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The concept of ODA – What will happen after 2015?

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The concept of Official Development Assistance (ODA) has been the subject of criticism for a long time. A new concept must be developed for the post-2015 period.

This paper summarises the objectives and the basic requirements which any new reporting system should meet. Building on this foundation, an explanation is then offered of key issues in system design, which will be crucial for determining the system's scope and validity. Finally, solutions which are presently under discussion are analysed on the basis of these criteria.

In conclusion, this demonstrates that a perfect solution is unlikely to be found; rather, what is needed is a pragmatic balance between the value of the information provided and the effort required to gather it.

ODA (Official Development Assistance) is the most important indicator used in official development cooperation (DC). For over 40 years, the level of ODA has been the statistic used to measure the efforts made by DAC donor nations to promote the economic and social development of developing countries. But ODA is more than just a statistic: the ODA concept defines which financial flows count as official development cooperation, and it also serves as a political performance indicator. The concept of ODA has been the subject of criticism for some time. The main areas of criticism have been that the concept has not reflected the fundamental changes which have taken place in international development cooperation since the late 1960s (more actors, more financial instruments and more objectives), and that the system incorporates misdirected incentives which hinder development finance resources from being allocated in the best way possible.[1]

Meanwhile the need for reform has been widely recognised, including within the OECD's own Development Assistance Committee (DAC) which lays down the ODA guidelines. At the DAC High Level Meeting in London in early December 2012, member countries gave the DAC Secretariat a clear mandate to investigate the need for reform and produce a draft plan for a modified system by the end of 2013.

This subject is closely bound up with discussions on carrying forward and developing the Millennium Development Goals for the post-2015 period. The commitment made by EU member states to spend 0.7% of their gross domestic product on ODA should be fulfilled by 2015. Therefore it is not intended to introduce any changes to the reporting system before 2016.

So far, the extent of this modernisation drive and the direction it will take remain unclear. A number of scenarios can be envisaged, ranging from minor changes to the current ODA logic, right through to - at the other extreme - a completely new reporting system, decoupled from the DAC, operating for example, at the UN level.

Three prerequisites for a new system

The starting point for any discussion should be the question of what function the statistic is intended to perform: to provide accountability to taxpayers, or to verify internationally agreed objectives (effects); to offer a benchmark for comparisons with other donors; to serve as a planning and control instrument (for donors and developing countries), to ensure (for example) that resources are allocated according to need; or to be a source of information for non-governmental actors?

Once this question has been clarified, each proposal must be tested against the following three prerequisites of any improved system:

a) Completeness

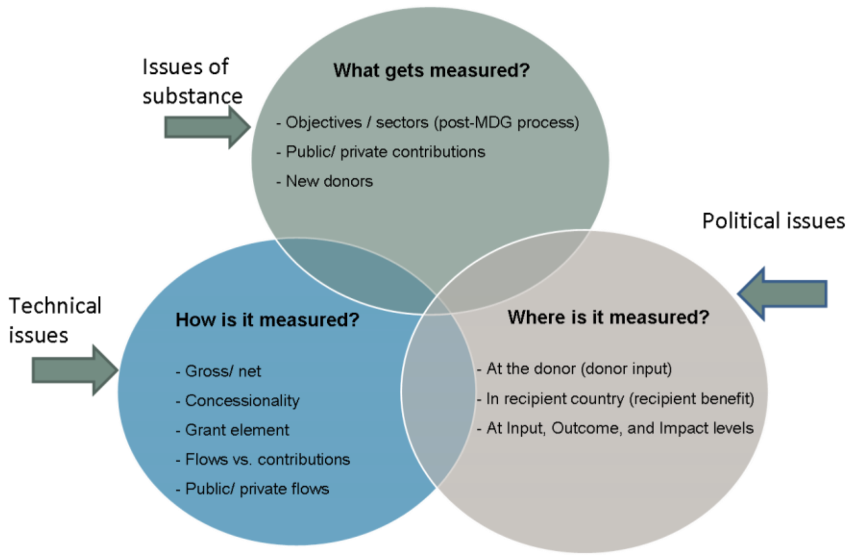
Any new system should provide as complete a picture as possible of all relevant development activities, and not just an ever-decreasing selection. For nowadays development cooperation encompasses a broad spectrum of both public and private measures; moreover, that which is recorded as ODA forms only a portion, and is a part which has declined in comparative significance over time due to the strong growth in contributions seen in other parts. Greater transparency is needed.

b) An unbiased consideration of financial instruments

Another key challenge is to develop a system of accounting which avoids misdirected incentives and the inappropriate allocation of funds. The overarching aim is to deploy the funds which are available for development purposes - in their entirety - in the most efficient and effective way possible. The decisive factor in selecting a financial instrument should be its effectiveness and efficiency, not whether it will formally qualify as ODA. It therefore follows that there should be no preference for, or discrimination against, specific financial instruments or specific financial sources.

