

Expert Reference Group Meeting

3-4 October 2013

BACKGROUND PAPER No. 2

List of Recent ODA Reform Proposals¹

This paper has been prepared as background for upcoming discussions on whether and how to revise the ODA definition. It presents an overview of recent proposals by academics and experts published by research organisations and international think tanks (table 1) as well as those presented for consideration by the DAC or the Working Party on Development Finance Statistics (table 2).

The proposals are very different in terms of their impact on the ODA measure. Some could be characterised as merely modifying the interpretation of what activities or modalities of co-operation may be considered as developmental (i.e. having the “economic development and welfare of developing countries” as their “main objective”) while others suggest broadening the measure to also cover global public goods. Some propose modifying the methodology to assess concessionality while others call for a more fundamental change in the valuation of co-operation modalities and instruments, or alter the point of measurement of expenditures. Some propose moving from a capital flow concept (where only movements of loan principal or investment capital would be counted) to a net transfer concept (where interest and other earnings would be subtracted). Others would expand the measure from flows to include the provision of incentives or renunciation of potential receipts. Revisions to the methodology to determine the ODA-eligible countries and organisations have also been proposed.

This is intended partly as a checklist of proposals relevant to the 2012 DAC HLM decision to investigate a possible new measure of total official support for development, and assess whether this suggests a need to modernise the ODA concept. Suggestions concerning any major proposals missing from this list are welcome and should be directed to dac.contact@oecd.org.

¹ The ideas expressed in this working paper do not necessarily represent views of the OECD, the OECD’s Development Assistance Committee (DAC), or their member countries, or the endorsement of any approach described therein.

Table 1. Proposals from academics and experts published by NGOs, research institutions and international think tanks

| Author | Summary of the proposal/link | Approach/Rationale |
|---|--|--|
| <p>1 ActionAid (2011)</p> | <p>Definition of “real aid” – exclude from ODA:</p> <ul style="list-style-type: none"> a. debt relief (which should be additional to any aid pledges); b. in-donor expenditures (refugee costs, students costs); c. tied aid (if more expensive than local purchases); d. technical assistance (if unwanted or overpriced); e. aid that fails to support country leadership; f. administrative costs (above certain level). <p>http://www.actionaid.org.uk/sites/default/files/doc_lib/real_aid_3.pdf, page 43</p> | <p>Exclude certain aid modalities.</p> |
| <p>2 CGD/Roodman (2005, revised 2012)</p> | <p>“Net Aid Transfers” – subtract from net ODA:</p> <ul style="list-style-type: none"> a. interest received on ODA loans; b. cancellation of non-ODA debt. <p>Index of donor performance (2012) further suggests discounting tied aid (except emergency aid), selectivity and project proliferation, and rewarding tax policies that support private giving.</p> <p>http://international.cgdev.org/publication/index-donor-performance-working-paper-67-revised-october-2012</p> | <p>Move from a capital flow concept to a net transfer concept (so as to reflect actual current transfers and development policy of the current administration).</p> |
| <p>3 Hudson Institute (2011)</p> | <p>Compare donor effort on the basis of total assistance – ODA, philanthropy (foundations, PVOs, religious entities, academic institutions, volunteer time), and remittances.</p> <p>Measure donor involvement with the developing world by country’s total economic engagement – including ODA, philanthropy, remittances and private capital flows.</p> <p>http://www.hudson.org/files/publications/2012IndexofGlobalPhilanthropyandRemittances.pdf</p> | <p>Move from ODA to “total net country effort” concept.</p> |
| <p>4 U of Antwerp/ Renard, Cassimon (2003, updated 2013)</p> | <p>Alternative options for recording technical assistance (TA), concessional loans and debt forgiveness, e.g.</p> <ul style="list-style-type: none"> a. Record net (instead of gross) budgetary cost of TA i.e.subtract income taxes paid by tied TA personnel; b. Measure net transfers, grant equivalent of loans and reflect true economic cost of loans by calculating concessionality level using market-based discount rate. | <p>Aid measures need to serve a multitude of purposes and provide for analysis of both donor and recipient perspectives: measure both “cost at origin” (gross budgetary cost,</p> |

