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Trends in Official Development Assistance: Financing Sustainable Development

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ABSTRACT The Sustainable Development Goals, adopted by the United Nations General Assembly in 2015, have helped establish the thematic areas and targets against which development finance will need to be mobilised in the decades ahead. The new goals, however, do not specify the volume nor nature of funding required; and developed countries have not (in aggregate terms) fulfilled their self-prescribed targets for development assistance. This Brief analyses some of the most prominent trends in development assistance-linked financial flows from developed to developing countries. It deconstructs new modalities of development assistance, including an increased scope for private sector participation in development initiatives, larger flows towards certain economies and geographies, and the growing and important role of South-South Cooperation in meeting development targets.

INTRODUCTION

In September 2015 world leaders gathered at the United Nations Sustainable Development Summit adopted the Sustainable Development Goals (SDGs), a set of 17 goals and 169 targets to end poverty, fight inequality and injustice, and tackle climate change by the year 2030. These global goals build on the Millennium Development Goals (MDGs), the eight targets committed to by the international community in 2000 to make strides in the fight against poverty, lack of access to education, inequality and injustice, by 2015. But who finances the SDGs?

Financing of development will prove to be a critical 'means of implementation' for the SDGs. For India, in particular, financing is inevitably at the core of its concerns even as it evolves a consultative framework to implement the SDGs. Financing is also a priority area in the discussions at the Conference of Parties to the Framework Convention on Climate Change, and was similarly placed within the contours of the SDGs' predecessor, the MDGs.

In the MDGs, however, the means of implementation through finance was neatly tucked away in the eighth goal on "Global Partnership for Development".[1] There were no concrete targets set for financial flows towards development. What the MDGs did was to stipulate the use of net Official Development Assistance (ODA) as a percentage of OECD/ Development Assistance Committee (DAC) members' gross national income (GNI), as an indicator to measure for levels of success. The OECD's DAC defines ODA as "those flows to countries and territories on the DAC List of ODA recipients and to multilateral institutions which are:

i. provided by official agencies, including state and local governments, or by their executive agencies; and

ii. each transaction of which:

   a) is administered with the promotion of the economic development and welfare of developing countries as its main objective; and

   b) is concessional in character and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent)."

As far back as in 1970, a pledge had been made in the UN General Assembly by a group of rich countries to commit 0.7 percent of their Gross National Product (GNP) to ODA. This commitment has been reaffirmed several times since then, including at the 2002 International Conference on Finance for Development in Monterrey, Mexico and the World Summit on Sustainable Development held in Johannesburg the same year. Despite all such rhetoric, however, the promises have never been met at an aggregate level.

In 2013 only Denmark, Luxembourg, Norway, Sweden and the United Kingdom met this ODA target (and it was the UK's first time). Yet the pledge remains central to the finance-linked commitment made by the wealthy countries. The SDGs emphasise that developed countries implement fully their ODA commitments and that they should "provide 0.7% of GNI in ODA to developing countries of which 0.15-0.20% to least-developed countries".[2]

There is no definite timeline for the aforementioned financing targets. Indeed, there has always been a serendipitous element to such financing requirements. For instance, the UN Millennium Project's projections showed that a comprehensive package to meet the MDGs would have cost anywhere from US$ 75 to US$ 150 per person per year over the commitment period, and that just under half of this would have to be financed by ODA.[3] Similarly, the outcome statement of the 2015 Forum for Development (FfD) states that there is an annual gap of US$ 1 trillion to US$ 1.5 trillion in infrastructure budget in developing countries: This gap needs to be bridged through enhanced financial support, but there is little by way of an action plan to achieve this.

Unsurprisingly, ODA flows from DAC members towards developing countries have not met commitments. The EU, for its part, reports that between 2004 and 2012 the share of its GNI spent on ODA grew by less than two percent annually among member states.[4] It has also stated that "without substantial additional efforts by most Member States, the EU's long-standing collective commitment to dedicating 0.7 % of its GNI to official development assistance by 2015 is unlikely to be met. The EU already missed its collective interim target of dedicating 0.56 % of its GNI to ODA in 2010; the share in that year was 0.44%".[5]

The following sections examine some of the most prominent trends in ODA flows. Context is provided by a brief description of emerging patterns of resource mobilisation. The paper closes with a drawing of conclusions from these descriptive sections, done from the perspective of developing countries including India.

