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**Is the 0.7% goal of ODA/GNI still adequate for  
the recipients? An overview of the recipients'  
situation with a focus on Africa**

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**Is the 0.7% goal of ODA/GNI still adequate for the recipients? An overview of the recipients' situation with a focus on Africa**

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## GLOSSARY

BW - Bretton Woods  
CDP - Committee for Development Planning  
DAC - Development Assistance Committee  
ECOSOC - Economic and Social Council  
FDI - Foreign Direct Investment  
GDP - Gross Domestic Product  
GNI - Gross National Income  
GNP - Gross National Product  
H-D - Harrod-Domar  
ICOR - Incremental Capital Output Ratio  
IFIs - International Financial Institutions  
IMF - International Monetary Fund  
LDCs - Least Developed Countries  
MDGs - Millennium Development Goals  
ODA - Official Development Assistance  
OECD - Organization for Economic Cooperation and Development  
OOF - Other Official Flows  
PSIs - Private Sector Instruments  
RMSM - Revised Minimum Standard Model  
RMSM-X - Revised Minimum Standard Model-Extended  
SDGs - Sustainable Development Goals  
UK - United Kingdom  
UN - United Nations  
UNCTAD - United Nations Conference on Trade and Development  
UNESCO - United Nations Educational, Scientific and Cultural Organisation  
UNRAA - United Nations Relief and Rehabilitation Administration  
USA - United States of America  
WB - The World Bank  
WCC - World Council of Churches

## ABSTRACT

This paper aims to verify if the international aid target of 0.7% of the rich countries' national income destined to development aid is still adequate in the current world conditions. Hence, it investigates the target's origins, the main economic theories and the political context that underpinned it. The theoretical review showed that the economic theories and models that supported the target and its aid rationale are mostly considered outdated in the academic field. The empirical analysis used the Two-Gap Model methodology - with the same assumptions made to create the target in the 1960s but using current data - to estimate the target's values for the years 2014-2019. The results showed that on almost all assumptions, the amount of aid needed for the development of poor countries would be less than the target suggests. Moreover, when analyzing different regions, distinct figures were found for the target, which reveals that the 0.7% target has wrongly generalized the developing countries' needs.

**KEYWORDS:** Aid; ODA/GNI; DAC-OECD; dual-gap model; development.

**JEL Codes:** F35; F63; O21; O47

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## 1. INTRODUCTION

Fifty years ago, the Official Development Assistance (ODA) was set by the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) as an official global standard for the measurement of efforts by donor countries on development cooperation. ODA is broadly defined by the DAC as “government aid that promotes and specifically targets the economic development and welfare of developing countries.”, excluding loans and credits for military purposes (OECD, 2019a, p.1). The target of 0.7% of rich countries' national income earmarked for ODA was established in 1969 as a suggestion by the Pearson Commission, built on the definition of ODA, and formally recognized by the United Nations (UN) in 1970 (OECD, 2002). Its main rationale was the promotion of economic growth for developing countries, and it became the main official parameter for the international aid community. However, since its creation, only eight countries have managed to reach or surpass it. Besides, economic crises reveal the volatility of aid flows and the vulnerability of aid-dependent countries.

Should rich countries increase their efforts to meet the 0.7% target to help developing countries reach the promised growth level? Is an aid threshold needed due to their low absorptive capacity (a concept as old as the target itself)? (Rosenstein-Rodan, 1961, pp. 108-110; Chenery and Strout, 1966, p. 686) This is the main discussion found in literature (De Renzio, 2005, pp. 1-2; Guillaumont & Jeanneney, 2011, pp. 1-2; Presbitero, 2016, pp. 17-18; Harb & Hall, 2019, p. 193). This paper aims to raise a different question, whether the 0.7% target is the right figure to be followed today, as many changes have occurred in the world since its launch. Much has changed in the aid panorama since 1969. Rich and poor countries' national incomes are now higher, in addition to an increase in private flows compared to public ones, and the emergence of new actors and financing instruments (UNCTAD, 2019b, pp. 20-22; WB, n.d.). Does the target of 0.7% of rich countries' Gross National Product (GNP), now Gross National Income (GNI), for development aid still make sense?

To answer this question, the paper is divided in two parts. Sections 2 to 4 investigate the path that determined the target and the assumptions that sustained it in an academic, political and economic context; and examine the academic estimates, the economic theories and the international organizations' official documents that led to the emergence of the target and its

subsequent settlement as the “correct amount” of aid needed. The literature review also shows the critics related to the target and the driving economic theories. In the second part, section 5 addresses the empirical verification of the adequacy of the target goal of 0.7% GNI/ODA at present. Using World Bank (WB) data, we estimate what should be the target’s figure during the years 2014-2019, based on the assumptions of the 1950s and 1960s studies that defined the 0.7% goal. The Financing Gap Framework was the main postulate driving the estimates’ methodology that questioned the adequacy of the target in two dimensions: its static figure over time, and its ability to represent different regions. Section 6 presents the final remarks and conclusions.

## 2. THE HISTORY OF THE TARGET

International aid has long existed in society, but in the modern era it appeared in the 19th and early 20th centuries, when western countries turned their attention to their colonies (Kanbur, 2006, p. 1562). In the 1940s, two key moments marked the evolution of aid: the Marshall Plan, and the foundation of the UN and the Bretton Woods system. Not long after these historical landmarks, a fast industrialization and development of poor countries became the objectives of the international aid community, driven by the geopolitical context of the Cold War and the development thinking of that time (Faure, 2000, p. 44; Kanbur, 2006, pp. 1563-1565). Kanbur (2006) argues that foreign aid was an asset during this ideological war and was adopted with an anti-communist purpose, although commonly masked as a “moral obligation” of the rich to the poor countries. (p. 1565).

The most famous international target on aid emerges from this background, dating back to the 1950s. It began with a different figure and it took a long way to reach the current target. The economist Jagdish Bhagwati states that the original 1% of Gross National Product (GNP)<sup>1</sup> target was first suggested by the Nobel-prize winner W. Arthur Lewis “who was adviser to Hugh Gaitskell, leader of the British Labour Party, who wanted a target for his party’s political platform in the 1950s.” (Bhagwati, 2005, March 22). And the literature registers it: “As long ago as 1957, the Labour Party announced in its Colonial Policy pamphlet on Economic Aid that ‘the next Labour Government would therefore at once announce plans to expand Britain’s aid by allocating an average of 1% of our national income over a period of years as Britain’s contribution.’” (“8-‘One Per Cent’ and All That”, 1966, p. 68). The 1959 manifesto of the Labour Party declared on

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<sup>1</sup> Initially the ratios used GNP - equivalent to GNI, used from 1993. Later the Gross Domestic Product (GDP) was also used. (Bilzen, 2015, p. 181; Clemens & Moss, 2005, p. 3) The paper uses them interchangeably. The difference between GDP and GNI data is considered insignificant in quantitative terms for the analysis.



its section “War against want”: “We believe in extending the Socialist concept of the Welfare State to all the peoples of the world. This is why we have solemnly pledged ourselves to devote an average of 1 per cent of our national income each year to helping the underdeveloped areas.” (Labour Party, 1959).

But it was in 1958 that the original target on aid rose for international consideration as a suggestion by the World Council of Churches (WCC) (OECD, 2006, p. 42; Clemens & Moss, 2005, p. 4). The WCC was established in 1948 and works as a channel for donations among Christian institutions from rich countries to poor ones (Clemens & Moss, 2005, p. 3; WCC, n.d.). In 1955, the WCC asked Egbert de Vries, a senior WB executive and then Director of the Dutch Institute for Social Studies, for advice on the organization’s expense on aid. In 1949 the economist had estimated \$5 billion for the United States of America (USA) to invest each year in developing countries (Clemens & Moss, 2005, p.4; Bilzen, 2015, pp. 181-182), and so mentioned that: “a great amount of capital would be needed from the rich nations in order to achieve only a modest increase in the standard of living of the poorer.”<sup>2</sup>.

In a 1958 meeting in Denmark, the Council’s Central Committee noted that “if at least one per cent of the national income of countries were devoted to these purposes, the picture would become much more hopeful.”<sup>3</sup>. The OECD credits Arthur Lewis for coming up with the idea that rich countries should donate 1% of their national income, and the WCC for making the proposal internationally accepted (mandatory) (OECD, 2002). Besides Lewis, Wright (2017) highlights the important role of Barbara Ward in pressuring donor governments to meet the target throughout the 1960s, which included both public and private flows. She was “in part responsible for having the idea of an aid volume target picked up in the UN system” (Wright, 2017, p. 182). Ward, who later advocated for poverty-oriented approaches, shared with Lewis common thoughts on foreign aid as being a moral commitment, and had much influence on then WB president Robert McNamara (Satterthwaite, 2006, pp. 53-54; Wright, 2017, p. 6).

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<sup>2</sup> Hudson, D. (1977). *The World Council of Churches in International Affairs*. Leighton Buzzard, UK: Faith Press for the Royal Institute of International Affairs, p. 172 in: Clemens, M., & Moss, T. (2005). The ghost of 0.7 per cent: origins and relevance of the international aid target. *International Journal of Development Issues*, 6(68), p. 4.

<sup>3</sup> WCC. (1958). *Minutes and Reports of the Eleventh Meeting of the Central Committee of the World Council of Churches: Nyborg Strand, Denmark, August 21-29, 1958*. Geneva: World Council of Churches, Appendix XIV, pp. 124-125 in: Clemens, M., & Moss, T. (2005). The ghost of 0.7 per cent: origins and relevance of the international aid target. *International Journal of Development Issues*, 6(68), p. 4.

Bilzen (2015) notes that the 1% figure may have been considered years before, when the two founding economists of the Bretton Woods institutions Harry Dexter White and John Keynes discussed it over lunch, in 1943. White suggested “that all participating countries should spend 1% of one year’s national income for relief activities co-ordinated by the UNRAA [United Nations Relief and Rehabilitation Administration]” (Bilzen, 2015, p. 182).

### *2.1. Debating the 1% aid target*

The question on why the 1% figure was chosen is vaguely explained. Clemens & Moss (2005) and Bilzen (2015) argue that the number meant to double the total public and private capital flows to poor countries - they were about 0.5% of the national income of the rich countries in 1955 (Clemens & Moss, 2005, p. 4; Bilzen, 2015, p. 182). The figure was “a convenient round figure which was believed to be at just about the right level to exert a useful upwards pressure on national aid programmes” (“8-‘One Per Cent’ and All That”, 1966, pp. 66-67). Despite the uncertainty around the subject, WCC’s proposal was fundamental since it spread among all the UN delegations (Faure, 2000, p. 45). In 1960, the UN General Assembly expressed “the hope that the flow of international assistance and capital should be increased substantially so as to reach as soon as possible approximately 1 per cent of the combined national incomes of the economically advanced countries.” (UN, A/RES/1522(XV), 1960, p. 13).

Clemens & Moss (2005) highlights that the aid’s amount was also supported by the governments of rich countries, and by the Academia itself (pp. 4-5). The development thinking of that time believed that market failures and externalities could be eliminated with economic planning and government intervention. This would assure the management of investment and aid in recipient countries, while the academic theories of “big push”, “stages of economic growth”, and “two-gap model” emerged (Kanbur, 2006, p. 1565-1566). The main economists at that time investigated the “correct” amount of capital that would lead to developing countries’ self-sustaining economic growth, coming up with results close to 1%. This group included Paul Rosenstein-Rodan, Hollis B. Chenery and Alan M. Strout, Jan Tinbergen<sup>4</sup>, among others. They all followed Roy Harrod’s and Evsey Domar’s learnings, whose separate works composed the Harrod (1939) - Domar (1946, 1947) model – the first modern growth model -, and the later findings of

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<sup>4</sup> The economist became well-known for his work in econometrics and macroeconomic modelling, and for his proposal of 0.75% target during his work on a “World Development Plan”. He contributed to the economic planning thinking. See: Tinbergen, J. (1966).

