



## Financing Global Development: What Role for Official Development Assistance?

### Summary

*The UN Conference on Financing for Development in Addis Ababa in July 2015 will pave the way for the implementation of the post-2015 development agenda. The Briefing Paper series "Financing Global Development" analyses key financial and non-financial means of implementation for the new Sustainable Development Goals (SDGs) and discusses building blocks of a new framework for development finance.*

Preparations for the upcoming conference show that the concept, provision and monitoring of official development assistance (ODA) remain contentious issues.

Divergent positions are being offered regarding the future role of ODA.

1. There are groups proposing that ODA refocus on poverty reduction, mainly in poor and fragile states.
2. Others advocate that ODA play a more catalysing role in terms of mobilising other forms of (particularly private) finance.
3. There are calls for repositioning ODA as an instrument to deal with the provision of global public goods.

Although it is clear that not all expenditures on global public goods (e.g. clean air) should be reported as ODA, it will not be easy to separate what is relevant to development from what is not. A key tension remains: as the SDG agenda moves away from an agenda directly concerned with progress in individual developing countries, the ODA reporting system still focusses on resource transfers from

developed to developing countries. The SDG agenda will likely not reflect a consistent vision on global development finance but instead innovate where possible and conserve where necessary. The resulting hybrid vision will likely promote universality and North-South transfer simultaneously, representing one gradual step in converging towards a global sustainable development agenda with universal reach. As a main proponent of this agenda, the OECD has expended substantial political and technical resources on the ODA concept and its statistical system, to the relative neglect of designing a broader Total Official Support for Sustainable Development (TOSSD) measure and furthering discussions on the financing of global public goods beyond ODA. It needs to redirect this focus now that discussions on TOSSD have intensified.

In principle, all Addis Ababa stakeholders recognise a broader understanding of "development finance", which includes all relevant financial contributions from all stakeholders. Nevertheless, ODA will likely remain a hot item on the conference agenda. Although it remains important to closely monitor ODA inputs, what the new global development agenda really needs is for the current system to evolve into one that places reporting on financial inputs at the service of multi-stakeholder efforts to share joint accountability for ensuring results. An important step forward would be to complement the existing provider-centric ODA reporting system by developing countries' own reporting of development-relevant external finance through the UN High-Level Political Forum.

## 45 years of ODA

The 1970 United Nations agreement that “economically advanced countries” should make efforts to provide 0.7% of gross national income (GNI) as ODA remains a defining moment in the history of international development cooperation. This target reflected a political compromise of what countries were willing to provide, yet it was not achieved by the mid-1970s as envisaged. In 2014 net ODA provided by members of the Organisation for Economic Co-operation and Development (OECD) remained at 0.29% of their GNI. Today, 45 years since its adoption, the ODA target prominently features in discussions on the means of implementation of a universal and sustainable global development framework, which is expected to be adopted in September.

## The continuing relevance of an input target

Several reasons explain why the measurement of levels of ODA in relation to the 0.7% target remains prominent in development cooperation, particularly among those who achieved it. First, expenditure can only be reported as ODA when it meets agreed criteria, which distinguishes it from other approaches to international cooperation (see Box 1). Second, although it is not necessary for maintaining quantitative records of and comparisons between OECD members’ contributions to development, the ODA target facilitates ranking and peer pressure. Third, particularly in many EU member states, the target advances political debate by providing a point of reference that political parties can endorse or oppose. Fourth, many consider the input target as being a safeguard for their own access to finance, since part of OECD countries’ budgets tend to be earmarked to specific stakeholders such as non-governmental organisations. Lastly, developing countries – through the G77 and other groupings – use the target to put pressure on OECD countries in several forums, including the upcoming Addis Ababa conference. Although this explains its popularity, the counter-argument against input-based reporting is that it prioritises the amount of money spent as opposed to the results achieved.

### Box 1: The ODA definition and its reporting system

The governments providing ODA report their own expenditures to the Development Assistance Committee (DAC) of the OECD and decide by consensus what can be reported. They submit their data to the OECD secretariat, which compiles and publishes the statistics. As per the DAC’s definition, public expenditure by governments is eligible to be counted as ODA when it pursues economic development and welfare as its primary objective, when it is provided by the official sector of donor countries, and when it is received by countries on the DAC’s list of ODA recipients. In addition, the funds provided have to be concessional in character.

