The Reality of Aid

An Independent Review of Poverty Reduction and Development Assistance

Statement for the OECD DAC High Level Meeting On Modernising Reporting for Official Development Assistance

Increasing public resources are a key means for implementing the sustainable development goals (SDGs). In their absence, partnerships will be largely meaningless. All aid-providers must be prepared to increase overall aid budgets to reverse recent reductions and flat lining.

CSOs are encouraged by the work of the OECD Development Assistance Committee to clarify what counts as ODA. The expectation is that DAC members will sharpen the definition of ODA as clearly concessional resource flows to developing countries. The overarching purpose of ODA is to enable the realization of the human rights of populations most affected by poverty, marginalization and inequality, wherever they may live. A new metric for "Total Official Support for Development" must be fully transparent and directly linked to outcomes that advance the SDGs.

ODA is a unique resource that can catalyse development across all developing countries. Aid modalities, different counterparts and levels of funding may vary according to country conditions. But donors should always take into account the very significant numbers of people that live in conditions of poverty, including in middle-income countries, where most governments have severe limits on their capacity to allocate resources to these ends.

Two-thirds of the population of developing countries, or 3.9 billion people, live on less than $4.00 a day. These populations remain very poor, highly marginalized, and vulnerable to economic, climatic and political shocks at the household, community, national or global level. Aid resources for achieving the SDGs cannot ignore the human rights of these populations. If we want a truly global post-2015 partnership, it must envisage a comprehensive agenda to end all forms of poverty, not just extreme poverty (living on less than $1.25 per day).

"Modernising ODA": Aid resources and the post-2015 sustainable development goals

The Reality of Aid Network welcomes the DAC initiative to "modernise ODA" and to sharpen ODA as a true measure of donor commitments to poverty reduction and social justice at the country level. This focus should include only resources that are grants or grant equivalent of loans, excluding expenses for students and refugees in donor countries and debt relief. Any new measure of "Total Official Support for Development" should develop clear norms and standards for the transparent inclusion of finance in this measure, based on demonstrable outcomes for future SDGs, i.e. reducing poverty and inequality and promoting sustainable development, consistent with human rights standards.

Many aid actors, including the global Reality of Aid Network, have long called for reforms in the guidelines for determining DAC ODA – guidelines that affect the level of resource commitments specifically dedicated to poverty reduction for which donors can be held accountable.[1] In 2012, for example, real concessional ODA was at least 20% less than reported ODA. The DAC Development Cooperation Directorate (DCD) and many DAC donors have also come to acknowledge these issues, particularly when viewed from a partner country perspective. The DAC is undertaking this review as an explicit contribution to the ongoing UN discussions on financing options for the post-2015 SDGs, with a global Financing for Development conference also occurring in 2015. We recognise that domestic resources will be the primary source of finance to implement the post-2015 goals for most developing countries; nevertheless various forms of external finance will be crucially important for achieving the SDGs.

In modernising the notion of ODA, the DAC is clarifying the place of ODA alongside other official resources. In this regard, there is a push to have donors report their development finance from a recipient country point of view, i.e. capturing all of the donor's different financial flows beyond what is currently considered ODA. There is a proposal along these lines for a new measure – Total Official Support for Development – regardless of how these flows might contribute to poverty reduction and the SDGs.[2]

From a partner country point of view, where a government must meet its obligations to its citizens financed by a variety of flows and revenue sources, a more comprehensive measure of resource transfer is an important metric. But this legitimate interest is different than assessing the quantity and quality of a dedicated flow of concessional resources that has the unique potential to be devoted to reducing poverty and inequality. Whatever the measure of total official support for development, it will be essential to clarify the development character of these resources in relation to the overarching goal of poverty eradication. It will be important for all countries and development actors, not just donors, therefore, to have a say in defining the objectives, norms and standards that might govern TOSD and the place of a reformed notion of ODA.

CSOs see the merit of this process for a more focused ODA, including measuring only the grant equivalency of loans. However, there is evidence that donors are opting towards measures that emphasise linking ODA to market instruments and actually expanding what could be included. In January 2014, the DAC Secretariat noted, "there has been wide interest in exploring how to incentivise the provision of development finance in the form of market-like financing as appropriate." They also draw attention to a "strong interest in exploring an expanded treatment of security as an enabler of development and possible broader coverage of such activities in ODA." CSOs have argued that these security and market-linked contributions to development properly belong in the separate measure of Total Official Support for Development.[3]

Mobilisation of additional financial resources through expanding partnerships with the private sector has been repeatedly identified in the discussion on the post-2015 development finance architecture. Facing ODA levels that have been stagnating, governments are looking to the international private sector, and in particular multinational business and finance corporations, to increase resources for SDGs and to contribute private sector initiatives and skills to achieve development outcomes. More than leveraging private sector financing for development, it is crucial to restore government commitments to increase ODA resources dedicated to poverty eradication and reducing inequality. Where private sector resources are utilized, it should take account of human rights standards and other key pro-development criteria. A strong and enforceable government regulatory and accountability regime must be in place to create the environment in which private sector interests for profitable investments do not distort public/private partnerships.

