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MODERNISING ODA IN THE FRAMEWORK OF THE POST-MDG AGENDA: CHALLENGES AND OPPORTUNITIES

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MODERNISING ODA IN THE FRAMEWORK OF THE POST-MDG AGENDA: CHALLENGES AND OPPORTUNITIES

Abstract

The year 2015 marks an important milestone in international development cooperation. It is the deadline both for the achievement of the current Millennium Development Goals (MDGs) as well as the European Union's (EU) formal undertaking to collectively commit 0.7% of Gross National Income (GNI) to Official Development Assistance (ODA). At the same time, a new development framework will be adopted in 2015, which will set the international community's development agenda until 2030. This represents an opportunity to assess the strategic role of ODA and to adapt it to the changing global landscape of development finance. The European Parliament in collaboration with the Council and the Commission should develop a common line to support efforts for a coherent framework to financing poverty eradication and sustainable development. The EU should accentuate the transfer character of ODA and support the revision of the ODA concept and reporting in order to avoid the inflation of ODA and allow for transparent accountability of all instrument and sources of Financing for Development focusing in the public contributions. As an initial step the EU should revise the Agenda for Change (AfC) and the Consensus in order to develop a strong vision and to report its own contributions to development and climate financing in a transparent manner.

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List of Abbreviations and Acronyms

AfC	Agenda for Change
CS(Os)	Civil Society (Organisations)
CTT	Currency Transaction Tax
DAC	Development Assistance Committee (OECD)
DD	Doha Declaration
EC	European Commission
ECDPM	European Centre for Development Policy Management
EP	European Parliament
EU	European Union
FFD	Financing for Development
GNI	Gross National Income
GPED	Global Partnership for Effective Development Cooperation
GPGs	Global Public Goods
GSL	Global Solidarity Levy
HLP	High-level Panel
IAIT	International Aid Transparency Initiative
ICF	International Climate Fund
IFF	International Finance Facility
IFFIm	International Financing Facility for Immunisation
IFD	Innovative Financing for Development
IMF	International Monetary Fund
LGIFD	Leading Group on Innovative Financing for Development
LIC	Low-income country
MDG(s)	Millennium Development Goal(s)
MIC(s)	Middle Income Countries
NGO	Non-Governmental Organisation
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
OOF	Other Official Flows
PCD	Policy Coherence for Development
SDF	Intergovernmental Committee of Experts on Sustainable Development Financing
SDG(s)	Sustainable Development Goal(s)
SDG-OWG	Open Working Group on Sustainable Development Goals
SDI	Sustainable Development Indicators
UK	United Kingdom
UN	United Nations
UNDP	United Nations Development Programme
UNGA	United Nations General Assembly
UNHCR	United Nations High Commissioner on Human Rights
UNICEF	United Nations International Children's Emergency Fund
WP-STAT	Working Party on Development Finance Statistics

EXECUTIVE SUMMARY

Three scenarios have been crystallised in the debate on a post-2015 framework presented following the report of the HLP and the outcome document of the UN: (i) to continue with the present framework with the same goals, targets, indicators and instruments but to extend the timeframe until 2030; (ii) to keep the present framework and change the indicators, goals, and objectives and new instruments; and (iii) to establish a new agenda with a global character. The outcome document indicates that the latter alternative is the most likely option for the post-2015 Development Agenda. The challenge for the months ahead will be to bring together the technical issues and political aspects of the negotiations and present it in a way that all stakeholders accept it as a common agenda. Particularly demanding will be the challenge to define goals and targets in a way that can be operationalised according to **common but differentiated responsibilities and respective capabilities** and at the same time providing the instruments for monitoring and evaluation.

The landscape of aid and development cooperation has changed and is very different to how it was years ago, when the concept of ODA was defined for the first time. Besides, there is a growing recognition to link traditional development cooperation to sustainability. Simultaneously, innovative finance instruments and non-traditional providers have increased their share significantly, upstaging ODA's relevance for international development assistance. **The total share of ODA** in development assistance has fallen dramatically in the last decade. Today, ODA accounts for 0.31% of Gross National Income (GNI) for developed countries, missing the recommended 0.7% UN target by far. According to the OECD/DAC, only five donor countries have reached or exceeded this target. Nevertheless, ODA provides an important contribution to Financing for Development (FFD); it is estimated that each 55 cents of a dollar of external resources that enters low income countries is from ODA sources (UN 2013a).

In addition to the mobilisation of external resources, **domestic resource mobilisation** (DRM), both public and private, has been identified as the most important complementary source of financing for development (OECD 2012). However, trade mispricing, bribery, kickbacks, and the proceeds of corruption continued to be the primary driver of illicit financial flows from developing countries.

Within the light of these developments it became apparent that **the concept of ODA** drafted in 1969 no longer corresponds to the new challenges of development cooperation. Although there have not been any major changes to the definition of ODA, the DAC has frequently refined the detailed ODA reporting system. Consequently ODA covers, under particular conditions, military aid, anti-terrorism activities, peacekeeping missions, nuclear energy (for civilian purposes) and cultural programmes. Since 2003, donor countries are also able to claim debt cancellation as ODA. The broadening of the ODA coverage is not only criticised by CSOs, but also by several think tanks and even some donor countries. The main issues which provoke disagreement with regards to their relevance to development are debt relief, refugee costs, emergency aid, administrative costs, technical cooperation, scholarships and imputed student costs (ECDPM, 2013). The abuse of the discretionary and non-binding information sharing of donors had led to **the inflation of ODA**. ODA turned out to be an insufficient instrument for measuring the amount as well as the effectiveness of development assistance. It failed to keep up with the pace of modern aid, which is also defined by emerging actors, new objectives, innovative instruments, Global Public Goods (GPGs) and a changed global public policy. Nevertheless, there is a need for the money raised by the 0.7% target. In summary, the current ODA measures are 'too much, too little and the wrong types of things' (Severion and Ray 2011; 17).

Moreover, the concept of **concessionality in character** for loans derives from a situation in the capital markets that no longer exists. This caused a situation where loans are awarded as development aid

and therefore qualified concessional in character, although they are actually offered to market conditions. All this is creating a problem of credibility and moral hazard to unnecessary and harmful traditional cooperation.

The introduction of the concept of **Country-programmable aid** (CPA) in 2007 aimed to bring development assistance 'closer to the core' (OECD/DAC 2010b; 1). It improves the estimates and predictability of ODA actually transferred to recipients, and thus estimates actual flows. It is, so far, the only officially approved concept other than ODA to calculate development aid. Unlike ODA, CPA eliminates those services from development assistance, which are debated and accused to be inflating ODA. Besides administrative costs it also factors out humanitarian aid and debt relief. Nevertheless, the concept follows the basic features of ODA. In that respect services can only be counted as CPA when they are official, and part of a co-operation agreement between governments and it needs to be country programmable by the donor. Although, CPA seems to be a good alternative, it also offers some pitfalls, which need to be discussed and solved beforehand. For instance, the total exclusion of some aid relevant expenditures, such as technical assistance, humanitarian aid and debt reliefs, is a debatable argument of CPA.

In 2013 the European Centre for Development Policy Management (ECDPM) published two studies on the future of ODA. The study was commissioned by the governments of Germany and the Netherlands. It suggests **two options** for the future of ODA reporting, trying to adapt to current conditions of global development assistance. The **first option** brings together four different sources of external financing for development in a broader aggregate: ODA, OODF, PDA and OPDF. This new concept is called External Financing for Development (EFFD). Keeping the current definition, but broadening the data collection focus could be an option, which would enable the recording of services beyond the traditional ODA definition and permit and overlap with the concept of Global Public Goods (GPGs). The **second alternative option** for the future of the ODA reporting system would be the revision of the definition. The idea is to open up the definition and besides ODA, include climate, security and private investments as equal parts of the concept. One of the main advantages of this alternative would be that a single aggregate that measures official assistance for development would be defined as 'multiple aggregates would seem to blur the message and complicate implementation' (ECDPM 2012; 39).

Contrariwise to the ECDPM study the **Concord 2013 AidWatch report** highlights that it is vital to exclude innovative financing from the ODA definition and that a modernising of the concept should be a refocusing on the traditional idea, which is the improvement of the welfare and economy of developing countries.

As the DAC has already realised those challenges, the DAC 2012 **High Level Meeting (HLM)** agreed to look into a new measure of external financing for development, which may involve changes to the ODA definition. So far it became evident that it is not only a technical problem but also **a political problem**. The interests of donors differ and are often not aligned with each other; however, decision-making on the definition requires unanimity. To summarise the problems of the current ODA concept and the possibilities to redefine it **five main** issues should be addressed: (i) reconsideration of **what** can be reported as ODA, (ii) **transparency**, (iii) the **quality of data**, iv) **who** should provide ODA (public or private resources, OECD or beyond) and (v) **how** should the reporting be done and to whom.

Since **ODA is not a legally binding agreement** but defined by rather voluntary ties and as a result of self-reporting by DAC members, data provided suggests that the DAC faces a principal-agent problem in improving both accountability and performance. This means that the quality of the provided data

on ODA differs widely across countries. This does not only include the quality of the data itself, but also its magnitude. This again can be traced back to the different perceptions of what can be measured as ODA and what not. Therefore, it is plausible that the system may need an overhaul that ensures greater transparency. The High Level Forum on Aid effectiveness in Accra (2008) realised this and launched the International **Aid Transparency Initiative** - a global action group which calls for more transparency in financial flows for development assistance. The initiative asks for a discloser of not only how much money is being provided, but also of when it is spent, where, how and what is expected to be achieved. This would have a positive effect on the relationship of donors' commitment and disbursement and would therefore enhance the predictability of ODA.

The proposal for a **coherent reporting framework** to financing poverty eradication and sustainable development made by the Commission in the FFD Communication should accentuate the transfer character of ODA and should therefore express the high relevance of Country-programmable Aid (CPA) as indicator. CPA depicts a good basis for a discussion on that, as it would render a much better assessment of its impact level. Although the CPA concept has its limitations, with an example being the fact it includes technical assistance which is often not country-programmable (Keijzer 2013).

Another important issue to be discussed and clarified is the present DAC **recipient country list**, as it includes some countries that are donors themselves and still receive a significant amount of aid. Some of these countries even report to the DAC on their development assistance. Moreover, while it is important to adhere to the 0.7 % threshold, the discussion nevertheless needs to be led back to the essentials of the discourse, which is the impact of ODA and its poverty eradication ability.

It is important that the EU and its MS respect the **principles of Innovative Financing for Development** (IFD) set out in the Monterrey Consensus and confirmed by both the Doha Declaration and the Global Partnership for Effective Development Cooperation (GPED). IFD has to be **additional or complementary to ODA**; and it must be **predictable and stable** and comply with the principles of aid effectiveness. As proposed by the Commission the Council should adopt a **Currency Transaction Tax (CTT)** as an important mechanism to tackle global development and environmental challenges. Since this instrument has an enormous revenue potential it would help to fulfil commitments without affecting MS' budgets. This in turn could enhance the reputation of the EU. Financial regulatory reforms, as well as curbing illicit financial flows from developing countries, need to be supported collaterally in order to allow domestic resources mobilisation.

To assess the impact of using ODA grants for **leveraging public and private sector resources**, it should also develop standards on reporting and methodologies on monitoring and evaluation. Leveraged resources (i.e. loans) of **blending packages** should have the character of additional flows. Double reporting needs to be avoided especially for **climate finance**. Moreover, counting blending instruments to ODA needs to comply with established OECD/DAC requirements. Thereby, the amount of ODA qualifying grant elements should be made transparent. The increasing **engagement of the EIB** together with other European bilateral and multilateral finance institutions in blending facilities reaffirm the need for **a new definition of concessionality**, which reflects the current situation on the international financial market.

In order to capture the new landscape of development cooperation and the new strategies and indicators the European Parliament should call for the creation of a central institution responsible for transparency, data collection and monitoring needs on all forms of external development finance. As this institution has to be acknowledged by all stakeholders, traditional donors, non-traditional donors and recipients countries, it needs legitimacy. The **Global Partnership for Effective Development Cooperation** would depict a suitable framework to confer legitimacy. **An UN-Institution** could have a

greater legitimacy and broader acceptance by more donor and recipient countries. The expertise of traditional donor institutions, such as the OECD/DAC holds the relevant expertise and could serve as a basis for the establishment of a globally recognised framework. The EU Parliament should promote an **open dialogue with important emerging donors** in order to create the necessary trust to shape the project.

So as to provide a substantial contribution to the global debate on the post-2015 Development Agenda the EU needs to reconsider the scope of its two reference documents: The **Agenda for Change** and the **EU Consensus on development**. Its strong emphasis on a conventional growth strategy sometimes seems to contradict the vision for a profound **transformation of production and consumption patterns** to confront the present challenges. The Lisbon Treaty identifies poverty reduction as the sole objective of EU development cooperation. Yet, the EU Consensus on Development presents a multidimensional definition of poverty that includes all three sustainable development dimensions (environment, equity, economy). Hence, the future recognition of development cooperation should be defined in broader terms than the current **ODA definition to include other official sources and IFD**. However, it is important that this will not impede the needed increase of public financial resources to developing countries, and especially to the LDCs.

EXECUTIVE SUMMARY - French version

MODERNISER L'APD DANS LE CADRE DU PROGRAMME POST-OMD: DEFIS ET OPPORTUNITES

Contenu

L'année 2015 sera une année charnière pour la coopération internationale au développement. Elle marquera une double échéance: celle de la réalisation des objectifs du Millénaire pour le développement (OMD), d'une part, et celle de l'engagement officiel de l'Union européenne d'allouer collectivement 0,7 % du revenu national brut (RNB) à l'aide publique au développement (APD), d'autre part. Parallèlement, un nouveau cadre de développement sera adopté en 2015 : il fixera l'agenda de la communauté internationale en matière de développement jusqu'en 2030, ce qui donnera l'opportunité d'examiner le rôle stratégique de l'APD et de l'adapter au paysage mondial du financement du développement, qui est en constante évolution. En collaboration avec le Conseil et la Commission, le Parlement européen devra élaborer une position commune en vue de parvenir à la définition d'un cadre cohérent pour financer l'éradication de la pauvreté et le développement durable. L'Union européenne devra accentuer la caractéristique du transfert de l'APD et soutenir la révision du concept et du mode de notification de l'APD afin d'éviter l'inflation de l'APD et d'aboutir à une responsabilité transparente de tous les instruments et de toutes les sources de financement du développement dans les contributions publiques. L'Union devra en premier lieu réviser le Programme pour le Changement ainsi que le consensus pour parvenir à une vision solide puis notifier dans un souci de transparence ses propres contributions au financement du développement et de la lutte contre les changements climatiques.

SYNTHESE

Trois scénarios ont émergé du débat sur le cadre de l'après-2015 présenté à la suite du rapport du protocole de haut niveau et le document final de l'ONU : (i) conserver le cadre actuel et les mêmes objectifs, cibles, indicateurs et instruments mais repousser le délai jusqu'à 2030; (ii) conserver le cadre actuel mais changer les indicateurs et objectifs et mettre en place de nouveaux instruments; et (iii) établir un nouveau programme ayant un caractère mondial. Le document final indique que cette dernière alternative constitue l'option la plus probable pour le programme de développement pour l'après 2015. La difficulté pour les mois à venir sera de rassembler les problèmes techniques et les aspects politiques des négociations et de les présenter de manière à ce que tous les intéressés l'acceptent en tant que programme commun. Un défi particulièrement difficile à relever sera celui de définir les objectifs et les cibles de manière à les rendre opérationnels en fonction de **responsabilités communes mais différentes et des capacités respectives**, tout en fournissant les instruments permettant le contrôle et l'évaluation.

Le paysage de l'aide et de la coopération au développement a changé et est très différent de ce qu'il était il y a quelques années, lors de la première définition du concept d'APD. En outre, on reconnaît de plus en plus qu'il est nécessaire de lier à la durabilité la forme traditionnelle de coopération au développement. Dans le même temps, les instruments financiers innovants et les fournisseurs non traditionnels ont considérablement accru leur part en réduisant l'importance de l'APD dans l'aide internationale au développement. **La part totale de l'APD** dans l'aide au développement s'est réduite de manière spectaculaire au cours de la décennie écoulée. Aujourd'hui, l'APD représente 0,31 % du revenu national brut (RNB) pour les pays développés, ce qui est loin du chiffre de 0,7 % recommandé par l'ONU. D'après le Comité d'Aide au Développement (CAD) de l'OCDE, seuls cinq pays donateurs ont atteint ou dépassé cet objectif. Néanmoins, l'APD fournit une contribution importante au financement du développement (FdD); on estime que sur un dollar, provenant de ressources extérieures et dépensé dans des pays à faible revenu, 55 cents proviennent de sources d'APD (ONU 2013a).

Outre la mobilisation de ressources extérieures, la **mobilisation de ressources nationales**, tant publiques que privées, a été identifiée comme la source complémentaire la plus importante de financement du développement (OCDE 2012). Cependant, les manipulations de prix, la corruption, les pots-de-vin et les produits de la corruption ont continué à être les sources principales des flux financiers illicites provenant de pays en développement.

À la lumière de ces développements, il est apparu que le **concept d'APD** élaboré en 1969 ne correspondait plus aux nouveaux défis que doit relever la coopération au développement. Bien qu'aucune modification majeure n'ait été apportée à la définition de l'APD, le CAD retravaille fréquemment les détails du système de notification de l'APD. Par conséquent, l'APD couvre, dans des conditions particulières, l'aide militaire, les activités anti-terroristes, les missions de maintien de la paix, l'énergie nucléaire (à des fins civiles) et les programmes culturels. Depuis 2003, les pays donateurs sont également en mesure de demander une annulation de dettes sous la forme d'APD. L'élargissement de la couverture d'APD n'est pas seulement critiqué par les organisations de la société civile, mais aussi par plusieurs groupes de réflexion et même par certains pays donateurs. Les principaux sujets qui suscitent des différends à l'égard de leur pertinence pour le développement concernent l'allégement de dettes, les coûts relatifs aux réfugiés, l'aide d'urgence, les coûts administratifs, la coopération technique, les bourses d'études et les coûts imputés aux étudiants (ECDPM, 2013). C'est l'abus du partage discrétionnaire et non contraignant d'informations par des donateurs qui a engendré **l'inflation de l'APD**. L'APD s'est avérée être un instrument insuffisant pour mesurer le montant ainsi que l'efficacité de l'aide au développement. Elle n'a pas pu suivre le rythme

de l'aide moderne, qui est aussi défini par des acteurs émergents, de nouveaux objectifs, des instruments innovants, des biens publics mondiaux (BPM) et un changement de politique publique au niveau mondial. Il est néanmoins nécessaire d'accroître la levée de fonds pour atteindre l'objectif de 0,7 %. En résumé, les mesures actuelles en matière d'APD sont "trop nombreuses, insuffisantes et non adaptées" (Severion et Ray 2011; 17).

En outre, le **concept de concessionnalité** sous forme de prêts dérive d'une situation qui n'existe plus sur les marchés des capitaux. C'est pourquoi est apparue une situation dans laquelle les prêts sont alloués sous forme d'aide au développement et sont dès lors qualifiés de prêts concessionnels, bien qu'ils soient en réalité proposés aux conditions du marché. Tout cela engendre alors un problème de crédibilité et de danger moral dans une situation de coopération traditionnelle inutile et préjudiciable.

