

**How Significant are the Administration's
Proposed Increases in Foreign Development Aid?**

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In the past year the Bush Administration has proposed two major development aid initiatives. The first was announced in March 2002; it called for the establishment of a Millennium Challenge Account that would target aid to low-income countries that are “ruling justly, investing in their people, and encouraging economic freedom.” A second was announced in this year’s State of the Union address, when the President committed to a major increase in U.S. spending to combat the spread of HIV/AIDS in developing countries, especially in Africa. Both of these new initiatives hold substantial promise.

Even with these new initiatives, however, under the proposed Bush budget, U.S. funding of development aid would remain well below the average for most of the postwar 20th century, and below the current level of all other donor countries, when measured as a share of its economy.

According to data from the Congressional Budget Office (CBO), the original 2004 request (in the February 2003 budget submitted to Congress) implied spending for development aid of \$12.7 billion, continuing a rise in such spending since the end of the 1990s.² The supplemental request of the Administration to pay for the war in Iraq that was enacted during the second week of April also included increases in development aid — \$1.3 billion of which will be spent in 2004. The supplemental request appears to be for one-time spending, primarily in Afghanistan, Egypt, Jordan and Turkey.³

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2 The CBO provides estimates of likely spending or “outlays” in the relevant fiscal year, given the Administration’s budget requests. In this analysis, we refer to funding or “budget authority,” but emphasize spending, or outlays. Since not all funding provided for a program is spent in the year that it is provided, it can take more than a year for a change in funding levels to translate into a change in expenditures. Over longer periods of time, the normal practice (followed here) is to compare actual expenditure levels, because it is the expenditure levels, by definition, that indicate how much in resources is actually being used by particular programs. For incorporating current and future expenditures it turns out that the CBO estimates of outlays are better estimates, and more appropriate for analysis of trends, than are the funding requests, or budget authority.

³ The war supplemental also authorized \$2.475 billion for the Iraq Reconstruction Fund over the next several years. We do not include these funds in our measure, as discussed later in the text.

Even including the supplemental, total development aid spending will remain below its level from the end of World War II through the mid-1990s by two key measures — as a percent of U.S. GDP and as a percent of the federal budget. Further, the Administration’s budget proposes funding the Millennium Challenge Account at levels far less than it has announced.

Our analysis examines three standards for measuring aid over time: aid in inflation-adjusted terms, aid as a percentage of total government outlays, and aid as a percentage of the economy. We define what we call “development aid” to include all aid to developing countries for economic, development, and humanitarian purposes; we exclude military aid. All years in this analysis are fiscal years.

After adjusting for inflation, the President’s budget plus the recent supplemental request together would result in an increase in development aid spending from 2003 to 2004 of 5 percent in real terms, continuing a string of increases. But because this spending has been so low in recent years, and fell so much in the 1990s, the proposed level would still be meager by historical standards, particularly when viewed as a share of the economy and as a share of all government spending.

- *Aid in real dollars.* The Administration’s original proposal plus the supplemental would yield development aid spending of \$14 billion in fiscal year 2004. This would represent an increase from the \$13.3 billion level expected to be spent in 2003. (Both figures are expressed in 2004 dollars). However, the 2004 level would be 4 percent below the average level of development aid spending during the 1980s, when both are measured in real terms (adjusted for inflation). (See Table 1.).

Table 1
Discretionary Spending on Development Aid

	1980s Average	2003 expected	In 2004 under Administration’s Budget	Comment on 2004 Figures
Inflation-adjusted level (in 2004 dollars)	\$14.5 billion	\$13.3 billion (includes \$1.6 billion from supplemental)	\$14.0 billion (includes \$1.3 billion from supplemental)	Slightly below historical average
As a share of the economy	0.20%	0.121%	0.124%	Lower than from 1946- 1996
As a share of the budget	0.92%	0.60%	0.62%	Also lower than from 1946-1996
Source: Authors’ analysis of data from the Office of Management and Budget, the Congressional Budget Office, and U.S. AID.				