W.W. Rostow (1956, 1959). The academic works were cited on UN official documents (Clemens & Moss, 2005, p. 6).

In 1961, the UN General Assembly reaffirmed the figure, designating the 1960s as the “United Nations Development Decade”: “Member States and their peoples will intensify their efforts (...) to accelerate progress towards self-sustaining growth (...) so as to attain in each under-developed country a substantial increase in the rate of growth (...) taking as the objective a minimum annual rate of growth of aggregate national income of 5 per cent at the end of the Decade.” (UN, A/RES/1710(XVI), 1961, p. 17). In 1964, the first meeting of the UN Conference on Trade and Development (UNCTAD) discussed the 1% target. It was recommended that: “Each economically advanced country should endeavor to supply (...) financial resources<sup>5</sup> to the developing countries of a minimum net amount approaching as nearly as possible to 1 per cent of its national income, having regard, however, to the special position of certain countries which are net importers of capital.” (UN, 1964, p. 44) – a proposal also endorsed by DAC (Pearson et al., 1969, p. 144). It continued: “This is not intended to represent either a ceiling or a suitable method for comparing the appropriate quantitative or qualitative development assistance efforts between economically advanced countries.” (UN, 1964, p. 44). At that moment, the 1% figure was not seen exactly as a target, but rather as a recommendation. It was also not meant to be considered a measuring instrument of the rich countries’ efforts.

At the second meeting of the UNCTAD in 1968, the divergence in nature of private and public flows received attention. It was argued that private flows did not “constitute ‘aid’ in the sense of resources supplied without commensurate return. They do not, moreover, respond as directly to government policies as do official flows. Thus, it would appear that, without detriment to the 1 per cent target, it would be desirable to have a target for official development assistance as a measure of the commitment of governments to international development.” (UN, 1968b, p. 3).

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<sup>5</sup> Financial resources were defined as “Official cash grants and grants in kind (including grants for technical assistance); sales of commodities against local currencies; government lending for periods exceeding one year (net of repayments of principal); grants and capital subscriptions to multilateral aid agencies, and net purchases of bonds, loans and participations from those agencies. Private capital on the basis of net long-term movements, originating with residents of the capital-exporting countries. They are thus net of repatriation of principal, disinvestment, and retirement of long-term loans, portfolio assets and commercial debt. They are not net of reverse flows of capital originating with residents of the less-developed countries, nor of investment income.” (UN, 1964, p. 44, footnote 54).

While working on a “World Development Plan” at the Committee for Development Planning<sup>6</sup> (CDP), Tinbergen estimated a target for capital flows (both concessional and non-concessional) of 0.75% of donors’ GNP to be reached by 1972, which was used as a reference (Wright, 2017, p. 183; OECD, 2006, p. 42). In “Wanted: A World Development Plan”, the Nobel-prize winner also recommended an “average rate of growth of 7 percent for the developing world as a whole” (Tinbergen, 1968, p. 424). At the UNCTAD’s second meeting it was advised that “countries whose net official assistance is currently below 0.75 per cent of their GNP might undertake to raise it to this level by, say, 1971” (UN, 1968b, p. 4), as a suggestion of the UNCTAD Secretary-General Raúl Prebisch (UN, 1968a, p. 419), and that the “progress toward the 5 per cent target rate of growth for the Development Decade will (...) call for greater efforts by these countries in mobilizing their own resources, as well as for considerable increases in the inflow of external resources” (UN, 1968b, p. 13). The Conference warranted the GNP as the denominator for the target - opposing to the DAC’s suggestion of net national income (Scott, 2015, p. 21). The lack of a firm definition of official flows for aid resulted in the inclusion of total official flows on its numerator (Scott, 2015, pp. 9-10).

The latter concerns to include net private flows derived from the difficulty that governments would face on planning and anticipating these flows (OECD, 2002). Besides, since DAC members as a group had already reached the 1% target, there was no pressure on them. The best alternative would be to refer only to the official flows, excluding the private ones which were approximately one-third of the DAC members’ capital flows to developing countries in 1966 (“8-‘One Per Cent’ and All That”, 1966, p. 67). The developing countries had also urged for “increased concessional financing” (Hynes & Scott, 2013, p. 3), and a separate target (“Charter of Algiers Ministerial Meeting of 77 Developing Countries”, 1968).

## 2.2. *The Pearson Commission*

The story of the Pearson Commission begins in 1966, when Barbara Ward, the UN Educational, Scientific and Cultural Organisation (UNESCO) Director-General Rene Maheu, and the WB Governor George Woods got together at Edward Boyle’s house for a dinner party. At the occasion, they discussed how the lack of motivation among donor countries led to decreasing

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<sup>6</sup> The UN Economic and Social Council (ECOSOC) expert advisory body later renamed to Committee for Development Policy (UN DESA, 2017).

efforts on development assistance. Ward suggested that a group of experts be formed to rethink the future of aid, along the same lines as the Marshall Plan. Woods promptly followed the suggestion, which he officially announced in 1967 (Brushett, 2015, pp. 86-87). In 1968, the WB president Robert McNamara invited the former Prime Minister of Canada Lester B. Pearson to form the Commission that would analyze the international cooperation and development assistance, aiming at a “rationale” for aid that would stimulate donor countries. The selected international group formed the Pearson Commission: Edward Boyle (United Kingdom - UK), Roberto de Oliveira (Brazil), C. Douglas Dillon (USA), Wilfried Guth (Germany), Arthur Lewis (Jamaica), Robert E. Marjolin (France), and Saburo Okita (Japan). In 1969, an eleven-month study resulted in the Pearson Report, which advocated for aid as being a moral obligation (Pearson et al., 1969, p. 8). The idea of “self-sustaining growth” was the base for the Report (Pearson et al., 1969, p. 11), much led by Lewis’s thoughts on economic growth as the main rationale of aid and his resistance on focusing on the security argument or a merely humanitarian one (Brushett, 2015, p. 92; Wright, 2017, p. 115).

Brushett (2015) states that the Commission followed a challenging path until it reached the final results of the Report. During the Report’s progression, the USA, the most important donor country to convince, faced pessimism with development assistance due to two main events: the Black Freedom movement and the Vietnam War. The belief in isolationism arose among the old liberals. The young, in turn, saw foreign aid as a form of “neo-colonialism”. The commission knew that the only way out would be to bet on the aid functionality argument to critical stakeholders, while emphasizing its “moral and global” side to those who were less dubious about it (Brushett, 2015, pp. 88-89).

The Commission criticized the 1% figure since it did not “differentiate between commercial transactions and concessional aid” (Pearson et al., 1969, p. 147). Besides, the USA officials had already made clear their distaste for targets - the 1% target in particular (Brushett, 2015, p. 91). Nevertheless, the Commission was not pleased with the 0.75% figure proposed by UNCTAD either (Wright, 2017, pp. 188-189). Wright (2017) states that there was a skepticism on the aid-growth theory and the idea of a target itself among some members of the Commission (p.184). It was important to decide a definition of “aid” that was justifiable to the donor countries, and a target figure that would not only be appealing to those countries but would also be accurate to the recipient countries’ needs (Wright, 2017, pp. 184-185, 188-189). Concomitantly, after many

discussions, the DAC members agreed that a reform of aid was needed in view of the developing countries' debt servicing and economic situation (Hynes & Scott, 2013, pp. 3-4).

### 2.3. *Towards ODA concept and target*

In 1969, the DAC members established a Supplement to the 1965 Recommendation on Financial Terms and Conditions, settling ODA as “concessional in character” (Scott, 2015, p. 11; Wright, 2017, p. 189; Martin, 1969, p. 268). The DAC formed an ad hoc Group on Statistical Problems<sup>7</sup> to help create a definition of ODA. A more general first definition was made on March 3rd, 1969 (Scott, 2015, p. 12). Ten days later, a second attempt by the group, closer to the one known today, defined ODA as:

all flows to less-developed countries and multilateral institutions (as defined for this purpose) provided by government agencies, including state and local governments, or by their executive agencies, which meet the following tests: a) they are administered with the primary objective of promoting the economic development and welfare of developing countries; and b) they are intended to be concessional in character, i.e. their terms are significantly softer than the market terms prevailing in the donor country.<sup>8</sup>

Discussion ensued on what was considered “concessional in character” and on which DAC members' loan programmes could be included as ODA (Scott, 2015, p. 13). Eventually, a minimum grant element of 25% was settled, which was an important progress on the matter. The DAC, however, continued promoting that the assistance had been given at even softer terms (Hynes & Scott, 2013, pp. 6, 8). The last time the Terms Recommendation were revised was in 1978, when the DAC decided to increase the average grant element target from the 84% settled in 1972 to 86% for the Member's ODA programme, considering special higher terms for the LDCs (Hynes & Scott, 2013, p. 8; Scott, 2015, p. 22).

A major conclusion of the discussions was the differentiation of total official and private flows in different categories: ODA, Other Official Flows (OOF) and Private Flows (Hynes & Scott, 2013, p. 5). The removal of OOFs from the official flows clarified which transactions were “concessional in character” and justified decreasing the target's figure to 0.7% target (Hynes &

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<sup>7</sup> In 1973, it became a full Working Party (Scott, 2015, p. 13).

<sup>8</sup> OECD. (1969). *Definition and presentation of official development assistance and other official flows* [Note by the Secretariat]. OECD document DAC/STAT(69)13, Paris, 27 March, p. 2 in: Scott, S. (2015, September). *The accidental birth of “official development assistance”*. (OECD Development Co-operation Working Paper No. 24), p. 12.

Scott, 2013, p. 5; Wright, 2017, p. 192). The 1969 DAC definition, negotiated by donor governments, made the target less linked to the UNCTAD secretariat, and closer to them (Wright, 2017, pp. 189, 192). This promoted the target's political basis, being easier to convince donor countries (Wright, 2016, p. 196). The decisions made in 1972 resulted in a differentiation of monitoring functions regarding the aid volume and the aid terms. Over time, the focus on volume became greater than on terms (Scott, 2015, p. 22). In 1981, donor countries committed to a volume target specific for the LDCs of 0.15%-0.20% of their national income at the Substantial New Programme of Action for LDCs of 1981, and the target has been reaffirmed in every Programme of Action since then (UNCTAD, 2019b, p. 34).

The Commission provided four main reasons for a target for ODA: i) ODA was not commercial-related; ii) it was decided by the government; iii) the debt problems could be solved by increased concessional assistance; iv) it guaranteed development planning (Faure, 2000, p. 44). The Commission followed the technical DAC classification on aid<sup>9</sup> and recommended that "each aid-giver increase commitments of official development assistance to the level necessary for net disbursements to reach 0.70 per cent of its gross national product by 1975 or shortly thereafter, but in no case later than 1980" (Pearson et al., 1969, pp. 148-149), advising the 1% goal in a broader term of resource transfers to be met by 1975. Furthermore, the Report mentioned that a growth rate of 6 per cent per year was the appropriate for the developing economies (Pearson et al., 1969, pp. 17-18). These new conclusions followed Tinbergen's work at the CDP. Pearson and some of the Commissioners emphasized that they did not want to diminish the UN-sponsored work (Pearson et al., 1969, p. 143; Brushett, 2015, p. 90; Wright, 2017, p. 187).

