The ever-shifting debate over the aid industry and the right way to help the world’s poor has acquired new elements in recent years. There is a new, overdue, and welcome focus on measuring results. No longer is it enough to point, whether with pride or with criticism, at the raw volume of money transferred. New debates have surfaced.

Some of these debates center on how aid is delivered. Which is more important: better monitoring of aid projects or reducing the transaction costs of lending? Which kinds of recipients make the best use of aid: governments, nongovernmental organizations, companies, or individuals? What organizations give the most effective aid? And which form should aid take: grants, loans, or something else?

The new focus on results adds spice to a third trend: the continuing emergence of competition in the aid industry. Competition is forcing organizations to demonstrate that they can produce results.

This Note reviews trends in official development assistance, focusing on volumes, sources, forms, and recipients. Several patterns emerge. First, a long-term trend of official flows taking the form of “hard” loans rather than grants and “soft” loans, with low interest and long maturities, has been reversed in the past five years. Second, both grants and loans are increasingly aimed at middle-income countries rather than the poorest. And third, official flows have fallen relative to rich-country income by 30 percent in the past 30 years.

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are in 2004. Some countries that were once poor have grown quickly and are now classified as middle income. Yet many countries now classified as middle income still have huge numbers of poor people within their borders. Moreover, many new countries have been created, especially in the past 15 years.

Nevertheless, some trends are apparent:

- A long-term trend of more official finance being provided on nonconcessional terms has been reversed within the past five years.
- As a share of rich-country income, official development assistance (ODA) has shrunk by 30 percent since the 1970s.
- The multilateral agencies emphasized nonconcessional (“hard”) loans until recently, but in the past few years these have declined.¹
- Bilateral agencies generally give grants rather than loans.
- Concessional (“soft”) loans make up a relatively small share of the funding from both bilateral and multilateral agencies.

Low-income countries are receiving a diminishing share of grants, soft loans, and hard loans.

Grants boomed after the collapse of the Soviet bloc but are no longer rising even in nominal terms (there has been an uptick very recently, and it is too early to judge whether this is a turning point or not).

**Official aid effort is shrinking**

Official flows of finance from rich to poor countries are smaller than they used to be, relative to the economies of the rich countries. Of the US$104 billion sent to poor countries in 2002, just under a third, US$34 billion, was “other official flows” (OOF)—meaning that it took the form of loans at or near market interest rates or was otherwise judged by the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD) to lack a development purpose. The rest was ODA: grants or loans with generous payback periods and low interest rates. ODA slipped from around

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**Figure**  
Rise of bilateral grants—and rise and fall of multilateral loans

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<th>Gross disbursements</th>
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Source: OECD Development Assistance Committee.
80 percent of official flows in the 1970s to less than 60 percent in the late 1990s, but has recently recovered to more than 70 percent.

Since the 1970s the flows of grants and soft loans have shrunk by more than a quarter relative to the gross national income (GNI) of high-income OECD countries (figure 1). (This is a measure that donor watchers call aid effort.)

**Growth in multilateral hard loans is reversed**

The fastest growing sector of the official aid industry was until recently hard loans from multilateral aid agencies, but these have declined sharply in recent years (figure 2). Bilateral agencies, which give or lend money directly from one government to another, generally give grants rather than loans. Such grants have maintained their market share since 1970. Over the past 30 years soft loans from bilateral agencies have lost ground to loans, both hard and soft, from multilateral agencies and hard loans from bilateral agencies.

**Are poorer countries missing out?**

The aggregate trend in aid seems to be a shift away from low-income countries and toward middle-income countries (figures 3 and 4). This trend is most apparent for grants. In the 1970s around 70 percent of ODA grants went to low-income countries (figure 5). In the 1990s this share fell dramatically, to 50 percent.
The share of nonconcessional loans disbursed to low-income countries also fell—from 29 percent in the 1980s to 21 percent since 1990. Although bilateral agencies recently expanded nonconcessional lending to low-income countries, this growth is from a very low base and does little to offset the decline in multilateral lending to these countries.

Where will growth in aid come from?
The fall in the share of grants to low-income countries was driven largely by the boom in grants to Central and Eastern Europe following the collapse of the Soviet bloc (figure 6). But without that boom, grants would look even more stagnant than they already do. This is part of a pattern of aid growth being driven by successive reconstruction and development booms. Such booms followed the end of World War II, the appearance of independent former colonies, and the collapse of communism.

Private finance is providing competition
The private sector is now hugely important as both a source and a recipient of loans and even grants. The complexity of the picture defies neat categorization, but figure 7 gives a general impression, comparing disparate sources of funding for the private sector with finance to or guaranteed by the public sector. Private sector lending to middle-income countries competes with loans from the development banks. Other private flows provide indirect competition. For example, workers’ remittances exceed official grants in both low- and middle-income countries and are more stable than private investment and official aid. Future Notes in this series will analyze the relationship between private and official flows in more depth.

Notes
1. The analysis of multilateral flows here excludes the International Monetary Fund (IMF) because IMF funding is concerned mostly with financial stability and because data on IMF flows have not been consistently reported by members of the OECD Development Assistance Committee.
2. All classifications by income are based on World Bank categories in 2004. So a fall in the share of aid to low-income countries indicates a fall in the share given to countries that are poor today. Since countries tend to graduate to middle-income status, this way of measuring understates the decline in aid to poor countries.

Reference