[1] For a definition of ODA and the main areas of criticism, see „Focus on Development: Official Development Assistance (ODA) – is the concept still in step with the times? (October 2012)"

Figure 1: Three questions for the new reporting system



Source: own illustration

c) Manageability

Last but not least, the statistical measure should not be overly complex in terms of its structure, and data collection should be neither too difficult nor too costly.

Three questions that need to be answered

Proposals on reworking the system can be broken down using three fundamental questions: "Where are measurements taken?" "What gets measured?" and "How is it measured?"

What gets measured?

Many discussions are addressing the issue of the scope of reporting. Which objectives/ sectors should be considered? Which actors, and which instruments?

Objectives: There is much discussion on whether the fundamental objective of promoting "the economic development and welfare of developing countries" should be expanded to include global objectives such as climate protection and peacebuilding. This issue is closely linked to the reworking of the Millennium Development Goals, which expire in 2015. No clear trend has yet emerged from the debate on the MDGs post-2015. In June 2012, a proposal from the UN Task team suggested four pillars of development: "environmental sustainability", "inclusive economic development", "inclusive social development" and "peace and security".

Actors: Probably the most important question in this context is whether it is preferable to measure the flows from state actors only or those from private actors as well. To date, the DAC has only recorded contributions from private actors on a highly selective basis, and then just for information purposes. The involvement of private institutions (foundations with developmental aims, non-governmental organisations, and companies) in developing countries has become increasingly significant, and it often exceeds national development budgets. Remittances and commercially motivated flows of finance (such as foreign direct investment) also contribute to a nation's development, but they cannot be planned or controlled by the government of the developing country. Overall, collecting statistical data on private sector contributions seems challenging, and it would certainly require information on the flows of private finance to be not just available but also transparent. One middle course would be to include so-called officially supported private flows[2] within the statistical measure.

A further question here is why should the system be confined to the circle of DAC countries, and not incorporate contributions from those countries known as the "new donors"[3]. This heterogeneous group's engagement constitutes a growing element within international development cooperation. There is a problem in involving these countries, because in some places there is a fundamentally different understanding of development and development cooperation: national and commercial objectives are frequently blended with development objectives, and, similarly, development activities are often mixed with commercial activities. This makes statistical reporting difficult under the existing ODA system, and represents a challenge for the new system. Moreover, it is in any case questionable whether the countries within this group have any interest in participating in the new reporting system.

Financial instruments: Some financial instruments merit closer consideration: e.g. under the existing system, which only captures actual payment streams, state guarantees for developmentally sound investments are not recognised. This leads to some issues of a rather technical nature (see below).

How is it measured?

The issue of concessionality is a cornerstone of the ODA system. The level of financial relief provided is used to differentiate between developmentally and commercially motivated contributions. Under the existing system, concessional financing is defined using two criteria: "concessional in character" and having a "grant element of at least 25%". Non-concessional contributions are reported to some extent in the "Other Official Flows" (OOF) category. The design of the concessionality criteria offers considerable scope for misdirected incentives - by virtue, for example, of a strict "in" or "out" criterion, such as the grant element. Within the current discussion, the positions taken on this issue vary widely: whereas some criticise the way the existing system discriminates against developmentally sound financing offered at terms close to market rates, others emphasise that financing at high levels of concessionality holds a special significance for development, and they therefore support a strengthening of the existing regulations (e.g. Manning (2011)). To that effect, how can we do justice to the special significance held by those financing arrangements which have a high level of concessionality, without reducing the incentives for developmentally sound financing at rates close to market norms?

Another cornerstone of the existing system which is under discussion is the net calculation approach. At present, net ODA is calculated on the basis of disbursements (gross) less repayments. This technical aspect of the statistic leads to distortions in the valuation of development contributions: successful development projects which have been financed by means of a loan (possibly at

[2] With reference to Official Support for Private Flows (OSPF), see: ECDPM: Reporting on Development: ODA and Financing for Development (2012)

[3] This term encompasses Arab donors, EU candidate countries, and those emerging nations which are active in South-South cooperation.

heavily discounted rates) show zero ODA effect by the time the loan is repaid. In instances where promotional equity investments have been successfully sold, the net result may even be negative. This can give rise to a paradox, if the project in question fails and the promotional shareholding is not refunded (in the case of insolvency, for example). In this instance a positive net ODA contribution is maintained. The question now is how to provide an accurate portrayal. Approaches under discussion include changing to a simple gross calculation as well as the so-called sliding concessionality concepts, under which different financial instruments are weighted according to their concessionality and that weighting is factored into the calculation.

Where is it measured?