The Pearson Commission 0.7% figure was chosen (OECD, 2002) by the UN and the target was officiated by the UN General Assembly Resolution in 1970: "Each economically advanced country will progressively increase its official development assistance to the developing countries and will exert its best efforts to reach a minimum net amount of 0.7 per cent of its gross national product at market prices by the middle of the Decade" (UN, A/RES/2626(XXV), 1970, p. 43). The Resolution also mentioned a 6% annual rate of growth of developing countries during the decade (UN, A/RES/2626(XXV), 1970, p. 41). Later, the UN called in its resolutions for higher GNI growth rate of 7% for the 1980 and 1990 decades (Clemens & Moss, 2005, p. 8).

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<sup>9</sup> "Official Development Assistance, consisting of funds made available by governments on concessional terms primarily to promote economic development and the welfare of developing countries." (Pearson et al., 1969, p. 136).

Starting in 2018<sup>10</sup>, ODA flows became defined as those that are:

- i. provided by official agencies, including state and local governments, or by their executive agencies; and
- ii. each transaction of which:
  - a) is administered with the promotion of the economic development and welfare of developing countries as its main objective; and b) is concessional in character. In DAC statistics, this implies a grant element of at least (see note 4):
    - 45% in the case of bilateral loans to the official sector of LDCs and other LICs (calculated at a rate of discount of 9 per cent).
    - 15% in the case of bilateral loans to the official sector of LMICs (calculated at a rate of discount of 7 per cent).
    - 10% in the case of bilateral loans to the official sector of UMICs (calculated at a rate of discount of 6 per cent).
    - 10% in the case of loans to multilateral institutions (see note 5) (calculated at a rate of discount of 5 per cent for global institutions and multilateral development banks, and 6 per cent for other organizations, including sub-regional organizations).

In: OECD (2019a), p. 6.

#### 2.4. *Reviews of the Pearson Report*

At the UN the Pearson Commission's final suggestion was discussed. The developing countries wanted the UNCTAD 0.75% target (OECD, 2002), and some of the donor countries were not convinced either. The results were not unanimous even within the Commission. The Report received negative reviews regarding the Commission's lack of representativeness of the LDCs' ideas and interests. Its "resources approach to foreign aid" was criticized as simplistic facing those countries' problems (Brushett, 2015, pp. 89, 92). Its results brought an overoptimistic idea of development and aid, much to do with its purpose of changing public opinion and stimulating donor countries on aid, especially the USA (Jolly, 1970, p. 165; Clemens & Moss, 2005, p. 7; Wright, 2017, p. 191; Brushett, 2015, pp. 88-89, 91-92). The final decision on the 0.7% target was politically biased. Clemens & Moss (2005) provides the testimony of the former Pearson Commission staff member Sartaj Aziz:

By the time the Pearson Commission met, there was a virtual consensus on the 1% target. From there, the rationale for reaching the 0.70% target for ODA was straightforward. ODA had already reached 0.54% in 1961. An increase to 0.6% would have been considered too modest since countries like France had reached 0.72% by 1968. I remember one staff discussion in which we debated whether the ODA target should be 0.70% or 0.75%. Consensus reached was in favor of 0.70%, as a 'simple, attainable and adequate' target.

In: Clemens & Moss (2005), p. 8.

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<sup>10</sup> In 2018 changes were made on the ODA flows basis methodology from "cash basis" metrics to grant equivalent methodology, which considers only the "grant portion" of a loan (OECD, 2019a, p. 4).



In the end, the Report did not entirely correspond to the donor countries' expectations. The target was unpopular among the DAC members. Only Sweden and the Netherlands adopted it immediately, while other countries advocated for the 1% target for all aid flows and private investment, or did not consider the 0.7% target realistic. Most importantly, the Report did not convince the USA, whose officials solely pledged to making efforts to increase its foreign assistance programs (Brushett, 2015, p. 94). It raised the question whether "self-sustaining" growth rationale was the most efficient for advocating for public support on international assistance, or not (Jolly, 1970, pp. 170-171).

### 2.5. *Reaffirming the need of aid commitment*

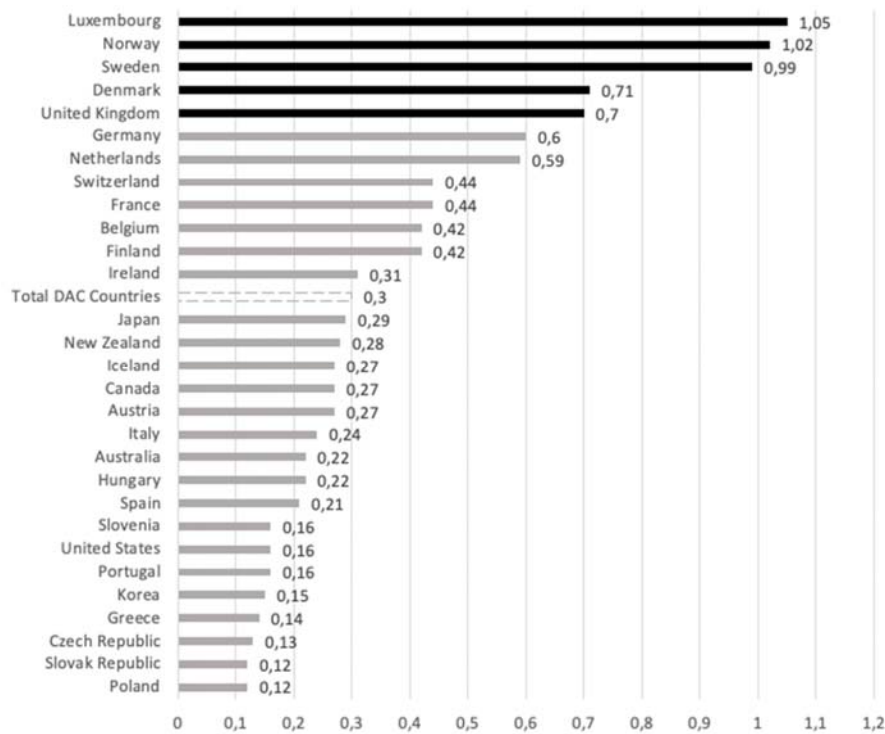
On several occasions, there has been a need to remind and reaffirm the target. For example, in 2000, the UN set a Declaration stating the commitment of 189 countries to end the extreme poverty by 2015 considering the international objectives of the 21st century agenda at the conclusion of their Millennium Summit in September that year (UN, A/RES/55/2, 2000, p. 4). The initiative reaffirmed the 0.7% target, and the LDCs target to reach the Millennium Development Goals (MDGs) by 2015 (UNCTAD, 2019b, p. 34; UN, n.d.). In 2002, the UN International Conference on Financing for Development urged "developed countries that have not done so to make concrete efforts towards the target of 0.7 per cent of gross national product (GNP) as ODA to developing countries and 0.15 to 0.20 per cent of GNP of developed countries to least developed countries, as reconfirmed at the Third United Nations Conference on Least Developed" (UN, 2002, pp. 9-10). The Conference promoted private foreign investments for development in a "closer coordination between donors and the private sector" (UN, 2002, p. 11).

In 2015, the UN set the 2030 agenda for Sustainable Development. Once again, the "commitment by many developed countries to achieve the target of 0.7 per cent of gross national income for official development assistance (ODA/GNI) to developing countries and 0.15 per cent to 0.2 per cent of ODA/GNI to least developed countries" was reaffirmed (UN, A/RES/70/1, 2015, p. 11). In December 2018, the UN General Assembly proclaimed the Third United Nations Decade for the Eradication of Poverty (2018-2027) and reaffirmed the targets. The Resolution also noted the importance of private international capital flows, and "that an important use of international public finance, including ODA, is to catalyze additional resource mobilization from other sources, public and private, and through appropriately designed risk-sharing instruments, including co-investments, public-private partnerships and guarantees" (UN, A/RES/72/233, 2018, p. 12).

### 3. THE AID PROBLEMATIC

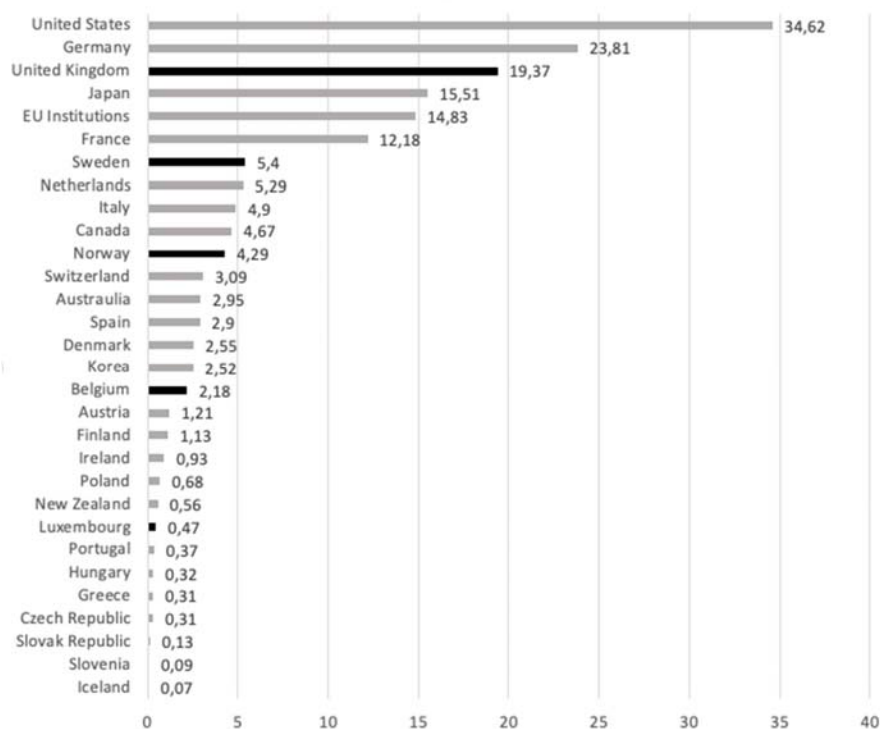
Despite the efforts to remind donor countries of their commitment to aid, OECD data shows that only eight countries achieved the target since 1969: Sweden (since 1975), Netherlands (1975-2012 and again in 2015), Norway (since 1976), Denmark (since 1978), Finland (1991), Luxembourg (since 2000), the UK (since 2013) and Germany (2016). The USA continues to be the biggest donor in absolute terms, but not in relative terms. In 2019, its contribution on aid represented 0.16% of its GNI (US\$ 34.01 billion) (OECD, 2020b). Figures 1 and 2 show the ODA grant equivalent as percent of GNI of DAC countries and in dollars in 2019, respectively.

Figure 1 - ODA grant equivalent as percent of GNI (2019)



Source: OECD, 2020b

Figure 2 - ODA grant equivalent - USD billion (2019)



Source: OECD, 2020b

Worries intensify when there is an economic global crisis. The COVID-19 pandemic displayed an old topic: the vulnerability of developing countries, especially LDCs and commodity-dependent countries, to external shocks (UN, 2020b, p. 4). When a global economic crisis sets in and resource flows decrease, ODA, more than ever, becomes the main financing instrument for these countries (Tew et al., 2020, p. 2; Seghers, 2020, p. 5). Even though it is still too early to draw single conclusions, the outlook even for rich countries is quite pessimistic, with a recession in sight. Recent estimates have already revealed that if the pandemic scenario continues, ODA level may decline, despite DAC members' willingness to preserve ODA levels (Poel, 2020, p. 6; OECD, 2020a; OECD, 2020c, pp. 9-10).