L'introduction en 2007 du concept de **l'aide programmable par pays** visait à amener l'aide au développement "plus près des besoins"(OCDE/CAD 2010b; 1). Ce concept améliore les estimations et la prévisibilité de l'APD actuellement transférée vers les bénéficiaires et, par conséquent, les estimations des flux réels. C'est à ce jour, outre l'APD, le seul concept approuvé officiellement pour calculer l'aide au développement. Contrairement à l'APD, l'aide programmable par pays élimine de l'aide au développement les services qui sont contestés et accusés d'accroître l'APD. Outre les coûts administratifs, elle ne prend pas non plus en considération l'aide humanitaire ni l'allégement de dettes. Ce concept respecte néanmoins les caractéristiques fondamentales de l'APD. À cet égard, les services ne peuvent être considérés comme relevant de l'aide programmable par pays que lorsqu'ils sont officiels et s'inscrivent dans le cadre d'un accord de coopération entre gouvernements, et ce dernier doit pouvoir être adapté au pays par le donateur. Même si l'APD paraît être une bonne alternative, elle est aussi semée d'embûches qui doivent faire l'objet de discussions et être prévenues. Par exemple, l'exclusion totale de certaines dépenses pertinentes relatives à l'aide, comme l'aide technique, l'aide humanitaire et l'allégement de dettes, est un argument contestable de l'APD.

En 2013, le centre européen de gestion des politiques de développement (ECDPM) a publié deux études sur l'avenir de l'APD. Ces études ont été commandées par les gouvernements allemand et néerlandais. **Deux options** y sont proposées pour l'avenir de la notification de l'APD, en essayant de l'adapter aux conditions actuelles de l'aide mondiale au développement. **La première option** regroupe dans un ensemble plus large quatre sources différentes de financement extérieur du développement : l'APD, "d'autres flux officiels de développement", "le développement de l'autorité publique" et le "fond de développement de programme en ligne". Ce nouveau concept est appelé "financement extérieur du développement" (FED). Une des options pourrait être de conserver la définition actuelle, mais en élargissant le champ de la collecte de données, ce qui permettrait d'enregistrer des services dépassant la définition traditionnelle de l'APD et de recouvrir partiellement le concept de biens publics mondiaux (BPM). **La seconde option** pour l'avenir du système de notification de l'APD serait d'en revoir la définition. L'idée est d'élargir la définition et, outre l'APD, d'inclure le climat, la sécurité et les investissements privés à parts égales dans le concept. L'un des avantages principaux de cette alternative serait qu'un ensemble unique destiné à mesurer l'aide officielle au développement, deviendrait des "ensembles multiples qui estomperaient le message et en compliqueraient la mise en œuvre" (ECDPM 2012; 39).

A l'inverse de l'étude de l'ECDPM, le **rapport Concord 2013 d'AidWatch** souligne qu'il est essentiel d'exclure les financements innovants de la définition de l'APD et que moderniser le concept permettrait de recadrer l'idée traditionnelle, à savoir l'amélioration du bien-être et de l'économie des pays en développement.

Étant donné que le CAD a déjà résolu ces problèmes, la **réunion de haut niveau** du CAD de 2012 a convenu d'examiner une nouvelle mesure de financement extérieur pour le développement, qui pourrait inclure des modifications à la définition de l'APD. Il est apparu qu'il ne s'agit pas seulement d'un problème technique, mais également d'un **problème politique**. Les intérêts des donateurs diffèrent et souvent ne concordent pas. Cependant, toute décision quant à la définition exige l'unanimité. Pour résumer les problèmes du concept actuel d'APD et les possibilités de le redéfinir, il convient d'aborder **cinq sujets principaux** : (i) reconsidérer **ce qui** peut être notifié en tant qu'APD, (ii) la **transparence**, (iii) la **qualité des données**, iv) **qui** doit fournir de l'APD (ressources publiques ou privées, OCDE ou au-delà) et (v) **comment** procéder à la notification et à qui.

Étant donné que **l'APD n'est pas un accord juridiquement contraignant** mais est définie par des liens volontaires et est le résultat d'une notification volontaire par des membres du CAD, les données fournies suggèrent que le CAD se trouve devant un problème d'agent principal en ce qui concerne une amélioration tant de la responsabilité que des performances. Cela signifie que la qualité des données fournies concernant l'APD diffère énormément d'un pays à l'autre, Ce n'est pas seulement la qualité intrinsèque de ces données qui est en cause, mais aussi leur ampleur. Encore une fois, cela peut provenir des différences de perception de ce qui peut être qualifié ou non d'd'APD. Il est dès lors plausible que ce système ait besoin d'être revu entièrement pour pouvoir garantir une meilleure transparence. Le forum de haut niveau sur l'efficacité de l'aide qui a eu lieu à Accra (2008) a répondu à cet objectif et lancé **l'Initiative internationale pour la transparence de l'aide** - un groupe d'action mondiale en faveur d'une transparence accrue en ce qui concerne les flux financiers de l'aide au développement. Cette initiative invite à divulguer non seulement les montants fournis, mais aussi à préciser quand, où, comment ceux*ci sont dépensés et les objectifs à atteindre. Cette initiative aura un effet positif sur les engagements et décaissements des donateurs, et améliorera dès lors la prévisibilité de l'APD.

La proposition d'**un cadre de notification cohérent** pour financer l'éradication de la pauvreté et le développement durable, présentée par la Commission dans la communication sur le financement du développement, devrait accentuer la caractéristique du transfert de l'APD et dès lors traduire la pertinence significative d'une aide programmable par pays en tant qu'indicateur. L'aide programmable par pays représente une bonne base de discussion sur ce sujet car elle permettra une bien meilleure évaluation de son niveau d'impact. Le concept d'aide programmable par pays a cependant ses limites, par exemple le fait qu'il inclut l'aide technique, qui ne s'inscrit pas souvent une optique programmable par pays (Keijzer 2013).

Un autre point important à aborder et à préciser est la **liste actuelle des pays destinataires** du CAD, dans la mesure où elle inclut certains pays qui sont donateurs mais qui reçoivent toujours un montant considérable d'aide. Certains de ces pays notifient même au CAD leur aide au développement. En outre, bien qu'il soit important de se conformer au seuil de 0,7 %, la discussion doit néanmoins rester centrée sur l'essentiel du discours, à savoir l'impact de l'APD et sa capacité à éradiquer la pauvreté.

Il est important que l'Union et ses Etats membres respectent les **principes du financement innovant pour le développement** fixés dans le consensus de Monterrey et confirmé par la déclaration de Doha et le partenariat pour une coopération efficace au service du développement. Le principe du financement innovant pour le développement doit apporter de la **valeur ajoutée à l'APD ou la compléter**; et il doit être **prévisible et stable** ainsi que respecter les principes d'efficacité de l'aide. Comme proposé par la Commission, le Conseil devrait adopter une **taxe sur les opérations de change**, un mécanisme important pour faire face aux problèmes mondiaux de développement et d'environnement. Étant donné que le potentiel de cet instrument est énorme en termes de recettes, il devrait contribuer à respecter les engagements sans affecter les budgets des États membres, et aurait

aussi comme conséquence d'améliorer la réputation de l'Union européenne. Il convient de soutenir de manière collatérale les réformes de la réglementation financière ainsi que la réduction des flux financiers illicites en provenance de pays en développement afin de permettre la mobilisation de ressources nationales.

Afin d'évaluer l'impact de l'utilisation des subventions d'APD pour **mobiliser des fonds publics et privés**, il convient aussi d'élaborer des normes sur la notification et les méthodes de contrôle et d'évaluation. Les ressources mobilisées (à savoir des prêts) d'**ensembles de mesures combinées** doivent avoir les caractéristiques de flux complémentaires. Il convient d'éviter la double notification, en particulier en ce qui concerne le **financement de la lutte contre les changements climatiques**. En outre, les instruments combinés de l'APD doivent respecter les exigences fixées par l'OCDE/CAD. Dès lors, le montant des éléments d'APD pouvant être couverts par une subvention doivent être transparents. **L'engagement croissant de la banque européenne d'investissement (BEI)** avec d'autres institutions européennes bilatérales et multilatérales dans des instruments combinés réaffirment la nécessité d'une **nouvelle définition de la concessionnalité**, qui reflète la situation actuelle sur le marché financier international.

Afin d'avoir une vue d'ensemble du nouveau paysage de la coopération au développement et des nouveaux indicateurs et stratégies, le Parlement européen doit inviter à créer une institution centrale qui soit responsable de la transparence, de la collecte des données et de la vigilance en matière de besoins concernant toutes les formes de financement extérieur du développement. Etant donné que cette institution doit être reconnue par toutes les parties concernées que ce soient les donateurs traditionnels, les donateurs non traditionnels ou les pays destinataires, elle a besoin de légitimité. Le **partenariat mondial pour une coopération efficace au service du développement** constituerait un cadre adapté pour conférer cette légitimité. Une **institution de l'ONU** permettrait d'accroître sa légitimité et de recueillir une reconnaissance plus large de la part des pays donateurs et destinataires. L'expertise des traditionnelles institutions donatrices, comme l'OCDE/CAD, est pertinente et pourrait servir de base à l'établissement d'un cadre mondialement reconnu. Le Parlement européen doit encourager un **dialogue ouvert avec les importants donateurs émergents** afin de susciter la confiance nécessaire à l'élaboration de ce projet.

Afin d'apporter une contribution considérable au débat mondial sur l'agenda en matière de développement pour l'après-2015, l'Union européenne doit réexaminer le champ d'application de ses deux documents de référence : l'**Agenda pour le changement** et le **Consensus européen pour le développement**. Son insistance sur une stratégie conventionnelle de croissance semble parfois contredire la vision d'une **transformation profonde des modèles de production et de consommation** pour résoudre les problèmes actuels. Le traité de Lisbonne identifie la réduction de la pauvreté comme le seul objectif de la coopération au développement de l'Union. Cependant, le Consensus européen pour le développement présente une définition multidimensionnelle de la pauvreté qui inclut les trois dimensions d'un développement durable (environnement, équité, économie). Dès lors, la reconnaissance future de la coopération au développement doit être définie en termes plus larges que dans la **définition actuelle de l'APD, de façon à inclure d'autres sources officielles et les principes du financement innovant pour le développement**. Il est toutefois important de veiller à ce que cela n'empêche pas l'augmentation nécessaire des ressources financières publiques à destination des pays en développement, en particulier les pays les moins avancés.

1 INTRODUCTION

The year 2015 marks an important milestone in international development cooperation. It is the deadline both for the achievement of the current Millennium Development Goals (MDGs) as well as for the European Union's (EU) formal undertaking to collectively commit 0.7% of Gross National Income to Official Development Assistance. At the same time, a new development framework will be adopted, which will set the international community's development agenda until 2030. This represents an opportunity to assess the strategic role of ODA and to adapt it to the changing global landscape of development finance. Broadly speaking, the assessment will need to consider ODA in the wider context of flows of development finance. In particular, this will require scrutinising the current Financing for Development reporting system, taking into account contributions from the private sector and of market-based instruments, as well as contributions of development partners outside of the OECD/Development Assistance Committee (OECD/DAC or simply DAC). This study analyses how to approach a possible redefinition of ODA in the context of the post-2015 development framework and advises the European Parliament and its Committee on Development on the implications for EU development policies.

The concept of ODA emerged at the end of the 1950s, when the World Council of Churches suggested that donor countries transfer 1% of their income to developing countries. This target, which all DAC members subscribed to in 1968, included both official and private flows. However, given the fact that private flows are difficult to programme or predict, the target was later revised downwards to 0.7% of Gross National Income and to include only official flows in the form of ODA. This new target gained widespread acceptance and was repeatedly endorsed by most DAC members – at least as a long-term objective. In 2005, the European Council confirmed the target and called on member states to achieve the 0.7% target by 2015. Member states that joined after 2002 were urged to raise ODA-levels to 0.33% of GNI (European Council 2005).[1] These targets were reconfirmed in May 2013 (European Council 2013). It is worth noting that the USA, while supporting the general notion behind ODA, never accepted a specific target nor any related timeline (OECD/DAC 2010a).

Preliminary figures of ODA provided by each of the DAC member countries[2] in the year 2012 add up to US$ 126 (€98 billion)[3], representing some 0.29% of these countries' GNI.[4] The USA was by far the largest donor, with over US$ 30 billion (€20 billion), followed by the EU institutions (US$18 billion, €14 billion), the United Kingdom (US$14 billion, €11 billion) and Germany (US$13 billion, €10 billion). Collectively, all EU member states and EU institutions provided some €55 billion,[5] representing 0.43% of EU GNI (European Council, 2013).

As shown in figure 1, only five countries have reached/exceeded the 0.7% target, including Luxembourg, Sweden, Norway, Denmark and the Netherlands. Figure 1 also shows that some of the

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[1] In 1993, Gross National Product was substituted with Gross National Income for calculating the ratio between ODA and income.

[2] Australia, Austria, Belgium, Canada, Czech Republic (joined in 2013), Denmark, European Union, Finland, France, Germany, Greece, Iceland (joined in 2013), Ireland, Italy, Japan, Korea, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Slovak Republic (joined in 2013), Spain, Sweden, Switzerland, the United Kingdom, and the United States. Figures for Czech Republic and Slovak Republic not included in the 2012 figures.

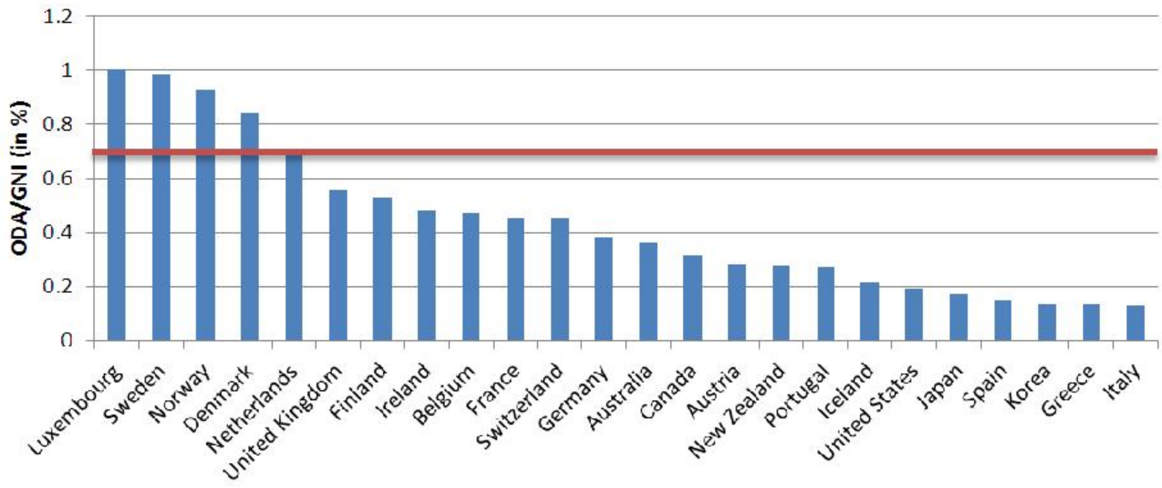
[3] Data provided in US$ divided by the 2012 annual average of the US$/€ exchange rate as provided by Eurostat (1.2848)

[4] See: http://www.oecd.org/development/stats/daclistofodarecipients.htm

[5] Note that the figure provided in the Council Conclusions differs from the ODA reported by the OECD. The latter estimates EU collective ODA at some US$81 billion (€63 billion).

largest ODA donors in absolute terms rank in the middle or even lower third of the figure when it comes to the ODA to GNI ratio.

Figure 1: Preliminary ODA to GNI ratio by country (2012)



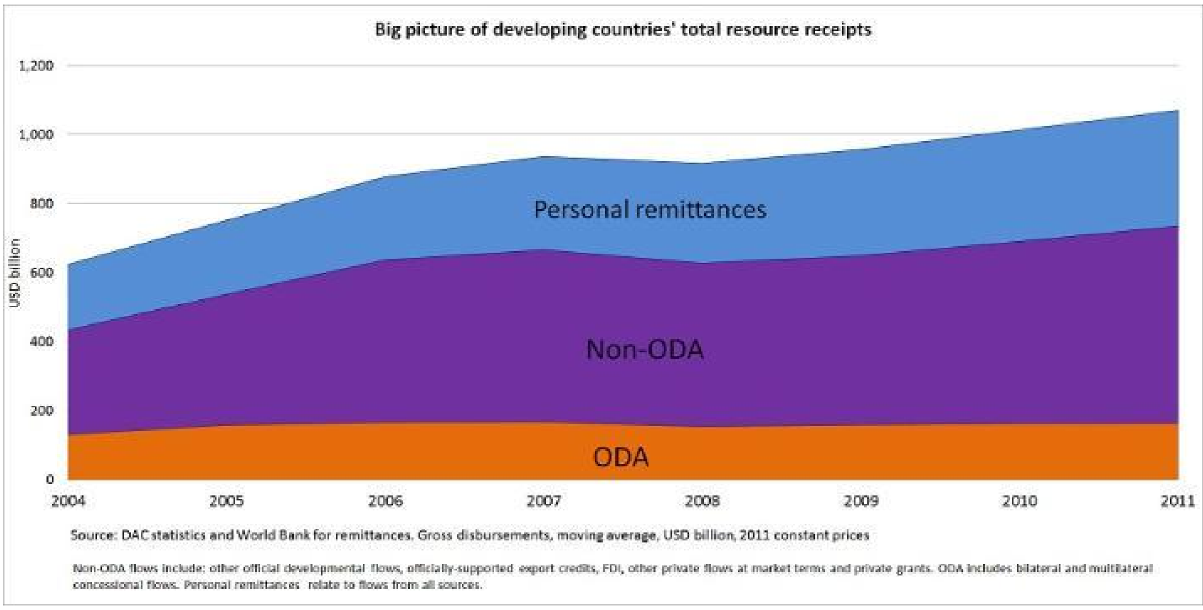
Source: Own representation based on http://www.oecd.org/dac/stats/data.htm
Note: Red line marks the UN target of 0.7% ODA in GNI

In terms of recipients, 29% of ODA flows into Least Developed Countries (LDCs), 25% into lower-middle income countries (LMICs) and 13% into upper-middle income countries (UMICs). From a regional perspective, Sub-Saharan Africa is by far the largest recipient, receiving around 28% of global ODA. South and Central Asia receive about 15% of ODA, while other Asian and Oceania countries receive around 12%. The top-five recipient countries are Afghanistan, DR Congo, India, Indonesia and Pakistan which together receive 17% of gross ODA. In terms of sectors, about 55% of ODA flow into education, health and population; other social infrastructure; and economic infrastructure. Less than 4% of ODA was registered as debt relief in 2012.

In principle there are **four categories of resources** available to developing countries for achieving their development targets in terms of poverty eradication and sustainable development. These include public finance (both domestic and international) and private finance (domestic and international). As laid out by the European Commission (2013c), public domestic finance includes taxes and other government revenues. Public international finance includes grants, equity and loans. Private domestic finance consists of investments by local enterprises and charities. Finally, private international finance consists of international investments, private transfers (e.g. remittances) and donations. In 2010, all four categories added up to an estimated EUR7.129 billion, originating, almost equally, from public and private sources. In terms of public finance, only 4.5% comes from international sources (EC 2013), thus dwarfing the role of ODA in total resources. The role of ODA in developing countries' total resource receipts is further expected to decrease if recent developments continue. Figure 2 shows that while the amount of total ODA remained more or less constant between 2004 and 2011, non-ODA flows6 and personal remittances increased significantly.

Figure 2: Role of ODA in total resource receipts of developing countries (2011)

[6] Non-ODA flows include mainly other official flows (OOFs), private grants and private flows at market terms.



Source: OECD STATS – Resource flows beyond ODA[7]

However, this is not to say that ODA is marginal. In fact, it plays a major role in LDCs, where it provides 12% of GDP. In comparison, ODA only contributes 0.2% to the GDP of middle-income countries (MICs) (EC 2013a).

The above analysis reveals several strengths and weaknesses of ODA. On the positive side, the ODA system (based on its definition, target, and governance) has spurred political support for aid in general and for ODA in particular. In addition, the definition underlying the calculation of ODA ensures a credible quality standard. Furthermore, a large share of ODA flows to LDCs, giving proof that it is largely spent where it is needed the most (Lowcock 2013).