- *Aid as a share of the economy.* Under this measure (which assesses how much of its total national resources the country spends on development aid) and even including the supplemental, the United States would devote only 0.12 percent of its resources to development aid (just over one-tenth of 1 percent), or about 12 cents of every \$100 in the economy. This would represent a lower share of national resources devoted to development aid than in the post-World War II era through 1996. As a share of the economy, the United States spent two-thirds more on development aid during the 1980s, on average, as it would under the level proposed for 2004. The decline is significantly larger when measured over a longer period. (Measuring aid as a share of the economy is the standard approach used in international comparisons.⁴)
- *Aid as a share of the budget.* The Administration's proposed spending level in 2004 would also result in the United States continuing to devote an exceptionally small share of federal expenditures to development aid. The historical pattern by this measure essentially mirrors the pattern of aid spending as a share of the economy. Thus, relative to other uses of federal spending, development aid would be a lower priority than it was for most of the past half a century. The Administration's original budget proposed dedicating 0.57 percent (a little over one-half of 1 percent) of all federal expenditures to development aid, or only about 57 cents of every \$100 the federal government spends. The supplemental implies an increase to 0.62 percent in 2004, which is the highest level since 1996, but still well below the historical average and lower than in the five-decade period of 1946 to 1996.

Proposed levels for after 2004. The Administration proposes a budget path that would increase development aid spending in inflation-adjusted terms through 2008. These increases, however, essentially mirror the expected growth in the economy as well as in other government spending. For example, under the Administration's budget, development aid spending as a share of the economy would equal an estimated 0.123 percent in 2008, virtually the same as the 0.124 percent level expected for 2004. So for the next several years as well, aid as a share of the economy is likely to be lower than it ever was for the 50 years from 1946-1996, and well below half the level of Overseas Development Assistance (ODA) now provided by the typical donor country.⁵ The United States would still be at the bottom of the barrel among all donors in its spending on development aid (excluding military aid) as a share of the economy.

⁴One new measure compares aid across OECD countries taking into account differences in the extent to which aid is tied and is directed to relatively poorer and better-governed countries. See information on the Commitment to Development Index at www.cgdev.org.

⁵ As a share of the economy, the median value of ODA for all OECD countries was 0.30% in 2002. We have not been able to map ODA, as measured by the OECD's Development Assistance Committee, onto the detailed information available in the federal budget on the many different U.S. development aid programs. In comparison to our definition of development aid, which is comprised of subfunction 151 of the budget and portion of subfunction 152. ODA includes a number of items that we do not, such as foreign fish and wildlife grants and humanitarian and counter narcotics activities under the supervision of the military, and excludes components of our measure that do not have at least a 25% grant component.

Funding for Iraq Reconstruction. As mentioned above, the recent war supplemental authorized \$2.475 billion for an Iraq Reconstruction Fund. We do not include these funds in our aid measure because they are budgeted outside the definition used to construct our historical data series (specifically, the Iraq Reconstruction Fund is not part of subfunction 151 of the budget or Economic Support Funds, as explained below). Clearly, a significant share of these funds will support development-related activities like building schools and repairing critical infrastructure. If all of these funds were included, they would increase the total in 2003 by \$768 million and the total in 2004 by \$1.366 billion. That would still leave total aid levels as a share of the economy and as a share of the budget in both these years well below the historical averages. By both measures, development aid would still be lower than it was from the end of World War II through 1995.

Funding of the Millennium Challenge Account and the Global Fight Against HIV/AIDS.

