

*Ferdi brown bag lunch*

# Measuring Official Development Assistance

*28 November 2014 – 12:30 – 14:00*

*DCD Convivial Space*

## A single concept for two objectives

- **A measure of effort.** The DAC concept of ODA is used for 45 years to assess the effort of donors towards the developing countries :
  - So, ODA is the main thermometer of DAC donors development policies
  - But does ODA really measure this effort? Does ODA as it's measured allow Parliamentarian to drive policies when they vote yearly budget?
    - Answer : **No** and that's why DAC has launched a revision of its thermometer, in particular because:
      - it is currently possible to reach a high level of ODA by increasing little concessional loans (to MICs) with a small budgetary cost (**concessional issue**)
      - Some key development and GPG spending are neglected or excluded from current measure (**content**)

## A single concept for two objectives

- **A measure of received inflows.** ODA is also often interpreted as a measure of inflows of official development assistance received by developing countries
- For instance, comparing different existing resources for development with ODA, many debates/report mention that ODA is a part of resources received by developing countries (remittances , FDI...)
- Moreover, some recorded expenditures represent an effort for donors without resulting into inflows for developing countries: accounted amounts of ODA can be far from what is effectively received by developing countries

## A single concept for two objectives

- So, not only ODA is a **single concept used for two different aims...**
- ...but the two aim are not clearly distinguished
  - ODA doesn't represent the real effort of donors
  - ODA doesn't represent a real benefit for developing countries
- Unfortunately, expected compromise on ODA redefinition that should be adopted during next OECD HLM in early December should keep the principle of a single measure, with the grant-element to value loans.
- But the debate will probably be re-open quickly, in particular because, as UN will adopt commitments on ODA during or after the Addis Ababa Conference, international community will need measures that well catch real effort and inflows. UN could be tempted by developing its own measure...

## Ferdi proposal

- Donors' effort and support received by developing countries must be assessed separately, through **two different concepts** :
  - i. **Donors' effort** should represent the real budgetary cost for donors by summing grants and interest subsidies extended that year :
    - Easy to understand by public opinion
    - Very useful for those who approve yearly budget (Parliamentarians): *much more useful than when loans are valued according their grant-equivalent*
    - Avoid the threshold effect of the grant-element method (currently fixed at 25%)
    - Risk related to loans should be assessed separately in order to keep a readable measure while encouraging donors to lend to risky countries (within the Debt Sustainability Framework rules of course)

## Ferdi proposal

- Donors' effort and support received by developing countries must be assessed separately, through **two different concepts** :
- ii. **Support received by developing countries** should be assessed by inflows (grants and concessional loans) that enter the country over the year, net of amortization and interests payments
  - Very useful for policy managers in developing countries and for aid effectiveness analysis
  - A single moving discount rate corresponding to the average market conditions for developing countries (with a threshold of 25% for the sake of continuity)
  - Should the discount rate be differentiated according to the recipients ?
    - What is the rationale ? Should we mix aid measurement with aid allocation ?

# Ferdi proposal

- **About Content**

- Support of Peace-keeping: Those conducted under a UN mandate could be included in an expanded concept of official efforts for development and GPGs (*TOSD* ?)
- GPGs: same rules than aid spending (GPGs are very often financed through very little or no concessional funding)
- Risk coverage instruments: should all extra funds obtained or just the provision be counted in ODA ? DAC must decide but what is not counted in ODA must be recorded in “Total Official Support for Development”
- Should there be a target for GPGs or better for ODA + GPGs (as % of GNI)?

# Ferdi proposal

- **About Eligible countries:**
  - ODA agenda should be focused on poorest countries
  - But a review of the list would be politically-charged
  - It would be better to focus on defining commitments to these countries (as in the OECD DCR 2014 for instance)
  - Using criteria allocation to avoid country category thresholds



## Post-2015 Agenda : What is at stake for Vulnerable countries ?

- Promoting sustainability of development involves a broadening of current goals
- In the same time, vulnerable countries are faced with specific issues and could attach less importance to these global issues.
- MDGs = human development : LDCs were at the heart.
- Fear that broadening the goals involves a dilution of the priority previously given to the countries the most in need of support
- How to transform this risk into opportunities for LDCs / VC ?
- Is broadening goals compatible with taking into account specificities of vulnerable countries?