However, the ODA concept is subject to increasing criticism. While ODA suffers from a general credibility deficit owing to the fact that the 0.7% target has never been met collectively (0.29% of GNI of all DAC in 2012), the main factors driving the potential modernisation of ODA are more deeply rooted. Most importantly, ODA is repeatedly criticised for being too narrow or 'conservative', both in terms of excluding additional FFD contributions (i.e. sources) and in terms of excluding new development cooperation providers (i.e. actors). In particular, financial flows such as Climate Assistance and Security Assistance spending, as well as innovative financing instruments such as Public Private Partnership (PPP) mechanisms, solidarity mechanisms and catalytic mechanisms can make substantial contributions to development and may thus need to be taken into consideration when modernising ODA (ECDPM 2012). At the same time, however, not all flows currently classified as ODA may be relevant to development. These may include (at least some elements of) administrative costs, refugee costs, scholarships and imputed student costs, technical coordination, emergency aid and debt relief (ECDPM 2012). Modernising ODA is thus not only an issue of expanding the list of eligible FFD contributions but also of reviewing currently accepted ones in view of their relevance to development.

Apart from the sources of ODA, its allocation should also be subject to review, both in terms of recipient countries and policy objectives. Regarding recipient countries, aid fragmentation implies the risk of creating so-called aid darlings and aid orphans. Better donor coordination may reduce this risk. In addition, the current ODA concept does not provide for sufficient monitoring regarding ODA

[7] See: http://www.oecd.org/dac/stats/beyond-oda.htm

volumes aimed at specific policy objectives. The introduction of improved policy indicators (e.g. Rio-markers) could improve reporting, as suggested by the European Commission (2013).

Another key criticism of ODA is the exclusion of non-DAC donors from the system, implying that there is no assessment of burden sharing with DAC-donors, nor scrutiny of the quality of their aid. Consequently, the DAC is perceived by some as a *donor-club*, where South-South cooperation providers, who view their cooperation as distinct from ODA, based on different motivations and instruments, do not find their place (Lowcock 2013).

There is also a continuous debate on aid effectiveness, as demonstrated by the Paris Declaration in 2005, the Accra Agenda for Action in 2008, and the Busan High Level Forum in 2011. Busan produced a paradigm shift from aid effectiveness to development effectiveness, meaning that aid is assessed against a set of quantifiable development goals, and not only the immediate goal of assistance (that does not include development spill-over effects from aid). This too has an impact on the effectiveness of ODA and needs to be taken into consideration when reviewing ODA.

Against this background, chapter 2 analyses the likely scenarios of development assistance in the post-2015 framework as well as the strategic role of ODA in increasing the total financial envelope and available instruments for investing in development. Chapter 3 assesses whether the new development context is likely to need a new way of providing and measuring development finance and looks, more specifically, at options to reconceptualise the concept of ODA. Chapter 4 analyses what expanding the definition of ODA may mean for the EU's ODA and the EU's development policy in general. Finally, chapter 5 provides concrete policy recommendations for the European Parliament and its Committee on Development concerning how to approach a possible redefinition of ODA and what its implications may be for the EU's development policies.

2 DEVELOPMENT ASSISTANCE IN THE POST-2015 FRAMEWORK

In October 2013 the General Assembly held its 68th meeting and discussed the future of development assistance in the scope of the post-2015 Development Agenda. The following chapter will analyse the possible scenarios of development assistance taking into account the international discussions based on the outcome document and recommendations of the HLP. Besides the changes in development aid, considering sustainability and emerging donors, there is a high demand and potential for Financing for Development. The chapter therefore analyses the role of ODA in Financing for Development, focusing on its relationship to Innovative Development Finance (IFD) in particular.

2.1 Possible Scenarios

In regards to the deadline of the MDGs in 2015, the debate on the new Post-2015 Agenda has now entered the home straight. With the presentation of the *UN System Task Team*[8] *report*, the realisation of a series of national and thematic consultations[9] and, especially, with the presentation of the report by the HLP, member states are provided with a good footing to come to an agreement concerning a new framework for the next 15 years. The statements of the UNGA 68 High-level Debate on the Post-2015 Agenda emphasised the need for a common agenda and proposed focusing on, inter alia, inequalities and climate change.[10] The idea to have one set of goals instead of two seems to be a realistic option. Although some countries still object to a single approach, the outcome document is very promising. According to the outcome document, the next steps to be taken are now explicit: A synthesis report should be drafted by the end of 2014 based on reports from the Open Working group and the Committee on Sustainable Development Financing and the mandate for the UN Secretary General.

Considering that the urgency and the correlation of tackling environmental issues and eradicating extreme poverty has been recognised, the question of *how* to deal with the existing challenges remains. In particular, three possible scenarios are currently on the table (i) to continue with the present framework with the same goals, targets, indicators and instruments but to extend the timeframe until 2030; (ii) to keep the present framework and change the indicators, goals, and objectives and new instruments; (iii) to establish a new agenda with a global character (Morazan et. al, 2013).

The UN Secretary-General 'welcomed the Panel's recognition that the Post-2015 Development Agenda should be universal, applying to North and South alike, and be infused with a spirit of partnership based on equity, cooperation and mutual accountability' (UN 2013c). The first reactions to the report have been diverse. The most optimistic response perceived it as a solid base for the negotiations and 'a great victory (…) for people around the world living in poverty and exclusion'.[11] On the other hand, those with a more pessimistic view are of the opinion that 'the Panel has failed to recognize the growing consensus that high levels of inequality are both morally repugnant and damaging for growth and stability'.[12] The most prominent umbrella organisation of CS, *Beyond 2015*, a

8 Under-Secretary-General for Economic and Social Affairs (USG-DESA) had been requested by the Secretary-General in September 2011 to establish the UN System Task Team on Post-2015 which plays a key role in the post-2015 agenda setting. Its report served as the main input to the work of the HLP.

9 The guidelines for the consultation have been released by the UNDG, see: http://www.worldwewant2015.org/groups

10 See: http://post2015.iisd.org/news/unga-68-high-level-debate-continues-discussion-of-post-2015-agenda/

11 See: G. Carlsson, Sweden Minister for International Development Cooperation in: http://www.4-traders.com/news/Government-of-Sweden--Panel-on-Post-2015-Development-Agenda-presents-its-report-to-Ban-Ki-moon--16917487/

12 See Oxfam: http://www.oxfam.org/fr/node/31513

global civil society campaign, is 'pushing for a strong and legitimate successor framework to the Millennium Development Goals' (Beyond 2015 2013).

The recommendations of the HLP and the UN outcome document 2013

The HLP express the aspiration to carry forward the spirit of the Millennium Declaration with a special focus on 'things like poverty, hunger, water, sanitation, education and healthcare' (UN 2013a, Executive Summary). Other initiatives from civil society, think tanks but also many governments of emerging powers already expressed their inclination to support such a strategy. It seems likely that this focus will set the goals for development assistance until 2030 and will link the strategy to complete poverty eradication. However, the outcome of the report highlights that the framework has to define the challenges and tasks for developing countries and for the international community (e. g. maximises the impact of ODA). Nevertheless, differences between traditional donors and *non-traditional* donors are still substantial and could delay the introduction of a broader framework and its correspondent data reporting system.

Regardless of which of the three scenarios will be considered, the HLP also suggests disaggregating indicators and complementing the indicators with an independent and rigorous monitoring system, which would make a new and reformed ODA system necessary. Relevant for ODA reporting is the 'call for a data revolution for sustainable development, with a new international initiative to improve the quality of statistics and information available to citizens' (UN 2013a). If the international community takes the suggestions of the report seriously accountability could play a central role in development assistance. The improvement of the quality and/or quantity of aid data and its transparency will need to be addressed intensively by donor and recipient countries. In order to increase the impact of Financing for Development, information on respective data needs to be provided from both, donor countries and recipient countries.

In their recommendations, the HLP refers to Innovative Financing for Development, stating that innovative financial instruments are needed to link world savings of more than US$18 trillion with sustainable projects. Furthermore, the HLP makes a call to support the efforts of aid, trade and investment patterns and technical cooperation through an international conference, which should discuss the question of finance for sustainable development in more detail and determine how to finance the Post-2015 Agenda. The call for a single agenda, which also considers financing, is therefore a very strong component in the HLP Report.

A very strong point for the support of the third scenario is the HLP's claim to go beyond the MDGs, linking the MDG Agenda to the Rio+20 Sustainable Development Goals Agenda (SDGs). In order to eradicate poverty, it is important to integrate the three dimensions of sustainability (environment, equity, economy) in a post-2015 framework. Therefore, one of the five transformations proposed by the HLP is to put sustainable development at the core of the discussions. According to Simon Maxwell[13] the HLP Report 'is programmatically competent and politically astute' (Maxwell 2013) and, like an onion, it has three key layers: 1. The five transformative shifts; 2. The 12 goals; and 3. The 54 targets (UN, 2013a).

Taking this into account, the post-2015 Agenda would be different in character. Hence, the goals that have to be defined cannot be goals for traditional aid donors and traditional aid flows. New goals must be defined for both developing and developed countries and have to be related to Global Public Goods (GPGs) to a large degree. Since the debate on a post-2015 framework is already strongly

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[13] See: http://www.simonmaxwell.eu/blog/paging-goldilocks-where-do-we-stand-on-post-2015-after-the-new-york-special-event.html

influenced by the new aid architecture and the governance structures of new international initiatives, like the global partnership for effective development cooperation (GPED), the first scenario would therefore not reflect the new challenges.

The challenge for the months ahead will be to bring together the technical issues and political aspects of the negotiations and present it in a way so that all stakeholders accept it as a common agenda. Particularly demanding will be the challenge to define goals and targets in a way that can be operationalised according to common but differentiated responsibilities and respective capabilities whilst at the same time providing the instruments for monitoring and evaluation. The political side of the process requires the formation of a majority to support the Agenda and its framework, in both developed and developing countries.

The Open Working Group on Sustainable Development: The follow-up to Rio+20

To what extent consensus will be reached about scenario two or three is highly dependent on the future institutional setting derived from the Rio+20 Conference. Governments participating in the Rio+20 Conference in Brazil called for the establishment of two intergovernmental committees: an Open Working Group on SDG (SDG-OWG) and a Committee of Experts on Sustainable Development Finance Strategy. The SDG-OWG is comprised of 30 representatives from the five UN regional groups, nominated by UN member states. They will elaborate on a proposal for SDGs to be submitted to the UNGA for consideration and appropriate action during its 68th session. With some delay, the Open Working Group was established on 22nd January 2013 using an innovative system of representation, whereby most of the seats are shared by several countries [14]. The SDG-OWG's task is to define goals for protecting the key environmental limits of the planet and to promote the access to Global Public Goods (GPGs). The task is not yet completed and deliberation inside this advisory body has taken more time than expected. That is why the outcome document urges the SDG-OWG 'that these processes should complete their work in a comprehensive, balanced and expeditious manner by September 2014' (UN 2013b).

Since climate change is one of the biggest challenges from an environmental and development perspective, experts have set up goals to mitigate climate change. Key challenges are keeping global warming within 1.5 and 2 degrees Celsius respectively, and maintaining biodiversity in the world's oceans. This requires defining targets for the reduction of carbon emissions and the related instruments for climate finance (ODI 2013b). These discussions have to take place in the Open Working Group and are much more complex than the debates on the post-MDG Agenda. The SDGs should be coherent with the UN post-2015 Development Agenda, and simultaneously bring an added value capturing the environmental challenges.

The Intergovernmental Committee of Experts on Sustainable Development Financing

For this purpose, donors and recipient countries agreed in the Rio+20 outcome document to establish an intergovernmental committee, comprising thirty experts nominated by regional groups with technical support from the UN System, to evaluate additional initiatives for FFD. Its task is to prepare a report proposing options on an effective Sustainable Development Financing Strategy to facilitate the mobilisation of resources and their effective use in achieving sustainable development objectives. The *Intergovernmental Committee of Experts on Sustainable Development Financing* (SDF)[15] has to hold

[14] See: http://www.iisd.ca/vol32/enb3204e.html

[15] Further to the mandate by the Rio+20 Conference on Sustainable Development in June 2012, in its outcome document, The Future We Want, the Committee was established by the UN General Assembly on 21 July 2013 through its decision 67/559. The Committee comprises 30 Members and represents the UN's five regional groups. See: ECOSOC, 2013:

consultations with relevant international and regional stakeholder on how to mobilise resources from a variety of sources to support developing countries in their efforts to promote sustainable development. The committee has to give answers on how to deal with the currently fragmented development financing landscape. Four clusters of topics constitute the basis for these consultations: i) assessing financing needs for sustainable development, ii) improving the effectiveness of public, private and blended finance, iii) resource mobilisation, iv) institutional arrangements. All of the four clusters are relevant for the future of ODA and need to be considered in the further debates.

The Intergovernmental Committee of Experts on SDF could play an important role in agreeing a 'core set on sensible definitional improvements' for measuring key concepts like leverage, concessionality but also leverage of private resources especially for climate and biodiversity finance (ECOSOC 2013)[16].At the moment it is still unclear how far the debates will include substantial issues concerning the environmental dimension of sustainability. Goals, targets and indicators on CO^2 and many other topics like oceans and biodiversity were not addressed sufficiently in the outcome document of Rio+20. The recommendations of the High Level Panel on global sustainability[17] could be an important input for the discussions in the months ahead.

The Role of Emerging Economies

Considering the dramatic changes in the international arena and the rise of new actors like the BRICS, the discussions of a new agenda are already very different from the discussions which evolved around the initial MDG Agenda from 1999/2000. For instance, the South-South cooperation (SSC) will be of crucial importance for the future of ODA. The BRICS members have already developed substantial institutions and the creation of a new development bank could have a significant influence in the new finance for development architecture. These play a vital role in mobilising new resources for poor developing countries and could lead to a new development philosophy, which could improve development strategies.

Emerging economies are already strongly influencing the debate in diverse ways. The traditional division between donor and recipient countries is not at the core of debates any more. The coherence between emerging economies on development policies is not as strong as between the OECD countries. This will lead to a controversial debate on how to mobilise additional resources and to account for the instruments of SSC. To recognise a universal agenda with common but differentiated responsibilities, a robust consensus between three big groups of countries will be crucial.

As emerging economies are highly affected by the consequences of climate change, their interest in the introduction of binding mechanisms for a reduction of emissions could be higher than in the past. On the contrary, developed countries, hitherto, have not contributed significantly to climate finance which challenges their credibility and might cause weaker motivation for emerging economies to do more.

In any case, China and India, as leading soft powers, could provide a significant contribution to the debates on a Post-2015 Agenda. Since China has by far the most substantial success in reducing poverty worldwide their perspective will play a crucial role, even if China 'has not projected a 'vision' for international development' (Heckenesch and Janus 2013) in the most recent debates of the global

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'Cooperation for sustainable development. Critical Challenges for Development cooperation in a post-2015 World' http://sustainabledevelopment.un.org/index.php?menu=1647

[16] See: http://www.un.org/en/ecosoc/newfunct/pdf13/dcf_odi_cooperation_for_sd.pdf

[17] See: http://www.un.org/gsp/

partnership for development effectiveness. Quality and robustness of the Post-2015 Agenda, however, will also depend on the strength of the engagement of emerging countries.

An important aspect of the discussions at the UNGA has been the availability of resources. Some experts recognise 'that there's now a political process, in the form of the Committee on Sustainable Development Financing'[18], yet not only IFD but also the traditional Financing for Development has to play a crucial role in the post-2015 framework.

2.2 The role of ODA in Financing for Development

The essential role of ODA in Financing for Development has been recognised at all the big international conferences. ODA provides an important contribution: it is estimated that each 55 cents of a dollar of external resources that enters low income countries is from ODA sources (UN 2013a; 55). For LICs ODA is particularly important to i) mobilise domestic resources, ii) improve the conditions for private sector activity, iii) support the MDGs and public infrastructure. Nevertheless, the total share of ODA in development flows has fallen dramatically in the last decade. Today, ODA accounts for 0.31% of GNI for developed countries, missing the recommended 0.7% UN target by far. According to the OECD/DAC, only five donor countries have reached or exceeded this target.

In real terms, ODA fell for a second consecutive year in 2012 to US$125 billion representing only 0.29% of the developed countries' GNI. That represents a '4% decline in real terms in 2012 and a total drop of 6% in real terms since 2010'.[19] Projections until 2016 show a more negative picture since ODA growth is expected to stagnate. In particular, this affects the world's poorest countries facing problems in pursuing the MDGs. Both the unachieved commitments to the 0.7% and the effectiveness, consistency and transparency of the present ODA measurement define multiple international debates. The problems of uncoordinated aid, causing aid fragmentation as well as the consequences of climate change need to be assessed in order to increase the quantity and especially the quality of ODA.

Simultaneously, innovative finance instruments and non-traditional providers have increased their share significantly, upstaging ODA's relevance for international development assistance. Amongst others, South-South cooperation has become an important complementary source of financing for poor countries. It was estimated at US$12.9 and US$14.8 billion by 2010.[20] With the aforementioned changes in the international development arena, more MICs and emerging economies are able to access private capital markets. Some of them like China, India and Brazil have strengthened their role in the SSC. Chinese aid participation, for instance, is claimed to grow by 30% every year, although this estimation has to be regarded with caution since there are no accurate data available and the reported contributions to development assistance differ in terms of traditional development assistance calculations. India has quadrupled its assistance in the last decade and contributes today with US$1.3 billion grants and loans.

Important questions to be discussed are the measurements of ODA in the light of the need for more disaggregated data. The *data revolution* mentioned in the HLP Report would require massive investment building for national statistical and information systems. Moreover, it is vital that future efforts should deal with the quantitative assessment and to reconsider the complexity of ODA. It is necessary to have a global accounting system applicable to the international aid architecture that allows the evaluation of the dimensions and the impact of cooperation.

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[18] See: http://post2015.org/2013/09/30/post-2015-at-the-un-general-assembly/

[19] See: http://www.oecd.org/

[20] See: http://www.un.org/en/ecosoc/docs/adv2012/sg_trends_and_progress_in_international_develop_cooperation.pdf

The need for financing sustainable development is extremely high according to several studies. The estimated amounts, however, are only a small portion of present global savings which have reached around US$17 trillion as of 2011 (IMF 2012). According to the City UK global, since 2011 financial assets have reached around US$218 trillion. Redirecting a small percentage of 3-5% to investment towards sustainable development could have an enormous impact on sustainable development, according to the United Nations Secretary General in their last report on the follow-up to and implementation of the Monterrey Consensus and Doha Declaration on Financing for Development (UN 2012). In response to this, the role of the ODA in mobilising innovative financing instruments has increased in the last years.

How to calculate aid?

For traditional donors the DAC is and will remain the *custodian of ODA* and its Working Party on Development Finance Statistics (WP-STAT) should maintain its crucial role in managing a broad system for collecting information on ODA in a Post-2015 framework. More than 245 reporting entities from 75 donors comprising DAC members, multilateral agencies, emerging ODA providers and private foundations are part of the system (OECD/DAC 2013b).

However, **the role of DAC in the Post-2015 framework is not clear yet**. There are two main challenges: 1) The need for a comprehensive framework for reporting on external public development finance and 2) the relationship between the different sources, instruments and flows of development finance. Moreover, it is relevant to take the vital role of non-traditional donors into account within a new development framework. At first an agreement on a common definition about what is external development finance should be reached. More precisely, there must be an agreement on whether the traditional ODA concept needs to be reformed in order to capture the relevant issues related to FFD, such as the impact of flows, the amounts and the quality of different modes of delivery, the measurement of the support of Global Public Goods and how to better address poverty not only in poor countries but also in MICs (OECD/DAC 2013b).

Improving the role and increasing the importance of the Global Partnerships on Effectiveness and Development (GPED) could lead to a significant overlap between this institution and the DAC, or similar UN Institutions, such as the UNDP. In particular, monitoring and data reporting on development finance present an overlapping potential. On that score what needs to be considered is the ODA's historical bases related to the 0.7 % /GNI commitment. It is very unlikely that new or non-traditional bilateral donors would agree to share the same responsibility and approve the rules of traditional ODA. The work of the DAC will remain relevant for traditional donors as a possible bridge between a more universal institution like the GPED and a traditional-donor reporting institution like the DAC.

