DOUBLE WHAMMY HITS UK AID BUDGET

George Gelber and Matteo Bocci
(CAFOD, Public Policy Unit)

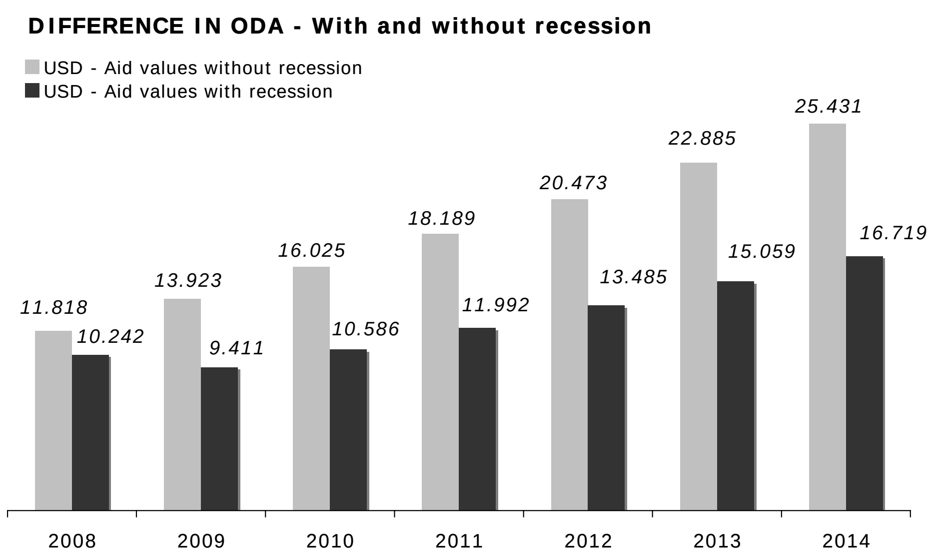
UK aid to shrink by $41 billion

The poorest developing countries will be hit hard by the global recession. Many owe recent high rates of growth to the boom in raw materials but these have now fallen dramatically in price. The IMF has identified 26 vulnerable low income countries which have reserves which will cover no more than three months' imports. Food prices remain high in many developing countries despite falls in world markets since their peak in the summer of 2008 and the World Bank has estimated that these high prices would push 100 million people into destitution, increasing global poverty by 3-5 percentage points, and having a serious impact on those already poor. International aid is needed to fund the social safety nets which are now required to provide minimum assistance to millions of families who face serious hunger and malnutrition

This is the background to the dramatic fall in the value of UK aid which CAFOD calculates could amount to $41 billion over seven years.

When measured against the no-recession scenario, the combination of UK recession with a constant exchange rate of 1.5 dollars to the pound gives a cumulative loss to UK Overseas Development Assistance (ODA) of $41 billion, as illustrated by the graphic below. Note that these are constant 2008 dollars.

Figure 1: UK aid budget with and without recession – constant 2008 dollars (bio)



Sterling: When calculated in sterling alone, the loss is less dramatic because it does not reflect the fall in the value of the pound against the dollar. Nevertheless, the £7 billion cumulative loss over seven years is equivalent to more than all UK aid in 2007.

CAFOD just one world
Romero Close, Stockwell Road, London SW9 9TY
Tel: 020 7733 7900 Fax: 020 7274 9630 E-mail: hqcafod@cafod.org.uk Website: www.cafod.org.uk

Figure 2: UK aid budget with and without recession – constant 2008 pounds (bio)

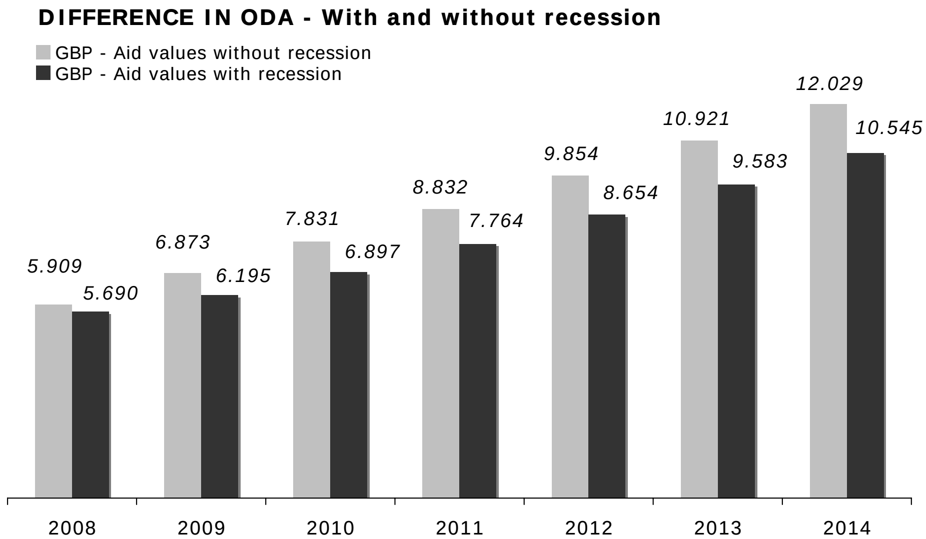
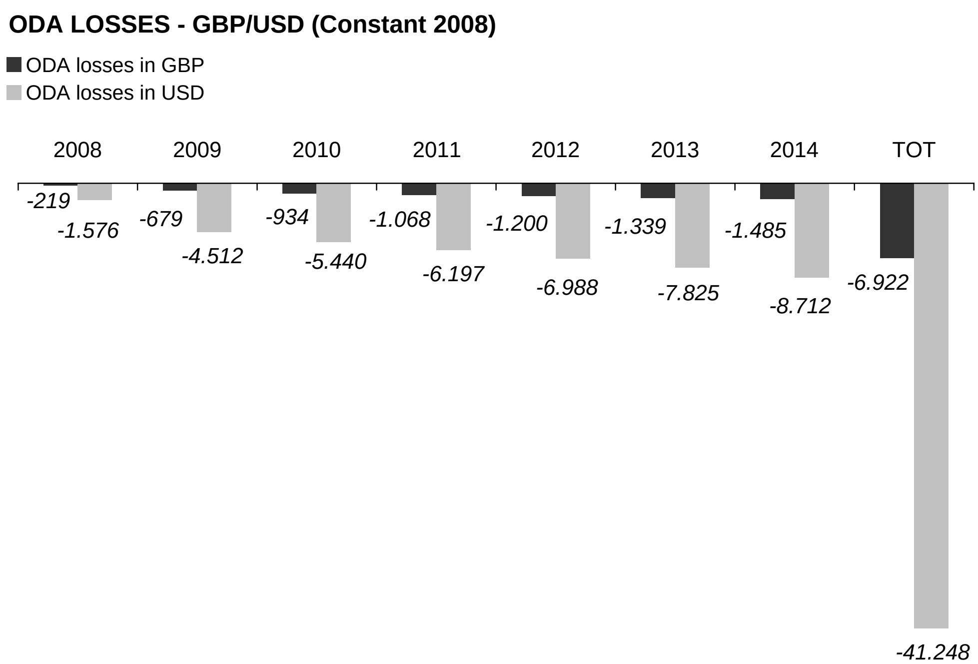