# How to build a Sustainable Development agenda taking into account vulnerabilities ?

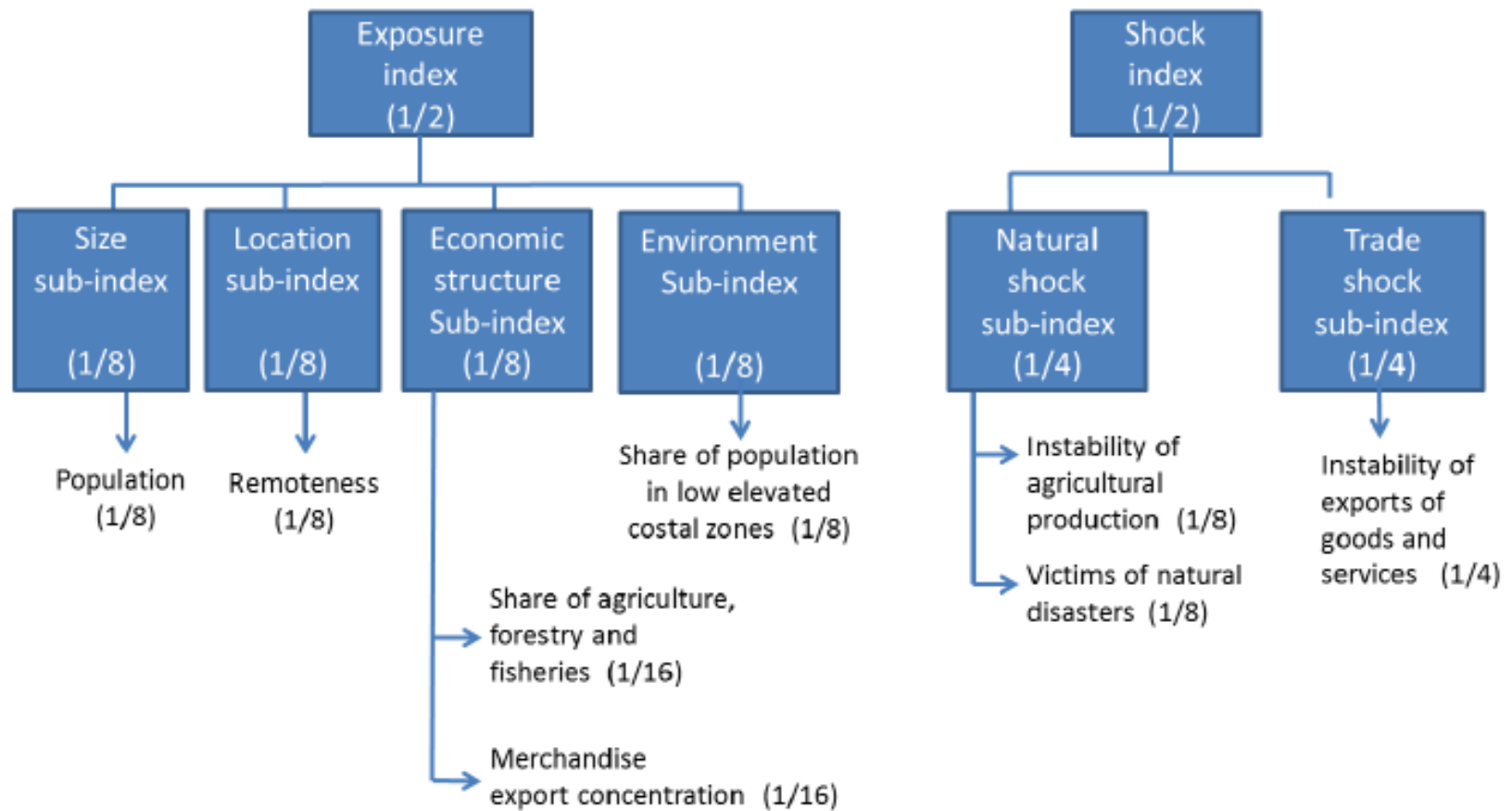
- Goals, targets and future related indicators of sustainable development cannot be designed and pursued without considering the corresponding vulnerabilities (vulnerability is a risk on sustainability)
- Economic vulnerability threatens the sustainability of economic growth and its inclusiveness, as does political or state fragility, itself to a large extent an outcome of structural economic vulnerability
- For environment, vulnerability is the opposite of environmental sustainability, as it clearly appears with climate change
- Need to identify precisely which countries are the most vulnerable to these issues to better elaborate future goals and future international development policies
  - Ferdi :
    - Identification of vulnerabilities
    - Allocation principles and models (ODA or GPGs funding) based on these vulnerabilities

# How to build a Sustainable Development agenda taking into account vulnerabilities ?

- Concessional resources allocation: Three principles to be met
  - Aid allocation should :
    - promote effectiveness (or real performance)
    - meet a need of equity between countries
    - be transparent and predictable (then simple)
  - It can be done by taking into account structural vulnerability, and lack of human capital as well, and by using available and agreed indicators, such as EVI for structural vulnerability and HAI for human capital, used at UN for LDCs identification, and Physical Vulnerability to Climate Change Index (Ferd) for climate issues