The current DAC statistical framework is insufficient to capture the complexity of existing streams of FFD, such as the classification of operations by multilateral financial institutions (MFI), operations in support of the private sector, the definition of concessionality of MFI loans, as well as the bilateral guarantee schemes supporting private sector development in developing countries. Statistics on traditional ODA financing modalities such as grants, concessional loans, technical assistance et cetera are a very important area of improvement. Moreover, the DAC could make a valuable contribution to the other *work streams* related to FFD, and other IFD. Special attention should be directed to the quality of data to monitor the commitments for climate change actions in developing countries, which have been agreed on under the UN Framework Convention on Climate Change (UNFCCC).

The DAC High Level Meeting (HLM) has already agreed that ODA reporting should be robust for external assessment and consistent with the way concessionality is defined internationally. Therefore,

a proposal for measurement of public development assistance has to be elaborated. Additionally, concerning concessional loans members agreed on: transparency in reporting individual loans, ensuring the same treatment of all DAC members, and establishing a clear definition of what is *concessional in character*[21] (OECD/DAC 2013a). The additional analytical work for a FFD Post-2015 framework will also include the measurement of recipient benefits, budgetary efforts with development intent and those with development impact, financing for Global Public Goods, the allocation of concessional resources as well as the monitoring of IFD.

2.3 Innovative Financing for Development

The concept of *innovative financial instrument* has been introduced for the first time in the Monterrey Declaration, where 'the value of exploring innovative sources of finance provided that those sources do not unduly burden developing countries'[22] (UN 2002; 16) has been recognised. In regards to reporting needs it is important to distinguish between innovative financing sources and innovative financial instruments. Innovative financing sources are new and non-traditional revenues generated for development (e. g. tax/levies). Innovative Financial Instruments 'refer to the strategic use of grants to leverage additional non-grant financing for development'[23] (e.g. blending). The term Innovative Financing for Development (IFD) will refer to the combination of both.

Despite the fact that not all developed countries accomplished the 0.7% target, ODA is the largest source of external finance for many least developed countries, small islands and landlocked developing countries. At the same time, even if the 0.7% target would be achieved, new sources of Financing for Development are needed. That is why at the Monterrey Conference governments called for using ODA resources to leverage additional FFD. The importance of Innovative Financing for Development was reaffirmed by the 2008 follow-up Doha Declaration on Financing for Development, which urges governments to continue innovating development finance.

In the meantime, IFD has seen a rapid increase. An important impetus emerged in January 2004 in Geneva as the presidents of Brazil, Chile and France, with the support of the United Nations Secretary-General, launched an initiative which urged the international community to develop new sources of FFD in order to make progress towards the MDGs. The 2004 report on the *New International Financial Contributions* known as the *Landau Report* already outlines why new contributions are needed in addition to the current forms of development assistance. At the 2005 World Summit, 79 countries approved the New York Declaration on Innovative Sources of Financing for Development, co-sponsored by Algeria, Brazil, Chile, France, Germany and Spain (GoF 2010). Currently there is a vast landscape of such instruments.

The Doha Declaration (DD) places the need for innovative finance for development in the broader context. At the meeting, the approach of IFD was considered in relation to the efforts to mobilise international resources for development in the context of financial crisis. Foreign direct investment, which is a traditional finance instrument, stood at the centre of the efforts. The Doha Declaration

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[21] According to the OECD Statistic, loans are concessional in character if they 'are extended on terms substantially more generous than market loans.' The concessionality in character is achieved either through interest rates below those available on the market or by grace periods, or a combination of these. Concessional loans typically have long grace periods, see: http://stats.oecd.org/glossary/detail.asp?ID=5901

[22] The Monterrey Consensus states: 'We recognize the value of exploring innovative sources of finance provided that those sources do not unduly burden developing countries. In that regard, we agree to study, in the appropriate forums, the results of the analysis requested from the Secretary-General on possible innovative sources of finance, noting the proposal to use special drawing rights (SDR) allocations for development purposes.'

[23] See: http://ec.europa.eu/europeaid/what/development-policies/financing_for_development/documents/financing_for_dev_2013_accountability_report_01_en.pdf

expresses the will to enhance the private international capital flows to developing countries in order to 'complement [the] national and international development efforts' and maximise its developmental impact (UN 2009a; 11). Moreover, a strong commitment to use guarantees and public-private partnerships as catalytic instruments in mobilising private flows is needed.

It was in this context that innovative development financing mechanisms emerged at the beginning of the twenty-first century. The UNO reflect upon the IFD as 'the avant-garde of rethinking international development cooperation'. In the light of the DD discourse, , SSC instruments such as the India-Brazil-South Africa Fund, the Egyptian fund for Technical Cooperation and the PetroCaribe Initiative, as vital components of IFD were discussed for the first time.

What is IFD

Nevertheless, **a commonly accepted definition for IFD does not currently exist**. In terms of the Leading Group on Innovative Finance for Development, IFD is a predictable and stable mechanism for raising funds for development, which is complementary to Official Development Assistance. According to this definition IFD is closely linked to the idea of global public goods and 'aimed at correcting the negative effects of globalisation.' In a similar position the UNDP resumes the innovative finance for development in four main categories: 1) taxes, dues or other obligatory charges on globalised activities; 2) voluntary solidarity contributions; 3) frontloading and debt-based instruments and 4) state guarantees, public-private incentives, insurance and other market-based mechanisms (UNDP 2012; 8).

The World Bank emphasises the relevance of the source and the use for resources regarding a definition of IFD: according to the World Bank IFD involves such 'catalytic mechanisms that (i) support fundraising by tapping new sources and engaging investors beyond the financial dimension of transactions, as partners and stakeholders in development; or (ii) deliver financial solutions to development problems on the ground' (World Bank 2009; 3). This definition however is problematic both in respect to the scope and the quality of instruments.

The OECD defines IFD as 'traditional spending approaches' (OECD/DAC, 2009) which involve public as well as private providers of resources for development. The Pilot Group offers a more normative description. It urges that such financing should: 'i) be additional to ODA and not substitutive to it; ii) be predictable and stable over time (through multi-year commitments, new taxes or other permanent basis for funding); iii) address, as much as possible, the negative effects of globalisation and market failures in specific areas (such as the production of costly vaccines of drugs for developing countries or the application of the principle 'polluter pays'); iv) comply with the principles of the 2005 Paris Declaration on Aid Effectiveness and the 2008 Accra Agenda for Action.' (OECD/DAC 2009). In line with this definition OECD/DAC considers three main approaches of IFD: i) new approaches for pooling private and public revenue streams; ii) new revenue streams and iii) new incentives (OECD/DAC 2009).

The dual characteristic of additionallity and predictability has been enshrined in the policy declarations made in 2004, 2005, 2006 and 2008, as well as in the reports on this subject (Report by the General Secretary of the United Nations, Quadripartite Report, Landau Report in France) and are of enormous political importance for the reputation of donor countries. To assess the contribution of IFD in filling the financing gap to achieve the MDGs, scaling up is also an important assessment principle to be considered. In order to avoid fragmentation, IFD has to be complementary to existing resources and organisation and avoid unnecessary duplication of efforts. The sustainability as well as the ability of IFD to finance long term strategies and programmes is also relevant for the evaluation of IFD.

In order to operationalise, monitor and assess IFD for ODA Reporting, the DAC has selected different schemes that fulfil all of the following 'four criteria: **1.) Substantial official sector involvement; 2) Mobilisation of substantial finance; 3) Ready for Prime Time with** focus on early-stage, **4) Cross-border resource transfers:** focusing on mechanisms that involve international donor funding, international capital markets or other cross-border transactions' (OECD/DAC 2011; 3).

2.3.1 Some important Innovative Financing for Development Initiatives

ODA Relevant

The OECD distinguishes three basic categories of IFD in order to provide practical information for policy makers (OECD/DAC 2011; 4):

1. **New public revenue streams:** include mechanisms that generate concessional funds allocated to international development from new sources such as new taxes, dues, and obligatory charges raised by one or more governments or supranational revenue generating authorities.
2. **Debt-based instruments and frontloading:** include mechanisms that make public funds (existing or innovative) available for development earlier. They generate some sort of liabilities. Other mechanisms reduce the debt and debt service burden of developing countries allowing higher up-front availability of funding.
3. **Public-private incentives, guarantees and insurance**: include mechanisms that use public funds to create investment incentives for private sector actors, for example by offering advance commitments or subsidies, and new insurance-type facilities to manage e.g. catastrophic and weather risk.

This classification allows for a better assessment of possible substitution effects on ODA because they clearly distinguish between official development instruments and private ones as well as between the time of disbursement and the concessional character of the mechanisms. This is important especially in the case of guarantees which are not recorded, as these financial instruments are not cash flows. They use various mechanisms, ranging from government taxes to public-private partnerships, and focus on several areas of public action, such as health and the environment. They have gradually carved out a role for themselves on the international stage.

According to the classification, different IFDs identified by the OECD/DAC are illustrated in the table below:

Table 1: OEDC-Mapping Table of IFD

Initiative	Financial Flows	Is it ODA?
New Public Revenue Streams		
Certified Emission Reduction Units (CERs)	$130.5 million (2010) Future monetisation may generate € 110-150 million	No ODA unless CER was funded by ODA The outflows from the Adaptation Fund
Auction/Sales of Emission Permits (EU ETS)	Germany raised ca. €1.5 billion in 2009 and allocated €327 million for developing countries EU-ETS could generate €2.2 – 2.9 billion per year	Germany integrates it into its development co-operation budget They are reportable as ODA when spent for development
Carbon Emissions Trading	CDM transactions totalling some US$25 billion and US$1.5 billion for Joint Implementation have been signed.	Can be reported as ODA. However, where projects generate CERs, the value of CERs should be deducted from ODA
Global Currency Transaction Tax (proposed)	Annual revenues of US$25 to US$34 billion are estimated	If funds were raised under national legislation, they would count as ODA when spent for development
Solidarity Levy on Airline tickets	France raised €544 million (2006-2009) Contributions to UNITAID by other countries were US$29 million	The funds are raised under national legislation and count as ODA when spent for development
Debt-based instruments and frontloading		
Debt2Health	2010: ca. €160 million (agreed) Germany + Indonesia: €50 million Australia + Indonesia:$75 million Germany + Côte d'Ivoire: €19 million	Debt Cancelation is reportable as ODA. For ODA debt only forgiven interest counts as new net ODA. For other debt, forgiven principal and interest count as new ODA. Global Fund spending from debtor payments
IDA Buy-Down	Since 2003 US$150 million received from Foundations to buy-down US$300 million	Would count as ODA when the donors transfer funds to the trust fund
IBRD Buy Down	2002 several buy downs with China: UK Grant US$104.3 million 2008 Botswana US$20 million by EU	Would count as ODA when the donors transfer funds to the trust fund
International Finance Facility for Immunisation (IFFIm)	5.9 billion donor commitments US$2.6 billion bond insurances	Would count as ODA when the donors transfer funds to the trust IFFIm
Public-Private Incentives, Guarantees and Insurances		
Pilot Advance Market Commitment (AMC)	US$1.5 billion subsidy committed by donors US$1.3 committed by GAVI	Official contributions count as ODA when donors transfer funds to the World Bank
Affordable Medicines Facility-Malaria (AMFm)	US$212.5 million contributions from UNITAID, UK and Gates Found.	Official contributions count as ODA when donors transfer funds to the Global Fund
Caribbean Catastrophe Risk Insurance Facility (CCRIF)	US$20 million premium payments US$67.5 million to a Trust Fund	Official contributions qualify as ODA
Sovereign Index Insurance *Weather Index Insurance for Ethiopia* *Weather Index Insurance for Malawi*	US$930 million USAID premium pay. Premium payment by the UK	USAID grant qualify as ODA UK Premium payments by UK qualify as ODA

Source: OECD, 2011

2.3.2 Some ODA relevant IFD

Debt based instruments and frontloading

The rationale behind frontloading public resources for development is to tap the capital market to make additional funds available to development projects. Several factors ensure the efficiency of frontloading: i) pools funds by several public donors, ii) a higher economic rate of return by the projects, and iii) low borrowing cost. The UK put forward the most prominent International Finance Facility (IFF) in 2003, designed to frontload aid by issuing bonds in international capital markets.

The **International Financing Facility for Immunisation (IFFIm)**, for instance, is a large frontloading mechanism launched in November 2006 based on loan guarantees by six public donors. The funds, which are backed by the donors, are raised from private investors on the financial markets. Vaccine bonds, which have been issued in various markets - from London 2006 to Tokyo in 2010 - are supported by legally binding long-term pledges.

The **Debt2Health** swap is an innovative financing initiative of the Global Fund consisting of a conversion of official debt at a discount. It helps to channel resources of developing countries with high debt and disease burdens away from debt repayments towards life-saving investments in health. The Global Fund facilitates a three-party agreement among a creditor, the beneficiary country and the Global Fund itself. When creditors cancel a portion of the debt, the debtor country in turn invests an agreed amount in health through a Global Fund approved programme (see figure).

In 2006, the first mechanisms (IFFIm and UNITAID) were launched which were accompanied by the founding of the Leading Group on Solidarity Levies to Fund Development, or the Leading Group on Innovative Financing for Development.[24] The group serves as a platform which brings together countries, international organisations and NGOs and has undertaken work to map the various innovative development financing mechanisms, even though it is difficult to compile a complete list.

2.3.3 Some Non-ODA private IFD

Private capital flows to developing countries played an increasingly important role especially in the years preceding the global financial crisis. Middle income countries (MIC) have been the principal recipients of private capital flows. According to the World Bank private flows to MICs grew from US$264 billion in 2000 to US$757 billion in 2007. Private flows in LICs also experienced an increase from US$24 billion in 2000 to US$68 billion in 2007 (World Bank 2009). External private finance, however, has a bigger share (19%) in LICs compared to MICs (13%).

External private finance includes FDI, portfolio investment as well as remittances. All these three sources of financing differ substantially from public development finance and need therefore to be monitored differently. The principal driver for private flows is the profit, whilst for remittances it is the support of families and small businesses. The increase of private flows especially to MICs has been led by higher risk tolerance and higher returns as in the financial markets of developed countries.

Remittances account for a significant share of GDP (3.5%) in several LICs. The highest share of remittances to Sub-Saharan Africa flew through informal channels. In at least six Sub-Saharan African countries, remittances have been invariably higher than ODA flows: Botswana, Ivory Coast, Lesotho, Mauritius, Swaziland and Togo. In three other countries remittances has been higher than FDI (World Bank 2009; 143). The Doha Declaration recognises the increasing significance of remittances as a

[24] See: http://www.leadinggroup.org/rubrique325.html

source of development finance. However the Declaration states that remittances 'cannot be considered as a substitute for foreign direct investment (FDI), ODA, debt relief or other public sources of finance for development. Several US and European foundations also account for significant flows for institutional remittances to SSA, namely US$5.0 billion.' (World Bank 2009)

Public-Private Incentives, Guarantees and Insurance

According to the OECD/DAC these instruments 'include[…] mechanisms that use public funds to create investment incentives for private sector actors, for example by offering advance commitments or subsidies, and new insurance-type facilities…' (OECD/DAC, 2011). More than US$750 million private donations have been raised for the UNICEF, whilst the UNCHR received US$47 million in 2007 and more than US$100 million for the World Food Program (World Bank 2009).

DAC identified the following mechanisms in their mapping (See table 1): The advanced Market Commitment (AMC), the Affordable Medicines Facility – malaria (AMFm), the Caribbean Catastrophe Risk Insurance Facility (CCRIF) and two sovereign Index Insurances.

2.3.4 Currency Transaction Tax

The Currency Transaction Tax (CTT) is strongly promoted by the Leading Group and many civil society initiatives. A CTT would apply to foreign exchange transactions on all mayor currency-markets at point of global settlement. Since Monterrey the CTT has been considered by several initiatives as a supplement to traditional public finance for development. The Task Force on International Financial Transactions for Development established in the Leading Group in 2009, explained that a Global Currency Transaction Tax for development (MDGs and global public goods) 'needed to pass a five-criteria test: sufficient resources, no distortion, technical feasibility, stability and predictability. With regard to these criteria, a tax based on currency transactions seemed to be the best option among the five studied" (LGIFD 2010a).[25]

For the Group of Experts 'a global CTT is the most appropriate financing mechanism for global public goods' (LGIFD 2010a; 5) since it is the best way to generate solidarity from the financial sector which benefits disproportionately from the globalisation. Due to the institutional changes in the last years, the implementation of a CTT 'is technically and legally feasible' (LGIFD 2010a; 5). Since the CTT applies to the economic market participants that benefit from globalisation including the financial sector, the Leading Group term it *Global Solidarity Levy* (GSL).

Estimates about the benefits generated by a GSL vary widely. A committee of Experts estimates annual revenues of US$25 billion to US$34 billion for the four major currencies (dollar, euro, yen and sterling) (OECD/DAC 2011). The UN estimates an amount of US$33 billion derived from a 0.005% levy (UN, 2009) and the European Parliament estimates a benefit of €200 billion per year at EU level and US$650 billion at global level (UNDP 2012;18). The Committee of Experts suggests using the funds for international development and environmental crises through a new financial facility, a 'Global solidarity Fund' (OECD/DAC, 2011)

2.4 Domestic Resource Mobilisation

Domestic resource mobilisation (DRM), both public and private, has been identified as a crucial point for international development by the Monterrey Consensus and the Doha Declaration on Financing for Development. The outcome document of the Rio+20 Conference and the HLP Report for the Post-

[25] See: http://leadinggroup.org/article798.html The five options were: A financial sector activities tax; a Value Added Tax (VAT) on financial services; a broad financial transaction tax; a nationally collected single-currency transaction tax.

2015 Agenda have reiterated DRM as top priority. In particular since ODA resources have been proved to be insufficient to fill the estimated MDGs financing gap, DRM has been seen as the most important complementary source of financing (OECD 2012). About US$ 64 billion could be raised every year through DRM through ways like tax collection, especially MICs show a great potential. In sub Saharan Africa DRM constitutes about 70% of development finance.

However, DRM has unevenly increased in LICs, especially in Africa where tax collection is already 10 times larger than ODA. A major source for taxes (in African countries), in fact almost the entire increase on taxes, has been drawn from the natural resource sector. The assessment of the role of DRM in a new post 2015 framework should however not simply address the question of filling the gap. Rather, it should focus on the need to strengthen the domestic financial sector in LICs, as this has been recognised to be important for increasing the presence of institutional investors, improving financial inclusiveness and good financial governance, strengthening fiscal institutions etc. The question remains if ODA could play a vital role in strengthening the mobilisation of domestic resources. Investing ODA in building tax systems can yield impressive returns. According to the OECD, every US$1 of ODA spent on building tax administrative capacity generates about US$350 in incremental tax revenues. However, despite the potentially high return for investing development aid in tax related assistance, only limited funds have been targeted at this sector. The OECD estimated (based on 2005 data) that only 1.7% of bilateral aid for economic related programmes aimed at improving tax institutions.[26]

Taking into account that tax revenues tend to rely on a narrow set of taxes, it represents an issue, especially in resource rich countries. Experts 'find that aid has had no significant impact on taxation generally or in sub-Saharan Africa particularly'. When it comes to taxation what seems to matter most is the structure of the economy, rather than the amount of aid a country receives. Even in regions that have received large amounts of aid over long periods, aid does not seem to have a profound effect on taxation. The data clearly shows that there are several countries whose dependency on aid has decreased over time (for example, Botswana, Mauritius, South Korea, Thailand and Tunisia), and most have seen their taxation capacity grow over time.'[27] The real challenge, not only for aid and development effectiveness but DRM as well, will be increasingly concentrated in a core group of non-resource rich, fragile and post-conflict states; their need ought to be the main concern for reforms to the aid architecture.

