Development Co-operation Directorate (DCD-DAC)

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- Aid effectiveness
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DACnews December 2014

THE DEVELOPMENT ASSISTANCE COMMITTEE:
ENABLING EFFECTIVE DEVELOPMENT

DACnews

DECEMBER 2014

As we write: discussions on climate and the redefinition of ODA

At the United Nations Framework Convention on Climate Change (UNFCCC) 20th session of the Conference of the Parties (Lima, Peru 1-12 December 2014), participants are working to refine a universal climate agreement that will be ratified in Paris in 2015. As they do so, there is no doubt that climate change and development are intrinsically linked and that these links will need to be addressed in post-2015 processes and policies. This DACnews looks at climate-related and other challenges on the horizon, including another key ingredient of development strategies: trade. Finally, the feature article analyses the upcoming redefinition of official development assistance and what, in the view of ONE.org, this implies for the poorest nations.

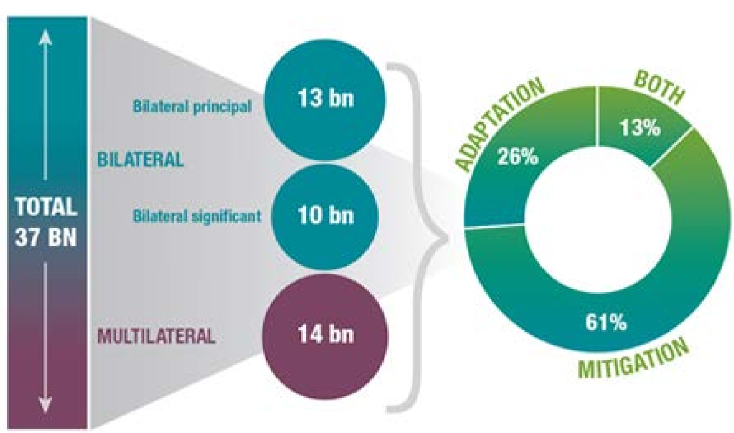
Improving statistics on climate-related finance

Development finance is critical to support the transition to low-carbon, climate-resilient and sustainable development pathways in developing countries. Likewise, it is fundamental to ensure the availability of statistics on these flows, to promote transparency and to support an efficient and effective allocation of finance.

The OECD DAC Network on Environment and Development Co-operation (ENVIRONET) and the Working Party on Development Finance Statistics (WP-STAT) have joined with multilateral development banks, partner countries, research institutes and international organisations to improve data quality, coverage and compilation.

Thanks to these efforts, for the first time the OECD DAC is able to present, for 2013, an integrated picture of total bilateral and multilateral development finance flows targeting climate change objectives (see figure).

Climate-related development finance in 2013
Commitments, USD billion



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PEER REVIEWS

OECD Development Co-operation Peer Reviews: Ireland 2014 finds that Ireland is one the best performing donors when it comes to directing its development aid to the

Note: Aggregate figures reflect bilateral ODA and other official flows from members of the OECD DAC and the United Arab Emirates, identified as targeting climate change as either a principal or significant objective based on the "Rio markers", and climate-related multilateral flows from seven multilateral development banks and the Global Environment Facility.

For more information see *Climate-related development finance statistics in 2013*; visit http://oe.cd/RioMarkers for the latest statistics.

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DAC Development Debate: How to mobilise climate finance and investment?

With the international policy agenda focused on the question of how to finance climate change mitigation and adaptation, the Green Climate Fund (GCF), which will become operational in 2015, is slated to become a cornerstone of the future development financing architecture.

As part of a DAC Development Debate on 5 November 2014, Dr. Manfred Konukiewitz, Board-member of the Green Climate Fund, presented an update on the Fund. With substantive financial pledges to the fund already made, she stressed the key role it is expected to play in discussions at the COP21 Climate Conference in Paris in 2015. Dr. Konukiewitz emphasised the strength of the fund in bringing together developed and developing countries under a common, consensus-based governance structure with equal representation of members from the global North and South on the Board. He also observed that actions to combat climate change are increasingly viewed as an opportunity for economic growth, technological innovation and reduced dependency on imports.