The International Monetary Fund (IMF) estimated a COVID-19 crisis' financing gap of at least US\$ 2.5 trillion, while the UCTAD estimated a financing gap of about US\$ 2-3 trillion over the upcoming two years (OECD, 2020c, p. 11; Poel, 2020, p. 2). The 0.7% target has once again been highlighted as a recommendation for rich countries in face of the emergency (Seghers, 2020, p. 8; UN, 2020a, p. 81). Furthermore, UNCTAD suggested a "Marshall Plan for Health Recovery" that would channel an additional US\$ 500 billion (approx. one quarter of the missing amount of ODA) to developing countries (UNCTAD, 2020a, p. 11). The debate is also on whether or not they really constitute ODA. The credibility of aid is put in place, since efforts for the vaccine and treatment of the coronavirus would benefit both recipient and donor countries (Poel, 2020, p. 1). Moreover, concerns are growing over the impact of the crisis on the UN Sustainable Development Goals (SDGs) (CCSA, 2020, p. 45; UNCTAD, 2020b, p. 186). In 2019, the UN Secretary-General called for a "Decade of Action" to deliver the SDGs keeping in sight the pandemic crisis (UN, 2019). The economic damage from the crisis may increase the financing gap to achieve the SDGs in developing countries (Mukarram, 2020, p. 256; OECD, 2020c, p. 5). The 2020 UNCTAD's report on world investment reinforced its 2014 estimates on an annual investment gap of US\$ 2.5 trillion for developing countries between 2015-2030 to achieve the SDGs (UNCTAD, 2020b, p. 180). The Report indicates that growth in investment is still low compared to the 2014 projections, and there is still a long way to reduce the financing gap in significant terms, particularly for the LDCs (UNCTAD, 2020b, pp. 180-186). Previously and now, UNCTAD urges the need of private investment to help close the gap, complementing public and domestic investment (UNCTAD, 2020b, p. 180).

The investment gap calculated by UNCTAD consists on the difference between the investment flows and the necessary amount to achieve the SDGs. The total investment needs in developing countries were US\$ 3.3 to US\$ 4.5 trillion per year - an intermediate estimate of US\$ 3.9 trillion per year. Since the 2014 annual investment was about US\$ 1.4 trillion, the investment gap resulted in US\$ 2.5 trillion. At that time, estimates of private investments covered US\$ 900 billion of the gap, which meant that US\$ 1.6 trillion had to be covered by the public sector, including ODA (UNCTAD, 2014, pp. 140-147). For the LDCs, it would be needed US\$ 120 billion per year (UNCTAD, 2014, pp. 146-147), which means that the total public capital amount needed for investment in developing countries according to UNCTAD represented about 3.42% of the

DAC countries' GDP in 2014, while in the LDCs represented about 0.26%<sup>11</sup>. If we look at more recent data, DAC countries' total private flows at market terms to developing countries added up US\$ 96.25 billion in 2018. Additional US\$ 42 billion (approx.) were added, from grants by private voluntary agencies. Thus, public sector had to cover about US\$ 2.3 trillion of the financing gap – i.e. about 4.71% of DAC countries' GDP that year<sup>12</sup>. Clemens & Moss (2005) did a similar exercise for the previous estimates on the MDGs of US\$ 110 billion per year, which represented 0.35% of the GDP of the high-income OECD countries (pp. 17-18). If we only consider current data on private flows from DAC countries and the UNCTAD's estimated financing gap, the 0.7% target underestimates the developing countries' needs.

### *3.1. The changes in the aid panorama*

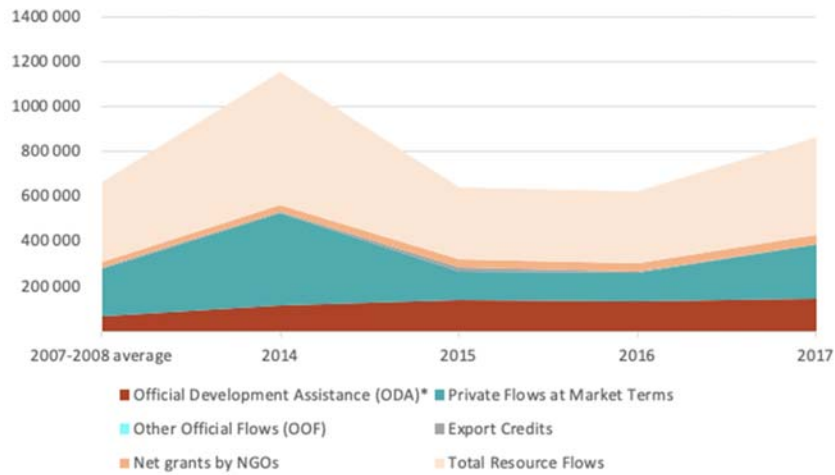
Since the early 2000s, the aid panorama has changed: the emergence of a strengthened South-South cooperation; the private sector engagement; different aid policies; new instruments, modalities and measurements of aid; the importance of philanthropists (UNCTAD, 2019b, pp. 20-22). Those changes arise questions on the definition of aid in practice. Poel (2020) highlights the loss of the concessionality character of ODA over the years, which harms developing countries in general, and LDCs in particular (pp. 3-4). During the 1970s, ODA was considered the developing countries' main source of external financing (Scott, 2015, p. 2). Although ODA remains the main source of external development finance for LDCs, the importance of private financial flows - including philanthropic flows - in developing countries has increased in international cooperation (OECD, 2019b, pp. 34-38; UNCTAD, 2019b, p. 3). Figure 3 shows the types of financial flows given by DAC countries, while Figure 4 shows the variation of ODA and private flows over time as a percentage of the total resource flows.

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<sup>11</sup> Author's own calculations. Data retrieved from WB (n.d.).

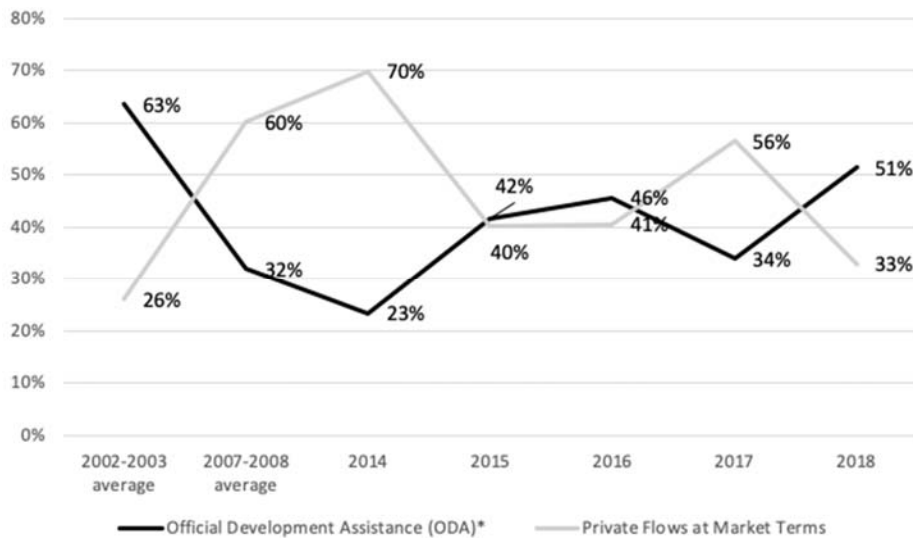
<sup>12</sup> Author's own calculations. Data retrieved from WB (n.d.) and OECD (n.d. -b).

Figure 3 - Financial resources flows by DAC countries to developing countries and multilateral organizations (USD million)



Source: OECD, n.d. -b. Author's elaboration.

Figure 4 - ODA and Private Flows by DAC countries to developing countries and multilateral organizations (% of total resource flows)



Source: OECD, n.d. -b. Author's elaboration.

For Mawdsley et al.(2014), the obvious presence of the private sector in development cooperation dates to 2011, at the Busan High Level on Aid Effectiveness in South Korea, with the reconfirmation of the economic growth as the “driver of ‘development’” (pp.30,33-34).The urgent need for different financing sources often combines the public and private sectors, and lead to

several challenges (Bilal & Krätke, 2013, pp. 5-7; OECD, 2019b, p. 35; Poel, 2020, p. 9; UN, 2020a, pp. 81, 90-91), including the definition of aid as public, later updated by DAC. In 2016, DAC members agreed that the Private Sector Instruments (PSIs) would be counted as ODA, and discussions on a minimum level of grant element ensued (Tew, 2017, p. 3). In 2018, ODA-eligible activities (OECD,n.d.-a) were defined, and in that year and the following, about 2% of ODA was through PSIs<sup>13</sup>. This could also produce an opportunity to rethink the ODA 1969 0.7% target.

#### 4. THE TARGET AND ACADEMIA

A target for rich countries donation of a percentage of their national income to poor countries was endorsed by the Academy, which sustained the theory that developing countries needed to reach the “take-off” phase to enjoy a “self-sustaining growth”. The theory, guided by the Harrod-Domar (H-D) modern growth model and Arthur Lewis’s view of development, was followed by many authors in the 1950s and 1960s, who supported that capital accumulation (investment) was the solution to the main problem of raising savings in the developing countries and estimated the required amount to achieve growth.

##### 4.1. Rostow’s stages of “self-sustaining growth” and the “desirable” growth rate

Rostow (1959), a founder of the modern growth theory, promoted a dynamic approach to think the production function (p.1), which included four main stages towards the “self-sustaining growth”. The first phase (“the traditional society”) reflected an economy with limited production functions and a hierarchic social structure, followed by “the preconditions for the take-off” phase, with the economy’s transformation towards modernization, with two characteristics: the evolution of modern science, and the rising strategic innovation that emerged from Western Europe “exploring” other countries (p. 4). In the third phase (“the drive to maturity”) society effectively introduces technology to its resources and changes its working force, with an increase of urban population (pp. 8, 10). Finally, in “the age of high mass consumption” phase, the mature economy can increase its public services and private consumption, and the economy’s power globally (p.11).

For Rostow (1956), the “take-off” is the period during which an increase of the investment rate enables the rise of real output per capita, changes production techniques and income flows (p. 25). For a take-off, the theory specified the need for slower and longer changes in society in

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<sup>13</sup> Author’s own calculations. Data retrieved from OECD (n.d. -b).

political, social and institutional terms and the development of manufacturing sectors (Rostow, 1956, pp. 32, 47). His main argument was that “a necessary but not sufficient condition” (p. 30) was “a rise in the rate of productive investment from (say) 5% or less to over 10% of national income (or net national product)” (p. 32). This estimate considered a “low” capital-output of 3 or 3.5, the creation of the discussed pre-conditions and an increase of the rate of population, following Lewis (1954) (p. 33, footnote 1), and will be shown below.

#### 4.2. *The Harrod-Domar Model*

The H-D model was created from separate works linking capital to economic growth by the economists Roy Harrod and Evsey Domar. The theory had its origins on the Keynesian equilibrium by which investment and savings are equal ex ante. When the economy reaches the equilibrium at or close to the full employment output level, a part of the savings and investment becomes net values – a dynamic feature of the analysis (Peterson, 1963, p. 32). Its main assumption<sup>14</sup> was that the output rate of growth is represented by the net savings rate and the capital-output ratios, taken as constant (Simonsen & Cysne, 2009, p. 514). This finding enabled the incremental capital-output ratio (ICOR) technique currently used on policymaking (Hussain, 2002, p. 2).

