilateral programs are already concentrated on the low-income group (as is the collective regional effort through the EEC), particularly those whose ODA contributions have increased rapidly in recent years. There is little scope left, therefore, for further reallocation from this large source of ODA. Also, as most multilateral ODA is already concentrated on low-income countries there is, again, little opportunity for further reallocation from middle-income recipients.

12.3 Second, under present economic conditions, it is difficult to conclude that ODA flows to lower middle-income countries could be reduced without disruptive developmental effects. Many of these countries face major problems of indebtedness and of structural adjustment. Following the 1980-82 recession some have lost a decade of growth and their commercial credit standing has been seriously impaired. Moreover, as the consultants' report on aid effectiveness demonstrates, they have by and large used aid productively.

12.4 Third, some donors' ODA allocations to middle-income countries are based on other than purely developmental considerations. They are made for political, strategic, security, historical or commercial reasons. These reasons provide essential underpinnings for domestic political support for aid and a diversion of such allocations might well result in diminished support. We considered that in such cases donors might actually find it politically easier to increase overall aid budgets than to reallocate bilateral aid away from certain long-standing middle-income recipients.

12.5 All donors should be encouraged to do what they can to make further shifts of ODA toward the low-income countries; we do not, however, believe that this measure by itself would have an appreciable result.

(B) **The possibilities for reallocation within the group of low-income countries are also limited.**

12.6 The constraints on reallocations within the low-income group are ones of equity and welfare. Here the issue, in practical terms, is whether there is still scope for transferring ODA from those low-income countries

that have been faring relatively well in terms of growth and self-reliance in recent years and what the implications of such a transfer might be.

12.7 To judge the scope for and appropriateness of reallocations within the low-income group, it is necessary to recall and reaffirm the basic developmental criteria used for allocating scarce ODA resources. The primary criterion is poverty, and on this score the recently more successful low-income countries have approximately as strong a claim as the poorest countries, African and others. In sheer numbers, of course, the poor of India and China far exceed those in Africa. There are, however, also two other criteria. On the one hand, there is the question of development performance (closely related to so-called "absorptive capacity"). By this criterion those low-income countries that have been performing well lately have the edge. Counterposed to the performance standard is the issue of creditworthiness. While the "good performers" merit ODA as a reward for performance, those countries that lack creditworthiness also require substantial ODA. This is virtually an issue of national survival in countries like Bangladesh and many of those in Sub-Saharan Africa. Under these circumstances the poorest countries, which have no real alternative to ODA for their external resources, must be accorded preferential allocations.

12.8 The principal consideration in assessing prospects for further reallocation within the low-income group, however, is that preferences in favor of the poorer, weaker countries already have been at work. During the past fifteen years, the per capita aid receipts of the poorest countries in Africa and elsewhere have been relatively high, and of the better performing low-income countries relatively low. China only lately has started receiving modest amounts of ODA. Since 1970 India's aid share has declined roughly by half. African countries now receive about eight times the per capita ODA levels going to India (and a far greater multiple than China).

12.9 Our deliberations took into account the fact that some of the larger low-income countries have shown more impressive investment, savings and growth performance than have many middle-income countries during this decade. Their economic structures are larger, more diversified and stronger than, for instance, those of several smaller middle-income economies, and their prospects appear brighter. On the other hand, we would like to emphasize that these low-income countries are heavily burdened with large populations, a significant proportion of which exist in absolute poverty. Their resources are still much too limited to make the major social investments needed to provide barely acceptable living standards for most of their people. Their continuing efforts to overcome poverty must command sustained support from the development community. Their recent achievements hold out considerable promise for a better future. They have made major and very costly efforts in undertaking policy reforms to enhance economic efficiency. These efforts are paying off and need sustained support if the gains achieved are not to be swiftly dissipated.

12.10 These large low-income countries have also shown remarkable performance in achieving very high domestic savings rates at extremely low per capita income levels. They cannot, therefore, be faulted on the grounds of becoming permanently "aid-dependent." At the same time, it is clear that there are considerable risks in imposing a premature restriction

on their access to aid. For all of these reasons we believe that the concessional resource allocations to these large poor countries should be based on their broader economic situation and should not in effect constitute a "penalty for performance".

12.11 The external capital requirements of this particular sub-group of low-income countries are now substantial. The development community therefore should consider various ways in which the limited concessional resources received by these countries could be combined with other official flows (OOF) and with non-official flows. The objective would be to achieve additional flows of external resources commensurate with achievable investment and growth rates, at an overall cost which is acceptable and which would not result in creating unmanageable debt-servicing difficulties in future years.

