OECD Roundtable Discussion on External Financing for Development
Saturday 12 April 2014 – World Bank/IMF CSO Policy Forum

SUMMARY REPORT

The OECD DAC Chair, Mr. Erik Solheim, welcomed and thanked participants for attending the meeting. In his opening remarks, he explained that the OECD’s Development Assistance Committee (DAC) has taken upon itself to look at, in the post-2015 context, whether its current statistical system (centred on the measure of Official Development Assistance (ODA) (as defined in the early 1970s) is still fit for purpose.

Two main changes in the global development landscape have forced this review. The first is the emergence of new actors addressing new global development challenges, often with innovative financial instruments and modalities. The second is that ODA’s share in total resource receipts by developing countries fell from around 50% in the 1960s to 20% in recent years, despite ODA having increased in real terms by 63% in over the past decade. Other flows such as foreign direct investment or remittances are increasingly available to developing countries, and ways need to be found to use ODA in a more efficient and catalytic way.

Many observers believe that the ODA concept has not kept up with the contemporary realities of development finance. Some say it is no longer an adequate index for monitoring donor efforts to support developing countries. Others believe that ODA’s defining criteria may no longer be relevant and may prevent ODA resources to being allocated where they can have maximum development impact.

Mr. Solheim added that the decision point for this work on new ways to measure development finance will be the DAC’s High Level Meeting scheduled for 15-16 December 2014. Several options are currently being considered and the present meeting with CSOs is one of many engagement activities aimed at gathering views from as many stakeholders as possible on the following issues:

- How to reform the current ODA measure;
- Devising a new headline measure of Total Official Support for Development (TOSD); and
- How to ensure more concessional resources are channelled to countries in greatest need.

The Deputy Director of the OECD’s Development Co-operation Directorate, Mr. Serge Tomasi, outlined the work being undertaken by the DAC Secretariat [A copy of his presentation is available here].

The current headline figure – net ODA – overestimates actual transfers of aid to developing countries by mixing flows with in-donor costs. It focuses on donor effort as opposed to providing recipients with a clear picture of available resources. It discourages the mobilising of private funds through risk-mitigation instruments and the development of new innovative financial mechanisms. Several options being investigated by the DAC Secretariat with respect to modernising the ODA measure are to:

- Score only the concessional component (the grant equivalent) of loans instead of their full face value; this would provide a truer measure of donor budgetary effort;
- Investigate the use of risk-adjusted discount rates in calculating the grant equivalent of loans: this would address criticism of generous debt relief reporting and volatility in ODA levels; and
- Standardise the reporting of in-donor expenditures counted as ODA to improve their legitimacy, transparency and comparability.
As currently structured, the statistical system does not encourage the use of market-based financial instruments (e.g. guarantees and equity) which could leverage more public and private investment. The DAC Secretariat is looking at ways for ODA to incentivise the mobilisation of more private finance through risk-mitigation instruments.

With respect to TOSD, the DAC is envisaging a wider outer circle to complement - not replace - ODA and to support the wider post-2015 sustainable development agenda. The DAC is currently examining how non-ODA finance for development, peace and security, climate and other global challenges could be included in a new TOSD measure. DAC members have agreed, however, that there is a need to distinguish between official flows and those private flows mobilised by official action.

Finally, Mr. Tomasi outlined the DAC’s work on targets and incentives to direct more ODA to countries in greatest need. While global ODA levels have increased significantly over the past decade, recent years have seen the share of net ODA to LDCs decreasing (32% in 2012 down from 34% in 2010). Latest ODA figures show a 6.3% increase in ODA in 2013. However, a large part of that increase is due to the increasing use of loans, which rose by 33% in real terms from 2012, mainly targeting middle income countries. This is a worrying trend that must be addressed.

With this in mind, the participants were asked to consider the following questions:

- What needs to be done to ensure that ODA remains a credible measure and to reinforce donors’ efforts to live up to their commitments?
- Should ODA accounting be based on flows or the concessional component of any financial instrument (its grant equivalent)?
- Which approaches to measuring concessionality might be acceptable to both donors and recipients?
- How might the standardisation of the reporting of in-donor costs contribute to ODA being a more credible measure of donor effort?
- What should be included in a new measure of TOSD? How should the inner boundary between ODA and TOSD be delineated?

Dr. Sipho Moyo, Africa Director for ONE, made the first intervention, welcoming the opportunity to participate in the meeting. She noted that the debate had important aid quality and quantity implications for the future of development finance and its credibility.

Dr. Moyo called on the DAC to effectively engage and coordinate with the UN post-2015 process, particularly with the UN Intergovernmental Committee of Experts on Sustainable Development Financing. She also requested that the DAC debate be made more transparent and inclusive. Civil society from the global North and South and partner countries should be actively included in current discussions in order to produce an outcome that is beneficial for those who are directly affected. ONE welcomed recent efforts to increase transparency and inclusion, including the opportunity to contribute to the Senior Level Meeting in March, but would welcome more channels both for civil society and partner countries to contribute to and shape the debate.

