



Aid reform

THE OECD IS SAVING FACE BUT LOSING LEGITIMACY

The members of OECD's Development Assistance Committee neglect the one key reform that its development assistance requires: a systematic involvement of developing countries to ensure that Official Development Assistance reflects what these countries consider relevant support for development.

In mid-December, members of the OECD's Development Assistance Committee (DAC) convened in Paris for its biennial High-Level Meeting, this time with a key imperative to conclude a reform of Official Development Assistance (ODA). Pressure to finalize it was mounting as several DAC members have been using different interpretations of to what extent and how loans to developing countries can be reported as ODA,

RECOMMENDATIONS

- The DAC needs to reform the governance of ODA and its reporting system by giving developing country representatives a direct say, and by improving transparency of its decision-making.
- The DAC should present its reforms to the UN, so as to seek wide endorsement of their reforms and establish a permanent dialogue with the UN on ODA and relevant development finance statistics.
- Only expenses that meet the DAC's own requirements for ODA should be allowed to be reported as ODA.

undermining the credibility of the system. Resolving these outstanding issues at the meeting was considered timely in light of the post-2015 negotiations and the UN conference on Financing for Development in Addis Ababa in July 2015. Although several important decisions were made at the meeting, the question of ODA reform remains unresolved. More fundamentally, a credible and legitimate transformation of ODA and its reporting system needs to institutionalize the political influence of developing countries. DAC members should ultimately be interested in being compared on what the intended beneficiary countries consider relevant support to their development, not only what they themselves do so. This would be a more effective way to fix the current system, which accommodates several types of expenditure that do not meet ODA criteria.

Developing countries excluded from decisions

Chief among the discussions at the High Level Meeting was how to redefine *concessionality* element of loans that are reportable as ODA i.e. the level of benefit for a borrowing developing country, compared to loaning at market prices. It was agreed to differentiate loans in relation to the World Bank country groupings: loans to Low Income Countries and Least Developed Countries will now require a minimum grant element of 45% to count as ODA, while loans to Lower Middle Income Countries and Upper Middle Income Countries will need 15% and 10% respectively.

The agreement should be welcomed and mainly so for increasing the required grant element for the poorest countries, but the choice for Gross National Income (GNI)-based country grouping is problematic. First, there are substantial differences between countries in the same income group. Secondly, using this grouping leads to abrupt graduation (e.g. from one day to another a country can no longer access certain loans), while in practice it should be gradual. Finally, the country grouping thresholds were adopted by the World Bank, an institution in which developing countries continue to be underrepresented.

The DAC Communique furthermore does not change anything to the governance of ODA, apart from a promise to 'explore ways to engage more systematically with other stakeholders'. Under the current system, DAC development ministers take decisions by consensus, while the technical preparation and detailing of the decisions is done by a small group of OECD civil servants in the so-called working-party on statistics. In recent years, many of the OECD structures were reformed to open up to non-members, non-state actors and developing country stakeholders, but the working party on statistics remains a closed shop. An opportunity was missed to strengthen the legitimacy of ODA and make it a key means to achieve a post-2015 development agenda, by seeking a more systematic link with the UN system.

Questionable expenses reported as ODA

While drawing most attention, the definition of *concessionality* has not been the only element of the ODA reporting system attracting criticism. Throughout the decades, DAC members have agreed to accept certain types of expenditure as ODA despite that they have not met the criteria for ODA defined by the members themselves. Germany and France have long been known to report large aid-sums for education, no matter that these are mainly provided to domestic universities, in the form of imputed student costs. Traditional frontrunners of development cooperation, such as Denmark, Sweden and the Netherlands, have been criticized for reporting domestic refugee costs as ODA. None of these issues were resolved at the meeting, and most of them not even discussed.

By agreeing to a partial reform of ODA, DAC members have managed to save face and avoided throwing sand into the post-2015 machinery. Still, more important than immediate reform needs is ensuring the legitimacy of ODA and international development. DAC members should respond to proposals made by the UN Secretary General, who in his recent post-2015 synthesis report called for discussing changes to ODA and development finance measures in an open, transparent and inclusive manner.

Adam Moe Fejerskov, PhD fellow, admo@diis.dk

Niels Keijzer, researcher, German Development Institute, niels.keijzer@die-gdi.de

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