Development Co-operation Directorate (DCD-DAC)

- Aid architecture
- Aid effectiveness
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DACnews September 2014

SEPTEMBER 2014

Are we prepared to finance the new Sustainable Development Goals?

As DAC members review the definition of ODA and the scope of their development finance measurement systems, including but not limited to ODA – numerous other questions are in the air. What is the role of soft loans? How does the evolution of the development narrative affect the way international public finance will evolve? What is the role of donors in supporting private sector investment in development? How can support to statebuilding be most effective in creating a foundation of peace? And how can social entrepreneurship help to ensure sustainability? These issues, covered in this DACnews, are also among the numerous considerations around funding sustainable development that are covered in the upcoming Development Co-operation Report 2014.

Expert Reference Group on development finance: Final conclusions and recommendations

As the development finance landscape continues to broaden and the international community reflects on how to finance the post-2015 development framework, the Development Assistance Committee (DAC) is making progress on the mandate it set for itself – at its High Level Meeting in London, 4-5 December 2012 – to:

- elaborate a proposal for a new measure of Total Official Support for Development (TOSD)
- explore ways of representing both "donor effort" and "recipient benefit"
- investigate the need to modernise the official development assistance (ODA) concept

An independent Expert Reference Group (ERG) was constituted to help shape the analytical work behind this mandate, which is being carried out by the OECD Development Co-operation Directorate (DCD). The ERG, comprising 15 senior level experts, met three times in 2013 and 2014. At its last meeting, members endorsed a set of 22 recommendations and conclusions that are summarised here:

1. There is a need to modernise the DAC measurement framework to ensure its continued relevance in an evolving development landscape.

2. The overarching narrative for a new measurement framework should be aligned with and support the attainment of the post-2015 Sustainable Development Goals (SDGs).

3. A new modernised measurement system should look beyond ODA and include a more representative and comprehensive definition of financing for development.

4. This modernised measurement system should seek to incentivise wider resource

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PEER REVIEWS

OECD Development Co-operation Peer Reviews: Japan 2014 finds that Japan has increased its spending on official development assistance (ODA) and is showing increased global leadership, but needs to pay more attention to where it is mobilisation and make development spending by provider countries more effective.

5. ODA requires an easily communicated political narrative at the centre of larger, common efforts to mobilise sustainable development finance and global public goods provision.
6. Measuring and incentivising additional financial flows is necessary but not sufficient to achieve development results that ultimately translate into recipient benefits. A modernised system to measure amounts and types of development finance must be complemented by additional work on results measurement, with a view to maximising the impact of all resources mobilised.
7. Improved data on a wider range of resources is a precondition for a transparent and representative measure of development finance.
8. The new measurement framework should be inclusive, designed in formal consultations with representative groupings of recipient countries including middle-income countries, as well as non-DAC providers and civil society. Possibilities to move towards a shared reporting standard that can also be used by or aligned with the frameworks used by non-DAC providers and recipient countries are encouraged.
9. The full range of other resources for development that are being provided and leveraged outside ODA should be fully accounted for in a transparent manner.
10. There are significant merits in establishing a broader measure for total official support for development, including various development-related official flows not captured in the ODA concept.
11. This new broader measure should cover official flows/outlays in the provision of development finance.
12. The new broader measure needs to be given prominence but not to the detriment of ODA. Countries should still maintain the commitment to provide 0.7% of GNI as ODA.
13. To represent and quantify in a transparent manner the wide array of resource inflows to developing countries, such a measure needs to reflect the increased diversity of providers and instruments of development finance.
14. A post-2015 measurement system should include a modernised ODA concept that better promotes wider resource mobilisation.
15. Sufficient financing needs to be secured for countries where ODA continues to be a major source of external financing.
16. Views differed among experts on the merits of modifying the eligibility requirements for DAC List of ODA Recipients.
17. ODA reporting on concessional loans should move from a flow to a grant-equivalent basis, as this constitutes the best method for calculating provider effort in an instrument-neutral way.
18. It is paramount to agree on a common definition of concessional loans as ODA.
19. Most experts favour the adoption of a non-risk-differentiated discount rate for calculating the grant equivalent of a loan while, at the same time, recognising the need to factor in the risk of default in determining donor effort.
20. Providers' use of non-loan financial instruments – such as guarantees – to catalyse private sector investment in developing countries makes an important contribution to development.
21. Finally, the Expert Reference Group encourages the DAC to pursue its efforts to streamline the reporting of in-donor expenditures counted as ODA to improve accountability, transparency and comparability.
22. DAC members will debate these recommendations at the upcoming Senior Level Meeting, 7-8 October in Paris.

