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DEVELOPMENT FINANCE: ACHIEVING A BETTER DISTRIBUTION OF ODA – AN ACTION PLAN TO MEET THE UN COMMITMENT OF 0.15-0.20% OF GNI AS ODA TO LDCs

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This document is submitted for DISCUSSION under item 4 of the Draft Annotated SLM Agenda [DCD/DAC/A(2014)13].

SLM participants are invited to agree with the proposals in paragraph 16.

Contact: Suzanne Steensen - Tel. +33 1 45 24 76 23 - Email: suzanne.steensen@oecd.org
Julia Benn - Tel. +33 1 45 24 90 39 - Email: julia.benn@oecd.org
Fredrik Ericsson - Tel. + 33 1 45 19 65 - Email: fredrik.ericsson@oecd.org

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DEVELOPMENT FINANCE:

ACHIEVING A BETTER DISTRIBUTION OF ODA – AN ACTION PLAN TO MEET THE UN COMMITMENT OF 0.15-0.20% OF GNI AS ODA TO LDCs

1. The changing development finance landscape has sparked an international debate on the most appropriate and strategic use of limited concessional resources. While recognising the increasing challenges of sustainable development which affect low and middle income countries alike, there is a growing agreement within the international community that a differentiated approach is needed to ensure a better balance in the global distribution of development finance, and the optimal use of the different types of funding.

2. In the mandate of the DAC High Level Meeting (HLM) of December 2012, it was stated that development finance reform would be carried out "*with a view to ensuring that ODA is directed to where it is most needed and where it can catalyse other flows and promote accountability*".

3. At its Senior Level Meeting (SLM) in March 2014, the DAC expressed support for the continued examination of ways to increase Official Development Assistance (ODA) to those countries where concessional financing is most needed. In May 2014, the DAC debated ways to incentivise a more "needs-sensitive" allocation of ODA, including the setting of operational targets for increasing aid to Least Developed Countries (LDCs).[1] While there was consensus among members that the current trend of decreasing ODA to LDCs should be reversed (see Figure 1), the Committee did not reach a consensus on how to incentivise progress towards the UN targets of allocating at least 0.15% to 0.20% of Gross National Income (GNI) as ODA to LDCs.[2] The DAC Chair in his conclusion encouraged members to reach the UN target on a collective basis. The Expert Reference Group on Development Finance also recognised that sufficient financing needs to be secured for countries where ODA continues to be a major source of external financing.[3]

4. The recent Report of the Intergovernmental Committee of Experts on Sustainable Development Financing emphasised that "*ODA […] will remain critical and should be focused where needs are greatest and the capacity to raise resources is weakest*". A better balance would help ensure adequate means of implementation of the post-2015 development framework as proposed by the Open Working Group for Sustainable Development Goals.

5. **The post-2015 sustainable development financing framework presents an opportunity for the DAC to take leadership and showcase its ambition to improve countries' access to external development finance, including concessional resources, leaving no country behind.**

6. The October 2014 SLM is requested to agree on how to ensure a better balance of development finance including how to accelerate implementation of the UN commitment of 0.15-0.20% of GNI as ODA to LDCs. The SLM deliberations are expected to inform the December 2014 HLM. The DAC discussions are crucial and timely as they are expected to feed into the preparation of the third Financing for Development conference.

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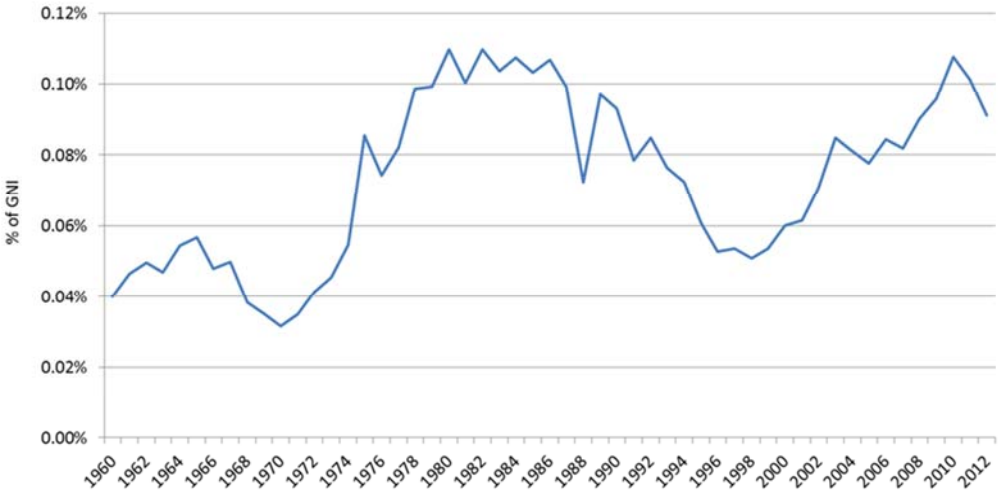
1 . See DAC discussion paper, DCD/DAC(2014)20, on Targeting ODA towards countries in greatest need.