## Reform of the ODA concept

Although various aspects of ODA reporting have been controversial for a long time, such as the inclusion of costs of refugees staying in OECD countries and imputed student costs, there has been increasing pressure on the DAC in recent years to reform the ODA definition and its reporting system. A key reason for this was due to the extremely low borrowing rates in several OECD governments that resulted from their expansionary monetary policies, which allowed them to issue loans at interest rates that made them both reportable as ODA as well as capable of generating profits for the lender. Three DAC members providing high quantities of loans – the EU, Germany and France – each published own interpretations of the required softness of a loan (“concessional”) to count as ODA. Consequently, not all DAC members endorsed the reported figures. A ministerial DAC meeting thus decided in December 2012 to adopt “a clear, quantitative definition of ‘concessional in character’, in line with prevailing financial market conditions”.

Following intensive discussions in preparation of the 2014 DAC ministerial meeting, changes to the ODA definition in relation to concessional were adopted. As the first – and most significant – change under the new system, only grants and the “grant portion” of ODA-eligible loans would be counted (i.e. reporting on “grant equivalent” basis), whereas under the previous system both grants and loans were included at their full face value (i.e. reporting on “cash-flow” basis). One implication is that debt relief can no longer be reported as ODA under the new scheme, to avoid the risk of double-counting. Second, a discount rate differentiated by country income groups ensures that a loan to a least-developed country (LDC) or low-income country (LIC) will “score” more ODA than the same loan given to a middle-income country. Third, thresholds for minimum grant elements of loans have been set for different income groups, by which a loan to an LDC needs a minimum 45% grant component to count as ODA, compared to 15% for an upper-middle-income country. Finally, the maximum ODA interest rates have been lowered for all country categories, and nearly halved for LDCs and other LICs. During the period 2015–2017, ODA will be reported on both a cash-flow and grant-equivalent basis, with grant-equivalent reporting starting only in 2018.

In the upcoming months and years, further work will be done to revise the DAC statistical reporting directives, which will also depend on the conclusion of remaining aspects of ODA reform, such as the extent to which the reporting system should incentivise the use of instruments that blend public and private finance. In addition, work is ongoing to devise a TOSSD measure. This measure can complement ODA reporting by potentially covering all official development resource flows to developing countries and multilateral organisations in support of

sustainable development. This could cater for the reporting of contributions to those aspects of the SDG agenda that are not considered fully countable as ODA. One of the agreed objectives of designing TOSSD is to better capture official support to the private sector for development, as well as the mobilised amounts of private finance that can be attributed to the official support.

Although it is commendable that the reform of the ODA definition was agreed to at all, given the different interests of members and the consensus required, the substance of the reform mainly reflects the interests of OECD members. The practical implications and consequences for developing countries have yet to be tested, e.g. if the changes made incentivise increased concessional loans to LDCs and LICs, do these countries possess the adequate absorptive capacity and reasonable debt ceilings? As for TOSSD, although the contours seem clear, the operational value has yet to be determined, e.g. development finance institutions that provide support to the private sector may resist providing country breakdown data if they consider such information to be commercially sensitive. And what will drive OECD members to increase TOSSD if there is no relative target, such as with ODA?

### Addis Ababa negotiations on ODA and TOSSD

Preparations for the UN conference in Addis Ababa have addressed both the ODA target and the work on revising the ODA definition. The draft outcome documents discussed in the run-up called on all developed countries to meet the 0.7% target by 2020, as well as a separate target of between 0.15 and 0.2% to LDCs. On May 25, the European Union (EU) expressed its ambition to collectively provide 0.7% “within the time-frame of the post-2015 agenda”, i.e. by 2030, and 0.2% to LDCs. This has been critically received by many stakeholders, since the EU had set and failed to reach the same target by 2015. Moreover, Finland’s announcement of a 43% cut in its development cooperation – only days after the EU agreed its target – undermines the strength of the EU’s collective resolve.

The draft outcome document also presented a commitment to hold “open, inclusive and transparent discussions on the modernization of the ODA definition” and on the proposed TOSSD measure. The UN Secretary-General also advocated for this in his post-2015 synthesis report in December 2014. It would not be easy for the OECD to engage in this context, since its UN observer status does not allow it to vote or give it an official say. The OECD has been criticised for not inviting substantive inputs from non-DAC members to the ODA modernisation discussions, though it has committed to keeping UN member states informed. As to its own capacity to facilitate such an inclusive discussion, the limits of the OECD’s convening power are becoming clear, now that new members such as the United Arab Emirates have begun reporting ODA, whereas South-South cooperation providers such as India and China neither consider their activities to be comparable

to development cooperation nor share an interest in being compared in the first place.

