

Aid reform must pass the development effectiveness test

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Recent upheavals in the global economy combined with an impending environmental crisis and the rise of new major actors in the global political and economic arena have dramatically changed the development landscape. But despite sustained economic growth in many developing and emerging countries, **poverty remains widespread and growth alone will not eradicate it.**

These changes and shifts raise questions as to how efforts to meet global development ambitions and goals can and should be financed. While all sources of finance will continue to be important for development, **aid has a unique role in the fight against poverty and inequality that cannot be replaced.**¹

A review of the purpose, measurement, criteria and definition of Official Development Assistance (ODA) is much needed to ensure that it is targeted for greatest impact. In this respect the ongoing review of ODA by the OECD Development Assistance Committee (OECD DAC) is a step in the right direction. That being said assessing how best to reform ODA requires a **long term and holistic approach that incorporates all stakeholders on an equal footing.** The current OECD DAC process is noticeably centred on a shift from tracking net amounts received by partner countries to reporting “budgetary efforts” of donors, which risks undermining the credibility of ODA in terms of transparency and development commitment. The OECD DAC has made efforts to make the ODA modernisation process more inclusive but it remains for the most part a discussion among donors, for donors and decided by donors.

ODA as we know it

Since the 1970s the OECD DAC has defined ODA as flows provided by official agencies (the “O” of ODA) to countries and territories on the DAC list of recipients. These flows are administered with the promotion of the economic development and welfare of developing countries as the main objective (the “D”), and are concessional in character (the “A”)².

In 1970, the General Assembly of the United Nations (Res 25/2626) clarified that, when it comes to “financial resources for development”, donor countries should achieve targets in net amounts in terms of

¹ CONCORD (2013): AidWatch Report: The unique role of aid – the fight against global poverty:

http://www.concordeurope.org/publications/item/download/236_007122be5d9a4ce3ec2e0b7614b9e225

² For a comprehensive history of the ODA Concept see William Hynes and Simon Scott (2013): The Evolution of Official Development Assistance: Achievements, Criticisms and a Way Forward (OECD DAC):

<http://www.oecd.org/dac/externalfinancingfordevelopment/documentupload/ERG%20S1%20Jan%202014%20-%20The%20Evolution%20of%20ODA-%20Achievements,%20Criticisms%20and%20a%20Way%20Forward%202013%2012.pdf>

actual disbursements³. The OECD DAC has since provided statistics for both net and gross flows and **assessed donors' performance against globally agreed targets in net amounts**.

While the core of the ODA definition has not changed, its coverage and application has been adjusted in response to new activities and the changing nature of development cooperation. Over time there have been several amendments to the directives that guide donor reporting practices⁴. For example, in 1984 the OECD DAC agreed to include tuition costs of developing country students in the ODA. In 1988 the first-year costs of sustaining developing country refugees in donor countries were also included. One of the most recent updates was to include in ODA 6% of DAC members' multilateral contributions to UN peacekeeping.

The ODA definition has come under criticism over the past decades by OECD DAC members and others including civil society for various reasons. Many, such as CONCORD AidWatch through its inflated aid methodology⁵, argue that it is too broad as it includes expenditures that do not directly address the needs of developing countries. Others argue that the definition is too narrow, as it omits some official efforts that could arguably support development.

ODA as it should be

ODA can improve the lives of people living in poverty by ensuring that it directly supports its intended beneficiaries and that it produces the right results – poverty eradication – through aligning with globally agreed development effectiveness principles. The quality of aid is equally if not more important than the quantity and the two have to be clearly linked.

The Monterrey Consensus on Financing for Development in 2002⁶ called on the international community to “**strive to make ODA more effective**”. Since then international conferences in Rome, Paris, Accra and Busan have developed principles and indicators for achieving development effectiveness which in turn evolved into a comprehensive agenda for development cooperation effectiveness. However, there has been more political commitment than action.