Dr. Moyo stated that ODA should focus on the poorest countries. ODA will continue to be an important resource flow, uniquely placed to help end extreme poverty. ONE would like to see a continued, better focus for ODA, where donors voluntarily target a significant share of ODA to the poorest countries and publicly commit to give a high proportion of grant aid to LDCs.

Dr. Moyo also mentioned that ODA loans must be provided only to countries that can sustain debt and where there is a clear development additionality to the provision of loans. Concessional loans are an important source of financing, particularly for financing infrastructure in MICS. To be scored as ODA, loan criteria must be revised. The 10% discount rate to assess the concessionality of loans should be replaced with a more relevant benchmark, so that loans where a profit is made cannot count as ODA. Recent DAC discussions have inclined towards using a discount rate that reflects default risk to assess loan concessionality. This proposal may appear as a promising option as the inclusion of default risk in the concessionality calculation disposes of the need to count debt relief as...
ODA. However, this proposal is actually problematic as it incentivises loans to poor countries under risk of debt distress. So any risk-adjusted discount rate would require a strong debt sustainability criterion. ONE would be more in favour of risk-free differentiated rates. ONE would also support counting only the grant equivalent of loans as ODA. However, interest repayments must be deducted from net loan figures to achieve a genuine representation of transfers to developing countries.

Dr. Moyo also suggested that ODA should more accurately reflect donor budgetary effort, while also somehow capturing resource receipts to recipients. The DAC should consider excluding from ODA in-donor expenditures including administrative costs, refugee costs, scholarships and imputed student costs, and development awareness costs.

It was also suggested that the DAC consider not scoring debt relief as ODA, on the premise that debt relief is immensely valuable and frees up domestic government expenditures that would otherwise go to debt service payments. The current rules for counting bilateral debt cancellation as ODA overstate the value of debt relief and what the donor has to pay to provide it. The bulk of security assistance should stay outside ODA; and support to global public goods financing must be additional to ODA. DAC donors must continue to increase investments in sectors that are critical to accelerating progress towards the MDGs such as health, agriculture and education even in times of climate setbacks.

On a new measure of Total Official Support for Development, it was noted that ODA is only one of many important financing instruments that support developing countries. To better assess the full range of development finance, it is necessary to upgrade the quality and scope of reporting on other flows, including remittances, FDI, debt relief, export credits, guarantees, and administrative costs. The DAC could play an important role in tracking the quality and quantity of flows beyond ODA, as part of the new TOSD measure.

Dr. Moyo also suggested that aid flows from emerging donors such as the BRICS should be captured and monitored. A uniform system of measurement across all providers would be ideal, but does not seem feasible in the short-term. South-South providers tend to question the legitimacy of the DAC and to be reluctant to adopt aid volume targets because of the relatively small difference in income levels between them and the countries they help. As a result, a parallel system (e.g. at UN level) where less emphasis is put on volume and more on the nature and effects of South-South co-operation may be considered.

Finally, ONE highlighted the call for improving the timely collection, reliability, accessibility and overall quality of data, including assistance data, is gaining traction. The OECD should capitalize on this political momentum and use its expertise and experience to play an instrumental role in moving this agenda forward.

Mr Jeroen Kwakkenbos, Policy and Advocacy Officer at EURODAD, made the second intervention, emphasizing that this is a critical discussion in terms of determining the future landscape of development aid. It was outlined that for 2013, overall ODA has risen by 3.35% if debt relief is discounted, but in Sub Saharan Africa it has decreased by 4%. Mr. Kwakkenbos explained that the DAC appears to be moving away from grant-based finance, noting that forward spending surveys indicate increases in loans to MICs while grants for LDCs will stagnate or be reduced. For many partner countries (at least 37 by last count), ODA is critical for public service provision as it can make up 10% of GDP and 70% of accessible external finance. Moving from grants to loans has clear implications for where ODA resources are channelled.

Mr. Kwakkenbos agreed that only the grant component of ODA loans should be counted as ODA. He noted, however, that net flows still need to be captured to determine actual resource receipts to partner countries. The current 10% discount rate to assess the concessionality of loans is too high and should be updated to reflect actual donor effort. A risk-adjusted discount rate poses concerns in terms of incentivising high interest loans to countries likely to default and we need to ensure grant-based donors are not punished for utilising actual budgetary effort, rather than taking advantage of low interest rates for donor countries.
Mr. Kwakkenbos also noted that there is ambiguity in ODA reporting requirements and therefore there is a need to clearly and simply define what is in, what is out and how to count it. Mixed reporting methods for in-donor costs leads to wide interpretation of what can be included. ODA should only consist of flows that have a clear poverty eradication purpose. He also explained that there is still confusion as to what development means, suggesting that for some it is poverty eradication and for others it is economic growth. He pointed to current research by IMF and others indicating that economic growth does not equal poverty eradication. Overall, ODA reporting should be simple and clear and not mired in complexity.

