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**Research Report**

## The future of the ODA concept: the political dimensions of a seemingly technical discussion

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## The Future of the ODA Concept: The Political Dimensions of a Seemingly Technical Discussion

### Summary

There is a possibility that the development ministers of the Organisation for Economic Co-operation and Development (OECD) will agree on a new definition of official development assistance (ODA) at the end of 2014. Ongoing discussions on this matter may appear purely "technical" at first glance. While there is a range of specific technical aspects to the concept and development of ODA, it is becoming clear that the debate about a suitable new definition covers the entire spectrum of development policy topics involving structural change.

Consequently, the current ODA debate reflects the various perspectives within the policy area as a whole. Do we simply need to make a few internal system adjustments to the ODA concept or might we in fact be seeing the "beginning of the end" of development cooperation as we know it, particularly as we have known it since the early 1960s? Is the provision of outside support to poor countries becoming obsolete as a model of international policy?

There are two key reasons why the OECD countries agreed on an internationally applicable concept of ODA to begin with. Firstly, it allows standards and, by extension, qualitative

requirements to be defined that distinguish ODA from other approaches to cooperation, such as instruments for promoting foreign trade and military cooperation with other states. Secondly, it makes it possible to keep quantitative records of contributions to development and of comparisons between countries that play a part in collective global action. Experience over the last few decades has shown that providing comparative international data can indeed put a degree of pressure on governments and parliaments to pursue or increase development cooperation activities. The United States, for instance, has never made a specific commitment to provide 0.7 percent of its economic output as ODA, a target generally accepted by donors. The European Union countries have attempted to flesh out this target in a step-by-step plan, yet have failed to achieve it on numerous occasions. For a long time, the Scandinavian countries and (until 2012) the Netherlands were considered to be role models in achieving the 0.7 percent target, and now the United Kingdom has also taken on a leading role in this respect, having recently enshrined the target in its legislation. Discussion about this target shows that statistical measurement has most definitely provided an international incentive for countries to increase their inputs.

## The ODA concept under pressure

The current ODA concept is under pressure to adapt for four reasons:

Firstly, development policy actors are increasingly seeing the "technical" ODA concept as being in need of reform and as no longer reflecting the current state of discussions. Consequently, members of the OECD's Development Assistance Committee (DAC) in particular have been discussing the need to reform the concept for several years now, but this is a lengthy process due to the need for consensus. Changes are required as a result of "poor incentives" and divisions that (now) seem inappropriate in many areas. For example, the current system offers incentives not to provide grants or a high level of concessionality, but rather to increase the volume of ODA. This is because other types of credit are added, meaning only low levels of concessionality are offered. This is presumably encouraging the current general trend among donors to provide less concessionary ODA for poor developing countries, as well as reducing the net volume of ODA available in the long term due to repayment conditions. Other ODA inputs, such as technical cooperation and debt relief, are often considered to be "overpriced" and are frequently tied to deliveries and services of donors. In turn, other inputs, such as certain accounting costs for admitting refugees to donor countries for the first year of their stay, can only be meaningfully considered as ODA to a limited extent or, in the case of contributions to peace and security, for example, such as peace missions in developing countries, are not included, even though they may be highly significant from a development policy perspective. In response, the OECD developed an indicator a number of years ago that measures "country programmable aid" more effectively, despite continuing weaknesses in methodology. The indicator attempts to exclude aid that is only available to countries in an "accounting" sense, such as food aid or administrative costs for development cooperation.

Secondly, developing countries on the whole are becoming increasingly less reliant on ODA contributions. Over 50 countries have been removed from the recipient list in the last 40 years, due primarily to a process of graduation whereby developing countries increased their GDP per capita and moved up into the next income group. OECD forecasts show that a further 28 countries with a combined population of two billion people could be taken off the list by 2030. Even those countries still on the list are making less frequent use of ODA as a source of finance. ODA flows account for a small proportion of the international funding available for developing countries. Although ODA still represents a significant proportion of public investment in some poor developing countries, even these countries are becoming less dependent upon

it on average. ODA flows account for around 75 percent of all external resource flows in the world's poorest countries, representing 59 percent of these nations' own tax revenues. However, in the group of upper middle-income countries, ODA only represents 2 percent of external resource flows or 0.8 percent of their tax revenues.