To date, there has been little specific elaboration of the proposed new measure of Total Official Support for Development. The intent is seemingly <u>not</u> to replace the concept of ODA and its role in holding donors to account for measures to address poverty and inequality.

However, the criteria for inclusion of financing in this broader measure of TOSD are not clear. Are donors attempting to "move the goal posts," in the context of wide failure by most to live up to commitments they made only a decade earlier at Gleneagles to increase ODA and contribute 0.7% of their national income to such efforts? At the same time CSOs understand the importance of, and advocate for, a comprehensive approach to development financing – bringing attention to the need to cancel unpayable debts, promote fair trade and investment that respects the right to development, as well as tax justice and stopping illicit capital flows.

Reviewing the Threshold for ODA

Currently, the upper-middle income country cut-off for eligibility for ODA is a per capita income of US$12,615 (in 2012). All options being considered by the DAC would lower the current threshold. ODA from the EU and France would be most affected, declining 19% and 9%, respectively, due to large loans to Brazil and Turkey.

The issue of aid to middle-income countries and the resources sufficient to meet commitments to the post-2015 SDGs relates to the breadth of conditions of poverty in these countries. For the four countries noted above most affected by a lower threshold for ODA eligibility, 7.5% of their combined population still lives on less than $2 a day, highly vulnerable to extreme poverty. But more alarming is the broader level of poverty, a quarter of the combined population (24.6%) live on less than $4 a day. More broadly, CSOs have come to the defence of aid for middle-income countries where indeed the majority of people are still living in varying degrees of poverty. One cannot assume governments in these countries are willing or able to meet human rights obligations to maximize the realization of social and economic rights for all their populations.

Recommendations

In light of the issues raised in this statement the Reality of Aid Network recommends the following:

- Given the impact any new measures or reform of the existing measure of ODA will have on partner countries, it is crucial to involve all stakeholders on an even footing in defining the objectives, norms and standards of these measures.
- ODA should include only resources that are grants or the grant equivalent of loans, excluding expenses for students and refugees in donor countries and excluding debt relief.
- ODA remains a critical public resource for partner countries and should not be tied to other flows that do not have an explicit focus on poverty reduction.
- Market-linked contributions to development should not be included in ODA, but could be incorporated in a separate measure.
- Peace and security expenditures should remain separate from ODA. The inclusion of security measures – such as counter terrorism activities, intelligence gathering, and military training for 'non-combat' peace-building operations – within the definition of ODA raises serious concerns. This may open the door for the re-direction of aid away from poverty reduction and towards a security agenda that only serves the geopolitical interests of donor countries.

- The overarching purpose of ODA should be clearly defined as enabling the realization of the human rights of populations most affected by poverty, marginalization and inequality, wherever they may live.
- ODA modalities and allocation should be needs based and aligned to national development strategies of partner countries.
- Donors and other aid providers should maximize the allocation of grant and truly concessional finance for the SDGs, guided by an assessment of actual conditions of poverty and inequality, not by arbitrary country per-capita income categories, as determined by the World Bank.
- Donors should agree on a time-bound action plan to achieve the 0.15-0.2% of GNI as ODA to LDCs commitment. ODA makes up to 70% of external finance available to these countries and they are incredibly vulnerable to shifting allocation priorities. With current global ODA at roughly 0.33% GNI, a 50% volume commitment would achieve this target for donors who have not already done so.
- The terms and conditions of ODA flows should be determined with partner countries in order to ensure their financial sustainability. This is particularly relevant for non-grant based resources, which can add to existing debt burdens and for which repayments represent public resources that cannot be used for public service delivery and achievement of development goals.
- Whatever the measure of Total Official Support for Development, it will be essential to clarify the development character of these resources in relation to the overarching goal of poverty eradication.

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[1] It should be acknowledged that the rules governing ODA are relevant to donors in comparing effort linked to concession resources for poverty reduction and development. From a partner country perspective ODA is less relevant and they are more interested in a third measure of "recipient benefit," which includes all flows to recipient countries (ODA, Foreign Direct Investment etc.) that could be used for development purposes in gross terms. See
http://www.oecd.org/dac/stats/documentupload/2014_06_26_ERG%20Session%202%20presentation_Suz.pdf

[2] For a discussion of the mandate of this work, see DCD/DAC, 2013. "A New Measure of Total Development Support for Development: Issues and Options," Prepared for the High Level Meeting, December 3, 2013, November 2013, accessed May 2014 at
http://www.oecd.org/dac/externalfinancingfordevelopment/documentupload/DAC%282013%2936.pdf.

[3] Jeroen Kwakkenbos has been following the elaboration of the options for modernising ODA for EURODAD's members. His commentaries for a EURODAD e-list have been very useful in understanding the implications of the various proposals. See also CONCORD, 2014. "CONCORD AidWatch input to OECD's Development Assistance Committee (DAC) senior level meeting on 3-4 March," accessed May 2014 at
http://www.oecd.org/dac/externalfinancingfordevelopment/documentupload/CONCORD%20AidWatch%20input%20to%20OECD%20DAC%20SLM%20-%203-4March%20FINAL.PDF