The question of where measurements should be taken is inseparably bound up with the question posed at the outset regarding the purpose of the reporting system. If we want to measure the extent of a donor country's efforts, we must capture all the efforts which the donor country makes to mobilise funds for development purposes (donor input), including the donor country's own administration costs and the amount it expends on domestic education over development issues. If, on the other hand, we want to measure how recipient countries meet their need for development finance, we should record all their sources of finance, including private financial investors, non-governmental development aid, and the recipient country's own efforts.

In the past, the donor input perspective stood firmly in the foreground: the ODA ratio has been an important tool for donor benchmarking, and it still remains so today. Internationally agreed targets on the level of ODA (e.g. 0.7% of GNI) place great pressure on donor countries and their taxpayers to mobilise funds for development purposes.

Moreover, there is an increasing demand for a different perspective: not only because ODA no longer plays the leading role it did in international development finance; but also in order to emphasise countries' ownership, as well as to counter the "recipient mentality" and provide greater incentives for countries to mobilise their own financial resources.

The question "Where should it be measured?" is also targeted at another level, namely the points of contact in the chain of effects between Input, Output/Outcome, and Impact. At the moment only payment flows - Inputs - are recorded, without reference to the impacts they seek to achieve. In line with the global trend towards a greater focus on effects, it would be desirable if the financing provided could also be measured in "impact units". What was achieved with the funds deployed? The problem here is this: to date, no measure has yet been formulated which allows a comparison to be made between extremely diverse projects in terms of their developmental effectiveness. Preparatory work on methodology is still required here: different sectors and types of projects ought to be classified and evaluated against different national contexts. There is a lot of potential here for lengthy discussion, and it is questionable in any case whether there would be any international consensus on measuring effectiveness.

Specific concepts

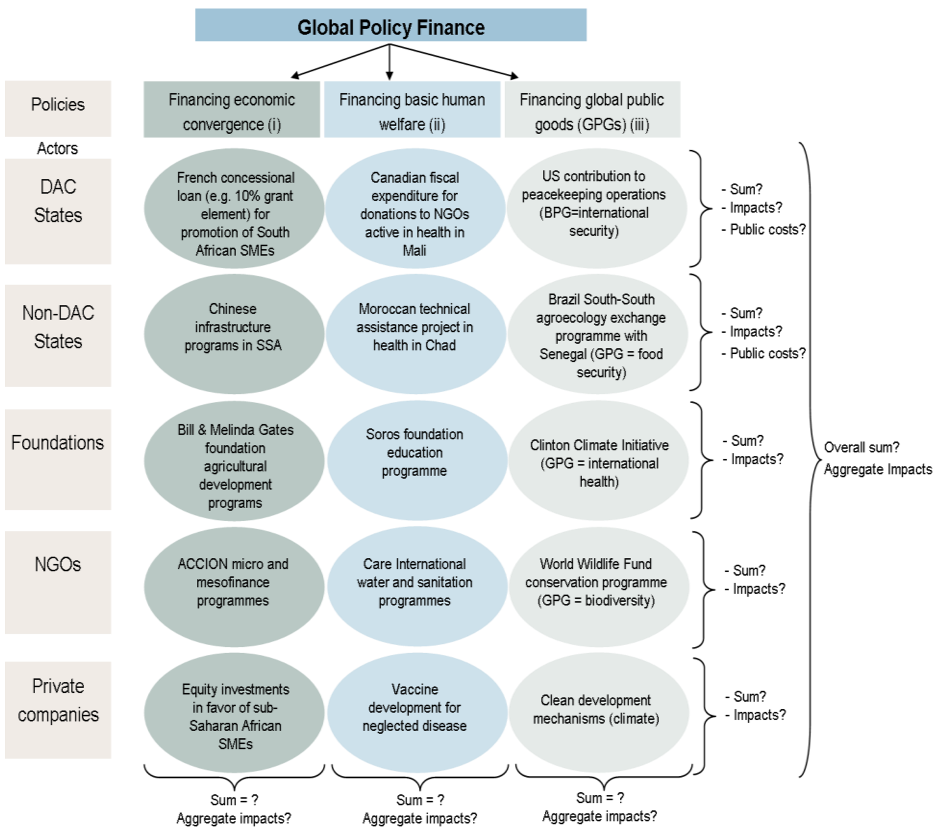
Although the ODA system has many critics, there is no definitive solution as to what an improved reporting system might look like. Three proposals which are presently being discussed in international circles are set out below:

Proposal 1: "Global Policy Finance" (Severino and Ray)

Severino and Ray are among the pioneers of these international discussions, having put forward the substantive concept of "Global Policy Finance" (GPF) as early as 2009. This is an extremely comprehensive approach, which answers the questions posed in the above analysis in the broadest sense possible. The proposal contains details on all the financing measures, which are considered as supporting the objectives of 1) closing the economic gap, 2) improving access to basic social care, and 3) providing global public goods - all regardless of fund origins (whether DAC donors, "new donors", foundations, non-governmental organisations, or private companies) and of the level of concessionality (see Fig. 2).