Anthony Cox, Deputy Director of the OECD Environment Directorate, highlighted the need to incentivise private investments in green infrastructure, as these are an indispensable element of a successful green climate finance strategy. He stressed the role of governments in developing favourable policy environments, including by developing national climate plans, phasing out fossil fuel subsidies, creating new financial vehicles and supporting developing countries in devising bankable climate projects. He agreed with Dr. Konukiewitz that nascent investment markets for climate finance are a cause for (careful) optimism.

Jan Corfee-Morlot from the OECD Development Co-operation Directorate (DCD) underlined the fact that most climate finance benefits development, and vice versa. She also pointed to the important data resources available at the OECD for tracking climate finance. DCD Director Jon Lomoy concluded the debate by announcing that the OECD DAC will not only be able to present figures about bilateral and multilateral climate funding for the Lima COP (see previous article); it will also soon launch the first international standard for private funding mobilised through concessional funding.

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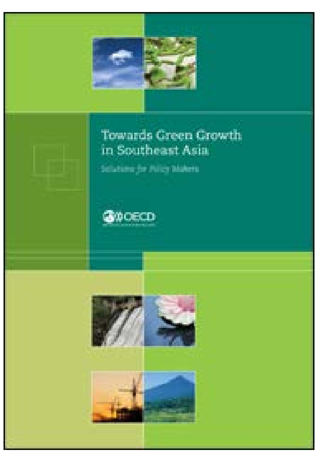
Towards Green Growth in Southeast Asia



Southeast Asia's long-term prosperity will only be possible if environmental performance is tied to economic growth. This is the main message of *Towards Green Growth in Southeast Asia*, launched 11 November 2014 in Yogyakarta, Indonesia, at the Asia Low Emissions Development Strategies (LEDS) Forum.

Southeast Asian economies face pressure to increase growth, fight poverty and enhance well-being. Thanks to its wealth of natural resources, according to the report, the region has a window of opportunity to shift from a resource-intensive, polluting growth model to green growth. It can do so by locking in resource-efficient and resilient infrastructure, attracting investment, and creating employment in the increasingly dynamic and competitive sectors of green technology and renewable energy.

Carried out in consultation with officials and researchers from across the region, *Towards Green Growth in Southeast Asia* provides a framework for regional leaders to use in designing their own solutions to move their countries towards green growth. "Clear and predictable policies would draw public and private funds to green infrastructure projects that can support long-term growth while preserving the environment," said OECD Deputy Secretary-General Rintaro Tamaki, who presented the report.

world's neediest countries. 0.24% of Ireland's gross national income was spent as official development assistance in least developed countries in 2012, exceeding the UN target of 0.15% and outperforming many other donors.

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Engaging with the Public: 12 Lessons from DAC Peer Reviews and the Network of DAC Development Communicators highlights key lessons learned on engaging with the public based on DAC members' practices as documented in peer reviews, DevCom's reports and publications and wider work from across the OECD. It includes examples from DAC members' experiences and sketches out challenges they continue to face as they move toward more strategic, effective and innovative engagement with citizens and taxpayers on development co-operation.

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PUBLICATIONS

Development Co-operation Report 2014: Mobilising Resources for Sustainable Development provides an overview of the sources of finance available to developing countries and proposes recommendations on how to mobilise further resources. It also explores how to mobilise resources to finance the provision of global public goods: for example, to combat climate change, promote peace and security, and create a fair and equal trading system.

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Imagining More Effective Humanitarian Aid: A Donor Perspective intends to provoke debate, and stimulate further thinking and study, about humanitarian effectiveness, and what that will mean for donors and other stakeholders, in the run-up to the World Humanitarian Summit in 2016.