Mr. Kwakkenbos pointed (as illustrated in the OECD presentation) to large fluctuations in non-concessional private flows, whereas ODA has remained marginally stable. Private flows are too volatile for financing essential public services and private finance in general is difficult to measure, to retain, and to target.

With respect to TOSD, Mr. Kwakkenbos expressed concern that it may become a “dumping bin” for expenditures that cannot be counted as ODA. It is unclear how a TOSD measure would complement ODA. Mr. Kwakkenbos suggested that more involvement with relevant stakeholders would be necessary for ODA reform and TOSD to be credible. He pointed to EURODAD’s submission of a paper with CONCORD/AidWatch to the March 2014 DAC Senior Level Meeting.

**Mr. Taurai Chiraerae**, Senior Policy Researcher, AFRODAD, made the third intervention, initially noting that the involvement of civil society in consultations will increase ownership and bring additional added value to the debate on new measures. He expressed his desire for the consultations to be more inclusive and be broadened to include other actors such as recipient governments and the private sector. The world is moving away from the traditional North-South approach based on ODA, to a broader one that seeks sustainable development and should also focus on broader flows, especially innovative financial instruments. ODA should account for resources that explicitly focus on poverty eradication and achievement of development goals.

Aid remains fundamental in the African context, despite the general understanding that aid is increasingly becoming less important due to the multiplicity of other sources of development finance. For example, most health and education budgets are funded by ODA.

Mr. Chiraerae also explained that the cancellation of unpayable debts is important, but it should not be scored as ODA. When cancelling debt, donors can count both the principal and future interest; as many of the debts are long-term, counting future interest can inflate the figure significantly. Research conducted by EURODAD shows that 85% of the bilateral debts cancelled between 2005 and 2009 were debts resulting from export credit guarantees. The mandate of export credit agencies is to support national (donor) companies by encouraging their international exports, but not to support the development of partner countries. Moreover, donor countries often lend irresponsibly and can contribute to increasing the debt of developing countries. Debt relief should reflect the position outlined in the Monterrey Consensus and should not detract from ODA resources.

Regarding a new TOSD measure and how its outer boundary and the inner boundary between ODA and TOSD should be set, Mr. Chiraerae suggested incorporating innovative financial instruments into the new proposed measure, but ensuring they not just be casually linked to development. The new measure should also reinforce the progress which country programmable aid has had on recipient countries. Efforts scored as TOSD should also conform to the four Busan principles of ownership and focus on results, partnerships and transparency and accountability.

To ensure that ODA remains a credible measure and to reinforce donors’ efforts to live up to their commitments, it was suggested that aid should explicitly focus on poverty eradication, that it not be tied (as committed in Busan), and that a greater priority be given to non-debt based development finance. The concessional in character criterion should be revised, discount rates should reflect current economic realities and debt sustainability criteria for ODA loans should be added. Mr. Chiraerae indicated his agreement with only the grant equivalent being counted as ODA. However, returns on interest should be deducted to better reflect the actual transfer of flows.
Finally, in regard to ensuring ODA goes to where it is most needed and the question of whether specific targets should be set for LDCs, building on the current UN target of providing at least 0.15 - 0.20% of GNI as ODA to LDCs, Mr. Chiraearae made the point that income status is not sufficient to give an accurate picture of people’s living conditions and that other indicators such as inequality and vulnerability should also be considered. He also noted that another important issue that should be discussed is the DAC list of eligible recipients, which includes countries that are donors themselves while still receiving a significant amount of ODA.

Following these three interventions, the floor was opened for discussion. Participants endorsed the three interventions. Several highlighted the need for the DAC to take the time to undertake this review process properly, through broad consultations with civil society. The DAC Secretariat welcomed ideas on how to ensure more active consultations. Others mentioned the need for the DAC to engage the post-2015 processes; any new measure of development finance should fit the post-2015 agenda and not vice versa.

It was noted that ODA only accounts for a small fraction of the support for global public goods. Some participants expressed support for a new TOSD measure, which could be seen as an incentive for providing more support for global public goods. There is still work to do, however, with respect to precisely defining what is a global public good. It is hoped that the post-2015 sustainable development agenda will provide direction in that regard. Support was also expressed for private philanthropic resources for development to be measured. The DAC Secretariat is currently doing work in that regard.

In closing, Mr. Tomasi explained that the DAC will put forward options for a decision to be taken at its High Level Meeting scheduled for 15-16 December 2014. However, it may or may not be able to come to definite conclusions at that point. Mr. Tomasi also noted that an international conference on financing for development will most likely take place in early 2015, leading up to the 2015 UN General Assembly, hence allowing the results of the DAC’s work to be incorporated and negotiated further. The OECD has observer status to the UN and is working closely with UNDESA and other UN bodies on the post-2015 process. Mr. Tomasi noted that this is just the beginning of the dialogue with CSOs and that they also need to work closely with their national governments on these important issues.