KEY TRENDS IN ODA

The EU maintains its position as the biggest ODA donor amongst all member states, combined. According to a 2012 survey, more than 60 percent of EU citizens said that either increases in ODA should be made beyond promises already given, or that given promises should be kept.[6] However, despite the fact that in 2013 there was a nearly six-percent growth in total OECD DAC members' ODA, ODA as a percentage share of GNI remained at a nominal 0.3 percent (See Table 1). Moreover, most of the ODA disbursed was through bilateral channels rather than international institutions, perhaps indicating a preference for meeting political objectives rather than financing objectives.

Table 1: NET ODA Flows

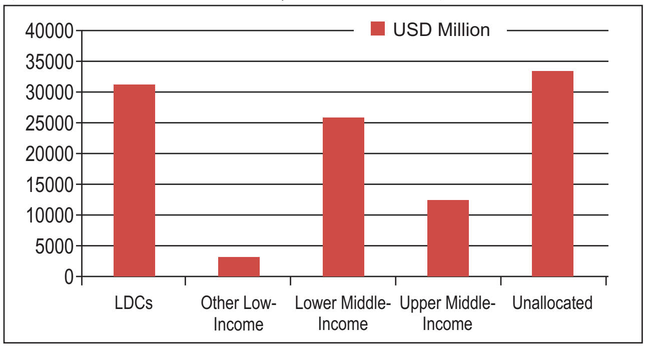
	2012	2013	% Change
Current (USD m)	1,26,949.30	1,34,480.70	5.9
ODA/GNI (%)	0.29	0.3	
Bilateral Share (%)	70	70	

Source: OECD - DAC; http://www.oecd.org/dac/stats/aid-at-a-glance.htm

Another emerging trend in ODA is the increasing participation of Gulf States such as the United Arab Emirates (UAE). The UAE spent 1.25 percent of its Gross Nations Income (GNI) as aid in 2013 – higher in percentage terms than any OECD-DAC donor.[7] Meanwhile, the top five recipients of ODA account for 15 percent of total ODA flows.[8] It is important to note that while India makes it to the fourth spot in this list, it has an ambitious 'Development Cooperation' programme of its own. In fact the Indian government's development assistance expenditures were expected to double its net foreign aid receipts in 2014-15.[9]

Meanwhile, Least Developed Countries (LDCs) as defined by the United Nations Economic and Social Council[10] account for nearly one-third of all ODA received. Lower Middle Income Countries (as of 1 July 2013, the World Bank income classifications by GNI per capita for lower middle income countries is US$ 1,036 to US$ 4,085; therefore including India) account for around one-fourth of the total share. About one-third of total ODA flows are also unallocated, that is, they are not geography-specific (See Figure 1).

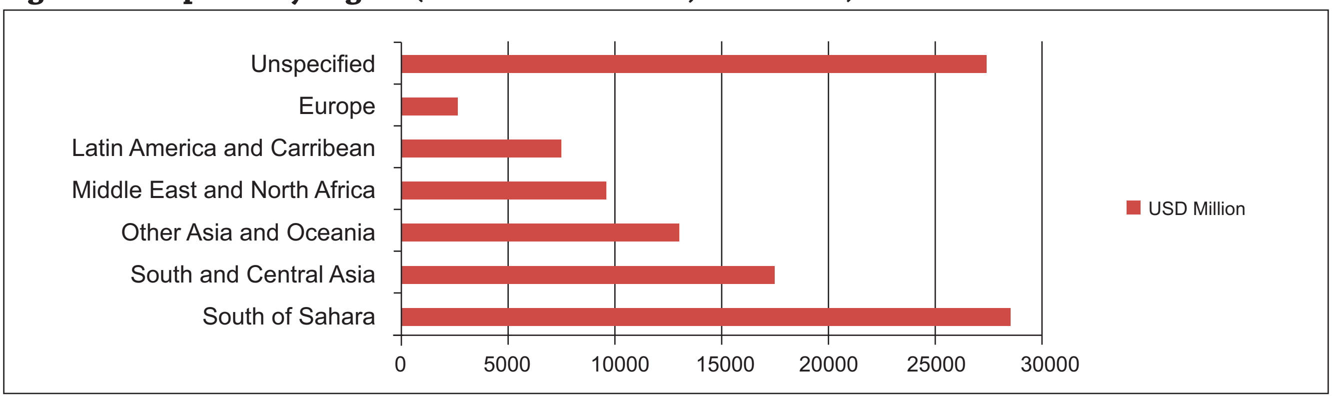
Figure 1: Recipients by Income Group (Gross bilateral ODA, 2012-2013)



Source: OECD - DAC; http://www.oecd.org/dac/stats/aid-at-a-glance.htm

Since a number of the LDCs and lower middle income countries are in Asia and Africa, the share of ODA by region is commensurately skewed

Figure 2: Recipients by Region (Gross bilateral ODA, 2012-2013)



Source: OECD - DAC; http://www.oecd.org/dac/stats/aid-at-a-glance.htm towards South and Central Asia and South of Sahara countries. Together they account for around 45 percent of the total share of gross bilateral ODA averaged over the years 2012 and 2013 (See Figure 2).