In a separate section below we discuss the levels of fudging foreseen in the original announcements of these two major initiatives, and compare them to the Administration's budget proposals and to the CBO estimates of outlays in 2004 and beyond. The budget proposals are well short of what was announced, and the outlays even more so. For the Millennium Challenge Account (MCA), the Administration has requested \$1.3 billion for 2004; CBO data suggest only \$130 million will actually be spent. For the AIDS initiative, the Administration has requested an additional \$450 million; CBO data suggest only \$45 million will be spent.⁶

Table 2 at the back of this paper includes annual figures from 1962 through 2008 on actual and proposed development aid spending, based on Office and Management and Budget and Congressional Budget Office data. For the years from 1946 to 1961, this paper relies on data from U.S. AID.⁷ Appendix 1 includes a discussion of comparing data for years from 1992 to the present to data for earlier years (there was a shift in how loans are treated under the budget in 1992).

Measuring the Level of Development Aid

Development aid can be defined and measured in a number of ways. The definition used here includes the budget category called "International Development and Humanitarian Assistance"

⁶The Office of Management and Budget has a considerably more optimistic outlook on the ability of the MCA funds to be spent in 2004, and a slightly more positive outlook on the expenditure of the AIDS funds. OMB's outlay projection for the MCA in 2003 is \$650 million, and for the AIDS initiative is \$68 million.

⁷Based on the U.S. AID data, U.S. "Economic Assistance" (the category AID uses that is somewhat analogous to the definition of development aid this paper uses) averaged 1.75 percent of GDP from 1946 to 1948. From 1949 to 1952, it averaged 1.53 percent of GDP, while from 1953 to 1961, it averaged 0.60 percent of GDP. The same pattern applies when development aid is measured as a percentage of all federal outlays. According to the U.S. AID data, Economic Assistance averaged 10.45 percent of all federal outlays from 1946 to 1948. From 1949 to 1952, it averaged 9.58 percent of outlays and from 1953 to 1961, it averaged 3.31 percent of outlays.

(subfunction 151 of the U.S. Federal Budget) as well as much of the “Economic Support Fund” (which is part of subfunction 152). The focus here is on discretionary spending in these areas.⁸

- International Development and Humanitarian Assistance includes funding for areas such as bilateral development aid, the Millennium Challenge Account, the Global HIV/AIDS initiative, assistance to countries in transition (mainly those that once were part of the former Soviet Union), contributions to multilateral institutions that can be used for development aid, the Child Survival and Disease Program, humanitarian aid, emergency relief, migration and refugee assistance, the Global HIV/AIDS fund, and efforts to combat the drug trade. Some of the areas that fall into this government budget category are not purely "development aid" in that their main goal is not to help strengthen the economies of the world's poor countries.
- The Economic Support Fund consists of economic assistance the United States provides to foreign countries (such as Egypt, Israel and Pakistan) based on considerations of special economic, political, or security needs and U.S. interests. Though these funds are not necessarily targeted to development programs, they can and often do support development objectives of the recipient countries, and the portion of these funds that goes to developing countries has been traditionally included in most definitions of development aid.⁹ A large portion of the ESF has been dedicated to support for Israel; we exclude that portion from our figures for 1997 and onwards since starting in 1997 Israel's per capita income put it above the threshold for a developing country.¹⁰

By including *all* the spending in the International Development and Humanitarian Assistance category as well as all of the spending of the Economic Support Fund in developing countries, the figures used here overstate the amount of U.S. aid designed specifically to combat poverty and its effects in the world's poor countries. For instance, for 2004 the Administration proposes to spend \$3.5 billion in Economic Support Funds for developing countries (\$2.55 billion in its original request, plus \$950 million included in its supplemental request.) If the Economic Support Funds were not counted as development aid, the amount of such spending would be \$10.5 billion instead of the \$14.0 billion considered in this paper.

⁸ More specifically, the definition of development aid used here includes *discretionary* or annually appropriated spending. *Mandatory* spending in these areas consists primarily of inflows of funds into credit liquidating accounts. This cash flow is a result of loans made before 1992, when the Credit Reform Act went into effect; it does not affect the current level of credit assistance and thus is ignored in this analysis.

⁹ For example, the Organization for Economic Cooperation and Development includes grants and concessional loans of the U.S. through the ESF in its total of development aid (or overseas development assistance, “ODA”).