Thirdly, there has been an overwhelmingly positive development in the general conditions for developing countries over the last few years. Dynamic middle-income countries such as China, India, Indonesia, Turkey and Brazil are increasingly providing relevant development cooperation services and rapidly expanding their budgets for South-South cooperation, including in African nations. Most of these countries have little or no interest in subjecting these South-South cooperation activities to the conventional OECD standards for ODA. Rather, one of their declared aims is to generate mutual benefits and thereby to pursue a different objective to that of ODA. India, China and Brazil in particular have recently made it clear that they have no desire to align themselves with rules and standards that they see as still being defined by the OECD countries.

Additionally, where there was once a distinct boundary between developing countries as ODA recipients and prosperous industrialised nations as ODA donors, it is barely possible any longer to clearly divide the two. South Korea, which was once a major ODA recipient, has now practically switched roles completely after its request to be admitted to the OECD's DAC as a donor was fulfilled and it became a member of the "western club of wealthy donors". Other countries such as Mexico and Turkey are currently taking similar steps towards DAC membership. Additionally, more recent international dialogue platforms, such as the G20, illustrate how many previously existing groups of countries are now being broken up and how boundaries between "rich" and "poor" nations are becoming more fluid.

Moreover, non-ODA flows are increasing in most developing countries. This manifests itself in different ways for foreign direct investment and remittances from guest workers to their home countries, with ODA inputs playing an ever diminishing overall role in development processes as a result.

Fourthly, it is now less clear what goals are being pursued with ODA than it was 15 or 20 years ago, for example. While reducing poverty is certainly still a key challenge, a series of additional questions crop up at second glance. If most of the world's poor now live in middle-income countries, is it still the role of development cooperation to contribute to reducing poverty in these developing countries with a relatively better standing? Or do China, India, Brazil and other nations have sufficient resources of their own to do this? Another key question coming

increasingly to the fore concerns the current motives of donors. Are they not far broader in scope? In countries such as Germany, there is clearly a sense of social responsibility for reducing poverty and dealing with humanitarian issues. It is equally undeniable that all donor countries have other vested interests that they are keen to promote with ODA, whether relating to foreign trade or to security policy, the latter expressed in the high volumes of ODA provided to Afghanistan, for example. At the same time, the line between development-policy-driven ODA and ODA intended to serve other aims, many of them global in nature, is becoming increasingly blurred. This applies, for instance, to questions surrounding climate finance and its potential consequences when it comes to issues such as resource distribution to countries and sectors; for example, should the majority of resources be used to tackle the causes of climate change or should the priority be to reduce absolute poverty?

The OECD development ministers' meeting at the end of 2014 offers an opportunity to reform the ODA approach. Changes could include adjustments in the threshold values that determine which countries are eligible to receive ODA. The discussion may also lead to the creation of a concept to supplement ODA. Consideration is being given to the introduction of a category for "total official support for development" (TOSD) in order to obtain a full picture of all official inputs. TOSD would represent an attempt to record all official resources that promote development. This category could include additional expenses for refugee care, including care extending beyond the one-year limit, and financing for UN peace missions. This would then make ODA a subset of TOSD. It would be ad-

vantageous in this case to continue recording comparative values for the development of ODA efforts.

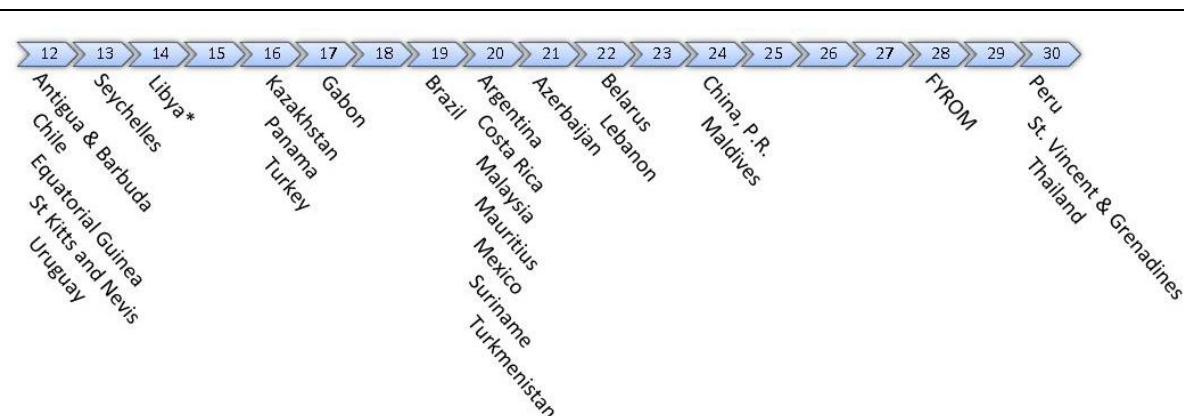
### Scenarios

What does a sensible ODA policy look like in light of the specific challenges faced by the ODA concept and the international structural changes taking place? This paper proposes a parallel reorganisation, with two different time-scales.