Estimations on illicit financial flows from developing countries in rich countries varied widely. The report of *Global Financial Integrity*[28] found out that developing countries lost US$5.86 trillion to illicit outflows from 2001 to 2010. 'Conservatively estimated, illicit financial flows have increased in every region of developing countries.' There are many drivers for illicit financial flows: Trade mispricing was found to account for an average of 80 %, while bribery, kickbacks, and the proceeds of corruption continued to be the primary driver of illicit financial flows from the Middle East and North Africa. Improvement and reform of tax administration, including the fight against tax evasion are crucial to cope with the problem in developing countries. However illicit capital flows from developing countries can only be combated with the support of developed countries not only through capacity building but also especially through the establishment of binding rules for international companies.

[26] See: http://www.oecd.org/development/governance-development/40210055.pdf
[27] See: http://cidpnsi.ca/blog/domestic-resource-mobilization-and-the-post-2015-agenda/
[28] See: http://iff.gfintegrity.org/iff2012/2012report.html

3 MODERNISING THE ODA CONCEPT

With the background of the ever-growing necessity for Innovative Financing for Development and the changing aid landscape there is a need to modernise the ODA concept. The missed 0.7% target and an increasing uncertainty about ODA reportable commitments only sharpened the discussion about ODA measurements. It is important to define a future system which takes into account the new principles of sustainability in development cooperation, without being detrimental to poverty eradication. For that purpose a reporting system needs to be defined, which also considers new actors, objectives and instruments of development assistance. The following will describe the ODA concept and its weaknesses within the current aid architecture. It then will summarise new policy indicators, concluding with the suggestion for a more detailed and coherent reporting system.

3.1 The Principles Behind the Current ODA Concept

According to the agreed definition, signed by all DAC members, ODA includes 'those flows to countries and territories on the DAC List of ODA Recipients and to multilateral institutions which are:

i. ***provided by official agencies***, including state and local governments, or by their executive agencies; and

ii. each transaction of which:

   a) is administered with the promotion of the **economic development and welfare of developing countries** as its main objective; and

   b) is **concessional in character** and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent).' (OECD/DAC 2008; 1)

Since this definition was drafted in 1969 and tightened in 1972, the core of it remained unaltered. It should be pointed out that it is a political consensus definition rather than one applying to academic or technical criteria. Although there have not been any major changes to the definition of ODA, the DAC has frequently refined the detailed ODA reporting system. Consequently ODA covers, under particular conditions, for instance military aid if the deployment of armed forces contains a dimension of humanitarian aid. Anti-terrorism activities, however, are not eligible to report, as well as military equipment or services. Peacekeeping missions are reportable, if they include a closely defined development activity. Moreover, nuclear energy (for civilian purposes) and cultural programmes could be reported as ODA too. Since 2003 donor countries are also able to claim debt cancellation as ODA. Resulting from that, in 2005/2006 the ODA quota heavily increased, with debt relief making up 28% of ODA.[29] Iraq and Nigeria especially received ODA for debt relief[30]. The broadening of the ODA coverage is not only criticised by CSOs[31], but also by several think tanks and some donor countries. The ECDPM study *Reporting on Development: ODA and Financing for Development* outlines the main issues which provoke disagreement with regards to their relevance to development:

[29] For CPA/ODA data see: http://webnet.oecd.org/dcdgraphs/CPA_donor/

[30] See: http://www.oecd.org/dac/stats/debtreliefisdownotherodarisesslightly.htm

[31] Concord, the European NGO Confederation for relief and development, calculated that 'in 2011 at least €7.35 billion (or 14%) of EU ODA was not invested in developing countries' (Concord, 2012; 5) http://www.concordeurope.org/101-aidwatch-report-2012

- **Debt relief**, as it is hard to measure, though its importance for development is acknowledged and should be additional to aid
- **Refugee costs**, as it is a human rights obligation, but a direct link to development is contested
- **Emergency aid**, as it is unpredictable and does not aim at long-term goals, although its importance for development cannot be denied
- **Administrative costs**
- **Technical cooperation**, as there is a lack of effective contribution to welfare
- **Scholarships and imputed student costs**, as the link to development is low, or even non-existent (ECDPM 2012; 4)

Referring to these contributions as inflated ODA it can be calculated that in 2012 €5.6 billion were inflated ODA, which brings the actual ODA figure down to €45 billion, making up only 0.35% ODA (Concord 2013; 19). Furthermore, according to the *2008 AidWatch* report from Concord, 17% of the ODA in 2007 was spent on items not directly related to aid (Concord 2008; 2).

In the aftermath of the Millennium Declaration, donors reoriented their development assistance priorities towards poverty eradication, especially in LICs, as illustrated by the adoption of the MDGs in 2002. This reorientation also represented a shift in the objective of aid: whilst historically aid was influenced by past colonial ties, Cold War alliances and economic interests, today a focus on security interests can be recognised. This can be ascribed to the effects of a globalised world, in which threats are not as tangible anymore. Besides social development and economic production the modern ODA covers key aspects of development like governance, conflict prevention and emergency assistance. As a result of the reorientation services for the health sector intensified as well. Hence, in 2011 the health sector received the biggest amount of assistance, followed by governance and security and then infrastructure. Health is also one of the fastest growing sectors with an increase of 118% between 2002 and 2011 (Development Initiative 2013; 63). By contrast the agriculture and food security sector lags far behind, after the humanitarian and education sector. This is striking, as the ODA should benefit the poorest who in most cases live in rural areas (Development Initiative 2013; 63).

Besides the distribution per sector, the choice of countries also suggests that there are complex motivations behind the allocation of aid, that go far beyond the idea of eradicating poverty only. For instance, Iran, Algeria and Pakistan are amongst the top five countries measuring received aid per poor person in the country (Development Initiative 2013; 71). Moreover, the top ten recipient countries together obtained 27% of total ODA, with the top 5 recipients possessing 17% of ODA. Afghanistan is leading the top 10 recipient countries by a wide margin. Analysing the donor side, 8 out of the 10 largest donor countries have Afghanistan amongst their top 5 partner countries. Whilst Japan is active in Asian regions in particular, France disbursements, apart from Congo and Mexico, mainly flow to the Ivory Coast, Morocco and Tunisia, all three former colonies. Iraq's top donor country is the US. This suggests that besides the underlying idea of eradication poverty, the disbursement of ODA follows different motivations, covering security motivations, historical responsibilities and geopolitical interests.

Table 2: Largest Donor Countries and Largest Recipient Countries

10 Largest Donor Countries of net ODA[32]		10 Largest Recipient Countries of Gross Recipient (2011)[33]	
	Top 5 Partner Countries		Top 5 Partner Countries
United States of America	Afghanistan, Congo, Iraq, Pakistan, Kenya	**Afghanistan (LDC)**	USA (by far), Japan, Germany, UK., EU Institutions,
United Kingdom	India, Ethiopia, Afghanistan, Congo, Bangladesh	**Democratic Republic of Congo (LDC)**	USA, Japan, France, Italy, UK
Germany	China, India, Afghanistan, Peru, Brazil	**India (lower MIC)**	Japan, Germany, UK, USA, France
France	Congo, Cote d'Ivoire, Morocco, Mexico, Tunisia	**Indonesia (lower MIC)**	Japan, Australia, USA, Germany, EU Institutions
Japan	India, Vietnam, Congo, Indonesia, China	**Pakistan (lower MIC)**	USA, Japan, UK, EU Institutions, Germany
Canada	Haïti, Afghanistan, Mozambique, Mali, Tanzanie	**Vietnam (lower MIC)**	Japan (by far), France, Korea, Germany, USA
Netherlands	Afghanistan, Bangladesh, Indonesia, Mozambique, Tanzania	**China (upper MIC)**	Japan, Germany, France, UK, USA
Australia	Papua New Guinea, Indonesia, Solomon Island, Afghanistan, Vietnam	**Ethiopia (LDC)**	USA, UK, EU Institutions, Japan, Canada
Sweden	Congo, Tanzania, Afghanistan, Mozambique, Sudan	**Iraq (lower MIC)**	USA (by far), Japan, Sweden, Germany, Australia
Norway	Afghanistan, Tanzania, West Bank and Gaza Strip, Somalia, Brazil	**Haiti (LIC)**	USA (by far), Canada, EU Institutions, France, Spain

Source: Own representation based on OECD data

[32] See: http://www.oecd.org/dac/stats/aidstatisticsbydonorandsector.htm
[33] See: http://www.oecd.org/dac/stats/totaldacflowsataglance.htm

3.2 Reforming ODA

Global Changes in the Aid Landscape

The missed 0.7% target and the developments within the last 13 years indicate that the concept of ODA contains pitfalls and that there is a need for a revision to smooth them away. Besides the contentious points of what ODA covers, the changing aid landscape described in chapter two influenced the performance of international development and its components to a high degree. 60 years ago, when the international community initiated discussions on the concept of aid and development, the purpose to assist the development of former colonies was strongly influenced by the meetings of the United Nations Conference on Trade and Development (UNCTAD). At this time it was much easier to define which countries were in need of development and therefore recipient countries, and which countries were donors. Today these lines are blurred. Several of the countries, who used to receive aid, like South Korea, transformed to donor countries and some emerging countries, like India, are both, donors and recipient countries. China, Brazil and India, to mention only some, are for instance countries that are still recognised as developing countries but at the same time provide large amounts for both investment and assistance to other developing economies (EC 2011). In fact, these three cited countries are dominating the scene of new donor countries. Moreover, in 2011 there were about 50 countries that reported providing aid on the UN Financial Tracking System who are on the list of ODA recipients themselves (Development Initiative, 2013; 58). Although traditional donors are still the primary donors and bear the main responsibility of ODA, the quantity of aid given to Africa by new donors doubled between 2005 and 2010, making up 10.2% of all ODA equivalent flows (EC 2011; 12). These numbers demonstrate that the new aid architecture is a result of the increasingly complex world and that relations can no longer be deduced from two opposing groups of developed donor countries on the one hand and developing recipient countries on the other hand.

Besides the new donor countries, there are also increasing numbers of non-governmental and private actors arising in the global arena of aid (EC 2013b; 3). Thus, considering these new aid flows it can be distinguished between traditional and non-traditional assistance.[34] As the European Commission claims, it is estimated that globally private philanthropy foundations ‘may account for about US$60 billion annually’ (EC 2011; 14). Moreover, whilst in 2000 non-traditional assistance accounted for US$17.6 billion, it increased fivefold until 2009 to US$93.5 billion (ODI 2013a, viii). Thus, against the background of decreasing ODA sources this development suggests that there is a shift towards non-traditional assistance.

Although these aid streams differ from ODA in regards to their nature and how they are managed, they already play a vital role in development and foreign affairs. In the light of the growing quantity, as well as importance of other financial flows for development, it becomes apparent that the traditional understanding of ODA loses relevance. The emergence of these new global players does not only account for new resources, but has also changed the nature of partnerships and the philosophy of aid.

In this respect, emerging donors do not consider their approach comparable to the development cooperation approach of traditional donors (ECDPM 2012; 13). Instead, they define their assistance as South-South cooperation. The OECD, as well, recognised the importance of other arising development

[34] In the study *The Age of Choice: Developing Countries in the New Aid Landscape* (2013a), the ODI distinguishes between traditional and non-traditional development assistance, which, besides ODA, includes also non-DAC assistance, philanthropy, global funds, OOF, climate finance and social impact investment.

assistance frameworks beyond the DAC. Besides the SSC and other emerging donors, the OECD also names new Arab donors (OECD 2010b; 1).

The impact of emerging donors

Within the current aid architecture these new frameworks, as well as the discussed innovative Financing for Development instruments are parallel to traditional ODA. These structures play a vital and 'welcoming' (OECD 2010b; 1) role within international development and already established some important institutions. It is, therefore, of utmost importance to further integrate them, which was already highlighted within the Busan conference. So far, some of the new donors refuse to streamline their efforts within the ODA measurement, as their efforts are often not in line with the current concept of ODA. Including them in the traditional ODA measures would therefore leave them with a smaller share of ODA, compared to the efforts in line with their perception, often including financial instruments beyond ODA. Besides the diminishing share of development assistance under the definition of ODA, the ODI study also found out that non-traditional development assistance also helps receiving governments to strengthen their negotiating power. This dismantles the traditional hegemony of Western donors over aid, meaning the decisions of how and where aid is being distributed, which so far was dominated by western donors, has changed.[35]

This has a great impact on the traditional donors, as in the future this development might impede their assistance. With the emergence of new donors, recipient countries have an increasing number of aid relations. The greater choice of assistance in turn means that it is more difficult for traditional donors to influence the policy or impose conditions, as recipients can not only decide what kind of aid they prefer, but also better negotiate conditions. That is not a bad situation in itself, but effective development assistance under these circumstances is highly dependant on the willingness, as well as the ability, of recipient countries to manage aid assistance effectively. In particular, with the background that recipient countries from the ODI study are in fact very positive about non-traditional development assistance, it is crucial to re-consider ODA and its principles in the context of new aid donors.

The relevance of new donors goes far beyond money. Some of them are still receiving development assistance themselves, or they only recently transformed to emerging countries. They have a certain expertise of what development assistance should look like and, in many cases, 'a better understanding of the needs and constraints facing developing countries in emergency response'[36], since they are facing similar challenges themselves. For instance, with its expertise in disaster management, India helped Pakistan and Afghanistan to build up their disaster management system. At the same time, new donors are known for a 'more sensitive approach to respecting the country's sovereignty'[37].

Moreover, to not lose relevance and to not contradict with each other and to improve aid effectiveness, it is of necessity to find an aid managing system, which includes relevant information of all donors. Although some of the new donors like Mexico or South Korea are already reporting to the DAC, there are some donors like Brazil who are not interested in joining the OECD/DAC, as they are frustrated by the Western dominance. Instead they build upon their instruments and institutions, such as SSC. Thus, it is important to change the structures of development assistance in a way that makes them more welcoming for new donors. The collecting of relevant information is a prime precondition for more effective aid assistance. This should include not only data on DAC-countries, but also, if

[35] See: http://www.irinnews.org/printreport.aspx?reportid=94003

[36] See: http://www.irinnews.org/indepthmain.aspx?indepthid=91&reportid=94011

[37] See 36

possible data of emerging countries (ODI 2013a; 34/35). Hitherto there has not been enough dialogue to come to a joint conclusion. In light of a new post-2015 framework, this needs to be changed, if new donors should embrace the new Agenda.

Transparency

Discussions on the definition and measurement of ODA have increasingly taken place in the context of negotiations on Financing for Development (Monterrey and Doha) as well as in the context of aid and development effectiveness especially in the Busan Declaration and the GPED. To reinforce recipient country's ownership and aid effectiveness it is crucial to improve transparency of ODA. The High Level Forum on Aid effectiveness in Accra (2008) realised this and launched the *International Aid Transparency Initiative*[38] - a global action group which calls for more transparency in financial flows for development assistance. The venture asks for a discloser of not only how much money is being provided, but also of when it is spent, where, how and what is expected to be achieved. In line with the Accra postulation, the IATI press for the following standards:

- 'Donors will publicly disclose regular, detailed and timely information on volume, allocation and, when available, results of development expenditure to enable more accurate budget, accounting and audit by developing countries.
- Donors and developing countries will regularly make public all conditions linked to disbursements.
- Donors will provide full and timely information on annual commitments and actual disbursements (…)
- Donors will provide developing countries with regular and timely information on their rolling three- to five-year forward expenditure (…)'[39]

Hence, the IATI has core relevance for both, donor countries, as well as recipients. In that light the IATI monitoring is not only important for CSOs, but is also of benefit for all involved ODA stakeholders. The High Panel Forum on Aid Effectiveness in Busan reinforced the IATI and called for an international accepted and public reporting standard to 'enable cross-country comparison and foster international accountability' (OECD/DAC 2012b). The Publish What You Fund annual Aid Index reveals that there has been little or no progress in transparency. Although 'open data and transparency have become fashionable watchwords (…) a startling amount of organisations are still not delivering on their aid transparency goals'.[40] For the first time the 2013 Aid Index does not only consider quantity, but also quality of the data and established that the quality of data is far from satisfactory. The data of more than 50% of the entities providing data is categorised as poor, or very poor, almost all of the DAC countries perform very poor. Only 9 organisations achieve very good, or good, with Sweden and Canada the only DAC countries.[41] Thus, there is still a long way to go to achieve the transparency needed, moreover, it is also important to arrive at a reporting system, where data is comparable and coherent in its quality. Taking a step further, the adoption of a universally valid reporting system could be an interesting challenge for development assistance in the post-2015 Development Agenda.

Even though the ODA concept appears to be an outdated measurement, it also indicates several strengths, which are vital for international development and it is therefore essential to obtain. Firstly, it

[38] See: http://www.aidtransparency.net/about
[39] See: http://www.aidtransparency.net/about
[40] See: http://www.publishwhatyoufund.org/updates/news/2013-ati-more-not-enough-when-it-comes-aid-info/
[41] For the full report and performance analysis see: http://ati.publishwhatyoufund.org/

is an accountable development contribution, although it might not be binding. Secondly, it makes commitment comparable within the international arena and therefore also puts some kind of peer pressure on countries to commit to development assistance and at the same time makes it easier to evaluate contributions.

Yet, taking all this into account it can be summarised that ODA turned out to be an insufficient instrument for measuring the amount as well as the effectiveness of development assistance. It failed to keep up with the pace of modern aid, which is also defined by emerging actors, new objectives, innovative instruments, Global Public Goods and a changed global public policy. Nevertheless, there is a need for the money raised by the 0.7% target. In summary, the current ODA measures are '**too much, too little and the wrong types of things**' (Severino and Ray 2011; 17).

3.2.1 Proposals and New Principles

Concessional in Character

Recently, the *concessional flow character of ODA* became one of the most debated features[42]. Since its introduction in the 1960s the ODA concessionality principle has not been adjusted to the current economic situation. Compared to the economic situation in the 1960s the current one is characterised by low interest rates, which means that 'market interest rates in most currencies are well below the reference rate of 10% used in the grant element calculation [of the ODA]' (OECD/DAC 2013a; 4). This presents the danger of loans counting as ODA, which are given away without any government subsidies, but rather under the same conditions as commercial loans. Whilst most of the countries refrained 'from making loans that only narrowly met the metric' (Manning 2013) there are examples, which mis-used the obsolete principle of concessionality. In its document on Loan Concessionality in DAC Statistics, the OECD/DAC calls DAC countries, but in particular on France, Germany "to identify which loans included in their ODA reporting represented market-raised funds being on-lent at harder terms, i. e. without subsidy" (OECD/DAC 2013a, 4).[43] According to the OECD/DAC the information is still pending. The aim is to secure equal treatment of all DAC members and avoid incentives to report unsubsidised loans as concessional. A second problem of the concessional loans in ODA is 'that if a loan is regarded as concessional then the whole of the loan, and not just the concessional part (or 'grant element') is counted as aid'[44] in the short term. Only in the long term repayments are ODA-neutral.

Therefore, the principle of loans concessional in character needs to be re-defined, adjusting it to the current economic situation. This includes a unified understanding of concessionality and the OECD/DAC needs to demand equal and coherent reporting by all donor countries. The DAC members have already agreed to establish at the latest by 2015 a clear definition of *concessional in character*, which takes into consideration the current market conditions and the need for more transparency

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[42] Richard Manning, former OECD/DAC chair highly criticised the current comprehension of concessionality and http://www.ft.com/intl/cms/s/0/b3d73884-a056-11e2-88b6-00144feabdc0.html#axzz2hhu8cia3 as well as the OECD itself emphasises the problem of different interpretation of concessionality, in particular criticising Germany, France and the EIB http://search.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DCD/DAC%282013%292&docLanguage=En

[43] "Three DAC members – EU, France and Germany – currently include in their ODA reporting substantial volumes of loans at considerably harder terms than IBRD loans that are classified as non-concessional (in some cases with interest rates more than 2% above those charged on IBRD loans). Moreover, these loans are mainly used in middle income countries to which World Bank extends loans only on non-concessional terms" (OECD/DAC, 2013a, 5).

[44] See: http://www.owen.org/blog/6704

regarding the terms of individual loans as well as the equal treatment of all DAC members (OECD/DAC, 2013a).