12.12 We judge, therefore, that the remaining scope for reallocation within the low-income group is about exhausted -- at least for the near future. The creditworthiness of the better-performing low-income countries is positive but fragile. Further reductions in their ODA are likely to jeopardize both their access to and ability to service commercial credit. Indeed, it is clear that their ability to borrow nonconcessional financing, especially from commercial sources, would be weakened if their access to concessional flows were diminished further.

13.0 Concentrating increases in ODA flows on low-income countries offers interesting but limited possibilities.

13.1 A proposal to allocate all of the estimated 2% growth in ODA to the low-income countries is unlikely to prove practical, largely because allocation of the increment will be influenced to some extent by the same considerations that have established the existing patterns of aid distribution. However, it should not be assumed that all increments to ODA must simply repeat this pattern. If donors could direct an increased share of the increment to low-income countries, substantial growth in their ODA could be achieved. Thus, donors should attempt to allocate as much of their ODA increases to low-income countries as is practical.

14.0 There are various ways of combining highly concessional ODA with nonconcessional flows in order to achieve a higher volume of combined external flows to ODA-recipient countries. It is apparent, however, that the options considered offer only limited possibilities.

14.1 We reviewed the opportunities for achieving additionality in aggregate external flows by deploying ODA in different ways and associating it with nonconcessional financing (either informally or through formally structured devices). Specifically, the following alternatives were considered.

14.2 (A) The first is straightforward blending, which, as normally practiced, results in concessional and nonconcessional funds being combined by the same donor -- for example, by providing a borrower with a combination of hard loans and soft credits for financing a particular program or project. This has been a common means of providing a package of assistance funds on appropriate terms, and, where development objectives can be achieved, the practice should be expanded.

- 14.3 (B) A second "blending" approach which should be explored is for bilateral-multilateral combinations of resources -- with nonconcessional loans from multilateral institutions being combined with concessional flows from bilateral agencies in financing projects or programs through appropriately structured cofinancing agreements.
- 14.4 (C) A third possibility which might be considered is to encourage bilateral donors to increase the grant elements of their ODA flows and to maximize the concessionality of the ODA mixed into various creditworthiness-graded blends. However, because the average grant element in the case of DAC donors is already over 90%, the scope for increasing this aspect of ODA quality may be limited.
- 14.5 (D) Quite apart from "blending," which essentially is an informal and discretionary admixture of concessional and nonconcessional funds, Task Force members considered the prospects for a more formal mixture, e.g., re-introducing the "Third Window" which had been experimented with earlier in some multilateral institutions. This vehicle involves using ODA to provide the subsidy needed to on-lend, at semi-concessional rates, capital borrowed in the market at market rates. Proponents considered that this device might be one way of alleviating the financial pressures on some lower middle-income countries. An examination of various types of interest rate subsidy schemes suggested that the value of such schemes depends largely on how they are constructed and financed. The most efficient schemes, from the viewpoint of leverage and additionality, are those which are financed by immediate cash contributions from donors. Whether third-window operations would result in genuine additionality for eligible countries is a difficult question to answer, as are questions of whether they would result in real reductions in the total cost of combined flows or achieve significant improvements in average terms. Under specific circumstances and for limited, well-defined periods of time, interest rate subsidy schemes might be helpful in expanding the capacity of certain multilateral institutions to channel a larger volume of flows to a limited number of countries. Such schemes have, however, not been free of controversy about what they really achieve and at what cost.
- 14.6 (E) With prudential considerations in mind, official multilateral lenders should consider to what extent they might:
- (i) relax lending limits on single large low-income borrowers. These limits usually take the form of maximum permissible percentages of the lender's total disbursed and outstanding loan portfolio. But this can only increase access to nonconcessional official flows and further "harden" the

combined concessional-nonconcessional blend. It does not diminish the cost of the nonconcessional component. Such relaxation also raises concerns about some countries pre-empting too large a share of a given lender's resources; and

- (ii) lengthen the maturities of some of the nonconcessional official finance made available to low-income borrowers.

15.0 A re-examination of "non-traditional" options for raising concessional resources outside national budgets suggests that there is no real scope for increasing ODA flows from these sources.