¹⁰ While aid to Israel represents the majority of our aid going to a country that is not categorized as “developing,” there are some funds that go through existing programs in the 151 account to other countries, like Russia and Ukraine, that are also not categorized as “developing.” The extreme difficulty of pinpointing and tracking this spending over time, as well as the small likelihood doing so would change any of our central findings, led us to count all 151 funding and not to attempt to subtract out funds going to Russia, Ukraine, and other similar countries.

At the same time, these numbers underestimate aid to poor countries because some of this aid — such as technical assistance on the rule of law provided by the Department of Justice — occurs outside of the “151 subfunction” and Economic Support Fund examined here. Further, as explained above, the analysis does not consider the funds being devoted to the reconstruction of Iraq.

The Millennium Challenge Account and HIV/AIDS Initiative

In the spring of 2002, President Bush announced, with much fanfare, the Millennium Challenge Account. The Administration released an illustrative budget, suggesting funding of \$10 billion over the three budget years 2004 to 2006, and made a commitment to reach and sustain an annual funding level of \$5 billion a year starting in 2006. In this year’s budget, as well, the text refers to the commitment of \$5 billion in 2006.

Table 2
Millennium Challenge Account Funding
(in billions of nominal dollars)

	2004	2005	2006	Total
Bush Administration's Illustrative Budget*	\$1.7	\$3.3	\$5	\$10
Bush Administration '04 Budget Request	1.3	1.32	1.35	3.97
CBO Projection of Actual Spending (Outlays)	0.13	0.65	0.96	1.74

* White House Fact Sheet. “Millennium Challenge Account Update,” June 3, 2002.

The actual funding figures for the MCA proposed by the Administration fall well short of these indications. The Administration proposed “budget authority” or funding (not all of which has to be or is expected to be spent in the year that it is granted) of \$1.30 billion for 2004, \$1.32 billion for 2005, and \$1.35 billion for 2006 (see Table 2).

When the budget was released in early February, some Administration officials indicated that the budget request was in error, and that the figures for 2005 and 2006 would be corrected to reflect a ramp up to \$5 billion. As of this writing, however, the numbers have not been corrected. If the Administration does clarify this issue, it will need to reduce resources proposed for other areas in the budget or build in a higher expected deficit. As currently budgeted:

- The total of about \$4 billion over three years is only 40 percent of the Administration’s illustrative funding level of \$10 billion.
- The proposed budget authority or funding of \$1.35 billion in 2006 is just 27 percent of the explicit Administration commitment to a level of \$5 billion in that year.

Moreover, actual spending on the MCA in 2004 is likely to be far lower than the proposed budget. As noted above, in 2004, CBO estimates that only \$130 million of the \$1.3 billion authorization will actually be spent. The low rate of spending reflects expectations about the likely administrative capacity to set up the new program and distribute budgeted resources in the coming years. For the three years 2004 to 2006, CBO estimates that a total of just \$1.7 billion will be spent.

The President's 2004 budget calls for total funding of HIV/AIDS of \$2 billion in 2004, an inflation-adjusted increase of about \$550 million over 2003, according to a Brookings Institution analysis. As noted earlier, the largest part of that increase, \$450 million, would be devoted to its new Global AIDS initiative. According to CBO, just \$45 million of this will actually be spent in 2004. The Brookings analysis also found that the increase in this area proposed by the Administration in 2004 and onwards is below the level promised by the Administration.¹¹

It now appears likely that the appropriation for the new global HIV/AIDS initiative in 2004 will exceed the Administration's request by as much as \$1 billion. A bill passed by the House on May 2, with Administration support, would authorize total spending on HIV/AIDS of as much as \$3 billion in 2004, and Senate Majority Bill Frist has indicated his intent to consider a similar bill in the coming weeks. However, it is unclear whether this additional funding for HIV/AIDS would ultimately come at the expense of other development aid programs.

