How has the dependency of LDCs on ODA developed in recent years?

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Author: Simone Sieler
Editor: Dr. Julia Sattelberger

The aim of development cooperation is to promote the capabilities of partner countries in order to reduce their need for external financial support in the long term. A number of development-related achievements were reported in 2015 in connection with the MDG process. At the same time, the volume of official development aid (ODA) has risen over the last ten years. What does this mean for the development of the partner countries' dependency on donor spending?

Measuring donor dependency

In the debate surrounding development policy, the concept of donor dependency covers a wide range of economic and political dependencies between donor and recipient countries. Using this broad definition, reliance on donors is difficult to measure. On the other hand, however, it is relatively easy to measure the change in the quantitative importance of ODA in relation to country-specific indicators such as economic output, inflow of capital or government spending and tax revenue. Simply comparing ODA to the gross national income (GNI) of recipient countries already reveals some interesting trends (see figure 1).

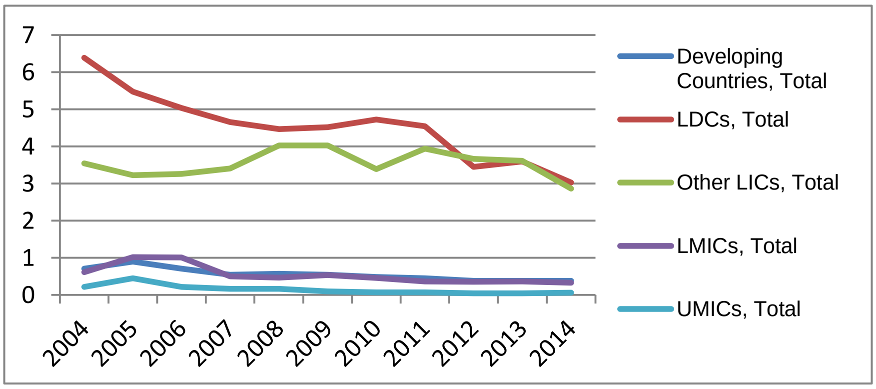
The declining significance of ODA in relation to the economic output of recipient countries

The overall proportion of ODA in relation to the gross national income of developing countries was already below one percent ten years ago, and has fallen further since then (2014: 0.38 %). However, this low average is influenced to a significant degree by the advanced emerging economies of countries such as China, India and Brazil. Nevertheless, a detailed analysis based on different groupings of countries shows that this negative trend can be observed across all groups. The Least Developed Countries (LDCs) and other Low-Income Countries (other LICs) even experienced the strongest declines.
The economies of these countries have grown by 5.8 % p.a. on average over the past ten years, far outpacing the increase in ODA during the same period (about 4 % p.a.). However, it is also apparent that ODA still plays an important role in both groups of countries, corresponding to around 3 % of GNI.

Reliance of LDCs on ODA still high

The proportion of ODA in relation to the total external inflows received by developing countries is also falling. Many developing countries benefit from massive inflows of capital including foreign direct investment (FDI), loans and remittances. Because the countries in the LDC group are only able to attract a limited volume of foreign private capital, ODA accounts for a very large share of their external inflows of capital (72 % in 2013) despite the trend also being negative in this case. By contrast, the same figure for upper-middle-income countries (UMICs) is only around 6%. Comparing ODA to the national budget shows that LDCs in particular are still highly reliant on development aid in order to maintain central government functions. In 2013, ODA accounted for 28 % of government spending in fragile LDCs and as much as 36 % in non-fragile LDCs (the figures for middle-income countries are substantially lower: 0.6 % for UMICs, 3 % for LMICs).

Figure 1: ODA as % of GNI (recipient countries)



Source: OECD statistics, February 2016

Conclusion

The volume of ODA received has fallen in relation to recipient countries' GNI and as a proportion of the total external inflows of capital in developing countries, which indicates that, on the whole, developing countries have become less dependent on aid. What is particularly interesting is that this also holds true for the sub-group of LDCs. However, these ODA ratios are relatively weak indicators. If donor countries increase their payments to the poorest countries to 0.2 % of donor GNI, as agreed at the development finance conference in Addis Ababa last year, the trend for this indicator could be reversed without the recipient countries necessarily becoming more dependent on aid as a result of the increase. ■