# How to build a Sustainable Development agenda taking into account vulnerabilities ?

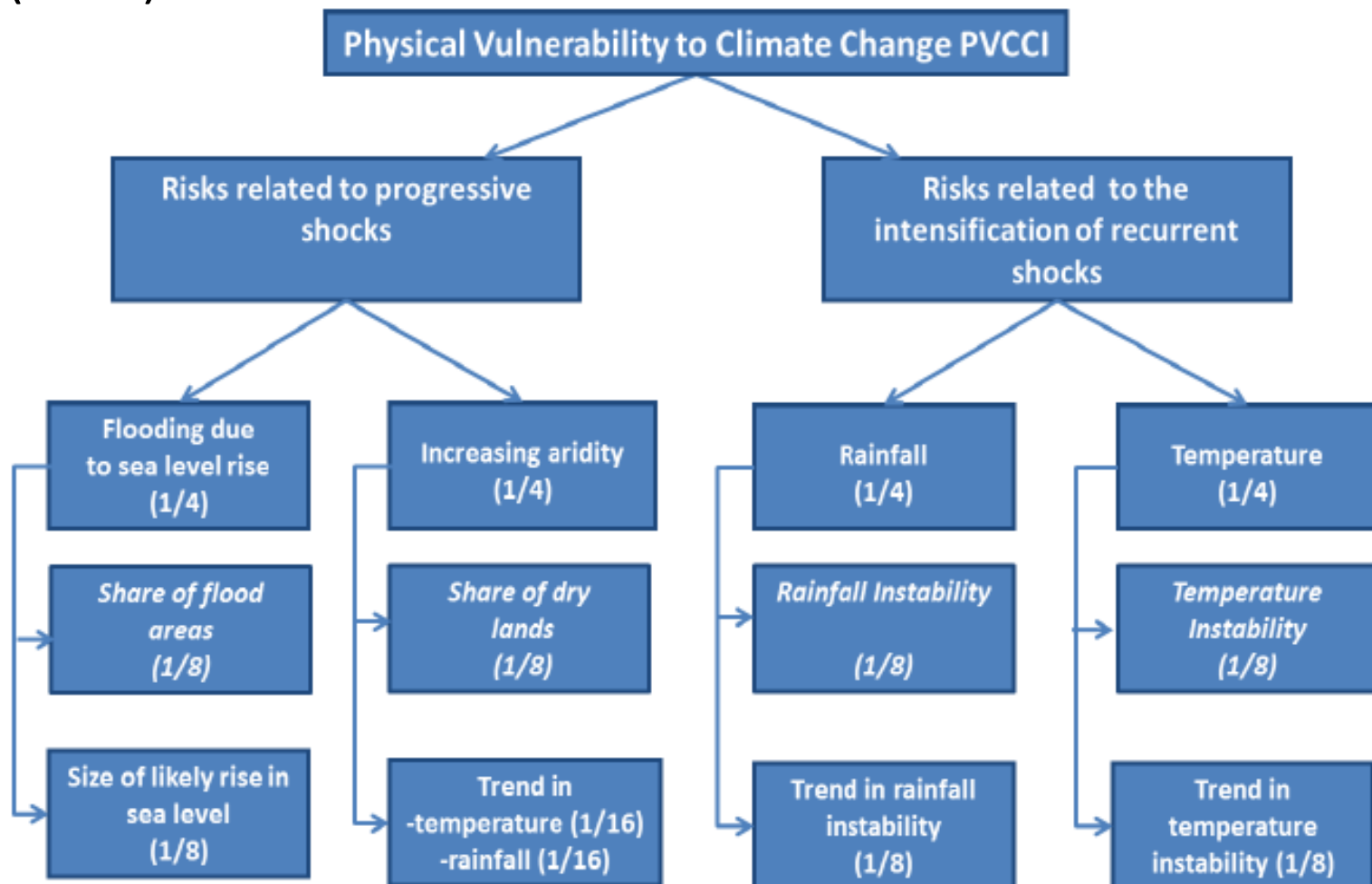
- Indicators of Vulnerability: **Economic Vulnerability Index (UN)**



**NB:** Numbers in parenthesis indicate the weight in the overall EVI  
 designed from UN CDP (2011)

# How to build a Sustainable Development agenda taking into account vulnerabilities ?

- Indicators of Vulnerability: **Physical Vulnerability to Climate Change Index (Ferd)**



# How to build a Sustainable Development agenda taking into account vulnerabilities ?

- **And what about performance in allocation models?**
  - Performance assessment is debated, all the more it is overwhelming, with a strong weight given to governance
  - Performance means outcomes with regard to initial and exogenous conditions
  - As presently assessed, it less refers to development outcomes than to policy, then is a subjective and uniform assessment
  - Adding criteria of structural handicaps (EVI, HAI, PVCCI for instance) to the assessment of policy/governance (CPIA) amounts to adjusting this assessment for the significant negative impact of these handicaps on policy
  - It would lead to a more genuine concept of performance, an « *Augmented performance based allocation* »

**Thank you for your attention**