Finally, this potential increase notwithstanding, the robust increases in ESF outlays in 2003 and 2004 due to the supplemental far eclipse likely 2003/4 spending on new programs like the MCA and global HIV/AIDS initiative, which are more clearly associated with development objectives. That is, in the near term the historic pattern of emphasizing new "development" spending that is tied to other foreign policy objectives, rather than pure development objectives, is prevailing.

Conclusion

It has been fairly widely reported in recent years that the United States contributes a smaller share of its economy to development aid than does any other high-income nation. As a share of their economies, the latest international comparisons from the Organization for Economic Cooperation and Development show that the typical high-income nation contributes nearly three times as much as the United States does.¹² What has received less attention has been the decline in development aid spending in the United States compared with the levels of support provided in most of the post-World War II period.

¹¹ Lael Brainard, "The Administration's Budget for Global Poverty and HIV/AIDS: How Do The Numbers Stack Up?" *Brookings Policy Brief*, February 24, 2003.

¹² OECD, Official Development Assistance figures for 2002, the latest cross-country data available on the OECD website. According to the OECD, in 2002 the United States contributed 0.12 percent of its economy to official development assistance. This was the lowest share of the 22 nations examined, with the second lowest country, Italy, contributing 0.20 percent of its economy. Outside of the United States, the typical country examined

The level of spending proposed by the Bush Administration for 2004 and beyond would increase spending somewhat over recent years. But even counting the large increase in proposed spending in the Middle East that is included in the Administration's recent supplemental request for 2003/04, the total would still be below its level for the entire period from the end of World War II through the mid-1990s. And even with the increases in spending foreseen under the MCA and the new HIV/AIDS initiative, the share of national resources that the United States contributes to development aid would lag far behind the shares contributed by other donor countries.¹³

contributed 0.30 percent of its economy to official development assistance.

¹³ This analysis focuses on the quantity of spending on development aid. When some basic measures of quality are incorporated, US aid suffers compared to other OECD countries because of high administrative costs, provisions which tie aid to the purchase of US goods and services, and considerably lower levels of selectivity in disbursement than the average OECD country. For more information, see "Ranking the Rich," *Foreign Policy*, May/June 2003 and Birdsall, Nancy and David Roodman. "The Commitment to Development Index: A Scorecard of Rich-Country Policies," *Center for Global Development Working Paper*, April 2003.

Table 3
Foreign Development Aid Trends, 1962-2008

Fiscal Year	Aid in 2004 Dollars (outlays in billions)	Aid as a percent of GDP	Aid as a percent of Budget Outlays
1962	\$25.2	0.576%	3.06%
1963	22.7	0.526%	2.83%
1964	21.1	0.480%	2.60%
1965	20.2	0.448%	2.61%
1966	21.8	0.457%	2.56%
1967	20.1	0.418%	2.16%
1968	15.9	0.329%	1.61%
1969	13.5	0.274%	1.42%
1970	12.0	0.244%	1.27%
1971	10.6	0.220%	1.13%
1972	12.1	0.245%	1.26%
1973	10.6	0.205%	1.09%
1974	9.5	0.176%	0.94%
1975	11.7	0.218%	1.03%
1976	10.4	0.191%	0.89%
1977	11.8	0.208%	1.00%
1978	13.3	0.220%	1.06%
1979	12.8	0.201%	1.00%
1980	13.8	0.215%	0.99%
1981	14.0	0.214%	0.97%
1982	13.0	0.202%	0.88%
1983	13.8	0.208%	0.88%
1984	14.2	0.204%	0.92%
1985	18.9	0.260%	1.14%
1986	17.1	0.229%	1.02%
1987	13.5	0.176%	0.82%
1988	13.4	0.168%	0.79%
1989	13.7	0.163%	0.77%
1990	14.3	0.165%	0.76%
1991	14.1	0.168%	0.75%
1992	13.5	0.159%	0.71%
1993	13.7	0.161%	0.75%
1994	13.3	0.152%	0.72%
1995	13.7	0.153%	0.74%
1996	11.7	0.128%	0.63%
1997	10.0	0.105%	0.54%
1998	9.6	0.098%	0.51%
1999	9.5	0.093%	0.50%
2000	10.2	0.097%	0.53%
2001	10.8	0.102%	0.55%
2002	11.9	0.112%	0.58%
2003*	13.3	0.121%	0.60%
2004*	14.0	0.124%	0.62%
2005*	13.2	0.113%	0.57%
2006*	14.5	0.119%	0.60%
2007*	15.7	0.124%	0.63%
2008*	16.1	0.123%	0.63%