Harrod (1939) considered three different rates of growth: the actual rate, the “natural” rate, which is the maximum rate of growth allowed, and the “warranted” rate, that balances the economy. The “Fundamental Equation” equals the “warranted” rate of growth to the ratio between the net savings rate and the capital-output ratio (pp. 16, 30). The “ideal policy” would eliminate the gap between the “natural” and the “warranted” rates, avoiding instabilities and disappointments of investors (Harrod, 1939, p. 32; Blume & Sargent, 2015, pp. 350-351). Domar, in turn, questioned which was the required economy’s rate of growth to maintain full employment. He assumed that employment was not only a function of national income, but also of “the ratio of national income to productive capacity”. He explained the “dual character” of investment, by generating income and increasing productive capacity (Domar, 1946, p. 139; Domar, 1947, p. 37, 39), and came to the conclusion that full employment maintenance relies on investment and income growing at a constant compound-interest rate. The rate of growth depends on the marginal

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<sup>14</sup> Considering  $s$  the net savings rate,  $\kappa$  the capital-output ratio,  $K$  the capital stock and  $Y$  the output, the output growth rate is  $g = \frac{1}{Y} \frac{dY}{dt} = \frac{s}{\kappa}$ , where  $\kappa = \frac{K}{Y}$  (Simonsen & Cysne, 2009, p. 514).



propensity to save and on the average productivity of investment, which relates to the capital-output ratio (Domar, 1947, pp. 39, 41-42; Peterson, 1963, p. 32).

### 4.3. *The Two-Gap Model*

About twenty years after Harrod's and Domar's works, the economists Hollis B. Chenery and Alan M. Strout presented an extended version of the H-D model that became known as the "Two-Gap model" and the precursor of advanced growth models that followed henceforth. The model derived from the demand and supply sides of the basic national income identity in macroeconomics, where aggregate output equals aggregate expenditure (Shimeles et al., 2009, p.1), and assumes that the economy is constrained by both the saving and the trade gaps.

Chenery & Strout (1966) defended that foreign assistance could fill the temporary saving gap to achieve self-sustaining growth (p. 685). This assumption is described on their "Basic Model" for short-term periods, where external assistance would increase GNP and investment at a constant rate. The desired GNP rate of growth is given by a similar, but modified function<sup>15</sup> from the H-D model, introducing the foreign capital variable (pp. 682-688). In addition, they presented a more complex model representing a long-term situation of a "trade limited growth", where an adjustment in imports and exports is needed for the trade gap to equal the desired saving gap (pp. 688-691). The total capital required to the self-sustaining growth is given by the sum of both models (p. 691). Considering a median capital-output of about 3.52, they estimated a required foreign capital of "\$10-\$17 billion by 1970, corresponding to the rate of growth of external capital of 3 per cent to 10 per cent from its \$7.4 billion value in 1962" (pp. 683-684, 721-722).

The model was very well accepted by the international financing institutions (IFIs). In 1971, it was computerized with a time-lag of one year from investment to growth by the WB, where Chenery became the Chief Economic Adviser of Robert McNamara from 1970 to 1972. The amount of money spent on aid from 1960 to 1994 was "the largest experiment ever tried of an economic model", even though in the academic literature its use was hastily criticized (Easterly, 1999, pp. 427-428). The 1991 WB Report revealed that the model "guided external aid and lending

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<sup>15</sup>  $r_t = \frac{\alpha_t + \phi_t}{\kappa}$ , being  $\alpha_t = (\alpha_0 - \alpha') \times \frac{V_0}{V_t} + \alpha'$  and  $\phi_t = \frac{F_t}{V_t}$ , where  $F_t$  is the net inflow of foreign capital;  $V_t$  is the GNP;  $r_t$  is the rate of growth of GNP in the year  $t$ ;  $\alpha_t$  is the average savings rate in year  $t$ ;  $\alpha'$  is the marginal savings rate;  $\kappa$  is the incremental gross capital-output ratio;  $\phi_t$  is the ratio of foreign capital inflow to GNP in year  $t$  (Chenery & Strout, 1966, pp. 683, 688).

agencies in judging the extra resources that developing countries would need to finance imports and investment.” (WB, 1991, p. 34).

#### 4.4. *Other contributions to the growth theory*

##### 4.4.1. *Lewis’ unlimited supply of labor*

Lewis (1954) modernized the analysis of problems of distribution, accumulation, and growth in closed and opened economies. He provided a different approach from the neoclassical and the Keynesian ones for countries that faced an unlimited supply of labor at a subsistence wage and a low marginal productivity of labor due to a population relatively larger to its capital and natural resources (pp. 1-2). The theory’s main contribution was the suggestion that a surplus labor at a constant real wage would lead to the rising of the capitalist surplus, and the annual investment as a rising share of the national income – i.e., resources transferences from a low productivity sector to a high productivity sector enable a fast growth. This would continue until there was no surplus labor or until capitalists’ profits were reduced as a result of the rise of real wages, and net investment ceased (Lewis, 1954, pp. 19, 21; Hussain, 2002, p. 5).

##### 4.4.2. *Rosenstein-Rodan’s Big Push on aid*

Rosenstein-Rodan (1943) argued that a substantial amount of foreign investment – the big push - was required for developing countries to embark on economic development. (p. 203) The Big Push theory emphasizes the need of a “complementarity” among industries to reduce the risks of gaining profits, and investments in “basic industries” leading to further industrialization (pp. 205-206, 208). In line with this reasoning, Rosenstein-Rodan (1961) also defended foreign capital (p. 107). The granting of aid was subject to certain criteria: national effort; absorptive capacity; and the capacity to repay (pp. 107-109), and suggested that aid from developed countries should be “either a proportion of their GNP (perhaps one-half per cent per annum) or preferably specific contributions (which should add up to the total aid required)” (p. 110). Assuming a capital-output ratio of 3 and a rate of growth of 1%-5%, depending on the estimated absorptive capacity (pp. 117, 119-120), he found that “the total increase in capital inflow required amounts to 2\$ billion per annum for 1961-71 (from \$3.65 per annum at present to \$5.7 billion per annum for the next decade) and to around \$1 billion per annum in 1971-76. (...) Economic aid should increase by \$1.64 billion from the present \$2.65 billion to \$4.290 billion.” (p. 116) His estimates were cited on the UN General Assembly resolution in 1961 (Clemens & Moss, 2005, p. 6, footnote 14).

#### 4.5. *The reappearance of the Financial Gap Framework and its critics*

The H-D theory was an historic mark that contributed to the prevailing perception of development. During the 1950s, its basis was used in the WB's operations, followed by the two-gap model findings. In the 1970s and 1980s, the Bank's financing projects were guided by the extended version of the two-gap model, the Revised Minimum Standard Model (RMSM) developed in 1972, that applies the ICOR to calculate the financing investment over the short to medium terms and to approach three sectors for savings: private; public; and external (Kenny & Williams, 2001, p. 3; Nowak, 2013, pp. 37-39). A return of the growth models, which lost support during the market-oriented 1980s and 1990s, was observed recently in policymaking (Easterly, 2006, p. 315; Kohnert, 2012, p. 6). The Revised Minimum Standard Model-Extended (RMSM-X) includes the IMF financial programming and covers another economic sector - the monetary sector, a part of the Three-Gap Model framework that addresses the savings-investment, the foreign exchange and the fiscal gaps (Bacha, 1990, p. 279; Ranaweera, 2004, p. 648; Nowak, 2013, pp. 38, 46-47). The RMSM-XX model provides the econometrically estimate of the consumption, investment and import demand functions, and additional detailed relations among economic variables (Nowak, 2013, p. 47).

For Easterly (2006), 2005 was the "Year of the Big Push" (p. 289), a concept very much linked to the achievement of the Millennium Development Goals (MDGs). The concepts of "Poverty Trap", "Big Push", "Take-Off" and "Financing Gap" were inter-related by the traditional narrative in the 1950s as much as they are now (p. 293). The 2016 UNCTAD report on the LDCs stated that those countries faced a "poverty trap", in addition to a commodity dependence, that prevented them from achieving economic growth (UNCTAD, 2016, pp. 18-19). In 2019, UNCTAD launched a report on investment trends for the SDGs that exposed an action plan for a "big push" in investment for sustainable development to close the financing gap (UNCTAD, 2019a, pp. 50-51). The IFIs still use targets and analytical apparatus based on the financing gap approach (Easterly, 1999, p. 424; Hussain, 2002, p. 2; Clemens & Moss, 2005, p. 15; Shimeles et al., 2009, p.1). They calculate the "growth gap" between the current growth and the desired rate, and estimate the required level of investment to reach the desired growth level using the ICOR. The required amount of external assistance is the difference between this share and the national domestic savings (Clemens & Moss, 2005, p. 15). The 0.7% target of rich countries' GNP for development

aid was calculated on the assumptions of those models to find the required investment for a recommended growth rate of the developing economies.

Although the models suited the authors' initial intentions, advances in Economics showed that the H-D framework does not contemplate the whole structure of the modern growth theory, nor the economic development process in the long-run (Peterson, 1963, p. 35; Clemens & Moss, 2005, p. 15-16; Kenny, 2006, p. 16). The next section introduces some central comments on the continued use of those assumptions on the development estimates.

#### *4.5.1. Do the models work?*

First and foremost, the remark that the H-D model was not thought to be a growth model. William Easterly points out that the model was refuted by one of its authors (Hussain, 2002, p. 3; Ranaweera, 2004, p. 638). Still, the simplicity and transparency of those models, particularly when there is a limit of time and resources, are relevant to policymaking, along with their focus on the short or medium-run planning problems. Moreover, since many developing countries are far from reaching a stable equilibrium, steady-state models do not appeal to them, and the absence of other models that please policy makers sustain their usefulness (Shimeles et al., 2009, p. 2-3; Nowak, 2013, p. 47). Nevertheless, some criticism should be made. The Financing Gap Model<sup>16</sup> is based on two unreasonable suppositions: 1) aid turns into investment; 2) growth and investment are proportional in a linear relationship in the short-term given by the constant ICOR (Easterly, 1999, p. 424). The literature has found imprecision on calculating the ICOR. Both the H-D model and the RSMS fail when assuming that every additional growth in income goes to the increments of capital, and the absence of a clear distinction between the financial saving and the total saving in the H-D model overestimates the domestic saving available for investment. In short, the required foreign resources are underestimated (Hussain, 2002, p. 3; Nowak, 2013, p. 47).

The use of a constant average and marginal productivity of capital and the absence of a factor substitution are also criticized (Nowak, 2013, p. 47). The presumed aid-investment-growth link also ignores other problems such as policy failures or conflicts of interests. Determining investment as the main output growth decisive excludes other factors human capital, social capital or technical progress, and limits the developing countries' specificities and context (Jolly, 1970,

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<sup>16</sup> Easterly (1999, p. 424) nominates the Harrod-Domar-Chenery two-gap model framework as the "financing gap". This paper follows the same denomination.

p. 173; Shimeles et al., 2009, p. 3). As Easterly pointed out (1999), the inconsistency of the aid-investment link results from the assumption that the moral hazard problem would tempt recipient countries to maintain the gap or even to increase it, by consuming more and saving less. With regards to the investment-growth link, he analyzed the ICOR in endogenous growth models and argued that neither neoclassical nor endogenous growth models theories should consider the ICOR constant, an investment quality measure or derivative of growth in relation to investment (p. 430). Moreover, he found empirically that increasing aid does not necessarily increase investment, and that growth and investment do not always hold a positive relationship (pp. 431-432), and concluded that “there is no theoretical or empirical justification for the assumption that filling a ‘financing gap’ determined by ‘investment requirements’ will raise investment or growth in the short run” (p. 437).