The full summary of the recommendations, as well as the list of the members of the Expert Reference Group, can be found here.

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DAC Development Debates

The role of soft loans in the post-2015 agenda

allocating funding and increase its focus on results and transparency.

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PUBLICATIONS

Few and Far: The Hard Facts on Stolen Asset Recovery draws on data collected between 2006 and 2012 on asset recovery. It provides recommendations and good practice, with a particular focus on actions for development agencies. This publication reports on OECD countries' performance in asset recovery with the aim of supporting anti-corruption and asset recovery efforts.

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*Accountability and Democratic Governance: Orientations and Principles for Development*aims to provide clarity on accountability and recognises the need for new approaches. The report is based on country studies in Mali, Mozambique, Peru and Uganda; a survey of donor innovations and cutting-edge analysis in this field; and the findings of a series of high-level international dialogues.

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A Calculated Risk: How Donors Should Engage with Risk Financing and Transfer Mechanisms describes key features of risk financing and risk transfer. It examines current challenges at the contextual and programmatic levels, as well as institutional challenges donors might face in engaging in risk financing. Finally, the report recommends a set of principles and policy approaches to guide future donor support and engagement.

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Achieving a sufficient level of financing will be crucial for realising the post-2015 sustainable development agenda. A range of instruments has been suggested to mobilise the necessary resources, among them soft loans. In this context, Werner Raza, Director of the Austrian Foundation for Development Research (OFSE), and his co-researcher Livia Fritz presented their study "[Export Promotion or Development Policy? A Comparative Analysis of Soft Loan Policies in Austria, Denmark, Germany and the Netherlands]" at a recent DAC Development Debate (19 September).

The study found that soft loans, often granted as tied aid, went mainly to lower middle-income countries in Asia and were predominantly used to finance physical infrastructure facilities. Furthermore, the financing of projects with soft loan instruments were often strongly connected to the export interests of the provider countries. Raza and Fritz pointed out that while the emergence of new Southern providers and the increased competition for export markets might lead to a greater willingness to use soft loan instruments, thereby increasing funds available for development, ownership by the beneficiaries needs to be improved to ensure the effectiveness of this mechanism.

David Drysdale, Head of the Export Credits Division at the OECD Trade and Agriculture Directorate, cautioned that soft loans often distort trade relationships by crowding out better suited competitors and creating dependency and wrong incentives.

Despite these shortcomings, however, Mr Raza argued that soft loans are particularly well-suited to addressing a lack of long-term financing in developing countries. Soft loans also could play an important role in mediating the risk for crucial long-term investments in infrastructure – a critical issue for many developing countries.

Listen to Werner Raza, Director of the Austrian Foundation for Development Research:

A more proactive approach to international public finance?

At the 27 June DAC Development Debate, Jonathan Glennie, Research Associate at the Overseas Development Institute (ODI), offered ideas about how the post-2015 international public finance narrative may evolve:

- from temporary to permanent: While ODA will remain useful for the foreseeable future and especially as the post-2015 agenda is being crafted, there is a need to shift the paradigm from charity to investment.
- from quantity to quality: Even though domestic resources are the most important source of development finance, "aid" is still valuable for its capacity to fund global public goods and to be targeted to underfunded regions.
- from graduation to gradation: A country's ability to benefit from development finance does not end as it grows richer, although its needs do evolve.
- from voluntary to contributory: Countries like Rwanda already provide ODA and South-South co-operation is increasing. This aspect can better be understood as a principle of common but differentiated responsibilities (CBDR).
- from foreign to global: As global risks increase (as well as their costs), the need to de-emphasise the concept of "foreign aid" and replace it with the concept of "international finance" also increases.

The post-2015 debate offers the opportunity to develop a new narrative as well as an international public finance structure in which "aid" is seen as investment and concessional finance is used to incentivise broader outcomes. Politicians and the general public should engage in this debate.

Alexander Trepelkov, Director of the Financing for Development Office at the United Nations Department of Economic and Social Affairs (UN-DESA), agreed with Glennie's call for a new international public finance approach and elaborated further on the revolutionary paradigm shift that is taking place.

The debate then focused on real considerations in moving from a poverty reduction narrative to a focus on international public finance for global public goods. This will include thinking about the future role of ODA as one element of international public finance.

Listen to Jonathan Glennie, Research Associate at the Overseas Development Institute:

DAC Development Debate: A more proactive approach to international public finance?