Promoting the welfare of a developing country

Besides the changes of the global economic situation there have also been major changes in the perception of development policies addressing the second principal of promotion of the welfare of a developing country. In recent years, the debate about sustainable development emphasised the correlation of sustainability and poverty eradication and, therewith, the importance to include this link within a framework of international development and the post-2015 Agenda. In 1987 the Brundtland Report for the first time incorporated the notion of sustainable development in the international policy agenda for development, which has been seized on during the UNCED (Earth Summit) in 1992. In the light of this discussion, the Rio+20 Conference emphasised the importance to include sustainable development goals (SDGs) within the post-2015 Development Agenda, building up on the Millennium Development Goals.

These recognitions play a vital role in the perception of development assistance today and it is, therefore, of major importance to integrate certain areas and broaden its focus. However, as already mentioned, they also bear a threat of reducing traditional ODA. In particular, the financing of climate change mitigation and adaption plays a crucial, but also contested role in the discussion about ODA and sustainability. In the course of this discussion, developed countries pledged at the Climate Conference in Copenhagen (2009) and in Cancún (2010) to provide US$100 billion of 'new and additional'[45] (UN 2009b: 6) financing resources to support developing countries in the challenges of climate change and greenhouse emissions. This should be additional to traditional development assistance and 'above previous climate financing levels' (Knoke 2012; 1). The EU and its member states in particular committed to provide €7.2 billion over 2010-2012, which accounts for almost one third of the total pledge. Reaching €7.34 billion in 2012 the EU and its member states even surpassed this target.[46] So far, there is no commonly accepted definition of what additionallity of climate finance is. This and also the high potential of overlaps between development and climate engendered criticism by many experts and CSO anticipate that an inclusion of climate related issues in the ODA reporting could have negative effects on the principle of additionallity and would therefore reduce financial services aiming at poverty reduction. Worrying is the fact that there is currently no certainty on how much climate finance will be delivered after the Fast Start Finance period, which ended in 2012 already. Important, however, is that it needs to be remembered that 'the challenges of climate change do not release donors from the long-standing commitment to take a fair share in the efforts of worldwide poverty reduction' (Knoke 2012; 1).

In the light of this, the United Kingdom, for instance, established the International Climate Fund (ICF) in 2011. To help developing countries to tackle climate change the 'ICF provides £2.9 billion for international climate finance as part of the rising UK aid commitment for the period of 2011-12 and 2014-15.' (UK 2013; 5/4). It is not only possible, but there is also the necessity that development assistance needs to incorporate both objectives, environment/climate and poverty eradication. However, it needs to be assured that ODA commitments aiming at environment protection will not

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[45] Copenhagen Accord, Paragraph 8: 'Scaled up, new and additional, predictable and adequate funding as well as improved access shall be provided to developing countries (…) The collective commitment by developed countries is to provide new and additional resources (…)'

[46] The resources provided for the Copenhagen commitment were called Fast Start Finance (FSF). It aimed at the immediate action and should serve as a testing phase for long-term agreements for climate financing. http://ec.europa.eu/clima/policies/finance/international/faststart/index_en.htm

withdraw resources for traditional ODA purposes, aiming at poverty eradication. Moreover, it is also important that development aid is not refocused to force a combination based on filling commitments rather than increasing impact. Thus preferring a climate and development mix to the detriment of items with more impact, e.g. a dam instead of building a hospital even if the latter can save more lives and improve living standards.

Even though extending the ODA coverage is a delicate and contested subject, there is a common agreement that the Post-2015 Development Agenda should include sustainability. Moreover, the Dutch and the German government demand that topics touching on security, climate and migration should be considered as relevant for ODA, as well as private investment flows (ECDPM 2012). Although these features are important for a future development agenda, they again have the potential to promote the inflation of ODA. In the course of this discussion it has to be reconsidered what is promoting the economy and welfare of a developing country. To avoid the same problems, the second principal of ODA need to strictly define what promoting the welfare of developing countries includes under the current situation and what needs to be excluded from the former perception.

3.2.2 New Policy Indicators

In the context of growing global challenges, the debate about global public goods arose. Public Goods are non-excludable and non-rivalling goods that are important for the wellbeing of individuals and society. These GPGs are features that became more and more inherent within an interconnected and globalised world today and 'targeted collective action and international cooperation' is needed to ensure that all people on the world can benefit from it (NL Ministry of Foreign Affairs 2011; 4). There are five main areas that cover GPGs, which includes environment and health, knowledge, peace and security (EC n.a.). One of the challenges of GPGs is its global character. This does not only mean that they are available for all, but that threats to them are global in character, for instance pandemics. Although there are differences in the definition of GPGs in academia, the UN highlights that 'GPGs must be related to world-wide poverty reduction and a more equitable distribution of the benefits of social, economic and technical progress'(UN 2003; 5), which is commonly accepted. On that score, the international community 'has recognised the growing importance of GPGs for sustainable development, and in particular, for achieving the MDGs' (UN 2003; 1). Financing for GPGs are therefore also a part of ODA. Although, it is justified to include financing for GPGs in ODA, it has led to a situation where traditional ODA attempts (such as infrastructure, education, training etc.) compete with the new activities on mitigating climate change, flood control, debt relief etc. The EU argues that the financing of GPGs, although crucial for international development, must not impede support to the poorest. Hence, to ensure that the needed resources are additional, 'it will be essential to (…) identify new and innovative sources of finance' (EC n.a.; 2)

ODA still remains a unique instrument for development assistance, as it is 'the only official international resource flow aimed explicitly at the economic development and welfare of developing countries' (Development Initiative 2013; 57). Innovative Financing for Development are additional to ODA and often related to GPGs. As they are predictable and stable they are a crucial contribution to development assistance. With the Financial Transaction Tax and the integration of blending grants, the EU shows the efforts to further push for innovative financing. So far, some parts of innovative financing mechanisms are already reported to the DAC. Accurate reporting by donors is important to analyse the impact innovative financing supplement to current donor ODA efforts. For further monitoring purposes, however, it 'may be necessary to rethink the DAC classification of other (non-ODA) development finance so as to increase the policy relevance of the data, and possibly their

coverage' (OECD 2009, 6). In that respect, innovative financing could be directed to GPGs in particular, whilst ODA focuses on poverty eradication.

Another key challenge for ODA reporting is the debate on development effectiveness. The Busan partnership for Effective development cooperation again highlighted the importance of making development assistance more effective, 'based on democratic ownership by developing countries and a shared understanding of the need to provide global public goods' (EC, 2013c). This idea entails that money should be used where it is most needed. One of the criticisms raised against ODA is that its definition and objectives are discussed and defined in the donor arena. It is of utmost importance, however, to develop a framework where there are shared objectives and joint responsibilities between the donors and recipients. For this purpose, recipient countries need to be further integrated in the process of development assistance. Within the relatively new concept of Global Partnership, for instance, common but differentiated responsibilities are defined, which should enable the integration of emerging economies, as well as traditional recipient countries.

3.3 ODA and CPA

ODA and Aid Fragmentation

The rise and diversification of aid relationships creates a situation where development assistance to the recipient countries is difficult to manage and coordinate. Moreover, loose aid coordination structures and a lack of aid cooperation also promote the fragmentation of aid. The broadening of aid relationships leads to an unmanageable number of donors in recipient countries. This creates a situation where developing countries receive aid from a number of different donors, which is too high to coordinate effectively. According to the OECD/DAC, there are about 3700 aid relationships, counting traditional bilateral DAC donors only (EC 2011). The OECD's report on Fragmentation of Aid reveals that 'in 2009 the average donor was present in 71 out of 152 ODA-eligible countries (73 for DAC countries and 69 for multilateral agencies). From the partner country perspective, the average number of donors present in each country was 21 (11 DAC countries and 10 multilateral agencies).' (OECD 2011; 5) The numbers vary between regions; with an average of 26, Asia has the highest number of donors present, followed by Africa with 24, whilst the small island states in the Americas only have 17 and Oceania even less with 8 (OECD 2011; 5). The creation of these gaps is not restricted to the overall aid level of a receiving country, but also includes gaps in geographic coverage or sector coverage. Instead of improvement of the effectiveness of aid, the overload of aid to one country or sector can be fatal as it enhances competition locally and at the same time impedes conditionality (EC 2011). ODA has to also include data concerning fragmentation of aid and a possibility to map the efforts and contributions of donors across recipients.

Aid Orphans vs. Aid Darlings

Aid fragmentation implies the risk of the creation of aid darlings and aid orphans. Although there is no consent so far about a definition of either of these aid recipients, as the names suggest aid darlings benefit more from development assistance, whilst the latter does not receive sufficient aid, leading to a situation where the country is *under-aided*. The decision where to locate aid lies in the responsibility of the donors, who often take unilateral decisions that do not consider aid policies of other donors (OECD 2010a; 9). This poses the risk of overlapping, or the duplication of effort, which automatically leads to neglecting single countries. MICs, which represent a new group of donors of increasing relevance, as one example, implied a deduction of aid to these countries. The appearance of new donors focused the development discussion on country poverty, rather than people poverty (ODI 2012; 12). However, it is important to recognise that, although emerging economies became donors themselves, they often still struggle to meet MDGs and eliminate poverty in their own countries, as well. The transformation of developing countries to donor countries does not imply/entail that they are not in need of aid anymore. Besides MICs, LICs represent another group, which are vulnerable to becoming under-aided countries. This can often be traced back to the preferences of donors. Therefore, the aid reception of countries with a similar income level might vary.

The creation of these gaps in general reduces the effectiveness of development and the OECD indicates that it also entails considerable global costs in delivering aid, because aid is not spent systematically and is not spent where it is most needed. This suggests that the solving of the problem goes beyond the allocation of aid alone. To tackle the issue of under-aided countries, non-significant aid relations, which enhance the fragmentation of aid, need to be reduced. 'This would also free up resources that could be used towards aid orphans (assuming that there is an ex ante agreement on which countries are aid orphans). In this way, re-allocating resources could not only reduce aid fragmentation and transaction costs in partner countries where donor relations are non-significant, but at the same time provide more aid to aid orphans' (EC 2011). According to the OECD paper on the Identification and Monitoring of Potentially Under-Aided Countries, information sharing alone would enhance the situation, as it could help donors to effectively decide where to allocate aid (OECD 2010a; 9). Thus, a framework is needed that requires donors to share information and presents the opportunity to both determine aid fragmentation and allocate aid effectively. In other words, a cross-border division of labour is needed. As development policies are of sensitive nature and touch on the grounds of high politics, this solution does not need to be normative in character, but more importantly, it needs to reach a level where relevant information is given. For this purpose, the concept of CPA represents a sufficient approach.

The introduction of the concept of country-programmable aid (CPA) in 2007 aimed to bring development assistance 'closer to the core' (OECD/DAC 2010b; 1). It thus is defined through exclusion. CPA subtracts "from total bilateral ODA activities that:

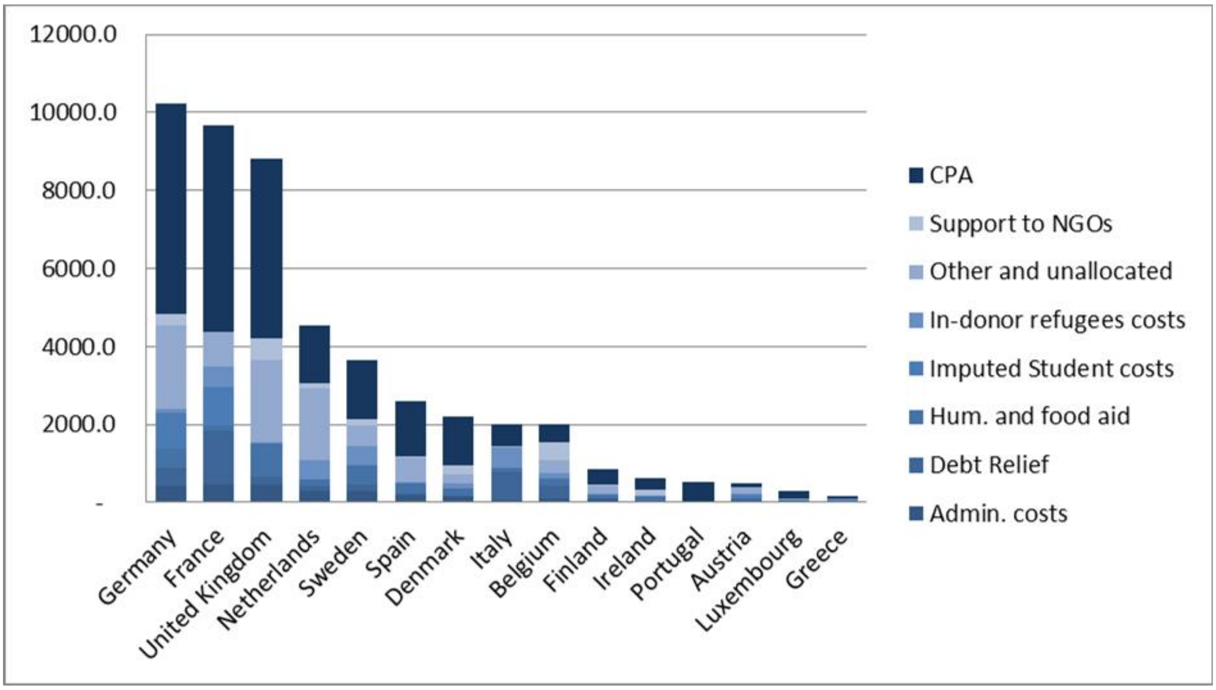
1. are inherently unpredictable (humanitarian aid and debt relief);
2. entail no cross-border flows (administrative costs, imputed student costs, promotion of development awareness, and costs related to research and refugees in donor countries);

3. do not form part of co-operation agreements between governments (food aid, aid from local governments, core funding to NGOs, ODA equity investments, aid through secondary agencies, and aid which is not allocable by country or region)."[47]

It improves the estimates and predictability of ODA actually transferred to recipients, thus it estimates actual flows. It is, so far, the only officially approved concept other than ODA to calculate development aid. Unlike ODA, CPA eliminates those services from development assistance, which are debated and accused to be inflating ODA. Besides administrative costs it also factors out humanitarian aid and debt relief. Nevertheless, the concept follows the basic features of ODA. In that respect services can only be counted as CPA when they are official, and part of a co-operation agreement between governments and it needs to be country programmable by the donor (EC 2011).

In general CPA accounted for about 53% of DAC donors gross bilateral ODA in the past 5 years. However, the shares differ greatly considering countries or individual institutions. Looking at EU institutions, for instance, whilst total ODA increased from 2010 to 2011 from US$13621.4 million to US$18292.1 million, CPA decreased from US$9900.2 to US$7019, which is an increase of 34% corresponding with a CPA decrease of almost 30%. Whilst CPA decreased within the ODA calculation, other and unallocated aid increased by 33%. The differences between countries can be tremendous, as figure 3 depicts. Whilst Austria's CPA corresponded to about 21% of ODA in 2011, Portugal qualifies 91% as CPA. Germany, France and the UK account for about 52-54% in 2011, the Netherlands 32.9% and Sweden 41.71%. Luxembourg provides 62% CPA within its ODA.[48]

Figure 3: EU15 Composition of Bilateral ODA (2011)



Source: Own representation based on OECD/DAC Interviews

From a recipient country's perspective, ODA lacks transparency to a severe degree. Moreover, ODA contains features, which have an unpredictable character. Therefore, it makes it hard to manage it effectively by recipient countries. CPA offers a relevant alternative, in particular, because it draws on

[47] See: http://www.oecd.org/development/effectiveness/countryprogrammableaidcpafrequentlyaskedquestions.htm
[48] All data retrieved from: http://webnet.oecd.org/dcdgraphs/CPA_donor/

data that are available already and would avoid a complex revision of the ODA concept. Hence, it offers 'a low-cost basis for transparent forward planning by recipients and donors as required by the Accra Agenda for Action and already surveyed by OECD' (OECD/DAC 2010b). In summary, CPA offers a way to focus on the recipients' benefit and better identify where donors are active, as it represents the actual. In summary, CPA offers a way to focus on the recipients' benefit, as it represents the portion of aid on which recipient countries have a significant say. It thus depicts a shift from a donor focused measurement to a method where the recipients benefit is in the foreground. Thinking further, it is useful for the analysis of aid concentration both within countries and across borders. In that respect it would hamper aid fragmentation and could enhance cross-country division of labour as well as in-country division of labour (cross-sectoral).

Although, CPA seems to be a good alternative, it also offers some pitfalls that need to be discussed and solved beforehand. For instance, the total exclusion of some aid relevant expenditures, such as technical assistance, humanitarian aid and debt reliefs, is a debatable argument of CPA. There is a strong demand to somehow include these elements in development assistance efforts, as they are important features. Development effectiveness is also very dependent on the capacity of the developing country to effectively implement development assistance. Therefore, capacity building is an important part for development assistance. However, 'development intervention that seek to provide direct support to capacity development are provided in a multitude of forms under the generic label of 'technical cooperation'' (Kiezer 2013; 52). Thus, there could be some adjustments to the limitations of CPA as measurement. The discussion about adjustments should not only consider traditional development assistance but also include the potential of new donors. So far, the quality of data provided depends on the donor countries willingness to provide the demanded data to a sufficient level. Therefore, to benefit from CPA donors, inviting non-DAC countries, as well as DAC countries, needs to report properly, as 'improved reporting and increased participation are crucial for better information for both historical and forward spending plans' (OECD 2010a). CPA data compilation at the moment is rather 'late and laborious' (OECD 2010a). There is still a wide margin for improvement.

4 IMPROVING EU POLICIES AND INFLUENCING GLOBAL AID ARCHITECTURE

The EU has traditionally been a leader as a development aid donor as well as a driving force in defining the rules of development aid. However, in a rapidly changing geopolitical world, and struggling with the aftermaths of a deep financial crisis, Europe's influence and position as a donor is weakening. At the same time, non OECD donors are increasing development aid. The following chapter will therefore analyse the historical background and current situation from an EU perspective and explore the implications and possible future options of the developments in international development assistance for the EU in particular.

4.1 The changing EU aid architecture and impacts on ODA flows

The EU, as well as the rest of the international community, have recognised that sustainable development requires new sources of finance, and an expansion in the type of development assistance offered. This puts into question the relevance of the present definition of ODA by the DAC Secretariat in some areas of EU aid assistance. There is no agreement if new forms of assistance and new areas of intervention should be included in the ODA coverage. Opinions diverge widely, from countries considering that ODA should only include pure grants, i.e. an Official Grant Assistance (OGA), narrowing rather than expanding the ODA definition. This would leave innovative finance and other areas of support such as security, climate change and migration into a different category, recorded separately in new aggregates such as official security assistance, Official Climate Assistance, etc. The latter creates a difficulty, however, for funds which have more than one function, leading to either double-counting or a misleading reductionist picture of operations.

The increasing emergence of *new* forms of development assistance requires attentive consideration by the EU in regards to their development impact and their treatment of ODA. The EU itself, and also member states, through their development banks are expanding the use of innovative instruments through development lending. The instruments have been the origin of disagreement on their level of DAC concessionality and their recognition as ODA.

The issue of allowing new forms of EU assistance to enter the DAC definition of ODA is not without controversy even within the EU. The use of *innovative finance* may entail a risk that with the aim to improve their ODA ranking, countries (within and outside the EU) seek for off balance sheet solutions for development finance pushing for the recognition as ODA so that it may ultimately include commercial operations with developing countries. The EU has, however, expressed its commitment to ensure that new forms of assistance are in line with development commitments of the EU. Actual development impacts of development assistance need to be at the centre of the present debates on SDGs and any instruments used for development effectiveness (EC 2011; 4).

Due to the multiple objectives of the EU external action in areas with important impacts on development like climate change, migration and security, the development policy approach of the EU is complex and changes quickly. The complexity of the EU approach to financing development, which goes well beyond ODA contributions, is reflected in the European Commission's annual Accountability Reports in Financing for Development (EC 2013a). The reports outline the EU's collective approach to poverty eradication and sustainable development.