Ranaweera (2004), however, argues that Easterly (1999) and Hussain (2002) criticisms of the IFIs’ approach did not consider the practical side that overcomes the theoretical and empirical flaws, in which a policy dialogue between the donors and the recipient countries ultimately defines the volume and time of resource flows (pp. 644-645). Yet, the question here is: why should an outdated economic theory still drive policymaking? Easterly (2006) tested the resurgence of the modern growth model rationale for foreign aid. He evaluated data of investment-related poverty traps and found little evidence of poverty traps in the sense of zero growth for the poor countries. He concluded that the rich countries’ experience on stagnation should not necessarily lead to the aid narrative for developing countries because little evidence was found in supporting a model of take-off financed by high investment (pp. 292-293, 298, 310-312). Other studies found weak evidence on investment as the only determinant of growth, investment as the main obstacle for economic growth in Sub-Saharan Africa, and on aid’s effect on investment in positive and significant terms (Kenny & Williams, 2001, p. 6; Devarajan et al., 2003, pp. 6-8, 10-11; Doucouliagos & Paldam, 2008, p. 18).

#### *4.5.2. The convenience of the self-sustaining growth theory*

The Pearson Commission and the international aid community embraced the self-sustaining growth theory, even though, at the time, empirical studies provided small evidence between aid volume and other significant variables. One explanation of this endorsement is that an aid rationale that ensured that recipient countries could grow after having raised savings and investment rates,

and that they could be aid independents – and even aid donors – within a planning period through the donor’s efforts, policies and the model assumptions, would convince rich economies

The promise of self-sufficiency and independency from financial aid also attracted recipient countries. The theory’s “technocratic” feature implied that the aid’s amount and recipient would not depend on “value judgements”, but rather on accepted economic calculations on the reasonable rate of growth (Jolly, 1970, pp. 1969-172).

Still, any of the official desired rates of growth was suggested by the own recipient country. The rich countries’ continued dominance over economic, cultural and political aspects of the developing countries still creates a bigger challenge towards economic growth and equal partnership (Jolly, 1970, p. 171; Kohnert, 2012, pp. 7-8). In fact, aid and its conditionalities and volatility have been questioned in recent years. From the target’s creation, the developing countries have shown worries on the inconsistency and the irregularity of aid (Brushett, 2015, p. 90). Aid’s association with economic dependence and procyclical policies in developing countries, and its effectiveness<sup>17</sup>, are an enduring discussed subject.<sup>18</sup>.

#### 4.5.3. *One single static target*

The target was planned on the donor countries’ side resulting in a static portion of their economies (Clemens & Moss, 2005, p. 16), which ignores the world economic changes over the years. In addition, the use of national income data was susceptible to margins of error when countries were compared with one another. Like many academic papers of that time, the Pearson Report used average figures to calculate the 0.7% value (Jolly, 1970, p. 166, footnote 3), and did not consider the specificities among the developing countries. It lacked a direct analysis on the living standards and internal poverty of each country, which would show “more extreme” contrasts and the inequalities within developing countries (Jolly, 1970, p. 167). The analysis of each developing country would provide different gaps, therefore, different targets. A generalized static target can – and very likely will – lead to a miscalculation and misinterpretation over time and among countries.

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<sup>17</sup> There is a vast literature on aid effectiveness. For example, Sumner & Glennie (2015) analyses and summarizes cross-country studies on the subject.

<sup>18</sup> Sindzingre (2017), for example, explains the vicious cycles formed due to the dependence of African countries on financing from external agencies, and on international commodity and financial markets that induces “externalization” of the government policies which results in political legitimacy deficit.

## 5. EMPIRICAL ANALYSIS: IS THERE A RIGHT VALUE FOR THE RECIPIENTS AND FOR AFRICA?

Can the target of 0.7% of rich countries' national income for aid for development still be considered the "correct" value? The discussion, from a theoretical viewpoint, shows that the target rests on economic models and on theories that are no longer valid in the academic literature. In addition, the target's figure was kept static over the years, ignoring any changes that may have happened in the world over time. This section assesses two hypotheses empirically: 1) Using the same method and assumptions of the 1960s, but taking into account the current situation, is the target's figure still 0.7%?; 2) Can one target represent different regions' needs? The chosen method to answer these hypotheses is essentially the same technique used to calculate the required capital for the developing countries' sustaining-growth in the 1960s. The empirical approach used the Financing Gap Model function on output rate of growth given by Chenery and Strout (1966), the same methodology used in policymaking (WB, 1991, p. 34; Easterly, 1999, pp. 427-428), and by Clemens and Moss (2005, p. 12).

### 5.1. Data description

The academic studies of the 1950s and 1960s estimated the total "financing gap" using global variables such as savings rates, capital flows, income levels, and the capital-output ratio to calculate the amount of capital needed for a desired national output growth rate level to achieve the "self-sustaining" growth. The function of the desired economy growth rate given in the Two-Gap Model by Chenery and Strout (1966, p. 688) can be described as follows:

$$g_t = \frac{s_t + \frac{F_t}{Y_{Rt}}}{\kappa}$$

where  $g_t$  is the desired GDP growth rate;  $s_t$  is the gross domestic savings rate;  $F_t$  is the required foreign capital;  $Y_{Rt}$  is the GDP of the recipient countries;  $\kappa$  is the capital-output ratio.

The variables were chosen in accordance to the literature review and the availability of the countries' data (Table 1).

Table 1 - Variables

Variable	Description	Indicator Code	Source
Aid	Official Development Assistance	-	OECD
GDP	GDP (current US\$)	NY.GDP.MKTP.CD	World Bank
Gross domestic savings rate	Gross domestic savings (% of GDP)	NY.GDS.TOTL.ZS	World Bank

The use of the GDP instead of GNI is justified by the availability of data and because the difference between the two variables is considered insignificant in quantitative terms for the analysis. Assuming this first equation, it is possible to calculate the total amount of foreign capital needed as follows:

$$F_t = Y_{Rt} \times (\kappa \times g_t - s_t)$$

Considering this function, the ratio of the required foreign capital to the total GDP of the donor countries is given by the same equation used by Clemens and Moss (2005, p. 14, footnote 55):

$$F_t(\% \text{ donor countries' GDP}) = \frac{Y_{Rt} \times (\kappa \times g_t - s_t)}{Y_{Dt}}$$

where  $Y_{Dt}$  is the GDP of the donor countries.

To calculate the specific amount of aid needed, the above equation is multiplied by the aid portion of total flows to developing countries. The same method was used by the UNCTAD and the Pearson Commission (Clemens & Moss, 2005, pp. 14-15). The estimates applied the World Bank data for 2014-2019<sup>19</sup>. Three desired GDP growth rate values were considered: 5%, 6% and 7%. The 5% growth rate target was recommended by the UN in 1961 for the First Development Decade. Likewise, the 6% was recommended in 1970 for the Second Development Decade, when the 0.7% target was officially recognized. During the 1980s and 1990s, the UN recommended the 7% growth rate. For a similar reason, four capital-output ratio values were used in the analysis: 2, 3, 4 and 3.5. The latest three values were used because the capital-output value varied between 3 and 4 in the 1950s-1960s academic studies, whereas the figure of 2 was used in the 1990s research (Rosenstein-Rodan, 1961, p. 117; Chenery & Strout, 1966, pp. 712-713; Clemens & Moss, 2005, p. 20).

<sup>19</sup> Some data for 2019 was not available.



The developing countries were the focus of the analysis of the different values that the target may have. For the purposes of this paper, we have considered too several groups of countries and specific regions data: LDCs (UN classification); Developing Countries; subgroups of Developing Countries (Lower Middle Income, Upper Middle Income, Low Income); Sub-Saharan Africa (excluding high income); African regions (Central, East, North, South, West); LDCs of each African region. For the total estimates of the groups “African Regions” and “LDCs of each African region”, the variable  $s_t$  used is the average of those countries’ gross domestic savings rates.

### 5.2. *Estimates and analysis for the developing countries*

The analysis’s first question was: Using the same method and assumptions of the 1960s but considering the present situation, is the target’s figure still 0.7%? According to the estimates, the answer is “no”. The result is not surprising as the world panorama has completely changed since the 1960s. The analysis shows that the output and saving rates of the rich and developing countries are higher than in the 1960s (WB, n.d.), and the amount of private and public capital transfers have changed. In the early 1960s, official aid flows accounted for between two-thirds and three-quarters of total capital flows to developing countries, which UNCTAD and the Pearson Commission assumed would be kept in the following years (Clemens, & Moss, 2005, p. 14). Between 2009 and 2013, the average of ODA and official aid to developing countries represented about 3.4% of their aggregate GDP<sup>20</sup>. Aid flows represented on average 39%<sup>21</sup> of the total external flows to developing countries by the DAC countries between 2014 and 2018.

Table 2 shows the results of the total capital and specifies the amount of aid required for developing countries (total data from Lower Middle Income, Upper Middle Income and Low-Income countries) to achieve a desired GDP growth rate of 6%, considering a capital-output ratio of 3.5. All the results were negative between the years of 2014 and 2018 (-0.74% , -0.46%, -0.43%, -0.62% and -1.68% of DAC countries’ GDP in each year, respectively), which means that aid flows would not have been needed to fill up the financing gap of investment and savings of those countries. In addition, if the 0.7% target was achieved by the DAC countries in 2018 and about US\$350 billion were given to the developing countries, this would make the aggregate GDP of the

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<sup>20</sup> Author’s own calculations. Data retrieved from WB (n.d.).

<sup>21</sup> Author’s own calculations. Data retrieved from OECD (n.d. -b).

developing countries grow at a rate of 8.17% per year, according to the model. This value is higher than the GDP growth rate data of a regular developing country at that year (WB, n.d.).

