
The G8 summit: The Aid Equation

The G8 summit in Gleneagles provides a critical opportunity to put in place the financing needed to accelerate progress towards the Millennium Development Goals (MDGs). In the absence of a bold financing strategy, the Goals will be missed by a huge margin, especially in sub-Saharan Africa.

G7 generosity?

The G8 is comprised of Russia, the only non-donor nation in the group, plus the original G7 club of major industrialized economies: The United States, Japan, Germany, the United Kingdom, France, Italy and Canada. As a group, the G7 are among the least generous aid donors in the industrialized world. At present, they spend 0.22% of their GNI on aid, which is less than one half of the average for all OECD countries. The group includes the G3 of countries at the bottom of the world league for aid-to-GNI ratios - Italy, the United States and Japan. Both Italy and Japan have reduced aid since 2001, when donors pledged to raise aid.

While overall G7 aid is increasing, the longer-term record on aid is not impressive. Comparing the position with 1990:

- Average income in G7 countries has risen by just under \$8000. Aid per person has fallen by \$7 (figure 1). Only the UK and the US today give more aid per person than in 1990. Germany gives \$34 less per person. In Canada, average income has gone up by \$6,269, while aid has come down by \$22, and by \$1 per person for sub-Saharan Africa.
- While G7 aid to sub-Saharan Africa is \$3 per person higher now than in 1990, four G7 countries – Canada, France, Italy and Japan – have reduced aid per person (table 1).
- The G7 as a group currently spends \$16 per capita on aid to Africa. This represents 1% of the average increase in income registered between 2000-03.
- As a region, sub-Saharan Africa receives \$3 *less* per person in the G7 in aid than it did in 1990.

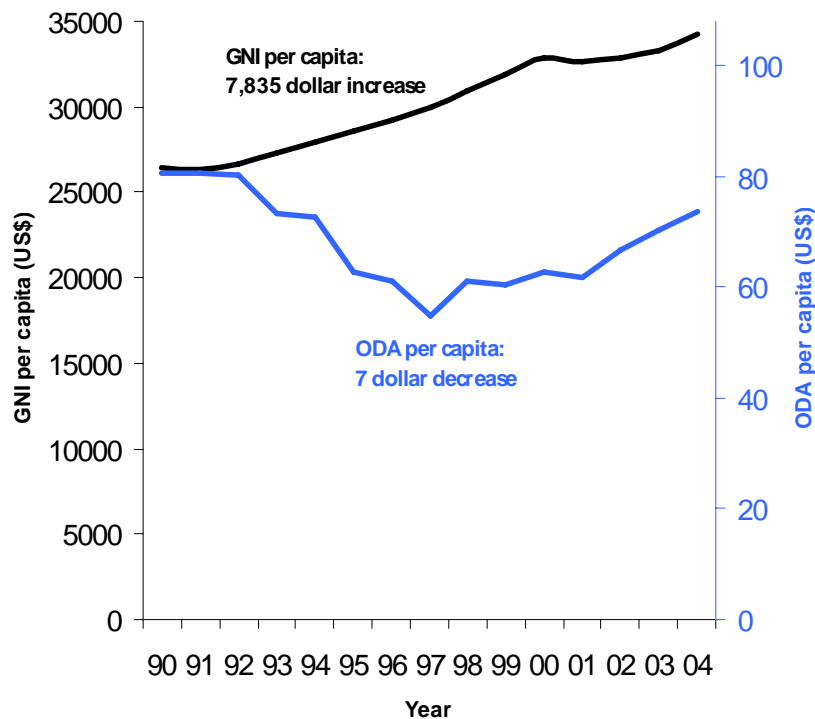
Aid targets, fiscal deficits and military spending

The UN Secretary General has called on all donors – including the G7 – to commit to a 0.7% aid-to-GNI ratio. The Gleneagles summit provides an opportunity to make this commitment. One simple option would be for the summit to adopt the EU commitment of a 0.51% target by 2010 and a 0.7% target by 2015.

Several hurdles have to be removed for progress in this area:

- At least two European Union countries – Germany and Italy – need to make binding public spending provisions that demonstrate a commitment to the targets set. Italy in particular will have to make a major effort to comply with the target.
- Japan has set itself the target of restoring aid only to the average level attained in 2000-01 (the lowest level since the mid-1980s). By 2010, Japanese aid is projected at around 0.18% of GNI.
- Canada has set itself a target of raising aid by 8% a year, though it is not clear whether this is real or nominal. In a best case scenario, this would still leave Canada with a 0.36% aid-to-GNI ratio in 2010 – far below the EU standard
- The United States has not set any target, though President Bush signed the Monterrey declaration in 2002 pledging signatory governments to take ‘concrete steps’ towards the 0.7 percent goal. In a best case scenario for full delivery of current aid commitments, United States aid will represent 0.18% of GNI in 2010, leaving the country with Japan still at the bottom of the aid-to-GNI league table.