The best course of action in the short and medium term is to reform the ODA concept in the context of the DAC. The ongoing discussions within the DAC about making the ODA concept more precise and, for instance, defining the concessionary conditions, are good and proper. The same is true of the consideration being given to the need to avoid providing "perverse incentives" and to update the criteria for the list of ODA recipients. Many instruments and processes are geared towards donors and their services and structures. This is increasingly raising the question of how much partner countries benefit from the ODA provided. It is also important to highlight this perspective when it comes to reforming the ODA concept.

Given that the group of dynamic Southern countries is set to remain diverse for the foreseeable future, with some of them clearly rejecting the ODA debates, reform efforts should take place in an OECD/DAC context initially. At the same time, other actors should be invited to contribute to the debates and apply common rules on a voluntary basis. The broader concept for recording total official support for development (TOSD) would also represent an important step towards more effectively documenting the international efforts of states in the near future.

**Figure: Exceedance of income threshold for ODA eligibility (2012–2030)**



\* Libya had already exceeded the income threshold in 2012, but presumably fell below it again in 2013.

Source: Sedemund, J. (2014): An outlook on ODA graduation in the post-2015 era, External Financing for Development, OECD: <http://www.oecd.org/dac/externalfinancingfordevelopment/documentupload/ODA%20Graduation%20final%2022%20Jan%20CJ.pdf>

In light of the graduation process for developing countries, the question of whether ODA cooperation should still be carried out in future with more advanced developing countries will become increasingly pertinent. The United Kingdom and the European Union, for instance, have initiated or announced exit strategies for ODA in a number of countries. Undoubtedly, some of these developing countries no longer require access to concessionary ODA finance. Quite apart from this, OECD countries have an enormous interest in conducting in-depth dialogue with this important group of countries and discussing the options for taking joint action to mitigate the effects of climate change and improve security, for example. These processes are usually the responsibility of the relevant government ministries. At the same time, development policy actors tend to have dialogue instruments and experience that are otherwise hard to find. As such, the direct transfer of resources as part of ODA to the benefit of dynamic developing countries is likely to decline further in the foreseeable future. Nonetheless, relevant development policy tools (dialogue, analyses, joint initiatives in international fora, joint projects in developing regions etc.) should be used to foster closer global partnerships with this group of countries.

It is also important to establish "beyond aid" approaches to cooperation that go further in promoting a more comprehensive global development agenda. The Post-2015 debate will be the main point of reference in this context in the near future. A future global agenda needs clear goals for international cooperation and broad support (including from the dynamic middle-income countries) in order to promote the new development agenda. For reasons already mentioned, the agenda must not be based solely or primarily on ODA, but rather should be far wider in scope. Likewise, the global agenda will not be able to work from a comparatively narrow concept of development from past development policy (and, in particular, will not be able to limit its activities to the social and economic development of states), but rather will need to shine a light

on other universal issues such as inequality and, in particular, environmental sustainability.

In order to implement such an ambitious global development agenda, it will be essential to set up an effective technical and political reporting mechanism for international commitments. There are a number of specific proposals as to how states can regularly document their contributions to the provision of global public goods and report these contributions internationally. For example, Germany would no longer report only on its ODA-related efforts, but also on its activities in other areas such as climate-change mitigation, security and the promotion of measures to combat inequality. The issue would not always be whether or not developing countries were being specially supported in their efforts. Rather, based on this logic, Germany, for example, could report on specific activities it undertakes in Spain or Canada as part of its efforts to provide global public goods. Additionally, many targets could be classified as "results", not simply "inputs". New "beyond aid" categories can easily be justified from a content perspective and are presumably also necessary from a policy perspective. At the same time, it will be necessary to have a new discussion of how much priority to give to issues such as the provision of individual global public goods and development at national level. Negotiations on such issues are likely to prove difficult given the major differences between the countries, for instance, when it comes to deciding on what priority to give to the problem of rising sea levels. The Pacific island states have a different perspective on this issue to landlocked countries such as Nepal.

Quantitative objectives for ODA are likely to become increasingly less credible in the medium term (for example, why 0.7 percent exactly and not 0.6 percent or 0.8 percent?). While there should continue to be incentives for countries to take on international responsibilities, limiting these incentives to the subset of ODA is quite unsatisfactory. It would be far more meaningful to record all the efforts of a given country to provide global public goods.



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