Severino and Ray accept that such a calculation will prove very imprecise. Despite this, however, it may well serve to provide a rough estimate of funding shortfalls. For the authors, it is especially important that, during a second stage, the concept is applied at the higher level of impacts. However, it will first be necessary to develop a generally accepted

Figure 2: Global Policy Finance



Source: Severino and Ray (2009)

methodology for comparing the results of extremely diverse measures (see above).

Although their concept is generally aligned towards the "recipient benefit" viewpoint, Severino and Ray still include an "Official Global Public Finance" category, which sets out official contributions separately. This demonstrates that the authors still consider it important to retain the function of public accountability. This category includes all funding provided directly out of national budgets as well as foregone tax revenue (e.g. tax relief provided to NGOs).

Proposal 2: "External Financing for Development" (ECDPM)

Early in 2012, the European Centre for Development Policy Management (ECDPM), on behalf of the Dutch and German governments, produced a study entitled "Reporting on Development: ODA and Financing for Development", in which two scenarios were portrayed. In contrast with Severino and Ray's work, both these scenarios started with the existing ODA concept.

In the first scenario, entitled "External Financing for Development", the authors propose to widen the scope of data collection to include private flows for development purposes and non-concessionary contributions alongside traditional ODA contributions. Under this plan ODA continues unchanged, and is supplemented by the following new categories: "Private Development Assistance" (PDA), and the non-concessionary categories of "Other Official Development Flows" (OODF) and "Other Private Development Flows" (see Fig. 3). One advantage of this model is that it can be introduced gradually: moreover, it lends itself to further expansion, for example to include a category of "Internal Financing for Development" to record developing countries' own efforts. Such a system illustrates the reality of international development finance today in a relatively comprehensive fashion. However, this is still an Input-oriented concept - it is not linked to impacts. Subsequently the authors present a number of options both for the detailed design and delineation of the categories and for system implementation. A large number of questions remain open here. These include the issues of the availability and quality of data on private financing and the question of getting the new donors involved. Global objectives also fall outside the scope of this view.

Proposal 3: "ODA Revision" (ECDPM)

In this second scenario, the authors propose the following changes to the definition of "ODA":

1) To expand the type of contributions accepted to include guarantees, foregone tax revenue, and Official Support for Private Flows.

2) To significantly extend the list of multilateral institutions which qualify as ODA recipients.

3) To define ODA recipient countries on the basis of poverty incidence (instead of per capita income, the basis used to date) or even to dispense completely with any restrictions on the list of recipient countries.

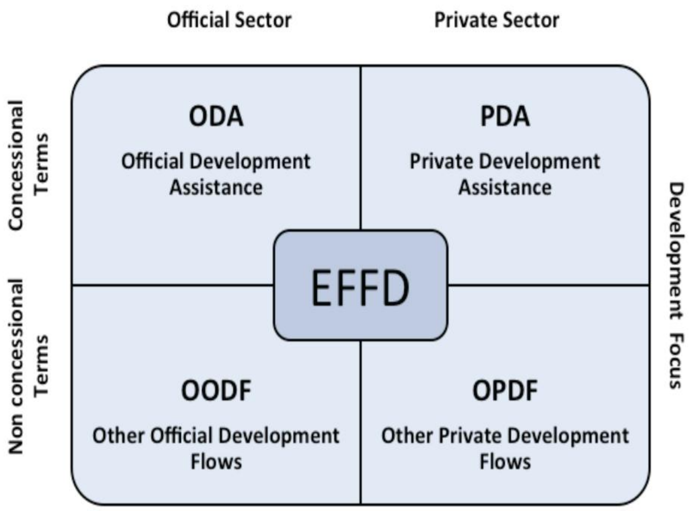
4) To expand the schedule of objectives to include, for example, climate and security issues.

5) To raise the concessionality criterion from its present level of 25% to the IMF standard of 35%.

6) To shift the focus of assessment from a net analysis to a gross analysis.

With regard to the political question of "Where should measurements be taken?" this second ECDPM scenario also supports the donor input viewpoint. In response to the question "What gets measured?" it extends the existing system to include specific actors, instruments and objectives, and in answer to the question "How is it measured?" it combines a tightening of conditionality criteria with gross level analysis.

Figure 3: External Financing for Development



Source: ECDPM (2012)

Conclusion

The debate on reforming the ODA system is still in its very early stages. None of the concepts currently available are ready for implementation as yet. Given the context - multifaceted approaches and a wide range of interests - it seems essential to first of all establish clarity over what the new reporting system should really measure, so that answers to individual questions can be sought and then integrated into a coherent overall concept. A perfect, one and only concept is not in sight. In reality, any viable concept must try to find a reasonable balance between information quality and data acquisition costs. ■

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