The US alone accounts for nearly one-third of the total ODA disbursement to developing countries. It has also accounted for the largest increase in ODA as percentage of total over the last two decades. The UK and Germany account for one-tenth each, followed closely by France and Japan. The total DAC assistance in 2013 was around US$ 94 billion, marking a negative growth rate from 2011 (See Table 2). Despite the fact that ODA is often viewed as some sort of counter-cyclical financial support measure,[11] this correlation is not easily established. The UK economy, for instance, grew faster in 2013 than in 2012 and its ODA flows were higher in 2013 than in 2012. Such a pattern indicates cyclicality.

Table 2: Total ODA by DAC Members (US$ Million)

	2011	2013	3-Year Average	% of DAC Countries	% Change over 2011-2013
Total DAC	94446	93563	92185	100	-1%

Source: http://www.oecd.org/dac/stats/documentupload/1%20World%20-%20Development%20Aid%20at%20a%20Glance%202015.pdf

Multilateral organisations such as the World Bank disbursed funding that added up to about half of what was disbursed by DAC members through ODA budgets in 2013.[12] Clearly, ODA spending far outstrips the funding made available through multilateral institutions for developing countries. A striking trend is that of the US' share: it alone accounts for around US$ 30 billion in ODA, and taking its contributions out of the funding ecosystem would put multilateral funding nearly at par with bilateral funding.

EMERGING PATTERNS IN RESOURCE MOBILISATION

One of the agreements at the 2015 FfD was that international cooperation to support efforts to build sustainable development-linked capacities in developing countries would be enhanced through greater mobilisation of ODA by developed countries. However, this resource mobilisation has not met targets as outlined in the earlier section. Concomitantly, developed countries have begun to emphasise the use of other financial and quasi-financial instruments to mobilise resources.

In this context the FfD saw emphasis on capacity building of tax administrations through 'technical assistance'.[13] However, an India-led initiative to upgrade the UN tax committee to an intergovernmental body left the OECD countries less than enthused. The lost tax revenue owing to tax leakages at the transnational level is estimated to be in the range of US$ 300 billion annually.[14] This is over two times the total annual ODA disbursements through bilateral and multilateral channels. However, developed countries have asked the OECD to take the lead in such efforts, leaving some 100-odd developing countries out of the process.

Owing to the lack of funding on the table, resource mobilisation is expected to remain an area of focus in future international discussions. This, in turn, necessitates the emphasis on innovative financing tools such as 'pooled finance' and 'blended finance' to leverage existing money. For instance, the outcome statement of the FfD states that ODA can be used as a tool to “catalyse additional resource mobilization from other sources, public and private” and to “unlock additional finance through blended or pooled financing and risk mitigation, notably for infrastructure and other investments that support private sector development”.[15]

Of course, innovative sources of financing cannot be discounted. There is, however, a normative challenge in seeing them as a substitute for ODA and other flows. After all, OECD countries have not met their historical commitments. Despite this, new partners have emerged on the global development landscape. Just over two decades ago, 22 members of the DAC accounted for 95 percent of all development

Table 3: Gross ODA Type Disbursements by Select Developing Countries in USD Million

Country	2010	2011	2012	2013
Brazil	500	n.a.	n.a.	n.a.
Chile	16	24	38	44
China	2,561	2,776	3,114	3,009
Colombia	15	22	86	95
India[1]	709	788	1,076	1,257
Indonesia	10	17	27	12
Mexico	n.a.	99	203	n.a.
Qatar	334	733	543	1,344
South Africa[1,2]	151	227	188	183

Source: OECD Stat

assistance. Today developing countries such as India and China, along with at least ten other non-DAC governments, have instituted ambitious development assistance programmes of their own (See Table 3).[16]

Within the existing DAC architecture, the emphasis on private sector participation varies across institutions (See Table 4). USAID programmes, for example, have a large focus on enterprise assistance. For its part, the EU's European Development Fund is an example of a financial instrument which allows for the flexibility of the regions' ODA to be targeted at a broader set of stakeholders. The South Asian Association for Regional Cooperation's Development Fund of around US$ 350 million, meanwhile, is an example of a similar 'South–South' instrument for promoting private sector participation, particularly the social enterprise ecosystem in developing countries.