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| | | <p>c. Measure actual budgetary spending related to debt forgiveness operations.</p> <p>http://www.econ.kuleuven.be/rebel//jaargangen/2001-2010/2003/TEM2003-4/06_Renard.pdf</p> | <p>net budgetary cost, economic cost) and “value at destination” (acquisition value, final value).</p> |
| 5 | Development Initiatives/Tew (2013) | <p>Replace gross ODA by a new measure of “gross grant equivalent”, comprising grants plus the grant element of loans.</p> <p>Calculate the level of concessionality of ODA loans with reference to more realistic interest rates, e.g. the currency-specific “commercial interest reference rates” (CIRRs) used by the IMF.</p> <p>Also revise net ODA concept to subtract interest received.</p> <p>http://www.devinit.org/wp-content/uploads/ODA_loans_discussion_paper1.pdf</p> | <p>Give better indication of what a donor’s aid is worth and what the cashflow implications of ODA loans are.</p> |
| 6 | CGD/Sumner (2011) | <p>New aid allocation model based on a formula that accounts for “needs to end poverty” and “potentially available domestic and global resources”.</p> <p>http://www.cgdev.org/files/1424922_file_Sumner_brief_M_IC_poor_FINAL.pdf</p> | <p>Development assistance will increasingly need tailoring: revise basis for ODA eligibility from per capita income to incidence of poverty.</p> |
| 7 | ODI/Glennie (2011) | <p>Aid allocation should reflect capacity to use external financing effectively as well as need. Apart from income per capita, broader assessments of human, economic and institutional development, are important in aid allocation.</p> <p>http://www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/7189.pdf</p> | <p>Aid should not be switched off as countries cross an artificial [per capita income] barrier, but should be tapered.</p> |
| 8 | Severino and Ray (2009) | <p>Introduce a new concept of “global policy finance” which would exclude non-CPA expenditures with little relation to development while capturing the overall volume of finance made available in support of agreed international goals, whatever the degree of concessionality, as long as provided by non-for-profit stakeholders.</p> <p>Replace ODA by “official global public finance” to measure budgetary efforts towards the set of agreed global causes whatever the instruments they are channelled through (i.e. grants, budgetary cost of concessional [<i>and non-concessional</i>] loans but also guarantees, innovative financing tools and tax exemptions that subsidise private solidarity initiatives).</p> <p>http://international.cgdev.org/sites/default/files/1421419_file_End_of_ODA_FINAL.pdf</p> | <p>“ODA measure is both too broad and too narrow and it measures the wrong things.”</p> |

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| 9 | Manning (2011) | <p>Revisit the ODA concept to clarify:</p> <p>--what's it for: Is "economic development and welfare" still appropriate as a definition of purpose? Should other purposes, such as "sustainable management of the planet" or "mutual interest considerations", be recognised?</p> <p>--what flows can be counted as concessional: Align the definition of concessionality with that used by the IMF, but ensure better accounting of the official flows that fall below any agreed level of concessionality.</p> <p>Seek agreement on core definitions between providers who apply the DAC definition of ODA and those providers of South-South co-operation who see their contributions as different in nature.</p> <p>http://www.oecd.org/development/stats/developmentco-operationreport2011.htm, page 117</p> | <p>Broaden the coverage to some global public goods.</p> <p>Replace discount rate of 10% used in the grant element calculation by CRRs and set threshold at 35%.</p> |
| 10 | ECDPM (2012) | <p>Option 1: Maintain the current ODA definition, but introduce a supplementary broader aggregate on External Financing for Development (EFFD) to present a more inclusive picture on concessional and non-concessional as well as public and private flows from both OECD and non-OECD countries. Clarify the developmental relevance of some in-donor expenditures.</p> <p>Option 2: Continue focusing on ODA alone but i) broaden its definition to include official security assistance, official climate assistance and official support for private flows; ii) include guarantees and foregone tax revenues; iii) replace classification of countries by income group by one based on incidence of poverty; iv) expand list of eligible multilateral institutions; v) replace current definition of concessionality by one used by the IMF; vi) focus reporting on gross (instead of net) flows.</p> <p>http://www.ecdpm.org/Web_ECDPM/Web/Content/Download.nsf/0/C3FF9A6B12CEDEF1C1257A09006081E3/\$FILE/Reporting_on_Development_2012_0107452_final.pdf</p> | <p>Provide a full picture of all contributions financing development, including non-OECD providers, new instruments and tools.</p> <p>Option 1 is preferred due to the link with Busan outcomes and sensitivities associated to direct changes to the ODA definition.</p> |
| 11 | European Report on Development (2013) | <p>Allocate ODA in a more focused and catalytic manner and to leverage other appropriate development finance. <u>Recognise the importance of instruments other than development co-operation and where possible specified with goals and targets.</u></p> <p>http://www.erd-report.eu/erd/report_2012/documents/FullReportEN.pdf</p> | <p>Policy coherence for development (<u>policies in areas such as trade and investment, international private finance and migration have huge effects on development outcomes</u>)</p> |