15.1 We reviewed the work of a study group of Dutch and Nordic experts established under the auspices of the Task Force to look at the possibilities for raising concessional resources by various "non-traditional" means -- for example, seabed royalties and international taxes -- that would not impose claims on donors' national budgets. We have concluded that, at the present time, there is no real scope for increasing ODA by such means.

16.0 Private voluntary organizations now play an important role all over the world in providing development services. They have demonstrated their ability to raise additional resources and deploy them effectively both during emergency situations and for long-term development. But there are inherent limitations on their financial resources.

16.1 Total development assistance from private voluntary organizations was estimated to total about \$2.6 billion in 1984, a sizeable sum by anyone's measure and equal to about 8 percent of the amount of official development assistance. PVO's serve many functions -- from relief in times of emergency, to poverty alleviation, to developmental activities at the grassroots level. They are active in many sectors: e.g., health, population, nutrition, education, agricultural development, and private sector commercial development. They play an important role and are a useful complement to official aid programs.

16.2 Such organizations are also very effective mechanisms for the management of certain developmental activities funded by official donors. While in this role they do not increase ODA, they can be instrumental in increasing aid effectiveness.

16.3 It is difficult to measure the potential for expansion of aid flows from private sources. In the light of recent events -- when, for example, about \$75 million were raised in a single weekend to support famine relief operations in Sub-Saharan Africa -- this potential cannot be underestimated. Innovative fundraising techniques, of which those inspired by public entertainers are but one example, suggest that higher aid levels from private contributions may well be possible. In addition, many active PVO's have been widely known for years and have long received substantial public support.

16.4 We welcome increased flows of aid from private sources and urge further examination of ways in which such flows can be enhanced. For example, providing income-tax deductions for individual contributions to private voluntary agencies or official programs may

increase the amount of resources that can be raised by these organizations. Providing "seed money" or "matching grants" from official sources to private agencies could also add to their resources. However, as noted, there are practical limits on the amount of incremental aid resources that can be expected from private sources.

17.0 **Opportunities for significantly expanding private flows and earnings from trade are mainly limited to middle-income countries and a few low-income countries at the present time. Donors and recipients should be encouraged to adopt policies which would enhance the flow of these resources over the long run, although expectations about the expansion that can be achieved over the short run can only be modest.**

17.1 As a group, developing countries expanded their exports considerably in the 1970's, from about 13% of their combined GDP in 1970 to over 23% in 1983. The major exception was low-income countries in Africa, where the share of exports in GDP fell sharply -- a result which reflects inappropriate policies in such countries as well as worldwide trade policies and changes in aggregate demand in industrial countries.

17.2 The experience of the early 1980's was extremely discouraging for developing nations' exports. But 1984 brought a marked acceleration: a 7.5% increase in total export earnings, a 15% increase in total non-fuel export earnings, and a 12% increase in non-fuel export volume. These gains were primarily due to sharp increases in exports to the industrial countries, but reflected also a revival of trade among developing countries. However, since this growth occurred from very depressed 1983 levels it cannot be seen as establishing a long-term trend -- unless a fairly dramatic change occurs in the domestic policies of both industrial and developing countries. Also, there was not a significant amount of improvement in developing countries' terms of trade. After declining in 1982 and 1983, they improved by only 1% in 1984. With these considerations in view, donors and recipients should review their trade policies to assure that they are supportive of development priorities.

17.3 Over the past two decades two major shifts in international capital flows have occurred: from equity investment to debt, and from official to private finance. The more advanced developing countries have obtained the bulk of commercial capital. However, even in low-income countries the share of private flows increased. Increased lending by commercial banks was the main reason for the dramatic increase in external financing. While direct private investment continued to increase in nominal terms, its share in total external finance declined from 20% in 1970 to less than 9% in 1983.

17.4 This result is unfortunate since direct investment from abroad has many advantages over loans; for example, equity capital provides resources that do not involve fixed repayments. It often includes the transfer of new technologies as well as management and marketing skills and facilities. It leads to employment creation. Developed and developing countries alike should make a concerted effort to create a hospitable climate to encourage the growth of foreign direct investment in developing countries in such a manner as to serve developing-country needs.

18.0 A number of developing countries have become donor countries. Others should be welcomed. While ODA flows from such sources may be modest in the immediate future, such countries should be encouraged to share in the international responsibility for providing aid.