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Challenges in donor support to the private sector: Findings from the area of infrastructure

As discussions on financing the post-2015 goals intensify, there is an increasing focus on potential contributions by the private sector. A key question in this context is the role of donors in supporting private-sector investment in development. In order to better understand the landscape, the DAC took stock of the policies, activities, and funding of development finance institutions and multilateral development banks with direct support to the private sector. While the study was specific to infrastructure, many of the challenges identified were of a more general nature.

Co-ordination between development agencies and development finance institutions within donor countries or between government lending arms and private sector lending arms within multilateral development banks needs to be strengthened particularly at the country and regional levels. Otherwise, it could create issues for partner countries in aligning funding to their own priorities. Development finance institutions, however, tend to co-finance or co-ordinate among themselves.

Data on private-sector financing needs to be improved. Loans provided by development finance institutions and multilateral development banks to the private sector are generally not reported as ODA. Equity investments can be counted as ODA, but future profits will be deducted. Guarantees are not captured in ODA statistics as they are not financial flows. A further challenge is the measurement of private capital mobilised by official support, as there can be double-counting at the aggregated level for co-financed projects among multiple donors. The DAC is currently exploring ways to better capture these amounts in view of their importance in the post-2015 development finance landscape.

Official finance to the private sector should be additional, meaning it should only support viable investments which would otherwise not be financed by the market because of perceptions of risks. However, various studies have pointed out that requirements and measurement of additionality are questionable. In particular, a large share of development finance institution and non-sovereign support goes to upper middle-income countries where the financial market is developed and to sectors where private financing is available.

Evaluation and transparency. Public access to evaluations of official support to the private sector is limited. This lack of transparency poses challenges in adequately assessing official support's effectiveness in contributing to the overarching goal of sustainable development. At present, there is no official forum where this type of support is monitored formally, regularly and transparently, based on agreed standards. As the main objective of development finance institutions is to contribute to development, the establishment of a more formalised mechanism for their accountability would be worth considering.

The full study can be consulted [here] and its Addendum with the donor profiles [here].

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POINT OF VIEW:
The new face of fragility – much more than conflict

By Kathryn Nwajiaku, Peace and Conflict Advisor, Development Co-operation Directorate, OECD

In July 2014, the Institute for Economics and Peace launched its [2014 Global Peace Index]. Since 2007 this report has annually ranked countries according to their peacefulness using 22 indicators that measure the absence of violence in a society. In this way, it attempts to distil the "determinants of peace".

The report's universal scope is welcome, given the universal goals and targets of the emerging post-2015 development agenda. It comes at a time when the OECD's Fragile State Report 2015 (to be published in January 2015) is grappling with how to think about [fragility] beyond the limiting "50 country list", looking at it rather as a global phenomenon that affects all countries, albeit to varying degrees. The Global Peace Index certainly provides a useful sounding board in this deliberation.

Yet reading through the report and listening attentively to the presentation given at the OECD by Steve Killelea, entrepreneur and founding executive of the Institute for Economics and Peace (11 July 2014), I couldn't help but wonder: How far do global comparisons of this magnitude actually get us? For whom is it really useful to know that South Sudan is ranked at the bottom of the list and that Iceland is ranked at the top in terms of declining peacefulness? And is it possible to isolate the ingredients for peace and simply stir and shake, whilst taking little account of historical trajectories and specificities? There are obvious limitations to global indexes of this kind, for both policy makers and countries facing declining levels of peace or rising levels of fragility.

During discussions, the authors of the Global Peace Index reviewed some of the issues raised in relation to the report, notably methodological questions related to incomplete data sets, problematic proxies, demographic challenges to comparability across countries, positive peace averages masking considerable subnational variation and the need for gender-specific disaggregation of data. He indicated that these would be attended to in future iterations.

Yet in spite of these pitfalls, the report provides much food for thought. Its integration of the systems approach to risk and risk analysis developed by the OECD Development Co-operation Directorate is welcome, as is the use of risk analysis to develop forward looking rather than static snap-shot analyses of fragility. But the report makes by far its greatest contribution by putting the spotlight on "fragility beyond conflict-affected states" using indicators that cover deterioration in levels of violence of all kinds, not just those related to civil-war-style conflict.

Today, for every death from a recognised war, there are nine casualties from gang violence and crime[1]. Whilst development providers have successfully begun to reframe their engagement in conflict-affected states in this light (notably through The New Deal), launched at the Busan High Level Forum in 2011 and signed by over 40 governments), they have been less effective at doing so in non-conflict settings. Yet economic transition, demographic shocks, climate change, and unplanned urbanisation are all unravelling state resilience and paving the way for more violence and crime, aggravated by processes of globalisation.

