

Professor Dercon spoke informally without a presentation. He described how the 0.7% figure was originally calculated in the days when aid needs were estimated using investment/growth models such as Harrod Domar.

That purely economic approach is no longer accepted. However, research has shown that aid has positive effects provided it does not exceed 20% of the recipient country's GDP. While there is a small group of countries, Liberia for example, where this is true, it would take far more than 0.7% of rich country GDP before aid would be anywhere close to this 20% level across all developing countries. While it is true, therefore, that the precise number 0.7% is arbitrary, it serves an important purpose by providing a political yardstick to encourage donor nations to raise their aid effort. Professor Dercon also noted that contrary to popular opinion, at 0.7% of GDP, the UK aid is still only a very small part of the total Government budget.