The annual reports have been prepared by the Commission since 2003, outlining EU policy and monitoring progress. Initially they focused on ODA, but the original mandate was subsequently expanded to cover other areas of development, not only on different forms of EU financial assistance,

but also on domestic resource mobilisation in development countries themselves, aid effectiveness, aid for trade and climate finance.

4.2 The gap with the EU's commitment to ODA

Trying to transform the long-term UN goal into an achievable and time-limited target, the EU and its member states are the only ODA donors that have set a date to achieve their ODA targets. Following the UN Millennium Declaration in 2000, the EU adopted their joint commitments on ODA increase in 2002 (EC 2013c; 62). In 2005 the government representatives of the EU Member States further developed this commitment and concluded a binding scheme, which aimed at gradually reaching a collective ODA level of 0.7% of GNI by 2015 (in line with the MDGs deadline) and an interim target of 0.56% by 2010. This collective target was strengthened by individual member state targets (European Commission 2013; 78).[49]

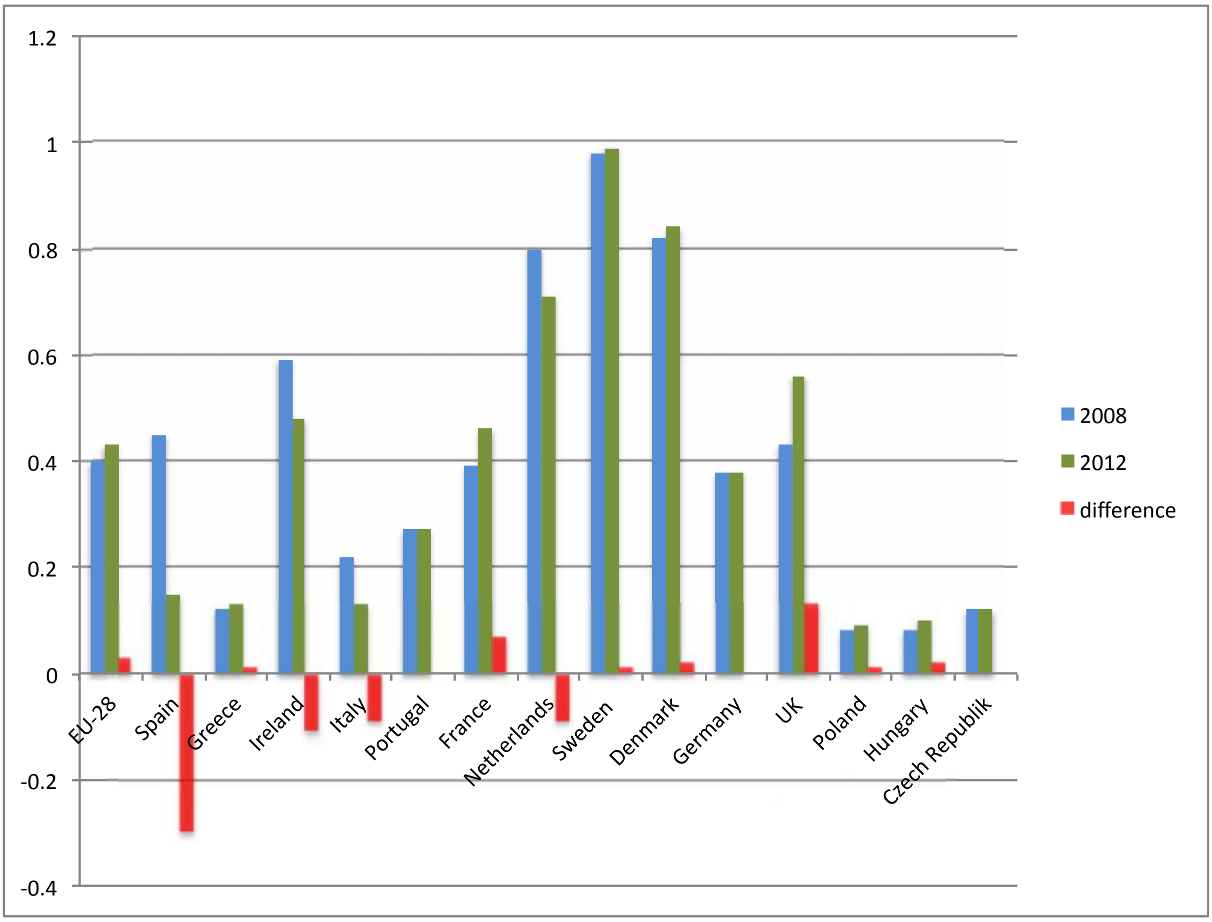
Nevertheless, the commitments have not been followed by actions. The financial crisis has affected the willingness of member states to increase ODA support, and financial contributions to the budgets have been declining. From 2010 to 2012 collective EU ODA fell from €56.2 to €55.2 billion or from 0.45% to 0.43% of EU gross national income (European Commission 2013c; 65). From this funding, a significant amount of EU institutions' ODA (€4.5 billion) is not imputed as ODA by the DAC Secretariat reducing ODA to € 50.6 billion or 0.39% of GNI. While a solution to the ODA statistical discrepancy is being sought with the DAC Secretariat, the figures are well below the 2010 target level of 0.51% and far from the 0.7% target for 2015. In the 2013 EU Accountability Report the European Commission claims 'limited or no progress on EU commitments concerning volumes of ODA' (European Commission 2013c; 6).

The performance considerably varies between member states. On the one hand, the crisis stricken Mediterranean countries have seen their ODA contribution fall. Most member states, including the new member states have to some extent kept their commitments stable, while a few member states have reached and even exceeded the 0.7 ODA target, namely Luxembourg, the Netherlands, Sweden and Denmark. For the Netherlands, however, data shows that it has steadily decreased its contribution and is potentially expected to reduce ODA to a level under 0.7% of GDP missing the 2015 target. Malta, the UK and Finland crossed the 2010 interim objective, but only the UK has significantly increased its contribution. The figure z below compares the ODA contributions of 2008 to the contributions for 2013 for a selected number of countries.

Estimates in the 2013 Accountability report expects the EU to reach a collective EU28 ODA contribution of 0.47% of GNI, for 2012, which is below the target 0.7%. Reaching the 0.7% of ODA would require the EU and its member states to almost double their contribution in nominal terms to ODA to €97.1 billion by 2015.

[49] Additional to the EU15, Member States that accede to the EU in or after 2004 promised to strive to spend 0,17% of their GNI on ODA by 2010 and 0,33% by 2015 (EU12, and since 2012 Croatia, as well).

Figure 4: ODA contributions of selected member states, 2008 and 2012



Source: European Commission (2013) Accountability Report

However, the gap between EU donor countries and non-EU donors is narrowing to a worrying degree, because non-EU donors' provided constant ODA, whilst EU member states' ODA efforts have been mainly reduced.

Table 3: ODA rose or fell in DAC EU countries (2011-2012)

Austria (+6.1%)	**Due to debt relief operations with Sub-Saharan Africa.**
Belgium (-13.0%)	Reflecting overall cuts in its aid budget.
Denmark (-1.8%)	Reflecting a reduction in bilateral grants.
Finland (-0.4%)	
France (-1.6%)	
Germany (-0.7%)	Due to reduced contributions to multilateral institutions.
Greece (-17.0%)	Due to austerity measures.
Ireland (-5.8%)	Due to fiscal constraints leading to cuts in its aid budget.
Italy (-34.7%)	Due to lower levels of aid to refugees arriving from North Africa and reduced debt relief grants compared to 2011. However, the

	Italian government has made a firm commitment to increase ODA allocations in order to reach 0.15-0.16% of GNI in 2013.
Luxembourg (+9.8%)	Reflecting an increase in bilateral grants.
Netherlands (-6.6%)	Due to overall cuts in its aid budget.
Portugal (-13.1%)	Due to the unprecedented financial constraints leading to cuts in its budget.
Spain (-49.7%)	Due to the financial crisis.
Sweden (-3.4%)	Due to reduced capital subscriptions to international organisations, although cash disbursements to these organisations increased.
United Kingdom (-2.2%)	Reflecting firm budget allocations were put into place to ensure that the government spent an ODA volume of 0.56% of GNI in 2012 and 0.7% from 2013 onwards.

Source: OECD[50]

The Commission argues that this loss is mainly due to the lowering of debt relief assistance, which accounted for 26% in 2005 and only for 2% in 2012. Considering expected GNI growth rates to 2015, reaching the 0.7% target would require the EU28 to almost double its current ODA in nominal terms. Thus, only 2 years before the 2015 deadline the data indicates that it is highly unlikely that the EU (and most of the other DAC members) will achieve the intended ODA quota and targets will 'be missed by a wide margin' (European Commission 2013; 88).

4.3 The share of ODA through the EU institutions

The operations of the European Union through the EU institutions (from the EU budget, the European Development Fund[51] and the EIB) that are recorded as ODA by the DAC amount to €9.13 billion. This figure is imputed to member states based on their share of contribution. Another €4.544 billion have been submitted as ODA by the European Commission to the DAC, but the DAC has not recorded the amount due to a disagreement on the nature of the assistance. These are mainly loan operations by the EIB.

One of the means to increase development cooperation coherence in the EU and increase the level of member state's ODA in parallel would have been through the EU budget and the EU's European Development Fund (EDF). In fact, during 50 years of the existence of the EU the funds for ODA channelled through EU institutions have increased considerably. In the last ten years the share of ODA going through the EU has increase from around 19% to 25% from 2000 to 2012 (Mackie 2013). However, the European Commission's proposal to substantially increase EU development assistance funding for the 2014-2020 was rejected by the Council. The budgets for development aid agreed for 2014-2020 in the MFF and for the EDF are very close to the present level of support. This means that to reach the ODA objectives for 2015 the member states would have to carry out large additional efforts through their national development operations. Hence, this was a missed opportunity to reinforce the coherence for EU development actions and has more to do with member states reaching a symbolic

[50] See www.oecd.org/dac/aidoutlook

[51] The difference between the two funds is over the budgetary and operational control with the EDF being outside the Multiannual Financial Framework and thus not subject to the same rules than the EU budget, it is its own financial regulation and is outside the framework of the EU's general budget.

reduction of the EU budget than with development policy in itself. The fact that funding for DCI and EDF has not been reduced (in fact it marginally increased) is already a positive sign given some of the significant cuts in other EU policy areas.

4.3.1 The increasing role of innovative financial instruments by the EU,

An important avenue to increase the level of EU support to development countries (by the EU institutions, but also by member states) is to complement development aid grants with loans, i.e. development loans under generous conditions due to specific grant components. Loans for developing countries can be recorded as ODA under certain conditions specified in the DAC Directives. It is nevertheless noteworthy to point out that the repayment of the loan is recorded as negative ODA. Eleven DAC members currently provide concessional loans, while non-DAC bilateral and 15 agencies (non-DAC bilateral and multilateral providers of development finance) are reporting concessional loans. The EIB, as bank of the EU is considered a DAC member, but has also the status of a multilateral bank and so is subject to the rules for multilateral banks.

The DAC definition of concessionality for loans has two specific components:

For a loan by a bilateral bank:

– The loan has to be concessional in character, which means that it has to have a 'grant element of at least 25% calculated at a rate of discount of 10 per cent' (OECD/DAC 2013a; 2).

For a multilateral bank:

– The grant element is not applied to market based lending operations of the multilateral banks. Instead these are classified as concessional if they include a subsidy (*soft window* operations) and non-concessional if they are unsubsidised (*hard window*) operations.

For loans of bilateral development banks the *grant element* is easy to achieve under the definition. This definition was developed at a time of high interest rates. Today loans can easily achieve a concessional character. Bond rates are very low (around 2%) and a loan over 15 years with an interest of 4.75% would be concessional. A reform was proposed to apply an interest rate cap of 75% of the Differentiated Discount Rate, a reference rate which would link the discount rates to prevailing interest rates, but this has not been approved. Presently France and Germany are accused of reporting loans by their bilateral development banks as ODA that are not concessional in nature. Their rates are lower than the concessional rate defined by the OECD, but higher that the rates of multinational donors. It is questionable if such loans should be recorded as ODA, in particular given that the loans were extended to wealthier middle income countries. Already their inclusion as potential beneficiaries of ODA is being put into question. The loans by Germany and France were extended to countries which are not eligible for World Bank loans (OECD/DAC 2013a).

However, the controversy is not only on this discount rate issue. Since 2009 the DAC Secretariat has not recorded EIB loans as ODA due to a disagreement on the definition of subsidy. The DAC realised that not all loans benefit from interest rate subsidies, and that their rates are indirect results of market operations (even if influenced by subsidies), the EU refused to discriminate between the loans on the basis of the equivalence of the impacts on interest rates. In fact, DAC Secretariat links the subsidy directly to the interest rate, which means that, de facto, only loans with interest rates subsidies count as *concessional*. The European Commission and the EIB from their part consider that the nature of the subsidy should not matter, but rather the effect of any subsidy on the interest rate of the loans.

Many of the EIB operations benefit from grants in the form of guarantees, insurance, direct grants to part of projects or technical assistance. All of those reduce the risk premiums for the EIB and allows it

to extend loans with low interest. The AAA rating of the EIB allows it to benefit already from lower borrowing rates in the market and the institution is non-profit, which keeps rates down. According to the EU, if the interest rates are below market rates and the terms are equivalent to those caused by an interest rate subsidy, there is no reason to refuse to recognise EIB loans as concessional. This has led to the reduction of EU ODA by 4.5 billion in 2012, although the European Commission and the DAC Secretariat seem to be close to an agreement which would allow EIB loans to be treated ODA. Loans which include an interest rate subsidy would immediately appear as ODA, others after an equivalence check.

Blending instruments make the grant component difficult to assess, because EIB loans are not the only ones the grant benefits, as other banks collaborating in the blending instruments do too. The same grant can help reduce the interest rates in a joint lending operation by the EIB and two bilateral banks. While the grant element itself is considered ODA by the donor country, are all other loans concessional because their rates fall due to the blending instrument of the EU with the EIB? For the OECD/DAC, the case of the EIB poses the risk that accepting such support mechanisms as eligible for ODA could incentivise the reporting on other non-concessional loans as concessional by other banks.

4.3.2 A new form of EU innovative assistance – the blending instrument

The recognition of loans as ODA is relevant for the EU due to the increasing importance of blending instruments and the impact those instruments have in donor coordination. Blending instruments bring together donors and development banks (European but also non-European) to finance coordinated joint operations. Blending can achieve a better distribution of assistance, discriminating projects requiring pure grants from those that can be at least partially self-financing.

Other development related finance, should this be included in ODA?

There are calls to add other expenditure items as ODA, such as security operations, refugee costs, scholarships, technical cooperation or climate. This section will analyse the flows by the EU in the areas of relevance and consider the implications of adding them to the ODA.

Since 2002 the European Commission provided €3.7 billion between 2002 and 2010, accelerating in the last few years (€550 million annual average between 2007-2011). To this one has to add significant flows by member states. In total the European Union claims to have invested €7.2 billion between 2010-2012 for 'fast start climate finance'.[52]

However, this is not all additional funding, one of the difficulties of defining climate funding separately from ODA or other development funding, is that climate actions are part of other projects. Many development projects have a strong climate element when dealing with natural resources such as water. Where does development funding stop and climate funding start? First there is a need to clearly identify which assistance has climate component in it and the share already in ODA funding, to avoid double counting. With the present arrangement, funds in ODA are often reappearing as funds for climate action.[53] This violates the principle that climate adaptation funding should be additional to ODA stated at the UNFCC Article 4.3, but the opposite disincentives from mainstreaming adaptation in development aid.

As the Commission already stated in its Communication on Financing for Development there is a need to improve EU support for mobilising development finance. The proposals include further areas of financing for development relevant for action: Domestic resource mobilisation, debt sustainability,

[52] EC (2013), European Union fast start funding for developing countries, 2010-2012 report.

[53] See: http://www.euractiv.com/specialreport-un-development-goa/eu-admits-double-counting-climat-news-530583

ODA accounting and concessional loans, innovative financing sources, integrated approach to financing for development in the post-2015 framework.

4.4 Monitoring the ODA Concept

Especially when considering new policy objectives for ODA, it is of major importance to also regard a new monitoring system, which above all needs to clearly define what can be reported as ODA. Similar to Severino's and Ray's opinion the DAC comes to the conclusion that the current 'ODA concept may need to be re-examined in the light of two somewhat opposing critiques: first, that it is too broad, allowing the inclusion of items that do not involve cross border transfers of resources and budgetary effort; second, that it is not broad enough omitting or undercounting some official and effective efforts in favour of development' (OECD/DAC 2012a; 2). While extending the ODA concept, however, it is of major importance to preserve the central goal to eradicate poverty. The DAC highlights the importance of the inclusion of the private sector and the use of market-based financial instruments, which can promote development (OECD/DAC 2012a; 2). Having the disagreement about already existing contributions that can be considered ODA in mind, it is primarily important to unbundle aid. This is a good option when, in particular, considering a new coverage framework. Although there is a common agreement that unbundling aid is necessary, there are different suggestions on how to change or even implement this. In his paper on the resurrection of ODA, Severino even claims that a post-2015 Development Agenda and the evolution of MDGs to the inclusion of SDGs should constitute the opportunity to move from an ODA which focuses on finances only, to a reporting system that includes the 'scope of instruments and policies that define their 'development friendliness'' (Severino 2011; 126). Re-defined and stricter requirements of monitoring can lead in this direction.

Some of the EU's member states are already active in developing ODA reformation suggestions. Germany and the Netherlands, for instance, commissioned a study on respective future options. The European Centre for Development Policy Management (ECDPM) was in charge of this task and published two studies about possible re-defining of the ODA. Due to its relevance for the further discussion the following will summarise the possible options discussed in the study. This should serve as a basis for further debates on the modernisation of the ODA concept on EU level. Within the scope of the first study the ECDPM emphasises the importance to integrate in particular three more aspects in development assistance, which play an increasingly important role for development; security, climate and private investments. In line with the GPGs, it is argued that climate, as well as security are important preconditions for the welfare of a country and therefore for the success of poverty eradication. The ECDPM also comes to the conclusion, that the importance of other FFD instruments becomes relevant when analysing the increasing number of other international financial flows in recent years. In particular when analysing the aid data - whilst ODA in 2010 amounted US$128.7 billion, remittance inflows to developing countries were US$326 billion. Moreover, emerging economies, which focus on different FFD mechanisms than ODA, also play an increasingly vital role for international development.

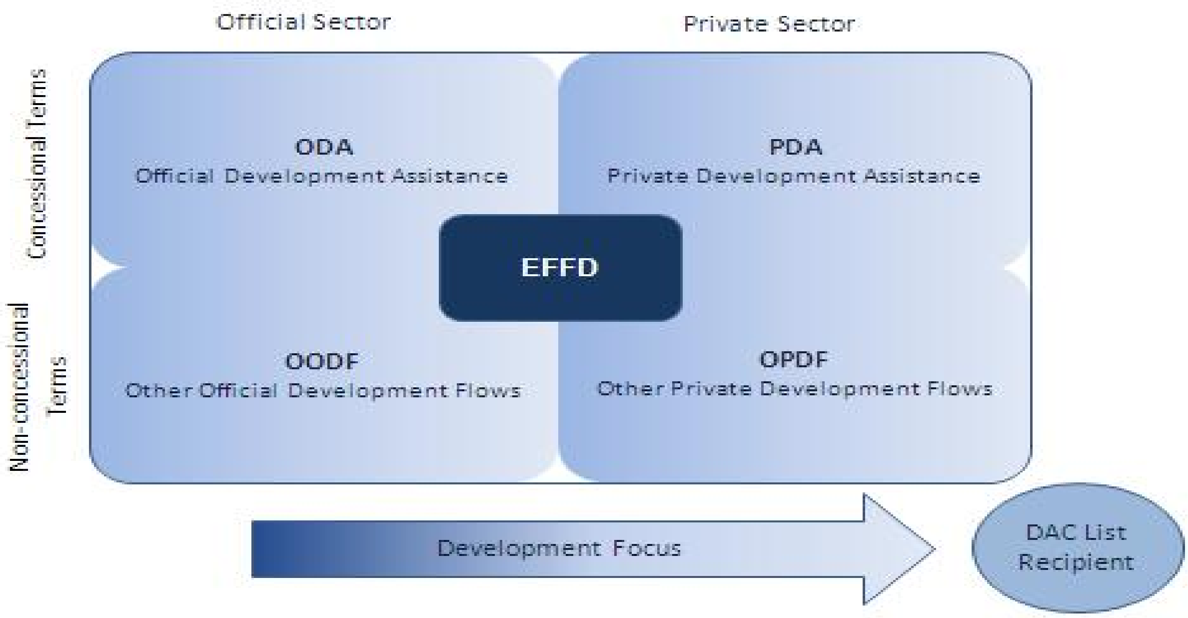
To realise the inclusion of the presented new features of ODA, the ECDPM suggests two alternative options for the modernisation of the ODA reporting system. The first one would be to keep the current system. Instead of extending the ODA definition, it seeks to include an extended approach of External Financing for Development features. The second option would be to change the ODA definition and its reporting system incorporating climate, security and official support for private flows (ECDPM 2012).