[1] J. Ryan, 'Conflict has changed, and this needs to be reflected in the future development agenda,' 2 August, 2013.

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FEATURE ARTICLE:
Development without sustainability is meaningless

By Muhammad Yunus

This month's feature article from Muhammad Yunus, Nobel Peace Prize winning Founder of Grameen Bank, is one in a series of "In my view" pieces written by prominent authors on issues covered in the Development Co-operation Report 2014: Mobilising resources for sustainable development. The report will be released on 7 October.

Over the past three decades there has been a feeling of uneasiness about development programmes based on handouts, charity and safety nets. It is no longer an issue of debate: development without sustainability cannot be meaningful or have an impact.

The Yunus Centre's social business work in Bangladesh and around the world puts sustainability at the core. Social business is cause-driven. It is profitable, but its investors are not interested in personal profit; once they recoup their investment, any additional profits are ploughed back into the business for its expansion and improvement. The objective is to attain one or more social goals, with profit seen only as a means to ensure the sustainability of the business.

The social businesses founded by Yunus Centre range from small, single-entrepreneur businesses to large joint ventures with multinational companies. For example, in 2006 Grameen joined forces with one of the world's major food producers – Groupe Danone – to produce a yoghurt fortified with micro-nutrients that could reduce child malnutrition in Bangladesh. Kids love this delicious and healthy product. Neither Danone nor Grameen take dividends from the company and the creativity and energies of the board, management and staff are focused on the social goal, without losing sight of the need to cover the costs of the enterprise and expand.

Grameen borrower families in Bangladesh number more than 8 million. Thanks to the efforts of the Grameen Bank, thousands of their children have received education – in many cases for the first time in their families – reaching high-school, college and university. Many have become engineers and doctors. Even so, despite these qualifications, many are unable to secure employment because of the acute shortage of jobs. Grameen has launched a campaign to redirect these minds away from the traditional job market to futures based on entrepreneurship. These *nobin udyokta* (in Bangla, "new entrepreneurs") insist: "We are not job seekers, we are job givers." Grameen companies invest social business funds in their enterprises without any expectation of returns beyond the original capital. After the young entrepreneurs pay back the equity, they become owners of their own social businesses. By continuing to grow the business, they generate employment for others and build financial security for themselves and their families. This formula of turning the unemployed into entrepreneurs is a potent way of tackling the persistent social problem of unemployment which even plagues industrialised countries.

In my view, social business offers an effective way to solve some of our most intractable problems. I would like to urge OECD countries to explore this path towards sustainable development, promoting the creation of social business funds by businesses, governments, foundations and individuals. This will empower entrepreneurs – young and old – to create businesses that can solve the problems of their own communities. Every profit-making business can create a parallel social business to solve a small slice of any mega problem. I invite OECD countries to try it.

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NEWS IN BRIEF

Coming soon! Development Co-operation Report 2014

The OECD flagship publication, the *Development Co-operation Report 2014: Mobilising resources for sustainable development,* will be launched on 7 October 2014 at the DAC Senior Level Meeting in Paris. Simon Maxwell, Senior Research Associate at the Overseas Development Institute, will moderate a debate among a panel of experts including DAC Chair Erik Solheim, Ambassador Csaba Kőrösi, Permanent Representative of Hungary to the United Nations and former Co-Chair of the United Nations Open Working Group on Sustainable Development, Annick Girardin, Secretary of State for Development and Francophony, France, and Nialé Kaba, Minister of Economy and Finance, Côte d'Ivoire.

The Development Co-operation Report 2014 (DCR 2014) explores the many existing and potential sources of financing for the post-2015 Sustainable Development Goals, as well as the diverse means of mobilising additional resources.

Following the official launch in Paris, a presentation of the DCR 2014 and a panel discussion moderated by Duncan Green of Oxfam will take place in London on 9 October, hosted by Overseas Development Institute (ODI). This event is public and will be streamed live on the ODI website. For details and to register, please click here.

The Center for Global Development (CGD) will host a subsequent DCR 2014 launch event in Washington D.C. on 10 October alongside the presentation of the CGD report "Why forests, why now". A panel discussion moderated by CDG President Nancy Birdsall will be followed by a Q&A session. The event will be streamed live on the ODI website. For further information and registration details click here.

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OECD and G20 pursue efforts to curb multinational tax avoidance and offshore tax evasion in developing countries

On 22 September 2014, the OECD and its Global Forum on Transparency and Exchange of Information were mandated by the G20 to develop toolkits to support developing countries addressing base erosion and profit shifting (BEPS) and to launch pilot projects to assist them to move towards automatic exchange of information. This mandate comes in response to two reports:

- Report on the impact of base erosion and profit shifting in low-income countries (Part 2); and
- Roadmap for developing country participation in the new global standard for the automatic exchange of information between jurisdictions.