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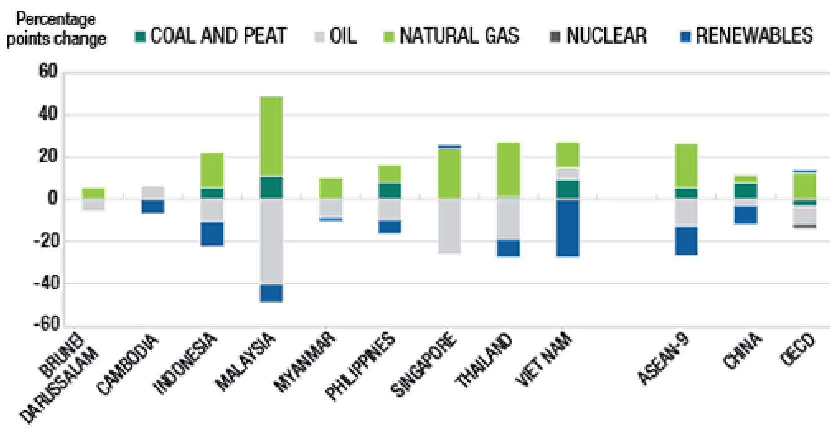
Providers of development co-operation will play a role in the region's transition to green growth. Yet while the average share of official development assistance committed to green objectives in Southeast Asia is larger than the global average, this share varies widely among individual countries. At the same time, investment still needs to shift from fossil fuels to renewable energy sources; the share of renewable energy in the region actually decreased between 2000 and 2011 (see figure).

Some policies are beginning to go in the right direction. Viet Nam has begun to tax pollution and environmental degradation, while Indonesia has reduced fossil fuel subsidies. The Philippines supports green growth at the local level through its National Environmentally Sustainable Transport Strategy. Payments for ecosystem services have begun to take root in the region, particularly through the Reducing Emissions from Deforestation and Forest Degradation-plus (REDD+).

Bringing the promising actions examined in the report to scale will require bold policy and institutional reforms – and leadership. The recently launched OECD Southeast Asia Regional Programme will work to mainstream the report's recommendations in areas such as governance, investment, and public-private partnerships for infrastructure.

The share of renewables has fallen in most Southeast Asian countries

Change between 2000 and 2011



Source: IEA World Energy Statistics and Balances, www.oecd-ilibrary.org/energy/data/iea-world-energy-statistics-and-balances_enestats-data-en, accessed May 2014.

http://www.oecd.org/dac/dacnewsdecember2014.htm?utm_source=DACNewsDec14&utm_medium=email&utm_content=gg&utm_campaign=DACNews#gg

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Regional Perspectives on Aid for Trade

According to the Monterrey Consensus on Financing for Development, trade is the single most important source of development finance. Countries that have embraced an outward-oriented development strategy, with trade liberalisation at its heart, have not only outperformed inward-looking economies in terms of aggregate growth rates, but have also succeeded in lowering poverty rates. China alone has lifted more than 600 million people out of poverty after opening up their economy in the late 1970's.

But there is still much progress to be made. Binding trade-related constraints – from infrastructure shortcomings to bureaucratic impediments – inhibit the ability of developing economies to fully exploit the benefits of closer economic integration. Aid for trade is a cost-effective tool that can strengthen economies' ability to plug into international markets, maximise the benefits from specialisation and move up value chains, while providing support to facilitate structural adjustment and ensure that the benefits from structural change are widely shared.

Regional development banks and economic commissions have long argued the case for regionally focused aid for trade. Yet while there is strong evidence that developing countries can accrue huge benefits from regional co-operation, the groundwork to make this economic integration possible needs to be put in place: this includes transport networks and other infrastructure, human-resource capacity, trade facilitation, and a trade-enabling environment for regional integration, among others. Regional efforts to improve infrastructure and regulatory frameworks helped to increase exports from Mexico, Colombia and other South American countries by 50% over just five years. Other examples of impressive results from regional projects include TradeMark East Africa and the Greater Mekong Cross Border Transport Corridor (see OECD/WTO 2013).

Regional Perspectives on Aid for Trade looks at varying levels of intervention to help understand how the links between national, multi-country, and regional aid for trade can be made most effectively. It provides suggestions for optimal aid for trade intervention levels, explores sequencing issues, and draws on good aid for trade practices.

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Regional Perspectives on Aid for Trade offers great potential as a catalyst for growth, development and poverty reduction. The Regional Perspectives on Aid for Trade report looks at how regional aid for trade can help developing countries spur regional economic integration, enhance competitiveness, and plug into regional production networks.