2 . See Summary Record of 13 May 2014 DAC Meeting [DCD/DAC/M(2014)5/FINAL].

3. Read the Final Conclusions and Recommendations from the Expert Reference Group on Development Finance at: http://www.oecd.org/dac/stats/ERG%20Recommendations%202014%2008%2007%20Final.pdf

Figure 1. DAC ODA to LDCs / GNI



Well justified individual strategic allocations – but a more rounded collective approach is needed

7. Each DAC member has its own priorities, values and set of norms that underpin its development co-operation policy and its strategic allocation of official resources for development. These can be motivated by a focus on poverty alleviation, historical ties, geographical position, global peace and security considerations and climate change and other environmental concerns. More recently, members have also been attentive to enhancing the catalytic role of ODA in order to maximise resource mobilisation and its effectiveness.[4] Allocation decisions combine all these dimensions, reflecting the increased complexity of an inter-connected world. Donors will also engage in sectors and regions where they consider they have comparative advantages.

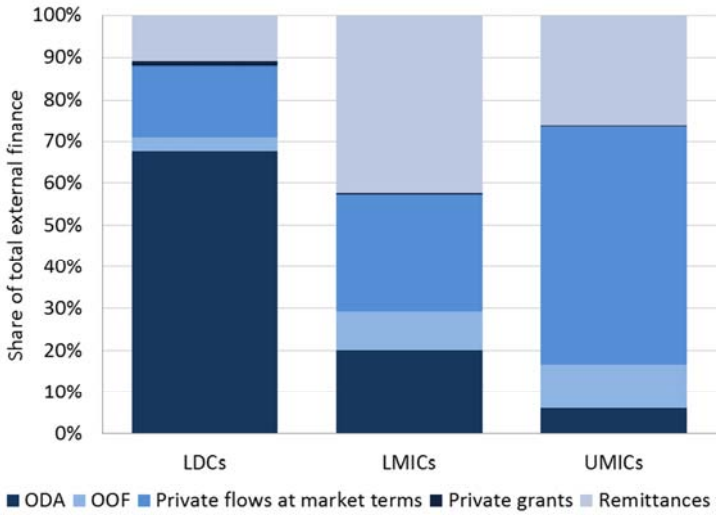
8. As a consequence, members have different approaches and objectives for deploying their ODA, including its geographical allocation. **As a community of donors, the DAC needs to reflect on the aggregate allocation pattern that results from these individual decisions, and see if they result in an optimal use of concessional financing.**

9. The new development finance landscape is a reality – there is a diversity of resources and instruments available today. While many countries, especially middle-income countries, have access to a more diverse range of sources of finance – domestic and international, public and private – ODA remains a crucial source of development finance for the LDCs.[5] In 2012, ODA represented 68% of total external finance for development in LDCs, whereas it represented 20% in Lower Middle Income Countries (LMICs) and 6% in Upper Middle Income Countries (UMICs) respectively. (See Figure 2.) These statistics are broadly representative of continuing resource trends to these country groupings – and attest to the crucial role played by ODA in many of the poorest developing countries.

4 . See DAC SLM issues paper DCD/DAC(2014)49, on the treatment of market-like instruments in the post-2015 statistical framework.

5. See for example DCD/DAC(2013)29 "The Where" of Development Finance: Towards Better Targeting Of Concessional Finance.

Figure 2. The composition of external finance in LDCs and other countries (2012)



10. While MICs have more financing options than LICs, **current resources are also not sufficient to address the wide range of challenges within MICs**. They are home to the majority of the world's poor, they face important inequality challenges and they are vulnerable to climate change and natural disasters. ODA is necessary to tackle these challenges and help countries build capacity and expertise for sustainable economic growth, including structural changes to create jobs and reduce inequality.