Figure 3 illustrates in both dollars and pounds the shortfall each year to 2014 and provides a cumulative total in the last column.

Figure 3: annual and cumulative ODA losses to 2014 (bio)



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ANNEX - CALCULATIONS AND CASE STUDIES

How did CAFOD calculate these figures?

We assume that the UK's overseas development assistance (ODA) as reported to the OECD's Development Assistance Committee (DAC) will grow from its 2007 level of 0.4% cent of GDP in regular steps of 0.005% per year to reach 0.7 per cent in 2014. The government has reaffirmed this pledge but has not specified the growth path that aid will take. In reality it is likely to be back loaded towards 2014. This assumption applies to both the recession and no-recession scenarios.

The no-recession scenario: we assume that growth and inflation would have continued at their average rate for 1992-2007, at 2.8% a year for growth and 2.55% a year for inflation.

The recession scenario – growth: the UK economy contracted by -1.7% in 2008. We use the NIESR (National Institute for Economic and Social Research) estimate of a further contraction of -2.9% in 2009 (the recently published IMF forecast is -2.8%), followed by a slow return to growth in 2010 of 0.2%, as estimated by IHS Global Insight and now also by the IMF. After that, our prediction is a return to growth of 2.4% in 2011 and 2.5% a year in 2012, 2013 and 2014.

The recession scenario – inflation: we use the HM Treasury estimates for future inflation in 2008/09, 2009/10 and 2010/11 – 3.25%, 1.5% in 2009/10 and 2.75% in 2010/2011. We use these estimates for calendar years, 2008, 2009 and 2010. We assume that inflation will continue at 2.75% a year in 2011, 2012, 2013 and 2014.

Exchange rates – the no-recession scenario assumes a value of two dollars to the pound in 2008-2014. The recession scenario assumes an average value of 1.8 dollars to the pound in 2008 and 1.5 dollars to the pound in 2009-2014.

Illustration of how the exchange rate impacts on three of CAFODS projects

The value of CAFOD's grants which fund their work has plunged as the recession-hit pound falls against the dollar and other currencies. The pound has fallen by 30 per cent against the dollar since July and partners now have to make painful adjustments.

In Uganda, with CAFOD support the Nsambya Home Care Programme provides over 12,000 people living with HIV with life saving antiretrovirals and treatment for TB and organises a team of 50 community volunteers who make over 10,000 regular home visits every year. Now the programme coordinator, Dr Maria Nannyonga, is looking at her budget and wondering how she can fill the gap made by the 20 per cent fall in the value of CAFOD's grants and where budget cuts would be least painful – difficult since these can be life-or-death choices.

In Bolivia CAFOD is supporting the Bolivian Bishops' Conference (CEPAS) Land Rights programme, which ensures that poor rural families have secure tenure of their small farms. 200 families in four communities will now be put on a waiting list and will not obtain land titles nor take part in CEPAS's leadership training. Visits and meetings will be cut back because CEPAS will no longer be able to provide transport, lodging and food for participants. And all this comes at a time when the *campesinos* and indigenous peoples of Bolivia need to make their voices heard and take advantages of the opportunities provided by the recently approved new constitution which, nearly 500 years after the Spanish conquest, recognises them as full citizens for the first time.

On the other side of the world, in Cambodia, CAFOD partner Maryknoll Sisters runs a comprehensive HIV and AIDS programme, including housing, medical care, food, education and a hospice. CAFOD's grant of £30,000 is now worth $17,000 less than it would have been at the same time last year. This represents the staffing costs for six care-givers, who themselves are living with HIV, and the annual food budget of their hospice, caring for 16-30 residents a month. If they can't find any extra money, Maryknoll will face hard choices between the services they maintain and those they have to cut.

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