Table 2 - Total capital and aid need for developing countries

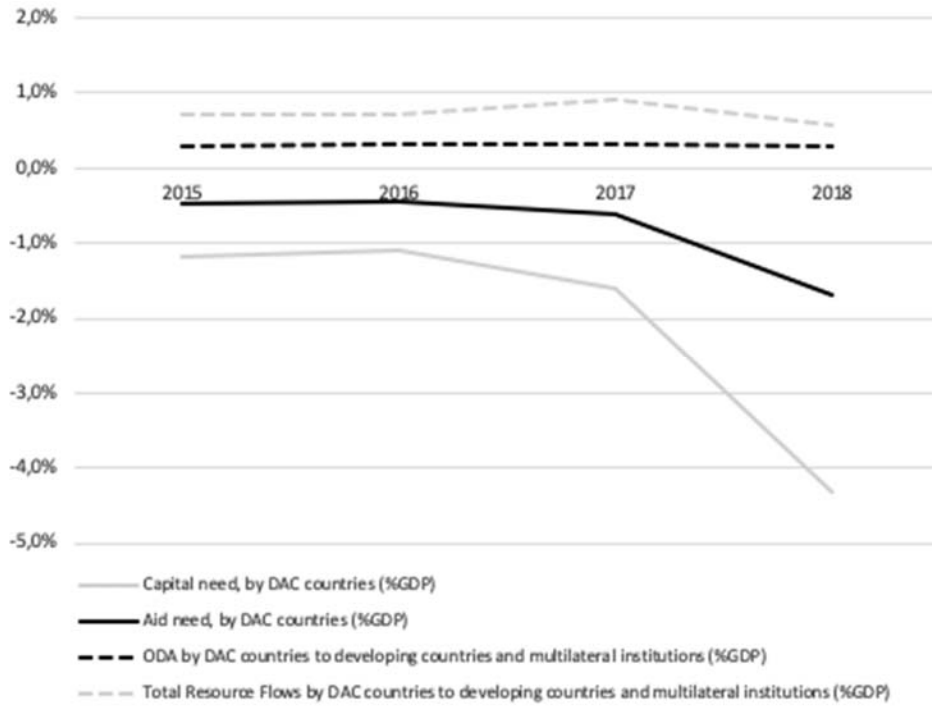
k=3.5; g=6%	2014	2015	2016	2017	2018*
Capital need, by high-income countries (%GDP)	-1.73	-1.08	-1.01	-1.46	-3.95
Capital need, by DAC countries (%GDP)	-1.89	-1.17	-1.09	-1.59	-4.31
Aid need, by DAC countries (%GDP)	-0.74	-0.46	-0.43	-0.62	-1.68

\*Excluding low-income countries.

Source: WB (n.d.) and OECD (n.d. -b). Author's own calculations.

This is not to say, however, that a smaller amount of aid should be given, nor that the previous figures are the right ones for solving the development problem, but rather that they solve the specific growth model problem that led to the 0.7% target. So, if we assumed that the economic theories were still valid, and that the official target was reset using today's numbers, rich countries would have already met it. These results are in accordance with Clemens and Moss (2005, pp. 14-15). If we consider that about 2% of the ODA flows will continue to be given through PSIs, as in 2018, an even smaller amount would be needed from the public sector in the following years. Figure 5 shows the amount of total capital and of aid required for developing countries in contrast with the actual amount of capital and aid given by DAC countries, according to OECD data.

Figure 5 - Developing countries' capital and aid needs and actual flows



\*Excluding low-income countries in 2018.

Source: WB (n.d.) and OECD (n.d. -b). Author's own calculations.

The estimates using desired GDP growth rate values of 5% and 7%, and capital-output ratio values of 2, 3 and 4 for the developing countries are given in Table 3. The only results whose aid need values exceeded 0.7% were for the capital-output ratio value equal to 4 and the GDP growth rate equal to 7%, between 2014 and 2017. In 2018, the value drops to 0.03%.

Table 3 - Total capital and aid need for developing countries using different values of capital-output ratio and GDP growth rate

		2014	2015	2016	2017	2018*
k=2; g=6%	Capital need, by DAC countries (%GDP)	-6.76	-6.13	-5.98	-6.68	-9.11
	Capital need, by high-income countries (%GDP)	-7.37	-6.67	-6.49	-7.28	-9.94
	Aid need, by DAC countries (%GDP)	-2.87	-2.60	-2.53	-2.84	-3.88
k=2; g=7%	Capital need, by DAC countries (%GDP)	-5.64	-5.01	-4.87	-5.52	-7.96
	Capital need, by high-income countries (%GDP)	-6.15	-5.45	-5.29	-6.02	-8.69
	Aid need, by DAC countries (%GDP)	-2.40	-2.12	-2.06	-2.35	-3.39
k=3; g=5%	Capital need, by DAC countries (%GDP)	-5.09	-4.45	-4.32	-4.94	-7.39
	Capital need, by high-income countries (%GDP)	-5.54	-4.84	-4.69	-5.38	-8.07
	Aid need, by DAC countries (%GDP)	-2.16	-1.89	-1.83	-2.10	-3.15
k=3; g=6%	Capital need, by DAC countries (%GDP)	-3.41	-2.76	-2.66	-3.20	-5.67
	Capital need, by high-income countries (%GDP)	-3.71	-3.00	-2.89	-3.49	-6.19
	Aid need, by DAC countries (%GDP)	-1.50	-1.17	-1.13	-1.36	-2.41
k=3; g=7%	Capital need, by DAC countries (%GDP)	-1.73	-1.08	-1.01	-1.46	-3.95
	Capital need, by high-income countries (%GDP)	-1.89	-1.17	-1.09	-1.59	-4.31
	Aid need, by DAC countries (%GDP)	-0.74	-0.46	-0.43	-0.62	-1.68
k=3.5; g=5%	Capital need, by DAC countries (%GDP)	-3.69	-3.04	-2.49	-3.49	-5.96
	Capital need, by high-income countries (%GDP)	-4.02	-3.31	-3.19	-3.81	-6.50
	Aid need, by DAC countries (%GDP)	-1.57	-1.29	-1.25	-1.48	-2.54
k=3.5; g=7%	Capital need, by DAC countries (%GDP)	0.22	0.89	0.93	0.57	-1.95
	Capital need, by high-income countries (%GDP)	0.24	0.96	1.01	0.62	-2.13
	Aid need, by DAC countries (%GDP)	0.09	0.38	0.39	0.24	-0.83
k=4; g=5%	Capital need, by DAC countries (%GDP)	-2.29	-1.64	-1.56	-2.04	-4.53
	Capital need, by high-income countries (%GDP)	-2.50	-1.78	-1.69	-2.23	-4.94
	Aid need, by DAC countries (%GDP)	-0.97	-0.70	-0.66	-0.87	-1.93
k=4; g=6%	Capital need, by DAC countries (%GDP)	-0.06	0.61	0.65	0.28	-2.23
	Capital need, by high-income countries (%GDP)	-0.06	0.66	0.71	0.30	-2.44
	Aid need, by DAC countries (%GDP)	-0.02	0.26	0.28	0.12	-0.95
k=4; g=7%	Capital need, by DAC countries (%GDP)	2.18	2.85	2.86	2.60	0.06
	Capital need, by high-income countries (%GDP)	2.37	3.10	3.11	2.83	0.06
	Aid need, by DAC countries (%GDP)	0.93	1.21	1.21	1.10	0.03

\*Excluding low-income countries.

Source: WB (n.d.) and OECD (n.d. -b). Author's own calculations.

Similar results were found for the LDCs between 2014 and 2017. In 2015, aid flows represented over 70% of the total external flows to LDCs (CDP, 2015, p. 2). The necessary amounts of aid to be given by DAC countries or high-income countries were also smaller than the

UN target of 0.15%-0.2% to LDCs suggests, even negative in some years, as presented in Table 4.

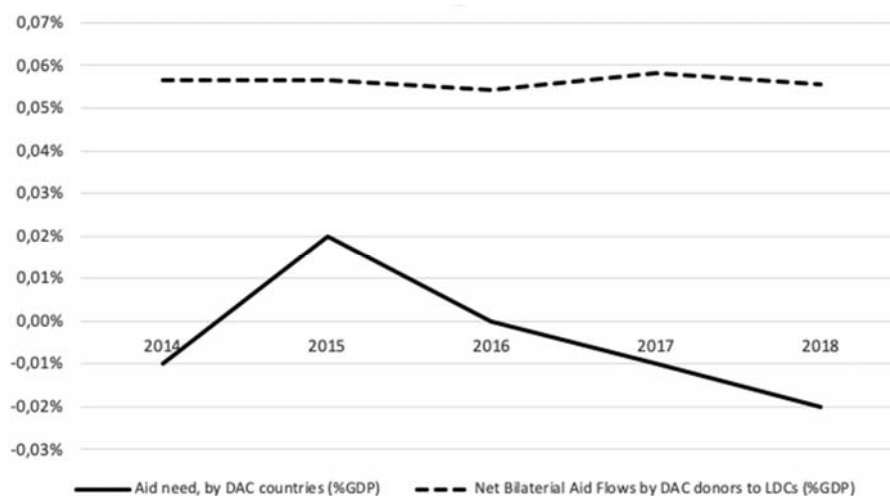
Table 4 - Total capital and aid need for LDCs

	k=3.5; g=6%				
	2014	2015	2016	2017	2018
Capital need, by high-income countries (%GDP)	-0.02	0.03	0.01	-0.02	-0.02
Capital need, by DAC countries (%GDP)	-0.02	0.03	0.01	-0.02	-0.03
Aid need, by DAC countries (%GDP)	-0.01	0.02	0.00	-0.01	-0.02

Source: WB (n.d.) and CDP (2015). Author's own calculations.

And Figure 6 shows that the amount of bilateral aid given by DAC donors to LDCs surpasses the amount of aid necessary to achieve growth.

Figure 6 - LDCs' aid need and actual flows



Source: WB (n.d.) and CDP (2015). Author's own calculations.

### 5.3. Estimates for Africa

Having shown that the target figure should not remain 0.7%, a second question needs to be answered: Can one target represent different regions' needs? Doing the same exercise for different regions, it was found that the target value varies according to the group analyzed. All values were below 0.7%. Table 5 summarizes the capital needed for the sub-Saharan Africa, African regions (Central, East, North, South and West) and their LDCs. More than one target would be required to represent the aid needs of the different regions evaluated.

Table 5 - Total capital need for African regions and their LDCs

k=3.5; g=6%	Groups	Capital need, by high-income countries (%GDP)	Capital need, by DAC countries (%GDP)
2014	Sub-Saharan Africa (excluding high income)	-0.01	-0.01
	Central Africa	-0.01	-0.01
	LDCs	0.01	0.01
	Eastern Africa	0.04	0.03
	LDCs	0.03	0.02
	Northern Africa	0.01	0.00
	LDCs	0.01	0.00
	Southern Africa	0.10	0.09
	LDCs	0.04	0.03
2015	Sub-Saharan Africa (excluding high income)	0.09	0.09
	Central Africa	0.01	0.00
	LDCs	0.01	0.01
	Eastern Africa	0.03	0.03
	LDCs	0.02	0.02
	Northern Africa	0.02	0.02
	LDCs	0.01	0.00
	Southern Africa	0.10	0.11
	LDCs	0.03	0.03
2016	Sub-Saharan Africa (excluding high income)	0.08	0.09
	Central Africa	0.01	0.01
	LDCs	0.01	0.02
	Eastern Africa	0.02	0.03
	LDCs	0.01	0.01
	Northern Africa	0.02	0.02
	LDCs	0.00	0.00
	Southern Africa	0.09	0.10
	LDCs	0.03	0.03
2017	Sub-Saharan Africa (excluding high income)	0.04	0.05
	Central Africa	0.00	0.00
	LDCs	0.01	0.01
	Eastern Africa	0.03	0.04
	LDCs	0.02	0.02
	Northern Africa	0.02	0.02
	LDCs	0.00	0.00
	Southern Africa	0.10	0.10
	LDCs	0.02	0.03
2018	Sub-Saharan Africa (excluding high income)	0.03	0.04
	Central Africa	-0.01	-0.01
	LDCs	0.02	0.02
	Eastern Africa	0.03	0.03
	LDCs	0.01	0.01
	Northern Africa	0.00	0.00
	LDCs	0.00	0.00
	Southern Africa	0.07	0.07
	LDCs	0.01	0.01
2019	Sub-Saharan Africa (excluding high income)	-	-
	Central Africa	-0.01	-0.01
	LDCs	0.01	0.02
	Eastern Africa	0.02	0.03
	LDCs	0.00	0.00
	Northern Africa	-0.12	-0.13
	LDCs	0.00	0.00
	Southern Africa	0.07	0.08
	LDCs	0.02	0.03
Western Africa	LDCs	0.13	0.15
	LDCs	0.03	0.03

Source: WB (n.d.) and OECD (n.d. -b). Author's own calculations.