Lastly, there is a significant role of institutional capital residing in the OECD in

Table 4: Main Funding Instruments of Donor Agencies

Funding Instruments Used	ADB	DFID	World Bank Group	JICA	USAID	Europe Aid
Loans	✓		✓	✓	✓	✓
Grants	✓	✓	✓	✓	✓	✓
Technical Assistance	✓	✓	✓	✓	✓	✓
Equity Investments	✓	✓	✓	✓		
Public Tender and Contracts	✓	✓	✓	✓	✓	✓
Specialized Private Sector Fund and Blended Multi Donor Models	✓	✓	✓	✓	✓	✓
PPP Funding/ Co-Financing Route	✓		✓	✓	✓	
Endowments					✓	

Source: Koan Advisory Analysis

Table 5: Asset Allocations of Institutional Investors

Types of Investors/ Asset Allocation	Assets Under Management (US$ Trillion)	Current Investment in Infrastructure	Current Investment in Emerging Economies
OECD Institutional Investors	80	1%	Up to 10%
Emerging Market Institutional Investors	5	<1%	70-80%
Sovereign Wealth Funds	4	2%	30-50%
Other Global Institutional Capital	20	1%	Up to 10%

Source: Georg Inderst and Fiona Stewart, "Institutional Investment in Infrastructure in Emerging Markets and Developing Economies, " Public-Private Infrastructure Advisory Facility (March 2014): 32

bridging sustainable development deficits, a fact that is not often highlighted in global forums. Institutional investors in the OECD have less than 10 percent of their capital invested in emerging economies and less than one percent in infrastructure (See Table 5). They represent the proverbial 'low-hanging fruit' in areas such as infrastructure financing. And yet there seems to be no motivation on the part of OECD economies for building an agenda that merges aspects of global financial system re-engineering with the imperatives of development financing. This is evident in the fact that negotiations such as those on Basel III regulations are kept separate from those on development financing.

CONCLUSION

Financial flows in the form of ODA, from developed countries towards developing countries, have seen a contraction between 2011 and 2013. This may seem counterintuitive, since the global community is attempting to stitch together an ambitious agenda around the SDGs. Thus even as the scope of the global development agenda has broadened—and now includes aspects such as peace and security, urban development, and biodiversity—the money on the table remains inadequate. The total ODA as a percentage share of OECD DAC members' GNI was a low 0.3 percent in 2013, against a commitment of 0.7 percent.

For both developed and developing countries, such trends as described throughout this chapter have multiple implications. Some of the most important are the following:

- The development assistance ecosystem is fast changing. This is evident from the rising ODA levels from the Gulf States as well as other financial assistance available within the framework of South–South Cooperation. Countries such as China and India are no longer 'emerging donors'; rather, they are now regarded as systemic development partners to other developing countries. And since developing country partners have rich and diverse development experiences, the development financing paradigm is likely to increasingly reflect this. An indication of this is the centrality of Infrastructure Finance in the Articles of Agreement of the New Development Bank.

- ODA flows are likely to prioritise LDCs, and geographies including South Asia. This is not surprising since these areas constitute some of the world's poorest and most unequal societies. In this context it is important that future ODA flows are suitably aligned with the principles articulated through the Busan Partnership for Effective Development Cooperation that emphasise local ownership of development programmes.[17] Here, too, development assistance extended through developing countries such as India can become a template for ODA flows. This is already evident in the sectoral composition of ODA flows that are now largely targeting economic infrastructure development and partnerships with local governments.

- The preponderance of innovative finance should not dilute emphasis on quicker ways to harness greater capital. OECD countries have repeatedly emphasised—in the FfD and in other forums—the potential for ODA flows to become catalysts for other forms of pooled or blended finance. Yet there are other low-hanging fruits that must get the requisite attention even as the innovative finance agenda evolves. These include mitigation of transnational tax evasion and harnessing of capital residing within financial institutions in the OECD. The fact that OECD-based institutional investors have only allocated around 10 percent of their capital to emerging countries indicates a systemic challenge. This challenge can be met in part by providing clear policy incentives to the reallocation of financial assets. This could include provision of counter guarantees through ODA as well as an integrated conversation on financial regulations and development financing.

- The ODA from the US is a large proportion of total ODA of DAC members. And this ODA is not necessarily counter cyclical. In fact the UK example highlighted in this chapter shows that GDP growth can be a significant determinant of ODA allocations. These two factors, taken together, mean that another financial crisis originating in OECD economies such as the US could significantly cripple ODA flows. This would further lead to the extension of the SDGs' timelines, a possibility which is both distinct and problematic. Developing countries will need to create sufficient buffers to counter this possibility through appropriate domestic action and South–South cooperation. ORF

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ENDNOTES:

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