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Towards Green Growth in Southeast Asia provides evidence that, with the right policies and institutions, Southeast Asia can pursue green growth and thus sustain the natural capital and environmental services, including a stable climate, on which prosperity depends.

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VACANCIES

Policy Analyst - Engagement [with development co-operation providers] (Job Number: 09582)

DCD is looking for a dynamic policy analyst to promote and strengthen the DAC's engagement with providers of development co operation beyond the Committee's membership. The successful candidate will have specific responsibility for advancing engagement with a designated set of countries and will also conduct analytical work on issues related to the DAC's objectives.

Junior Policy Analysts – Global Partnership for Effective Development Co-operation – Temporary (Job Number: 09597)

DCD is looking for two Junior Policy Analysts. One position will primarily focus on refining, strengthening and implementing the Global Partnership monitoring framework to support accountability for implementing the Busan commitments and assist with the production of the 2016 Progress Report. The other will primarily assist with the provision of secretariat support to the Global Partnership Co Chairs and Steering Committee and work with initiatives at the country and regional levels under the Global Partnership umbrella.

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FEATURE ARTICLE: Making the right decisions on behalf of the world's poorest

By Eloise Todd

This month's feature article is by Eloise Todd, Global Policy Director at ONE. The 2014 ONE DATA Report*, released in October, examines progress by both donor and African governments against their commitments on global development spending. This article looks at the trends evidenced by this report, and in particular what these trends signify for the poorest nations. The author looks at the DAC's ongoing discussions around redefining ODA and makes the case for what – in her view and in that of ONE – this redefinition should entail.*

Over the coming ten months, the world will be asked to agree on a new development agenda to eradicate extreme poverty by 2030, leaving no one behind. We will need an equally ambitious financing strategy to match. In July 2015, only seven months from now, the Third International Conference on Financing for Development will be held in Addis Ababa. This will be an important opportunity to ensure that the next generation of goals is supported by strong financing.

The agreements arrived at by the OECD DAC in its current process of modernising the definition of ODA will have important repercussions for how it can support the poorest countries in lifting themselves out of poverty.

Firstly, a particular effort needs to be made to ensure effective aid is focused on the poorest and most vulnerable countries. ONE's 2014 DATA Report shows that currently, only a third of aid goes to the least developed countries (LDCs). ODA to LDCs has been declining over the past years, largely due to an increase in ODA loans, which mainly target middle-income countries. ONE is therefore calling for a new target of 50% of all ODA to be delivered to LDCs (with 90% in the form of grants), in line with calls by the LDCs themselves. Such a change could make a significant difference for these countries, which have least access to other forms of financing: if donor countries had met this target in 2012, it would have meant an additional USD 22 billion of ODA allocated to them.

Second, reforming the rules governing concessional loans that can be reported as aid is crucial to improving aid quality. Aid lending is an important development resource, but it is critical that the terms on which these loans are given are sufficiently concessional, taking into account the borrower's level of income and ability to sustain the debt. The current criteria for counting loans as aid are outdated and fail to reflect today's market conditions. DAC members have been exploring ways to refresh these rules, including through the adoption of a new reference rate to assess the grant equivalent of the loan (the nominal amount that will not be repaid to the creditor). ONE recommends that the DAC adopt a system of differentiated discount rates[1], based on actual market realities and therefore adapted to changing financial conditions. Such a change could make a huge difference. ONE's 2014 DATA Report showed that if those more realistic rules had been in place, in 2012 alone up to USD 19 billion in loan commitments would not have counted as aid.

Mirroring the views of the largest lenders, however, discussions so far have largely inclined towards adopting a risk-adjusted discount rate, which entails using a rate that takes into account the risk that the borrower may not be able to pay back in full. We think this would be inappropriate for aid loans, and that the DAC should not adopt a risk-adjusted rate. A risk-adjusted reference rate would create a perverse incentive to over-lend to countries with the least capacity to sustain debt, as donors would get more ODA "credit" by lending to them.

The use of risk-adjusted rates could also allow donors to extend loans to these countries on more stringent terms, due to their higher risk of default, and still count this as ODA. This could, in turn, contribute to new debt crises in the poorest countries that have the least means available to repay debt.

