

Modernizing development finance

Response from the Danish NGO FORUM to the OECD/DAC hearing on strategies to modernize ODA in 2014.

February 26, 2014

The DAC chair, in his letter to DAC ministers and heads of Agencies from January 2014, outlines five key parameters on which decisions are to be made in 2014 regarding a modernization of ODA. The first step in this decision making is a Senior Level Meeting on March 3-4. This is done in an attempt to ensure that measurements for ODA remain relevant in today's world. The five parameters are:

1. The modernization of the ODA measurement
2. The possible establishment of a wider concept of development finance
3. The connection between development and climate finance, as well as on other global public goods.
4. The representation of recipient benefit and a stronger focus on results;
5. Addressing concerns of emerging economies about ODA to measure South-South Cooperation.

The Danish NGO FORUM will focus their comments on these 5 parameters, and will not go into a more detailed discussion of what constitutes ODA or how concessionality is defined.

Point 1 attempts to address two current challenges. Firstly, it is argued, that the credibility of ODA is being brought increasingly into question. Secondly, there is criticism that increasing amounts of capital flows and development efforts are not captured. On the basis of this, it is recommended that OECD/DAC on their senior level meeting in the beginning of March 2014 should reach a common understanding for a revision, which amongst others should define what is meant by "concessionality" and define means to avoid that ODA structures end up disincentivising certain forms of resource mobilization. The Danish NGO FORUM does however not see these factors as factors which bring into question the relevance of the 0,7% ODA commitment

Point 2 addresses the idea of operating with the notion of a *recipient benefit*. This refers to a view, where actual resources transferred are better accounted for. A central concern here is that certain capital transfers, in this case typically foreign investments, may have positive development effects, without being counted as ODA, and without having development as the primary objective. The meeting in March aims at creating a common understanding on how to measure and monitor development finance from a recipient perspective. The Danish NGO FORUM is concerned that this may lead to a situation, where for-profit FDI's are included as ODA.

Point 3 addresses the challenges with distinguishing between development assistance and climate finance. Climate aid is reported according to established "Rio Markers" (Since 1998 the DAC has monitored aid targeting the objectives of the Rio Conventions through its Creditor Reporting System (CRS) using the so called Rio markers.) In reality it can however be difficult to distinguish whether a given climate finance support

is not at the same time. The meeting in March should “reach a basic understanding” on how climate and environment-related development finance can form the basis for future measurement systems. The Danish NGO FORUM strongly supports these discussions of clarification, and maintains that a separation between the two be upheld in order to ensure the additionality of the climate finance.

Point 4 deals with the increasing trend to include other agendas than specific recipient development benefits. In particular the question of in-donor refugee expenditures (which now account for approx. 6 % of Danish development aid) and peace and security commitments is in need of clarification, which will be discussed at the March meeting. The Danish NGO FORUM advises that in-donor expenditures be transparently accounted for to the public, thus emulating the Danish model.

Point 5 relates to emerging providers, including non-DAC countries. The question here is how to represent this support in a reasonable way, giving relevant credit to this type of support. The coming march meeting should therefore discuss how these concerns be integrated. The Danish NGO FORUM welcomes these discussions, and suggests that a set of best practices of non-DAC ODA be identified.

On a more general note, the Danish NGO FORUM notes with satisfaction that the changing role of aid in a rapidly changing global context is being seriously scrutinized. We would however have preferred if future negotiations had been based on assessments of best practices in terms of ODAs ability to address global poverty. The Danish NGO FORUM is concerned that a pressure to boost whatever can be included at DACable development assistance (in order to reverse the unfortunate statistics showing that the developed world is moving further and further away from living up to its commitments of providing 0,7 %) will dictate the course of the March discussions.

The Danish NGO FORUM appeals to the chair of DAC that the points below be taken into consideration:

1. That a commitment to 0,7 % as international ODA standard be withheld, and stated explicitly. The failure to live up to these commitments is not a proof that measurements are irrelevant, but rather that rich countries are not taking their international commitments serious.
2. That “modernization” of aid include new ways of mobilizing funds for eradication of poverty. We strongly support a wider concept of esp. multilateral development finance. We however find it a bit surprising that the discussion of new ways of financing development is limited to rather esoteric discussions of different types of loans, what can be termed concessional etc. New types of finance may include international taxes on financial transaction, international schemes to curb tax evasion, diverting subsidies on e.g. fossil fuels towards measures to fight poverty and unsustainable development, etc. These are agendas with much more global development perspective.
3. We are strongly in favour of systems to assess recipient benefits. We are however slightly concerned that the manner in which it is discussed here, may end up serving as a way of blueprinting for-profit investments as development aid.
4. That only grants, and not loans, concessional or not, be counted as “DACable” ODA.

5. That a division, although at times difficult, between development and climate finance be withheld in order to ensure that climate finance is additional to ODA, as it has been internationally agreed in COP 15 in 2009.
6. That indicators on results are designed to focus more on poverty eradication and curbing of social inequality, and less on economic growth.
7. That measures be taken, which can ensure that the middle income countries can in certain instances benefit from development aid. The majority of the world's poor now live in these countries, and the perseverance of poverty is more a distribution question than a question of lack of resources. ODA channeled through international civil society organisations is a viable mechanism in this case.
8. That aid through private sector stake holders be subject to the same poverty-oriented monitoring and evaluation exercises as other types of aid.