Civil society has called for the strengthening effectiveness of development finance; in particular, CSOs have insisted on the notions of transparency, development results, mutual accountability, inclusiveness and democratic ownership as well as on human rights based approaches (HRBA) as the distinctive

³ UN General Assembly Resolution (1970): International Development Strategy for the Second United Nations Development Decade: <http://www.un-documents.net/a25r2626.htm>

⁴ DAC statistical reporting directives (2010): <http://www.oecd.org/dac/stats/38429349.pdf>

⁵ Aid statistics include flows of money that do not genuinely contribute to development and poverty eradication. CONCORD AidWatch inflated aid methodology subtracts specifically 5 items from aid figures: costs for students from developing countries, refugee costs, debt relief, tied aid and interest on loans to provide more accurate picture of aid flows and for distinguishing genuine from inflated aid.

⁶ UN Monterrey Consensus on Financing for Development (2002): <http://www.un.org/esa/ffd/monterrey/MonterreyConsensus.pdf>

elements that can fundamentally and permanently change traditional donor-recipient relationships by placing partner countries - governments, parliaments and CSOs - firmly in the driving seat of development.

Creating a clear link between ODA reporting and its effectiveness would create coherence between the two processes and incentivise flows that are complementary. To achieve this **ODA should clearly focus on poverty eradication and inequality, contribution to the achievement of development goals and enhancing development effectiveness**. In this sense flows reported as ODA should have the following characteristics:

a) All ODA flows must be transparent and accountable. Aid can help lift people out of the poverty and give assistance to those living in deprivation. For it to be utilised to greatest effect all stakeholders need to have equal access to timely, comprehensive, comparable and accessible information on whom is giving what, where it is going and the impact it is having. All providers need to publish the information in a common format that meets the needs of the different users, including recipient governments, other providers, and citizens, in both donor and recipient countries. ODA flows should be accountable and support mutual accountability frameworks to the public of donor and recipient countries. Measuring ODA on a cash basis – so as to track actual flows to and from recipient countries – is instrumental in achieving the highest standards in transparency and accountability.

b) Democratic Ownership of ODA must be strengthened. Aid can only be truly effective when governments, parliament, local authorities and civil society are in control of development processes. The development character of ODA flows should be clearly linked to poverty eradication and incentivise financing modalities that are transparent, support democratic ownership of resources, are mutually accountable between donors and recipients and focus on achieving development results. This is particularly important considering donor interest in seeing greater prominence of public support for mobilising private investments by the business sector in ODA reporting. This form of finance often has limited accountability to the public and is not necessarily aligned to the national development strategies of recipient countries. The role of donors is therefore to make sure that their development assistance aligns with their support for country owned processes and strengthening recipient country systems.

c) Strong focus on development results. Aid is not effective unless it is used to generate greater impact on development results in alignment with national development plans. A lot of effort has been placed in different developing countries to establish national development strategies. These strategies determine benchmarks for a nationally driven agenda of aid effectiveness, rather than using external measures and indicators which may not reflect the country's own development priorities. Resources reported in ODA should not undermine the achievement of these results or circumvent national development strategies.

Conclusion

Any reform to ODA should pass the test of development effectiveness. ODA resources captured in quantity reporting should complement and enhance development effectiveness. The current measure of intent in ODA reporting is too broad and allows for flows with questionable relevance to its core objectives – development and poverty eradication. **New reporting measurements should not undermine the effectiveness of ODA.** Lastly, donors should turn political will into action so as to implement and integrate

into their development agenda the agreements endorsed at successive conferences on development effectiveness.

Key Recommendations from European CSO - Aid has a unique role to play in the fight against poverty and inequality that cannot be replaced by other sources of finance and therefore any reform of ODA must ensure that:

1. The central objectives of ODA continue to be development and poverty eradication.
2. Any reform of the ODA definition is in line with development effectiveness principles. In particular, ODA flows must be transparent and accountable, strengthen democratic ownership, and focus on development results.
3. ODA reporting only counts the net flows in terms of actual disbursements.
4. ODA reflects genuine flows rather than inflated elements such as imputed student costs, in-donor refugee costs, debt relief, tied aid and the interest payments on loans.
5. Concessional loans reported as ODA should reflect accurately both the effort of the donor and the cost to the recipient. Resources reported as ODA should not undermine recipient countries debt sustainability.
6. Climate finance, and finance for global public goods, which are crucial for ending extreme poverty and tackling inequality, should be new and additional to ODA.