Option 1 – Keeping the current ODA definition

The first suggested option brings together four different sources of external financing for development in a broader aggregate: ODA, OODF, PDA and OPDF. This new concept is called External Financing for Development (EFFD) (figure 5). Whilst ODA and PDA are defined in concessional terms, the other two are non-concessional in character. Keeping the current definition, but broadening the data collection focus could be an option, which would enable the recording of services beyond the traditional ODA definition and permit and overlap with the concept of GPGs. All of these flows would have a focus on development. In summary, it consists of three main elements: (1) it needs to be a type of flow; (2) the recipient needs to be in the DAC list; (3) there needs to be a welfare/development objective. Taking these flows into consideration would pave the way to further integrate new donors, as they often focus on services beyond ODA. Besides, taking new donors and new financing instruments (including innovative financing) into account, it also considers new global processes, without a radical change of the ODA definition. According to the ECDPM it would therefore be 'compatible with the recent shift in Busan towards a stronger emphasis on development effectiveness and what this means for developing partners' (ECDPM 2012; 35). In the light of a wider range of FFD instruments, the definition of ODA could be sharpened by excluding questioned contributions, such as administrative costs etc. and focus on development relevant services again.

Figure 5: External Financing for Development

Source: Own representation based on ECDPM 2012



Option 2 – Changing the current ODA definition

The second alternative option for the future of the ODA reporting system would be the revision of the definition. The idea is to open up the definition and besides ODA, include climate, security and private investments as equal parts of the concept. One of the main advantages of this alternative would be that a single aggregate that measures official assistance for development would be defined, as 'multiple aggregates would seem to blur the message and complicate implementation' (ECDPM 2012;

39). ECDPM suggest 7 different approaches for the implementation for the broadened definition option. They include (1) to expand the type of flows, (2) to abolish the list of multilateral recipients, (3) to re-focus on people poverty and not country poverty, (4) to abolish the list of recipient countries and focus on concessionality and development motivation of the development assistance, (5) to widen the development and welfare purpose, (6) to replace the definition of concessionality and (7) to focus on gross, instead of net disbursements.

The ECDPM states that relevant stakeholder in Europe would prefer the first alternative, as the 'radical overhaul of the system would have serious implications in terms of credibility of the overall efforts towards the 0.7 target (and) the focus and coverage of ODA (…)' (ECDPM 2012; 40). Furthermore, it would not be in accordance with the recent global trends of aid effectiveness, for instance. The current ODA definition already reflects a lack of unanimity, the revision in line with the second ECDPM alternative would depict a harder challenge than adding new and relevant flows. Looking further, however, assuming there would be unanimity about the relevance of the first option suggested by the ECDPM, would lead to new technical challenges in the longer run. Thus, the ECDPM comes to the conclusion that 'any future system will be primarily built on informed political compromises rather than on purely technical solutions' (ECDPM 2012; 44). It further offers four recommendations: (1) to hold up the discussions on Financing for Development; (2) to 'ensure sufficient focus on reporting on financial contributions in the discussions leading to the establishment of a global partnership for effective development cooperation' (ECDPM 2012; 41); (3) to focus on transparency and results-oriented reporting and (4) to 'join a gear up analytical efforts to learn from the effects of different approaches to finance on development outcomes' (ECDPM 2012; 41).

On the other hand, the Concord 2013 AidWatch report highlights that it is vital to exclude innovative financing from the ODA definition and that a modernising of the concept should be a refocusing on the traditional idea, which is the improvement of the welfare and economy of developing countries. The report presents ten arguments about why ODA in its traditional definition is crucial to retain, as it is unique and can achieve things that other sources cannot. Nevertheless, there is a growing attention of innovative financing for development and they offer a possibility to 'better meet the need to foster development and tackle global challenges' (EC 2011; 24) if involved in ODA. Against the background of the changed aid landscape and the new idea of policy coherence, innovative financing for development should play an important role in a post-2015 Development Agenda. Although the report highlights the importance of the traditional ODA concept, it fails to disprove the potential of non-traditional development assistance and the potential to use ODA to leverage crucial additional FFD. A neglecting of these is also at odds with current international conditions and the tenor of international development approaches.

Both reports show valuable suggestions for the modernisation of the ODA concept. However, both show weaknesses, as well. Whilst there is a need for IFD in development assistance, for instance, the tracking of non-official sources, as suggested by ECDPM, would be difficult, as there are on the one hand difficulties in defining private services, which are, in addition to that, often not ascribed to one country but can have a transnational character. Besides, the quality and reliability of the available data can be questioned. At the same time criticism against the current ODA definition also addresses the actual flows to developing countries, and there is a request to reduce aid to cross-border flows. New financing developments would again give way for financing mechanisms that would not necessarily feature cross-border movements.

Furthermore, although, it is of major importance to consider GPGs, such as climate (and security) in a sustainable development agenda, it has also been elaborated that this must be supplementary to the traditional development assistance and not inclusive, with regard to the climate in particular. As has

been shown in the last years, allowing crediting services from other policy fields to ODA will once again lead to the accusation of inflating. The feature of security in itself represents a highly contested feature for development, as it is strongly connected to foreign policy. Therefore, the topic touches on high politics of sovereign states and a consensus of what could be covered in development assistance would be difficult. The line between national interest and development motivation would be blurred.

However, whilst ECDPM fails to offer any consideration of the quality of the provided assistance and the incentives for Financing for Development distract the focus from poverty eradication, the Concord report fails to take IFD into account at all. For a re-definition of the ODA concept both opinions are relevant for a revision of the ODA reporting system to some degree. In fact, there is a need for greater 'efforts to deliver more effective aid and set additional targets that go beyond the minimum international standards' (Concord 2008; 3). More financial contributions are needed and at the same time it is important to preserve the core idea of poverty eradication. For this purpose, ODA needs to be more transparent and coverage that does not affect development directly needs to be identifiable, as well as having new financial instruments. Evaluation needs to be genuinely independent, coherent and oriented towards a similar standard. Moreover, real democratic ownership of developing countries needs to be acknowledged. To sum up, there is a need for a measurement that better maps services declared as ODA and development assistance to better compare and measure disbursement and development assistance efforts. Country-programmable Aid constitutes a first step in this direction.

4.5 EU and a new Agenda on Development Policy

The Agenda for Change, published in October 2011 and approved by the May 2012 Council Conclusions, builds on the European Consensus on Development and on EU commitments for aid effectiveness. The document has been understood as a reaction to the changing global landscape, especially considering the increasing differentiation across developing countries and the rapid growth of some emerging economies which have become donors themselves. The Agenda for Change is also seen as complementing the EU's support for a post 2015 framework. It reaffirms the overarching objective of poverty eradication in the context of sustainable development while seeking to focus the future EU development cooperation on two basic pillars: (1) human rights, democracy and other key elements of good governance, and (2) inclusive and sustainable growth for human development. The Agenda sets out important new directions concerning the geographical and sectoral orientation of EU development assistance.

However despite acknowledging these key aspects of development assistance, the document fails to suggest more robust policy strategies addressing challenges that lie ahead for development cooperation. These problems involve the EU's poor performance in meeting self-imposed targets as laid down in the 12-point action plan. These failures revealed further problems, such as aid fragmentation and donor proliferation, data reporting and a limited attention to vital development issues such as inequality and agriculture and food security, among others.

National and thematic consultations, as well as the various reports of the United Nations, as well, emphasise that despite acknowledging the problems, the document does not offer a vision for a new comprehensive development agenda. There is a need for a profound transformation of production and consumption patterns to confront the present challenges. Its strong emphasis on conventional growth strategy sometimes seems to contradict such a strategy. On the other hand, crucial aspects such as emissions reduction targets, differentiated support for global public goods and the need to develop a set of binding objectives and indicators involving the relevant actors are not responded to

in the document. In addition, the importance of transparency of information that could and should be part of the data revolution demanded by the HLP is not mentioned in the document, neither.

It can be assumed that the Agenda for Change did not have genuine political relevance for member states, as they did not show true efforts to implement the suggestions regarding coordination and financing. The sectoral concentration on three sectors per partner country proposed in the Agenda was endorsed by the Council in May 2012. However, it appears that the division of labour is not more than an incomplete mapping and exchange of information without binding obligations. Furthermore, the Council has confirmed the commitment to concentrate assistance for countries requiring additional development measures, for example fragile states. However there is still a tendency of imbalanced aid allocation between aid orphans and aid darlings.

In order to bring a strong contribution to the debate on re-defining ODA, the EU should first enter a debate on the overarching issues described in the study at hand. Is there a need to update its Consensus on Development? The Agenda of Change is worth considering, but what are the missing points in it? To place a more robust political contribution the EU needs to review and update both the Agenda for Change as well as the Consensus for Development. This review should aim at redirecting the focus, objectives and strategies allowing a strong and jointly defined EU positions regarding the issues surrounding, for example, the Sustainable Development Indicators. Only after defining these challenges can the EU offer a robust contribution to the revision of the ODA and its related aspects.

5 CONCLUSING REMARKS AND RECOMMENDATIONS

A possible post-2015 framework should reflect the transformation from the former binary model of 'developed countries helping developing countries' to a multi-actor set-up where countries pursue global goals as per their own capabilities and priorities. The international community, therefore**, needs to redefine the overall objectives of development cooperation**. It can be assumed that such consensus will relate to the current definition of sustainable development and its social, economic and environmental dimensions, and include the clear formulation of a set of indicators for measuring development cooperation accepted by all stakeholders. The Lisbon Treaty identifies poverty reduction as the sole objective of EU development cooperation, yet the EU Consensus on Development presents a multidimensional definition of poverty that includes all three sustainable development dimensions. Hence, the future recognition of development cooperation **should be defined in broader terms than the current ODA definition**, and should include other official sources and IFD. However, it is important that this will not impede the needed increase of financial resources to developing countries, especially to the LDCs.

As the DAC has already realised those challenges, the 2012 High Level Meeting agreed to look into a new measure of external financing for development, which may possibly involve making changes to the ODA definition. So far it became evident that it **is not only a technical problem but also a political problem** where the interests of different donors are often not aligned, while decision-making on the definition requires unanimity. To summarise the problems of the current ODA concept and the possibilities to redefine it, five main issues should be addressed: (i) reconsideration of **what can be reported as ODA**, (ii) **transparency**, (iii) the **quality of data**, (iv) **who** should provide ODA (public or private resources, OECD or beyond) and (v) **how** should the reporting be done and **to whom.**

ODA eligible coverage was extended over the years, which led to a situation, where there was, and still is, big disagreement about ODA coverage. **Contested ODA contributions** include administrative costs and technical cooperation, as there is a lack of effective welfare contribution. Moreover, although it is acknowledged that debt relief is important for development, it is hard to measure. Therefore, it should be in addition to aid. The link between refugee costs and development aid is contested, as it is rather a human rights obligation. Emergency aid is unpredictable and does not aim at long-term goals, although its importance for development cannot be denied. Furthermore, scholarships and imputed student costs have a very weak, or non-existent, link to development (ECDPM 2012; 4). Thus, regarding **the inflating character of ODA**, a re-definition of what it covers is therefore inevitable. This should not only be in the interest of donor countries, but also of governments in recipient countries. There is a need to solve the problem of **diverse and arbitrary interpretations of development assistance** and arrive at a coherent and common understanding of what ODA is and what the use of ODA should be held accountable for.

Additionally, **changes in the aid landscape**, as well as the relevance of other policies for development need to be reviewed based on a new understanding of which services should be regarded as ODA. It became apparent that ODA is contradictive in itself, as it includes services not related to development, but excludes contributions, which are in fact important for development. Therefore, in order to reconsider what should be include in ODA and what not, it is necessary not only to take into account what should be subtracted, but also what services could be added. This could also sets a base for a discussion on how to include non-DAC countries, in particular emerging donors, in the DAC's development assistance.

Since **ODA is not a legally binding agreement** but defined by rather voluntary ties and as a result of self-reporting by DAC members, data provided suggests that the DAC faces a principal-agent problem in improving both accountability and performance. This means that the **quality of the provided data on ODA differs widely across countries**. This does not only include the quality of the data itself, but also **its magnitude.** This again can be traced back to the different perceptions of what can be measured as ODA and what not. Therefore, it is plausible that the system may need an overhaul that ensures greater transparency. The High Level Forum on Aid effectiveness in Accra (2008) realised this and launched the International **Aid Transparency Initiative**: a global action group which calls for more transparency in financial flows for development assistance. The initiative asks for a discloser of not only how much money is being provided, but also of when it is spent, where, how and what is expected to be achieved. This would have a positive effect on the relationship of donors' commitment and disbursement and would therefore enhance the predictability of ODA.

An option which could be considered is to empower the function of the **DAC regarding** its **data-collecting authority**. Donors should also be made more accountable for the data they provide. This option brings together four different sources of external financing for development in a broader aggregate: ODA, OODF, PDA and OPDF. This new concept is called External Financing for Development (EFFD) (see, figure 5). Keeping the current definition, but broadening the data collection focus could be an option that would enable the recording of services beyond the traditional ODA definition and permit and overlap with the concept of GPGs.

The **other option** would be to **open up the definition**, so that besides ODA climate, security and private investments are included as equal parts of the concept. One of the main advantages of this alternative would be that a single aggregate that measures official assistance for development would be defined, as 'multiple aggregates would seem to blur the message and complicate implementation' (ECDPM 2012; 39). Contrariwise to the ECDPM study the Concord 2013 AidWatch report highlights that it is vital to exclude innovative financing from the ODA definition and that a modernising of the concept should be a refocusing on the traditional idea, which is the improvement of the welfare and economy of developing countries.

Recommendations

1. The EP should promote the proposal for a coherent framework to financing poverty eradication and sustainable development made by the Commission in the FFD Communication should accentuate the transfer character of ODA and should therefore express the high relevance of **Country-programmable Aid (CPA)** as indicator. CPA depicts a good basis for a discussion on that, as it would render a much better assessment of its impact level.

Although the CPA concept has its limitations, for instance due to the fact that it includes technical assistance which is often not country-programmable (Keijzer, 2013). This approach should however enhance more effective development assistance, while also tackling the problem of aid fragmentation and proliferation. To improve the current situation, establishing a coherent framework for a data reporting system would play a vital role, as this would ensure a coherent quality of the data from all member states. Standards should be developed, which address the **predictability of data** on the one hand, but also enable data **comparison between MS**. Moreover, comparison between **ex ante ODA and disbursement** should be facilitated.

2. Another important issue to be discussed and clarified is the present **DAC recipient country list**, as it includes some countries that are donors themselves and still receive a significant amount of aid. Some of these countries even report to the DAC on their development assistance. Moreover, while

it is important to adhere to the 0.7% threshold, the discussion nevertheless needs to be led back to the essentials of the discourse, which is the impact of ODA and its poverty eradication ability.

3. **IFD** plays a key role within the current aid architecture. Consequently, the Commission calls for a 'coherent, coordinated and strategic basis' (EC 2012; 16) to increasingly use these instruments. However, it is important that the EU and the MS respect the principles of IDF set out in the Monterrey Consensus and confirmed by both the Doha Declaration and the Global Partnership on Effective Development Cooperation. IDF has to be **additional or complementary to ODA**; and it must be **predictable and stable** and comply with the principles of aid effectiveness.

4. The EP should further support the adoption of, a **Currency Transaction Tax** by the Council. The CTT is an important mechanism to tackle global development and environmental challenges. Since this instrument has an enormous revenue potential it would help to fulfil commitments without affecting MS' budgets. This in turn could enhance the reputation of the EU.

Moreover, the Commission suggests that 'the EU and its MS should incorporate tax administration and fair tax collection, including rationalising tax incentives and good governance in tax matters, into policy dialogue with partner countries' (EC 2012; 10). On this score, financial regulatory reforms as well as curbing illicit financial flows from developing countries need to be supported collaterally in order to allow domestic resources mobilisation.

5. The European Parliament in collaboration with the Council and the Commission should develop a **common line to** support efforts to make development cooperation more effective and accountable. For this purpose, it first needs to be clarified **what ODA is** and should be all about and then how to fund it. If the EU aims at influencing the future global architecture of ODA, it should **internally develop a more coherent approach to development** aid and reinforce its commitment to achieving the MDGs. Thus, the EU should strive to support the HLP proposals to focus on all three dimensions of sustainability (environmental, social and economic). Transparent and convincing reporting **on the additionallity of climate finance** would reinforce the trust of recipient countries in the EU and MS development institutions.

6. More precisely, in order to clearly define limits and differences between the various sources of financing for development, the EU and its member states should support a reform of the **current ODA reporting system**. The objective should be the **establishment of a differentiated approach of accounting**, which does not only go beyond the comparability of donors, but also enables equitable treatment of aid recipients. Therefore, a differentiated approach needs to address the following issues:

- Alignment with the post-2015 framework and the Global Public Goods
- Alignment with the IATI standards and the Global Partnership on development effectiveness
- Establishment of a clear set of criteria for reporting to better identify the nature of Innovative Finance for Development
- Separate reporting of real flows in the form of CPA and improve CPA as a measurement approach

7. In order to capture the new landscape of development cooperation and the new strategies and indicators the European Parliament should call for the creation of a central institution responsible for transparency, data collection and monitoring needs on all forms of external development finance. As this institution has to be acknowledged by all stakeholders, traditional donors, non-traditional donors and recipients countries, it needs legitimacy. The **Global Partnership for Effective Development Cooperation (GPED)** would depict a suitable framework to confer

legitimacy. **An UN-Institution** could have a greater legitimacy and broader acceptance by more donor and recipient countries. The expertise of traditional donor institutions, such as the OECD/DAC holds the relevant expertise and could serve as a basis for the establishment of a globally recognised framework. The EU Parliament should promote an **open dialogue with important emerging donors** in order to create the necessary trust to shape the project.

8. So as to provide a substantial contribution to the global debate on the post-2015 Development Agenda the EU needs to reconsider the scope of its two reference documents: The **Agenda for Change and EU Consensus on development**. Its strong emphasis on a conventional growth strategy sometimes seems to contradict the vision for a profound **transformation of production and consumption patterns** to confront the present challenges. The Lisbon Treaty identifies poverty reduction as the sole objective of EU development cooperation. Yet, the EU Consensus on Development presents a multidimensional definition of poverty that includes all three sustainable development dimensions. Hence, the future recognition of development cooperation should be defined in broader terms than the current **ODA definition to include other official sources and IFD**. However, it is important that this will not impede the needed increase of public financial resources to developing countries, and especially to the LDCs.

9. Therefore, besides defining a strong position of its own, the European Parliament should urge the Council and the Commission to develop a clear position on the following aspect: Contribute to a **new and clear definition of development cooperation as a whole**. This must be in accordance with the new challenges and potential new sustainability indicators and should include not only the transfer of resources to specific countries but also financing GPGs. Moreover, the definition has to specify what in particular official development assistance will be and distinguish between additional services aiming at sustainability

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