18.1 The success of aid has materially benefited the peoples of many countries. As developing countries reach levels of self-sustaining growth, it is appropriate that they should seek to join in assistance programs for those countries still struggling in poverty. Already two upper middle-income countries have achieved GNP per capita levels exceeding one of the significant DAC donors. Several have become net donors in some of the regional development banks and UN agencies. We welcome "new donors" and encourage them. While we do not anticipate large ODA flows from these sources, it is not unrealistic to expect that, over the next 5 to 10 years, ODA from such new donors could contribute a share of the increase in ODA levels desired. Further, we note that one major bloc of developed countries has not joined in the universal effort of development assistance with the same enthusiasm as DAC and OPEC countries. We hope that, in the years ahead, the nations of the Council for Mutual Economic Assistance will also become significant sources of development and humanitarian aid.

19.0 We conclude that no single one of the measures considered above, nor any combination of them, will cope adequately with the challenge of development in the low-income countries. Since there is no escaping the need for predominant reliance on traditional, appropriated concessional assistance, donor governments should exert redoubled efforts to increase the supply of ODA as a matter of urgency.

19.1 Sustained development of low-income countries is currently impeded by various factors. We believe, however, that opportunities exist for significant advances toward self-sustaining development in many countries. Providing additional resources now would help recipient countries to take advantage of these opportunities.

19.2 Some donor countries are making contributions toward development assistance well above the UN target (ODA as 0.7% of GNP). Others can do more. Taking into account aid's demonstrated effectiveness and the broad public support that exists, governments in these latter countries should exert redoubled efforts to increase the supply of ODA as a matter of urgency.

19.3 We have considered the alternatives carefully before reaching the conclusion that donors should seriously consider exceeding the currently forecasted rates of ODA expansion. The coping mechanisms which have been examined can only help to supplement and support traditional ODA flows appropriated from donors' budgets. They do not offer a substitute for an increase in such flows. Attempts to put in place such coping mechanisms should not serve as a reason for delaying action on increasing ODA volume. These efforts need to be made simultaneously and not sequentially. The need for an increase in ODA volume is now known and unmistakable.

19.4 Each donor should adopt the most effective means for improving its own performance. Aid targets are not the be-all and end-all of aid enhancement. They are useful only as they affect country-by-country decision-making. Nevertheless, the 0.7% target has proved to be a very valuable norm for the international community. It has encouraged improved performance by many DAC donors and some have reached or even exceeded this target; some OPEC donors have greatly exceeded it. All donor governments which have declared a timetable for reaching the 0.7% ODA/GNP target should be encouraged to achieve their stated objectives. For other donors and for those who have accepted the target without any commitment to timing, various self-imposed targets may be helpful. At minimum, they could seek to avoid any decline in their ODA/GNP ratios. This would mean that their aid at least would keep pace with their economic growth.

19.5 In recent years a clear relationship has been observed between the adoption of internal ODA targets by donors and their subsequent provision of ODA. Some, as in the past, will find it useful to adopt interim plans to achieve a DAC-average ratio of their aid to their GNP or a doubling of their absolute aid within a specified period; or they may resolve to give their aid budgets preferential treatment relative to their total national government budgets. Targets approved by national legislatures, promoted by national leaders and aid agencies, and supported by the public should increase the predictability and level of donors' contributions. In the last decade, targets have influenced the policies of many donor countries and have proven to be a useful yardstick for measuring relative aid performance and inspiring more continuous official and public support for aid.

20.0 For all its flaws, the aid revolution has been one of the great innovations of the second half of the twentieth century. In an increasingly interdependent global economy that is deeply fragmented politically, the practice of development assistance has raised the norms of international conduct.

20.1 Few governments have been enticed into prolonged flights of selfless service. But many have had some of their nationalism sublimated into more constructive and enlightened kinds of self-seeking. Collectively, aid donors and aid recipients have succeeded substantially in pursuing their declared purpose of promoting development. Growth has been accelerated. Poverty has been alleviated. The quality of life has been improved. In the process we have learned how to make future development assistance still more effective.

20.2 In a number of countries aid has already proven that it can be a self-terminating exercise -- as recipients have been helped to establish themselves on paths of self-supporting growth. But the low-income countries still need concessional assistance and the poorest among them need more of it more than ever.

20.3 Aid's present supply crisis is only a crisis of commitment. Objectively, there are no major obstacles to doing what is needed. The costs are modest. This most civilized of the half-century's policy achievements should not be permitted to subside, simply because of eroded priorities -- particularly at a time when the needs for it have taken on new urgency and the quality of the instrument is being enhanced.