The G20 communiqué issued yesterday sets out an ambitious agenda for developing countries to take advantage of the tax reforms that have taken shape in 2014.

The OECD will report to the G20 leaders in November on its plan to deepen the involvement of developing countries in the OECD/G20 BEPS project and ensure that their concerns are addressed.

Part 1 of the report to the G20 Development Working Group on the impact of base erosion and profit shifting (BEPS) in low-income countries was released on 1 August. This report finds that developing countries often face policy and other constraints that impact on their abilities to address base erosion and profit shifting. The findings of the report were derived from dialogue and consultation with developing countries, as well as the experiences of international organisations working with developing countries.

For further information, see the press release. Read the full reports here.

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Global Partnership at the 2014 United Nations General Assembly

The Global Partnership hosted two side events during the 69th session of the UN General Assembly. The first took place on 24 September: Action 2015: How can the private sector help deliver the Sustainable Development Goals? It was co-hosted by Global Partnership Co-Chair and Minister for Foreign Trade and Development Co-operation Lilianne Ploumen, Unilever CEO Paul Polman and by UN Foundation President and CEO Kathy Calvin, and discussed the contribution of business to delivering a sustainable, equitable future for all. The second event was held on 26 September and discussed the topic: How to make it happen: Shaping International Development Cooperation for the effective implementation of the Post-2015 development framework. It was co-hosted by the three Co-Chairs of the Global Partnership – Dutch Minister for Foreign Trade and Development Co-operation Ploumen, Mexican Foreign Affairs Secretary Meade Kuribreña and Malawian Finance Minister Gondwe – to discuss how the Global Partnership can translate the Post-2015 Development Agenda into practical action on the ground, and assess progress through strong accountability systems.

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Online course: Enhancing Capacity for Greening Development

A new e-learning course that builds on OECD guidance has been developed by Evidence on Demand a service providing information and resources on international development issues related to climate, environment, infrastructure and livelihoods. *Greening Development: Enhancing Capacity for Environmental Management and Governance* is an open-access course that aims to help development professionals without specialised knowledge of climate and environment to integrate these policy areas into their projects and programmes. The course consists of five modules, estimated to take around 20 minutes each. Find out more and sign up here.

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LEDS Global Partnership session on climate finance in Africa

The Partnership for Climate Finance and Development facilitated a session on the current challenges in accessing, managing and using climate finance in Africa during the Africa Platform meeting of the Low Emission Development Strategies (LEDS) Global Partnership (26 August 2014 in Addis Ababa, Ethiopia). The session featured presentations from representatives from Argentina, Cameroon, Ghana and Rwanda. Discussions identified interest in establishing an African regional dialogue on climate finance.

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Multi-stakeholder Solutions for Post-2015 World

Members of the Global Partnership for Effective Development Cooperation met on 10 July 2014 during the 2014 Development Cooperation Forum in New York to discuss Multi-stakeholder Solutions for a post-2015 World. A panel discussion hosted by the new Co-Chairs, Mexico and the Netherlands, noted that the Global Partnership has been successful in mobilising a wide range of stakeholders and reaffirming the commitment to make development co-operation more effective. Panellists noted, however, that commitment to the “unfinished business” of aid effectiveness needs to be strengthened and that greater effort should be made to capture evidence on what works on the ground.

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The United Arab Emirates becomes first DAC Participant

The United Arab Emirates (UAE) became a Participant in the Development Assistance Committee (DAC) on 1 July 2014. As a major provider of concessional finance for development, the UAE’s experience will enhance the quality of the DAC’s work and further strengthen its influence in shaping the international development debate, including on the post-2015 development agenda. As a Participant, the UAE will have greater opportunities to share experiences with DAC members on managing development co-operation programmes. The UAE’s Minister of International Co operation and Development, H.E. Sheikha Lubna Bint Khalid Al Qasami, expressed her country’s “enthusiasm to work jointly towards development effectiveness”.

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China-DAC Study Group Roundtable

The China-DAC Study Group held a roundtable discussion on "Evaluating Development Co-operation: Providing evidence for learning and decision-making – What are the implications for China?" (Beijing, 12 June 2014). Participants in the event included representatives from China, Cameroon, Sri Lanka and Uganda as well as DAC members/observers. Discussions drew on Chinese representatives' observations regarding evaluations conducted by the French Development Agency (AfD) and the United States Agency for International Development (USAID). A summary of the discussions is available.

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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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