Table 2. Proposals discussed in meetings of the DAC or the Working Party on Development Finance Statistics (WP-STAT)

| | DAC body (year) | Summary of the proposal/document reference | Approach/Rationale |
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| A. Proposals relating to treatment of loans, debt relief, equity investment and contingent liabilities, and renunciation of a potential receipt | | | |
| 1 | WP-STAT (2002, 2003) | <p>Suggestions by a number of academics and members in 2000-01 to revise the recording of ODA:</p> <ul style="list-style-type: none"> --deduct from ODA income tax paid by TC personnel; --count as ODA the value of tax concessions for private contributions to NGOs; --for loans, count only grant equivalent as ODA; --value debt relief in terms of the benefit to the recipient; --count funding of global public goods separately from ODA. <p><i>DCD/DAC(2002)4; DCD/DAC/STAT(2003)5</i></p> | Compendium of proposals made in the late 90s/early 2000s concerning valuation of tax measures, lending and debt relief, GPGs. |
| 2 | WP-STAT (2004) | <p>Proposal by the Netherlands to discount export credit debt cancelled as ODA with supplier's risk and paid insurance premium.</p> <p><i>DCD/DAC/STAT/A(2004)1/RD4</i></p> | Limit ODA reporting to the costs born by the public sector. |
| 3 | WP-STAT (2012) | <p>UK discussion paper on ODA eligibility of development finance institutions' (DFIs') operations:</p> <ul style="list-style-type: none"> --better reflect the cost of capital of equity investment in ODA; --ensure fair account of the various types of debt investment that by nature are concessional in some way; --account for the costs involved in loan guarantees (and the development benefit this brings) more appropriately. <p><i>DCD/DAC/STAT/RD(2012)2/RD5</i></p> | Ensure fair account of DFI activity, including contingent liabilities. |
| 4 | WP-STAT (2012) | <p>Proposal by Canada, France, Germany and Spain to consider financing "concessional in character" if it provides benefit relative to the recipient's best market-based source of financing.</p> <p><i>DCD/DAC/STAT(2012)22</i></p> | Determine concessionality based on the benefit to the borrower. |
| 5 | WP-STAT(2004) | <p>Proposal by France to count forfeitary percent of face value of developmental bilateral guarantees.</p> <p><i>DCD/DAC/STAT/A(2004)1/RD5</i></p> | Treatment of contingent liabilities: Give appropriate recognition to the effort by the official sector in |

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| | | | extending guarantees. |
| 6 | WP-STAT (2002) | Proposal by a few members to record as ODA the value of tax concessions for private donations to NGOs. <i>DCD/DAC/STAT(2002)9</i> | Renunciation by the donor of a potential receipt. |
| 7 | WP-STAT (2008, 2009) | Proposal by Spain to count as ODA the net income of EBRD allocated to the EBRD Shareholder Special Fund and Chernobyl Sarcophagus Fund. <i>DCD/DAC/STAT/RD(2008)2/RD5;</i> <i>DCD/DAC/STAT/RD(2009)2/RD2</i> | Allocate multilateral investment returns to shareholders pro rata as ODA. ² |