Since the draft Addis Ababa outcome document does not refer to the OECD specifically, the UN could initiate a more inclusive and transparent development finance discussion. An important step would be if the UN itself started to collect statistics from developing countries on what they consider to be – and register as – development cooperation, now that many have strengthened their capacity to monitor these flows on a continuous basis. This would allow for contrasting what cooperation providers consider development finance through the OECD to be with what receiving countries consider relevant financial contributions to their development to be. An advantage should be that such a UN reporting process could cover financial contributions beyond ODA.

With the overall dimensions and future role of TOSSD to be determined, e.g. whether it will be linked to a separate input target, much of the focus in the next months and years will remain on ODA. This focus represents a fundamental challenge, as per the draft outcome document’s recognition of the need to move away from emphasis on official contributions towards genuine multi-stakeholder efforts, and a de-emphasis of cooperation rationale focussing at the national level towards tackling cross-border development challenges. The problem is that this direction is desired, yet ODA remains more focussed on “assistance” to a group of countries classified as ODA eligible, and less so on the facilitation of collective action and global public goods provision that the new agenda prioritises. In the negotiations, many countries are promoting the universal character of the sustainable global development agenda under negotiation, which implies that countries accept that they have common challenges and opportunities for a shared future, and that all need to make concrete commitments – both global and domestic – to make change happen. Discussions in the run-up to Addis Ababa and beyond must address how ODA and other means of implementation are fit for purpose under such an agenda.

### Whither ODA?

Descriptions of key trends in global development are abundant and defy the binary developed/developing country distinction that still drives UN negotiations. Several recipients of European development cooperation have higher income per capita levels than some EU member states providing it. ODA flows account for around 75% of all external resource flows in the world’s poorest countries, representing 59% of these nations’ own tax revenues. However, in the group of upper-middle-income countries, ODA only represents 2% of external resource flows, or 0.8% of their tax revenues. Moreover, in today’s world, *official* development assistance is becoming less important, given the stronger growth of other sources of finance.

The ODA reform concerns changes to a statistical system, yet the choices made also reflect the DAC members’

evolving views of the role(s) and ambition of their contributions to international development. Even though OECD members are monitored based on contributions to the same 0.7% target, members have each developed highly different cooperation portfolios. Some members only report grants as ODA, whereas Germany and France have provided more than 30 and 50%, respectively, of ODA through loans since 2005. When excluding contributions to the EU, then the percentage of ODA channelled through multilateral organisations in 2013 ranged between 58% for the United Kingdom and 10% for Portugal. Similarly, as shown in Table 1, members strongly differ in their share of ODA to LDCs, with four EU member states having already achieved the target of 0.2% to LDCs, whereas others remain far behind.

During the 2014 ministerial meeting, the DAC confirmed that ODA will remain a crucial part of international development cooperation for implementing the new

development agenda, particularly for countries most in need. In the Communiqué, contrasting signals are given as to the role of ODA, which on the one hand requires a stronger focus on poverty reduction in countries most in need, and on the other hand should play a catalysing role to mobilise or otherwise facilitate other forms of (particularly private) finance. Although not fundamentally at odds with one another, the rationales of ODA for direct poverty alleviation – requiring countercyclical action – and catalysing ODA that follows market opportunities may not be easy to harmonise. DAC members should strive for a more solid, shared development policy vision to guide further ODA investments and reporting – the kind of vision the DAC was known to project in earlier decades concerning strategies that, among other things, helped inform the Millennium Development Goals.

A second challenge for the next couple of years is of an organisational nature, as shown by the current absence of a broadly accepted global platform on different types of development cooperation. As a group of “Western” donors, the DAC has been attractive to just a few emerging countries (e.g. Turkey and Mexico). However, efforts to broaden the networks has proved challenging. The Global Partnership for Effective Development Cooperation is not accepted by Brazil, China or India, and thereby does not fulfil the initial hopes to create a truly global approach. The UN’s Development Cooperation Forum did not turn into an effective mechanism, despite the strong legitimacy of the United Nations. The best way forward would be for individual developing countries to initiate UN-reporting on development-relevant finance, which the UN could use to facilitate monitoring of the financing of the new agenda. This could be done, for instance, in the context of the High-Level Political Forum, which is mandated to conduct reviews on progress made under the new agenda, including its means of implementation.

**Table 1: EU DAC members’ share of net ODA to LDCs (% , 2012)**

Ireland	62	Spain	27
Denmark	49	Czech Republic	27
Finland	48	Italy	26
Netherlands	48	Austria	23
Luxembourg	45	France	23
United Kingdom	44	Slovak Republic	19
Sweden	44	Poland	18
Germany	36	Slovenia	17
Belgium	35	Greece	15
Portugal	31	EU institutions	26

Source: Own elaboration based on DAC (2014): Targeting ODA to countries greatest in need, Paris: OECD



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