While loans are crucial cash flow for all developing countries, care must be taken not to trap the poorest countries in a cycle of debt by moving too far away from grants. If a risk adjusted rate is adopted, ONE recommends – to provide some safeguards for countries on the receiving end of loans – that lending to the poorest countries encompass the following clear stipulations:

1. A minimum 50% grant element cut-off for loans to LDCs and other low-income countries;

2. A clear debt sustainability criterion tailored to the individual country (to prevent lending to countries in debt distress);

3. The exclusion of debt relief from ODA, to avoid double counting of risk (if the default risk is also factored in ex-ante, this would lead to double-counting when the debt is forgiven).

The discussions happening at the DAC right now have important implications for all developing countries, and especially for the world's most impoverished countries that rely highly on aid and can't sustain debt. For the past two years, the OECD DAC has worked hard to reform ODA and ensure it can play a key role beyond 2015. As a community, we must keep up efforts to make sure that the right decisions on behalf of the world's poorest are made at the DAC's High Level Meeting in December.

[1] A differentiated discount rate depends (DDR) on the currency the loan is provided in, and is subject to change on 15 January of each year. It is calculated by adding fixed margins to the average of the relevant commercial interest reference rates for the previous six months. For example, the margin for a loan of 15-20 years is 1%. So the DDR for a loan of that duration is 1% higher than the average of recent commercial interest reference rates, which itself is 1% higher than the yield on the state bonds.

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NEWS IN BRIEF

Ensuring the strengthening of health systems and the delivery of health results

Over 200 representatives from country governments, development partners and civil society organisations met in Siem Reap, Cambodia from 2-5 December for the fifth International Health Partnership (IHP+) Country Health Teams Meeting. IHP+ is a group of partners committed to improving the health of citizens in developing countries: international organisations, bilateral agencies and country governments all adhere to the IHP+ Global Compact. Taking the Busan Partnership for Effective Development Cooperation as their starting point, they commit to putting internationally agreed principles for effective aid and development co-operation into practice in the health sector. IHP+ achieves results by mobilising national governments, development agencies, civil society and others to support a single, country-led national health strategy. Partners also aim to hold each other to account.

The overall objective of the meeting was to agree on ways in which IHP+ can accelerate health results through development co-operation. Using evidence from country-based monitoring and evaluation, the meeting identified key areas where action is needed, at the global and country level, to deliver the international health goals under the Millennium Development Goals and proposed Sustainable Development Goals.

The meeting considered probable trends in the global aid architecture post-2015, focusing on how to get the most from the broadening range of currently available development partners and means of implementation. Participants agreed on the importance of the "Seven Behaviours" for effective co-operation in health. They also called for greater attention to the needs of fragile states, and for more responsive, appropriate and urgent action to assist countries affected by the Ebola crisis.

The agenda and key documents from the meeting can be found here as well as a short video on the work of the partnership to improve financial management in health.

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Learning Alliances on Public Sector Reform

Learning Alliances on Public Sector Reform were recently launched during the Effective Institutions Platform (EIP) annual meeting held in Paris, 28-29 October. At this meeting, members discussed progress in: developing indicators to measure public sector reform efforts; strengthening citizen participation in domestic accountability institutions; and improving dialogue at the country level on the use of country systems.

Learning alliances support country efforts to improve their public sector institutions and develop practical methodologies for peer learning in this area. The first learning alliance workshop, in the sidelines of the annual meeting, focused on supreme audit institutions (SAIs) and citizen engagement. It brought together audit institution and civil society representatives from Brazil, Chile, Costa Rica, France, the Philippines, South Africa, and Zambia to discuss innovative practices for engaging citizens. Further opportunities for learning alliances were identified at a meeting in November hosted by one of the EIP's key partners, the Singapore Centre for Public Service Excellence.

The Effective Institutions Platform is an international partnership that brings together over 60 high-, middle-, and low-income countries and organisations – including development agencies, think tanks and civil society stakeholders – to facilitate dialogue, peer learning and the exchange of good practice.

