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Policy Insights No. 24

August 2006

Aid and Coherence of OECD Country Policies

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- Foreign aid flows disproportionately to the poorest among the developing countries: that is, countries that account for the poorest fifth of world's population receive more than a fifth of aid spending from OECD countries.
- When companies from rich countries invest in the developing world, they favour a small number of more prosperous developing countries. Similarly, the benefits of trade flow likewise to more prosperous countries: the poorest countries export very little to the OECD and consequently earn very little in export earnings.
- Migrants to the OECD come from the more prosperous developing countries: therefore benefits from migration (including remittances) do not flow to the poorest developing countries.

After having declined during the last decade of the twentieth century, Official Development Assistance (ODA) has moved to the centre of discussions about relations with the developing world. The role of aid is subject to debate, notably when it comes to the consistency of the various rich-country policies that affect the developing world. OECD-country trade or migration policies, for example, impose a heavy burden on those countries that simultaneously receive the most aid, thus reducing both the clarity and the effectiveness of that aid spending.

Examining each country on a case-by-case basis reveals other serious inconsistencies of this sort. These incoherencies chiefly concern the interaction between OECD countries' aid and trade policies. Indeed, some countries receive relatively large amounts of aid at the same time as they face particularly high trade barriers. This applies particularly to countries that specialise in the production of a small number of highly taxed exports. For example, Malawi – which received aid amounting to 4.9 per cent of its GDP in 2000 – faces taxes, duties and other charges on its exports which average nine percentage points more than those levied on its competitors. This is equivalent to an extra tax of 11.5 per cent on Malawi's exports.

Brain drain, the emigration of skilled workers to the OECD area, also appears to be a significant problem. Here again, those very poor countries that receive proportionately large amounts of aid are the same countries from which large proportions of university graduates migrate to OECD countries. Thus, Guinea Bissau, which received aid equal to 8.4 per cent of its GDP in 2000, has suffered from an alarming brain drain: 70.3 per cent of its higher-education graduates reside in OECD countries. Clearly, the country's poverty has probably weakened the economy's capacity to absorb a highly-educated work force and the incentives to migrate, for those who can do so, are quite strong. Nevertheless, these figures highlight the danger that the increasing demand for professionals from developing countries through education-based selective immigration policies threatens to exacerbate the contradiction between aid and the poaching of the best-qualified individuals from developing countries.

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Beyond these individual cases, it is possible to question the consistency of aid flows from the OECD towards the developed world more generally. Examining the distribution of flows of aid, export revenues, foreign direct investment (FDI) and migrant transfers, reveals first that aid is being generally allocated according to a compensatory rationale; this is particularly true of aid from multilateral institutions and agencies (such as the World Bank or the UN). That is, aid compensates for the absence of other flows. Indeed, in 2000, foreign direct investment and exports to OECD countries were regressive in relation to per capita income, while aid, in contrast, was largely redistributive. This means that FDI and export earnings flow to the most prosperous among the developing countries, while aid flows disproportionately to the poorest. This apparently satisfactory finding must be put into context. First, the redistribution accomplished by aid flows is no longer enough to balance the negative impact of other flows.

In the 1970s, aid and FDI were of comparable size and aid was relatively good at compensating countries that failed to receive FDI, but this capacity to offset inequalities in resource flows has sharply declined over time. In the 1990s, FDI effectively exploded and has reached such volumes that ODA is no longer sufficient to balance its highly selective orientation. This pattern is even more pronounced for export earnings; aid volumes simply cannot compare with those of export earnings.

Secondly, OECD-country trade policies, as measured by the various tariff and non-tariff restrictions applied to each country, accentuate the regressive nature of earnings from exports sold on OECD markets. Indeed, the effective tariffs imposed on transformed and semi-transformed goods do more harm than a single rate tariff.

Finally, while migrant transfers are increasing, this is partly the result of a brain drain that particularly affects the poorest countries.

Overall, the allocation of aid from OECD countries seeks to compensate the skewed distribution of other resource flows from OECD countries but, given the weaker growth of aid relative to these other flows, this capacity to offset has declined over the last 30 years. Furthermore, with the economic growth of India and China, both big recipients of non-aid flows, the situation will worsen if the allocation of aid remains unchanged over the coming 15 years. If aid is to remain targeted to the poorest of the poor, a change will need to occur. Rather than the selective aid policies pursued today – which are neither effective nor fair – the introduction of a notion of equality of opportunity between countries would be a better means of maintaining the compensatory function of public development aid.

Further reading:

« L'aide au développement et les autres flux nord-sud : complémentarité ou substitution ?» by Denis Cogneau and Sylvie Lambert, *Document de travail No. 251 du Centre de développement de l'OCDE,* June 2006.

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