B. Proposals relating to ODA eligibility of activities in the fields of human rights, conflict, peacebuilding and security, climate change

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| 8 | WP-STAT (several discussions over the years) | Several proposals from members to count contributions to various international human rights institutions/advocacy organisations with a global human rights mandate, including those seeking remedies and reparation for victims of human rights abuses (such as international tribunals and international criminal courts). Proposal by Geneva Human Rights Institutional Development Network to broaden criteria for eligibility of human rights and rule of law organisations as recipients of ODA. <i>DCD/DAC/STAT(2011)15; DCD/DAC/STAT/RD(2012)1/RD1</i> | Human rights and the rule of law cannot be separated in a more holistic concept of development. |
| 9 | CPDC, WP-STAT, SLM, HLM (2004, 2005, 2007) | Series of technical meetings and political consultations to clarify ODA eligibility of conflict prevention, peace building and security expenditures . Reporting Directives were amended to include management of security expenditure, enhancing civil society's role in the security system, child soldiers, security system reform, civilian peace building, conflict prevention and conflict resolution, and small arms and light weapons. No agreement was reached on counting as ODA: peacekeeping, reform and training of security forces on humanitarian and human rights issues and democratic norms, intelligence gathering. <i>DAC/CHAIR(2004)3, DCD/DAC(2005)2, DCD/DAC(2005)7, DCD/DAC(2007)23/REV2</i> | Security and development are inextricably linked; need for more integrated development and security policies. |
| 10 | WP-STAT (2010, 2012) | Under HLM mandate to deepen the understanding of the boundaries of ODA, clarify Reporting Directives in the | Clarify interpretation of "UN mission". |

² Note also queries to the Secretariat about ODA eligibility of funds arising from the IMF selling its gold reserve (2012).

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| | | area of international peace operations : Coverage of “UN post-conflict peacebuilding keeping” amended from UN-conducted to all UN-mandated or authorised operations; exclusion of costs for military contingents participating in UNDPKO operations agreed; ODA eligibility of regional (non-UNDPKO) peace operations remains to be clarified. <i>DCD/DAC/STAT(2010)8, DCD/DAC/STAT(2012)7</i> | |
| 1 1 | WP-STAT (2011) | Proposal by Norway to count nuclear weapons control and disarmament relating to weapons of mass destruction ; count activities combating terrorism (reducing risk of terrorism in developing countries). <i>DCD/DAC/STAT/RD(2011)1/RD4</i> | Conceptual link between development and disarmament. Assess ODA eligibility of antiterrorism activities project-by project. |
| 1 2 | DAC (2004) UNFCCC (2009-10) | In Copenhagen (2009) and Cancún (2010) donors pledged to provide USD 30 billion as fast start finance in 2010-12. The resulting climate finance commitments were never standardised, thus questions remain about the boundaries of ODA in this area, which were set through an HLM decision in 2004. ³ <i>DAC/DAC/STAT(2012)4/FINAL</i> | |
| C. Proposals relating to in-donor expenditures⁴ | | | |
| 1 3 | WP-STAT (several discussions over the years) | In-donor refugee costs – exclude <i>in toto</i> or limit reporting to costs during first year of stay of asylum seekers awaiting decision and assistance for resettlement in the home country. As no consensus to amend ODA eligibility. <i>DCD/DAC/STAT(2012)4;</i> http://www.oecd.org/dac/stats/RefugeeCostsMethodologicalNote.pdf | Major differences in members’ reporting methodologies. |
| 1 4 | WP-STAT (2007) | Proposal by Greece to count imputed students’ costs for primary and secondary education as well as costs for illegal immigrants . <i>DCD/DAC/STAT/RD(2007)2/RD6</i> | Members incur substantial outlays of their budget for hosting pupils, students and illegal immigrants from developing countries. |

³ Note also queries to the Secretariat about ODA eligibility of carbon capture and storage projects (2013).

⁴ Note also queries to the Secretariat about ODA eligibility of World service broadcasting, expenditures of diplomatic missions and aid-related diplomacy (2011-12).