For more information, visit: www.effectiveinstitutions.org. Also, watch these videos on What partners expect from this effort, and What makes the Effective Institutions Platform different.

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Supporting the fight against corruption

The growing diversity of actors in development – including countries such as China, Brazil, South Africa and the Arab Gulf states among others – calls for developing new mechanisms to help redefine the landscape for international co-operation in anti-corruption that respect the diverse roles and contributions of each partner. To encourage this wide community of practice to come together, the OECD, the Brazilian Office of the Comptroller General, the US State Department, the United Nations Office on Drugs and Crime, the New Partnership for Africa's development and the UK Department for International Development will convene a symposium on anti-corruption (11-12 December, Paris, France) for providers of development co-operation. The symposium (see the agenda) will bring together development agencies, technical assistance providers in OECD and non-OECD countries, NGOs and other actors, providing a platform to:

(1) share good practices and lessons learned in designing, delivering and managing anti-corruption programmes; and

(2) share views on the importance of prioritising investing in anti-corruption programmes to support the effectiveness of all other development co-operation programmes.

For registration, contact cassandra.hendricks@oecd.org; for more information, contact alessandra.fontana@oecd.org

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Implementing Busan commitments on the ground

The Republic of Korea hosted a workshop in Seoul on 6-7 November 2014 – organised with the support of the Global Partnership for Effective Development Co-operation (GPEDC) and the UNDP Seoul Policy Center – to review country-level progress in implementing the commitments made in Busan at the Fourth High Level Forum on Aid Effectiveness (2011). At the workshop over 100 participants from developing countries, Northern and Southern providers, civil society organisations and academia built evidence to contribute to global high-level political dialogue and engagement.

The workshop was preceded by a three-day "Global Partnership for Effective Development Co-operation Learning and Accelerating Programme", organised by the Korean International Cooperation Agency (KOICA) in collaboration with the European Union and the UNDP Seoul Policy Center. Launched as a voluntary initiative at the Mexico High-Level Meeting (April 2014), this programme aims to help bridge the gaps between the GPEDC's policy agenda and its practical applications on the ground. This first session was a successful mutual learning experience for 35 representatives from developing countries.

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Promoting ethical business and public-private partnership for development

China's recent development has shown that the private sector is a powerful force for promoting growth and reducing poverty. The question now is how to maximise the positive impact of private-sector activities, including through more and better jobs, while minimising negative aspects, notably environmental degradation. China and Chinese firms can learn from international experience, particularly concerning how development agencies and the private sector can join forces to promote development that is economically, socially and environmentally sustainable. In doing so, international partners can benefit from a deeper understanding of the Chinese context. To contribute to an exchange on these topics, the China-DAC Study Group organised a Symposium on "Promoting Ethical Business and Public-Private Partnership for Development" in Beijing on 14 November 2014.

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ODA in a Post-2015 World

The 2014 CONCORD AidWatch Report was launched at the OECD Conference Centre with the support of the OECD Development Co-operation Directorate on 20 November 2014. The report takes stock of progress made by European donors in tackling poverty and makes recommendations for making aid an even more powerful instrument. The CONCORD Aid Watch and OECD Seminar provided a platform for European civil society to contribute to the DAC's ongoing discussions on modernising development finance.

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Global Outlook on Aid: Full report now available

The 2014 Global Outlook on Aid is a key tool for assessing the prospects for meeting aid commitments, and for flagging potential gaps in aid provision. The 2014 report provides an overview of global aid allocations up to 2017 based on the 2014 DAC Survey on Donors' Forward Spending Plans. It examines aid providers' policies and procedures to provide a better understanding of the progress and obstacles in improving aid predictability. Despite the slight increase expected in aid levels over the coming years, the report signals a worrying trend of stagnation in programmed aid to heavily aid-dependent countries. It calls for efforts to improve countries' access to external development finance to meet the needs of the post-2015 development agenda and flags the need to strengthen budget and planning practices to enable more predictable support.

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OECD DAC COUNTRIES' NET ODA IN 2013:

USD 134.8 billion, up by 6.1% in real terms and representing 0.3% of DAC members' combined GNI. For more information, see: http://oecd.org/dac/stats/idsonline.htm

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