*Data for 2003 through 2008 reflect Congressional Budget Office estimates of the Administration=s budget proposal plus the supplemental. Figures are adjusted for inflation based on the GDP "all other" index, which is the index OMB uses for adjusting international affairs spending for inflation.
Source: Author's analysis of Office of Management and Budget and CBO data.

Appendix 1 Comparing pre-1992 Data to Data from 1992 Onward

Although the Office of Management and Budget provides annual data on discretionary spending for fiscal year 1962 onward, the time series is not entirely consistent. The inconsistency reflects the difference in the budgetary treatment of loans prior to 1992 and from 1992 on.

Prior to 1992, loans were recorded in the budget on a *cash* basis; that is, the amount associated with making a loan equaled the cash disbursed. Similarly, principal repayments and interest paid on the loan were recorded on a cash basis as "negative spending," in other words, as a reduction in spending. As a result of the Federal Credit Reform Act of 1990, since 1992 loans have been treated on a *subsidy* basis; that is, the amount of spending associated with a loan equals the estimated amount of the subsidy provided by a loan. Principal repayments and interest paid on the loan are recorded in "non-budgetary" accounts and thus do not affect the spending recorded in the budget. OMB has said that it has found it "impossible to convert the pre-1992 loans to a credit reform basis," and thereby to construct a consistent time series.

As an example of the effects of these differences in treatment, take the hypothetical case of a loan of \$1 million that involved a subsidy of \$200,000.

- Prior to 1992 this loan would have been considered to result in outlays of \$1 million in the year it was issued; since 1992 only the subsidy amount of \$200,000 is recorded in the budget in the year it is issued. So in the year issued the "same" loan was assumed to cost *more* in the pre-1992 period.
- In the years after the loan is issued, the effect works in the opposite direction. Prior to 1992, any principal or interest payments on the loan would have the effect of reducing spending as recorded in the budget. Since 1992, these payments are handled differently and do not affect discretionary spending on foreign development aid. So in the years after the loan is issued, the same loan is assumed to cost *less* (since the payments would be recorded as negative funding) in the pre-1992 period.
- The net effect on the measurement of foreign development aid is difficult to determine. It depends on the nature of the loans issued, the timing of the repayments, and changes in the size of the loans over time. That is, we know the time series is not entirely consistent, but it is difficult to ascertain whether in comparing particular years this inconsistency leads to an overstatement or an understatement of the fall in foreign development aid over time.

Nevertheless, it is possible to state with confidence that foreign development aid has declined since the 1960s, and in 2004 will be lower as a share of the economy and government outlays than during the large majority of the period since the end of World War II. The differences between now and the 1960s and 1970s are dramatic, suggesting that an inconsistency of

difficult-to-determine direction is unlikely to affect the basic trend. From 1962 to 1969 according to the definition of foreign development aid used in this paper, it equaled between 0.27 percent and 0.58 percent of the economy; in the 1970s, foreign development aid constituted between 0.18 percent and 0.25 percent of the economy; under the Bush budget it would equal 0.12 percent of the economy. The differences between now and then are so substantial that they are extremely likely to remain large even if one were able to account for the loans on a consistent basis.

Indeed, even if only the grants portion of aid were considered in the years prior to 1992 (that is, if all loans were subtracted out), development aid as a percent of GDP in 2004 would be lower than at any point from the end of World War II through 1996.