We can analyze the results of Table 5 for each year.

In 2014, for sub-Saharan countries and for the total of Central African countries, the results are negative, which, again, means that aid flows would not have been needed to fill up the financing gap of investment and savings of those countries. That is, if we consider these values as the targets, the rich countries would have already reached the goal and, in that year, there would be excess aid.

k=3.5; g=6%	Groups	Capital need, by high-income countries (%GDP)	Capital need, by DAC countries (%GDP)
<b>2014</b>	<i>Sub-Saharan Africa (excluding high income)</i>	-0.01	-0.01
	Central Africa	-0.01	-0.01
	LDCs	0.01	0.01
	Eastern Africa	0.04	0.03
	LDCs	0.03	0.02
	Nothern Africa	0.01	0.00
	LDCs	0.01	0.00
	Southern Africa	0.10	0.09
	LDCs	0.04	0.03
	Western Africa	0.23	0.25
LDCs	0.04	0.04	

For the year of 2015, although results for all regions are positive, they are still very below the 0.7% target. Western Africa has the highest values of all years considered, which is in line with the characteristics and needs of the region. However, again, those values are still far from the 0.7% target. Even for the LDCs countries, the needed amounts of aid to be given by DAC countries or high-income countries were also smaller than the 0.7% target and the target of 0.15%-0.2% to LDCs suggested by the UN.

k=3.5; g=6%	Groups	Capital need, by high-income countries (%GDP)	Capital need, by DAC countries (%GDP)
<b>2015</b>	<i>Sub-Saharan Africa (excluding high income)</i>	0.09	0.09
	Central Africa	0.01	0.00
	LDCs	0.01	0.01
	Eastern Africa	0.03	0.03
	LDCs	0.02	0.02
	Nothern Africa	0.02	0.02
	LDCs	0.01	0.00
	Southern Africa	0.10	0.11
	LDCs	0.03	0.03
	Western Africa	0.24	0.26
LDCs	0.04	0.04	

The year 2016, together with the year 2015, presented the highest values for sub-Saharan Africa. The required capital values given by high-income countries and DAC member countries would be 0.09 in 2015, and 0.08 and 0.09 in 2016, respectively. Again, these are very low values, indicating that the donor countries would have already reached the target.

k=3.5; g=6%		Groups	Capital need, by high-income countries (%GDP)	Capital need, by DAC countries (%GDP)
<b>2016</b>		<i>Sub-Saharan Africa (excluding high income)</i>	0.08	0.09
		Central Africa	0.01	0.01
		LDCs	0.01	0.02
		Eastern Africa	0.02	0.03
		LDCs	0.01	0.01
		Nothern Africa	0.02	0.02
		LDCs	0.00	0.00
		Southern Africa	0.09	0.10
		LDCs	0.03	0.03
	Western Africa	0.18	0.20	
	LDCs	0.04	0.04	

The years of 2017 and 2018 are very similar in values. We can see a drop in values for sub-Saharan African countries, indicating that even less capital would be needed for SSA. Values for Western Africa are still the highest when compared to other regions. However they continue to be lower than 0.7%.

k=3.5; g=6%		Groups	Capital need, by high-income countries (%GDP)	Capital need, by DAC countries (%GDP)
<b>2017</b>		<i>Sub-Saharan Africa (excluding high income)</i>	0.04	0.05
		Central Africa	0.00	0.00
		LDCs	0.01	0.01
		Eastern Africa	0.03	0.04
		LDCs	0.02	0.02
		Nothern Africa	0.02	0.02
		LDCs	0.00	0.00
		Southern Africa	0.10	0.10
		LDCs	0.02	0.03
	Western Africa	0.15	0.16	
	LDCs	0.03	0.04	



k=3.5; g=6%		Groups	Capital need, by high-income countries (%GDP)	Capital need, by DAC countries (%GDP)
<b>2018</b>		<i>Sub-Saharan Africa (excluding high income)</i>	0.03	0.04
		Central Africa	-0.01	-0.01
		LDCs	0.02	0.02
		Eastern Africa	0.03	0.03
		LDCs	0.01	0.01
		Nothern Africa	0.00	0.00
		LDCs	0.00	0.00
		Southern Africa	0.07	0.07
		LDCs	0.01	0.01
		Western Africa	0.14	0.16
	LDCs	0.03	0.04	

In 2019, North Africa had the lowest values in the period 2014-2019, with negative values indicating that aid would have been excessive in that region. Values are also negative for Central Africa in the years of 2018 and 2019. Due to lack of data, it was not possible to perform the calculations for sub-Saharan Africa in 2019. Still, the trend of the results indicate that the values would not be very different from previous years.

k=3.5; g=6%		Groups	Capital need, by high-income countries (%GDP)	Capital need, by DAC countries (%GDP)
<b>2019</b>		<i>Sub-Saharan Africa (excluding high income)</i>	-	-
		Central Africa	-0.01	-0.01
		LDCs	0.01	0.02
		Eastern Africa	0.02	0.03
		LDCs	0.00	0.00
		Nothern Africa	-0.12	-0.13
		LDCs	0.00	0.00
		Southern Africa	0.07	0.08
		LDCs	0.02	0.03
		Western Africa	0.13	0.15
	LDCs	0.03	0.03	

## 6. FINAL REMARKS

The purpose of this paper is to evaluate the target's suitability at present and to explain its origins. In the 1950s, the aid thinking turned to the need to industrialize and develop poor countries, in line with the geopolitical context of the Cold War and the success of the Marshall

Plan. The discussion about the establishment of a global target to set a portion of the national income of rich countries to the development of poor countries arose in the international community. The initial target proposal was 1% of the national income of rich countries, officially recommended at the first UNCTAD meeting, when it was argued that the target would not be a "ceiling", nor an appropriate method for comparing countries' efforts in development aid. In this first moment, it included both public and private flows. The second UNCTAD meeting decreed that a target of 0.75% would be established only for net official aid flows, within the target of 1%, in compliance with the estimates of Jan Tinbergen.

It was only in 1969 that the 0.7% target emerged as a suggestion of the Pearson Commission, built on the ODA definition given by DAC in the same year, which not only differentiated ODA from other flows, but also made the target closer to the DAC donor countries. The Commission's main objective was to rebuild the acceptance of international aid among donor countries, with a special focus on the USA requirements, and the 0.7% target was its best shot. The Pearson Report then supported the idea that aid was necessary for poor countries to achieve "self-sustaining growth" at a desired output growth rate, when they would become aid-independent and even donors. This aid rationale was also reinforced by prestigious academic economists of the time, who defended capital accumulation (investment) as the solution to the development problem. They introduced economic theories such as the "big push", "financing gap" and "take-off" that gave the target suggestion a "technocratic" feature and found estimates close to the required amount allocated to development aid suggested by the target. The financing gap framework, given by the findings of the H-D and the Two-Gap models, guided policymaking by the IFIs on international aid.

Since 1969, the 0.7% was reaffirmed in several occasions, but only a few DAC donor countries have achieved or surpassed it. Donor countries' response to the target has always been the increase of efforts than its actual achievement. The USA continues far from reaching it, albeit being the main donor in absolute terms. The volatility of aid reveals the vulnerability of the developing countries, particularly in economic crisis, such as the current one due to COVID-19. This generated further discussion in the international aid community, on intensifying aid volume to meet the SDGs and introducing new actors and financing instruments. The rising presence of the private sector on development aid is one consequence of the uncertainty towards aid flows and has stimulated the DAC in modernizing ODA's definition. This represents an important moment to rethink

official aid and the 0.7% target, since they were interlinked, and changing one implies changing the other.

Despite ODA's recent update of its definition and measurement, the recommended target for development aid has not changed. Furthermore, the argument that international aid is a tool for developing countries to achieve faster growth continues being used by the international organizations, and the use of 1950s and 1960s growth theories terms and assumptions are again in their narrative. The financing gap framework continues to be the most appealing and useful in policymaking due to its simplicity and focus on the short or medium-run problems. From a theoretical viewpoint, this is problematic since the economic theories and models that supported the target and its aid rationale are considered outdated in the academic field. Its aid-investment-growth link argument has been found unreasonable even in the short-term, and the investment as the main factor of growth excludes other important factors and contexts in developing countries. Economic growth is a necessary condition to alleviate poverty, but not a sufficient one, and does not justify the use of a target that is solely based on the argument of capital accumulation. Moreover, the models assumed world's situations that no longer exist and that all paths of economic growth are the same globally. Another issue of the target was that its creation was mainly from the donors' perspective, which gave it a strong political bias and an absence of representativeness of the developing countries.

The empirical analysis of this paper questioned the adequacy of the target in two dimensions: its static figure over time, and its ability to represent different regions. By recalculating the target using substantially the same economic model and assumptions of capital-output ratio and of desired national income growth rate applied in the 1960s, but introducing data on current conditions, the results showed that the amounts of total capital and aid needed by developing countries and low-income countries during the years 2014-2018 were smaller than the 0.7% target suggests. Aid needs for the developing countries represented negative values of the DAC countries' GDP, indicating that aid flows to these countries have already exceeded what is necessary to fill their financing gap, according to the logic of the model. The values for LDCs were also smaller than it is suggested, and negative in some years. These results are mainly due to an increase in private flows relative to public ones, and to the increase in savings rates and national incomes of rich and poor countries. Moreover, if we consider that the private sector will continue

active in development aid, an even smaller amount will be needed from the public sector in the future.

With regard to one single target to represent all the developing countries issues, when analyzing different regions - which, consequently, present different characteristics and data - different results were also found. This highlights an evident issue that the 0.7% target has ignored: developing countries have different conditions that cannot be generalized. An African region - say, the central - will need a different amount of development aid than another - the west, for example - which will also be different from the amount needed for all Sub-Saharan African countries altogether. The same is true for LDCs in each region. Additional analysis should be made considering data of the regions evaluated, since the use of average values can lead to errors. Further research should also be made on the aid flows given through the Private Sector Instruments and their behavior in the next years.

Overall, if one considers that aid-investment-growth link theory is indeed economically feasible, several non-static targets would be needed to better assist each country's required capital inflows. On the other hand, aid flows are volatile, showing the fragility of the mandatory character of the target. If donor countries are still struggling to reach one target, how practical would it be to consider various targets, albeit more accurate? This discussion must be taken in the field of development aid, as well as the need to redefine ODA and its targets under the recipient countries' perspective and outside the idea that only economic growth provides development.

In short, the paper concludes that the target's figure of 0.7% is no longer valid. On the theoretical side, the economic theory that underpins it is considered outdated in the literature. Besides, the target was calculated from the donor countries' perspective and had a political bias regarding the economic perspective. On the empirical side, the results showed that if the economic theory and assumptions considered to calculate the target were still updated, the amount of aid needed would be different from what the target suggests – negative values were found for the developing countries' needs. If the private sector continues to improve financial flows, then smaller amounts will be necessary in the future. Additionally, different targets would be needed to represent the diversity of regions and countries. The 0.7% target has managed to guide some developed countries in their aid disbursements and to dialogue politically with their governments, however, it should not be seen today, theoretically or empirically, as the “correct” amount of aid needed for development.

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