Figure 1. The G-7: Richer but less generous



Setting bold targets at the Gleneagles summit will create additional spending demands at a time when some G7 countries are facing structural problems linked to slow growth, high unemployment and large fiscal deficits. These problems are real – but they are exaggerated.

Of all the G7 countries, Canada is best placed to adopt an implement an ambitious target. It is the only G7 country to have posted a fiscal surplus in 2002, 2003, and 2004. That surplus represented 0.7% of GDP in 2003-04, which is almost three times Canada's aid level. The fiscal surplus is projected by the IMF to rise. Since 2003, Canada has also posted the lowest public debt as a share of GDP in the G7. Moreover, it has registered a strong growth record. The upshot: Canada could match (or surpass) the EU target by drawing on a small share of its fiscal surplus, and without incurring adjustment to public spending priorities.

Table 1. Most G-7 countries aren't spending increased incomes on aid

	GNI per capita (2003 US\$)			ODA per capita of donor country (2003 US\$)			ODA per capita of donor country to Sub-Saharan Africa (2003 US\$)		
	1990	2004	Change 1990-2004	1990	2004	Change 1990-2004	1990	2003	Change 1990-2003
Canada	21,092	27,360	6,269	93	71	-22	14	13	-1
France	24,264	29,168	4,904	146	122	-24	52	41	-11
Germany	27,564	29,428	1,864	116	82	-34	17	19	2
Italy	21,186	25,689	4,502	67	38	-28	17	10	-8
Japan	28,558	35,558	7,001	87	66	-21	8	4	-4
United Kingdom	22,466	31,537	9,070	62	114	52	11	22	11
United States	28,338	39,178	10,840	59	63	4	5	16	11
G7	26,452	34,287	7,835	81	74	-7	13	16	3

While other G7 countries face more demanding circumstances, the small share of aid in public spending offers scope for achieving the 0.7% target by allocating small increments to growth into aid, and by revisiting spending priorities. For example, even marginal reallocations from military spending to aid could bring the 0.7% target within reach:

- Since 2000, military spending per person in the G7 has increased by \$168, to \$927. Aid spending has risen by \$11, to \$74 per person.

- The increase in military spending since 2000 represents 0.4% of GNI. Had half of this increase been allocated to aid, the G7 would be in touching distance of a 0.51% aid to GNI ratio
- Measured in terms of public spending commitments, military spending heavily outweighs aid spending in all G7 countries (table 2). The multiple for military to aid spending ranges from 5 in Japan and Canada, to 6 in the UK, 13 in Italy, 24 in the United States.

Table 2. Military spending outweighs aid spending

	Military expenditure per capita (2003 US\$)			ODA per capita of donor country (2003 US\$)		
	2000	2004	Change	1990	2004	Change 1990-2004
Canada	308	332	24	93	71	-22
France	744	745	1	146	122	-24
Germany	438	411	-27	116	82	-34
Italy	519	483	-36	67	38	-28
Japan	329	332	4	87	66	-21
United Kingdom	698	790	92	62	114	52
United States	1,170	1,549	379	59	63	4
G7	759	927	168	81	74	-7

Without discounting the obvious importance of military budgets for national security, there are strong grounds for questioning these priorities. Increasing aid to reduce poverty and global inequality would help to diminish the security threats facing northern governments. As an investment, increased aid is likely to yield higher returns for collective security than investments in military hardware.

This briefing note started by asking the question can the G7 afford to meet the cost of ambitious aid targets. On current trends, the MDG target for reducing by two-thirds child mortality by 2015 will be missed by a huge margin. Last month, the Human development Report Office published the results of a trend analysis showing that sub-Saharan Africa alone will miss the target by a margin equivalent to 3 million additional – and avoidable – deaths in 2015. Increased aid alone will not be sufficient to get the world back on track for the child death MDGs. But without increased aid the Goals will remain out of reach and the promises made to the world's children will be broken.

The simple question facing the G7 summit is not can they afford to act, but whether the world can afford the costs of inaction.