11. At the Fourth United Nations Conference on the Least Developed Countries in 2011, donors adopted a **Programme of Action for the Least Developed Countries for the decade 2011-2020**, and committed to "*assisting the least developed countries with an overarching goal of enabling half of them to meet the criteria for graduation through the eradication of poverty and the achievement of accelerated, sustained, inclusive and equitable growth and sustainable development*". Donors re-affirmed their existing commitment to provide 0.15-0.20% of their GNI as aid to LDCs by 2015, and acknowledged that "*donor countries should review their ODA commitments in 2015 and consider further enhancing the resources for least developed countries*".[6]

12. Looking at current collective DAC donor countries' performance against the UN ODA target of 0.15-0.20% of GNI to LDCs, the DAC as a whole still falls short of the target. Between 1998 and 2009, the share of ODA to LDCs increased steadily, putting the UN target within reach. However, in recent years this trend has been reversed. In 2012, total DAC ODA to LDCs amounted to USD 41 billion, representing

6 . More specifically, the commitment of the Istanbul Programme of Action states that "Donor countries will implement the following actions that they committed to at the Third United Nations Conference on the Least Developed Countries as soon as possible. (i) Donor countries providing more than 0.20 per cent of their GNP as ODA to least developed countries: continue to do so and maximize their efforts to further increase ODA to least developed countries; (ii) Other donor countries which have met the 0.15 per cent target: undertake to reach 0.20 per cent expeditiously; (iii) All other donor countries which have committed themselves to the 0.15 per cent target: reaffirm their commitment and undertake either to achieve the target by 2015 or to make their best efforts to accelerate their endeavours to reach the target; (iv) During the period of the Programme of Action, the other donor countries: exercise individual best efforts to increase ODA to least developed countries with the effect that collectively their assistance to least developed countries will significantly increase". Read the full report at http://unohrlls.org/UserFiles/File/A-CONF_219-7%20report%20of%20the%20conference.pdf

0.09% of total DAC GNI. An additional USD 29 billion would be required to reach the 0.15% UN target on a collective basis.[7]

DAC Action Plan to accelerate fulfilment of the 0.15-0.20% UN target to LDCs

13. As part of its modernisation of ODA and the development of a new measure for Total Official Support for Development (TOSD)[8], the DAC has a unique opportunity to showcase its ambition for achieving a better balance in the global allocation of official resources for development that takes into account the needs of the LDCs. **An agreement in the DAC to reverse the recent decline, and the development of an action plan for gradually increasing DAC ODA to LDCs up to 2020, could serve as a concrete contribution to the post-2015 financing framework, as well as contribute to the delivery of the Istanbul Declaration and the Programme of Action for the Least Developed Countries**.

14. The DAC action plan could also incorporate concrete measures to facilitate the crowding-in of private resources essential for sustainable economic growth for example through guarantees, including in the poorest countries. While more work is needed to facilitate further leveraging of non-ODA resources, particularly in the case of LDCs where the business case for the leveraging effect of ODA must be made, work on the valorisation of these instruments could be a key contribution. The proposed TOSD measure could also play an important role in capturing the totality and nature of financial instruments and allocations to ensure a better distribution of development finance going forward, as well as encouraging further resource mobilisation.

15. Finally, the DAC action plan could also include a review of the existing DAC Recommendation on the Terms and Conditions of Aid, which has special provisions for LDCs. These require an overall average grant element of at least 86% to each least developed country over a period of three years or at least 90% annually for the LDCs as group. While the exact target of the Recommendation would need to be reviewed to take into account the forthcoming DAC decision on the discount rate, there is also the more general question of the need for ensuring prudent practices in the provision of financing, mindful of countries' debt sustainability frameworks.

16. **The SLM is invited to agree that:**

- **the DAC should work to reverse the decline in ODA to LDCs;**
- **an action plan to reach the UN LDC target by 2020 be proposed to the HLM in December 2014; and**
- **progress in implementing this plan be reviewed annually at the SLM.**

7 . This figure is based on the current methodology which takes into account both bilateral ODA and the portion of multilateral ODA to LDCs attributed to donors (the so-called "imputed multilateral ODA). If a portion of regional and global unallocated resources is assumed to benefit LDCs, the amount required to reach the target would be smaller.

8. See DAC SLM issues paper DCD/DAC(2014)48 on the proposed narrative and building blocks of the TOSD concept.

Annex: DAC members ODA/GNI to LDCs