Richard Manning notes that despite much progress over the past half-century, great inequalities persist. While this means that international concessional flows will still be necessary for several decades to come, he argues that future aid programmes should be more responsible, accountable and transparent.

Better delivery of aid also continues to be an important issue, especially for aid-dependent countries. The OECD’s Development Assistance Committee (DAC) can continue to take a leading role, providing collective self-discipline. This includes, however, taking a fresh look at how official development assistance (ODA) is defined to ensure that all reported ODA is truly concessional. Broader agreement among all providers of development co-operation on how to measure development flows will also be essential.

As the Millennium Development Goals (MDGs) reach their due date in 2015, new targets are needed – maintaining a poverty focus while bringing in new concerns such as transport, energy, human rights and empowerment.
A 50th anniversary anniversary is a time to stand back and assess the challenges of the moment against the longer-term trends that drive change. The most salient feature of the past half-century is that the world has coped with a doubling of the human population and that, overall, living standards have increased (Figure 8.1). On the other hand, there has also been an important increase in inequality. With the spectacular recent growth in some large, poorer countries, inequality between states may at last be declining. Even so, absolute poverty continues to affect one in five of the world’s population. In addition, there are increasing pressures on the natural resource base.

The past 50 years have also seen the maturing and development of the international system for transferring concessional finance between states. There are many other factors that are important for development and hence for the work of the OECD’s Development Assistance Committee (DAC). It is particularly pleasing to me, as a former DAC Chair, to see the new attempt to define a whole-of-OECD Strategy for Development, which will address some of these issues and in which the Committee needs to play a central role. Nonetheless, the DAC’s work on financial flows1 has been central to its mandate throughout its half-century and I make no apology for concentrating on this aspect once more in this article.

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**Figure 8.1. Global population, income and poverty levels, 1960-2008**

<table>
<thead>
<tr>
<th>Year</th>
<th>World population (million)</th>
<th>People living on less than 2005 PPP USD 1.25 a day (million)</th>
<th>World GNI per capita (constant USD 2000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960</td>
<td>2,000</td>
<td>1,000</td>
<td>1,000</td>
</tr>
<tr>
<td>1965</td>
<td>2,000</td>
<td>1,000</td>
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<tr>
<td>1970</td>
<td>2,000</td>
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<td>1975</td>
<td>2,000</td>
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<td>1980</td>
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<tr>
<td>2009</td>
<td>2,000</td>
<td>1,000</td>
<td>1,000</td>
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</tbody>
</table>

Source: OECD Development Assistance Committee Statistics, 2011. [StatLink](http://dx.doi.org/10.1787/888932512176)
Official development assistance (ODA) and other forms of international finance

This mix of progress and problems provides the background for international flows of finance. Leaving purely commercial finance (whether borrowing or foreign direct investment) to one side, such finance can be qualified in at least three ways:

- **Who pays?** (e.g. taxpayers, whether in DAC member or other countries, including Southern providers; foundations; contributors to other non-governmental organisations)
- **What's it for?** (e.g. development, humanitarian assistance, global public goods, commercial enterprise, cultural promotion, military/strategic ends etc.)
- **How concessional is it?** (i.e. the “softness” of a credit reflecting the benefit to the borrower, compared to a loan at market rate)

ODA, however, has to be considered not in isolation, but rather in its relation to the wider context of international flows of finance and its interface with them. South-South co-operation, for example, now totals some USD 15 billion a year; the concessional part of these flows share many (indeed, in many cases, probably all) features of ODA. In addition, international flows of finance include non-concessional official flows; official flows for purposes which can be distinguished from those funded by ODA (e.g. some elements of global public goods); private voluntary contributions; and flows of a commercial nature, which are increasingly important.

Over the DAC’s 50 years of existence, ODA volumes have grown roughly in line with the gross national income (GNI) of its main providers. There were, however, notable declines in the 1960s and again in the 1990s, this latter decline being reversed in the first decade of this century (Annex B, Figure B.2). In terms of volume of contributions, characteristically, ODA has been dominated by the DAC member countries of Western Europe, though in the late 1990s, Japan was briefly the largest single official donor and, in the first decade of this century, the United States registered some of the largest increases. Overall, private flows on grant terms, both from the voluntary sector and from foundations, have grown faster than official flows – most notably those from North America, which accounted for over two-thirds of the USD 22 billion reported by DAC member countries in 2009.

DAC members’ country programmable aid (CPA), the key component of ODA, grew rapidly between 2004 and 2009; but the newest DAC survey of donors’ forward spending plans (a very valuable addition to the DAC product line) suggests that CPA could stagnate over the period to 2013 (OECD 2011).

Elsewhere, the emerging economies have shrugged off the major financial crisis of 2008 with little more than a one- to two-year blip in the impressive growth rates they have enjoyed for much of the past two decades. In particular, sub-Saharan Africa, where the hard-core poverty problem is increasingly centred, appears to have embarked on sustained growth of a kind that transforms economies over a generation.
A good measure of progress in non-DAC member countries is the increasing graduation of countries from low- to middle-income status: 11 formerly low-income countries – including the heavyweights India and Indonesia – graduated to middle-income status between 2005 and 2008, following China’s transition in 2003. Today, three-quarters of the world’s poorest people live in middle-income countries, although aid to some of the most notable among these has never been large in relation to their domestic resources. One of the practical consequences of this progress is that instruments such as International Development Association (IDA), which have proved to be very effective vehicles for recycling funds from graduating countries to those remaining in the low-income bracket, seem to be reaching a self-sustaining plateau – at least for the time-being – as their core targets shrink in number.

It is certainly worth examining what these trends mean for the future of international concessional flows.

A shifting balance: What motivates giving?

Let’s start by looking at what motivates the “official” providers of international concessional flows – whether DAC members or others.

The motives of the official providers have typically included national interests – whether direct or broader – as well as altruistic concerns. Direct national interests can be very short-term in nature (winning a contract, disposing of surplus commodities, securing a specific political objective) or longer-term (building a relationship, supporting an emerging democracy). Broader national objectives might typically include enhanced stability in a given region, less energy-intensive modes of development or hoped-for reductions in the pressure of migration. These broader concerns blend into the core of global public goods issues. Altruistic motivations cover, broadly, poverty and humanitarian emergencies.

The balance among these motivations seems to vary in a way that can be predicted up to a point. Direct national/mutual interests are most likely to predominate when the gap between the national income levels of the provider and recipient countries is relatively smaller (as with DAC aid to middle-income countries or South-South co-operation from emerging providers to low-income countries). Altruistic concerns, by contrast, seem strongest when the gap between income levels is greatest (hence the explicit “poverty focus” of much DAC aid to least developed countries, and the fact that it was possible to agree to untie financial aid to this group and to the heavily indebted poor countries but not to middle-income or indeed to all low-income countries). There are, of course, obvious exceptions to this pattern – for instance when one of the least developed countries represents a strategic concern. It also seems that countries, as they become richer, are more willing to invest in concessional flows in support of broader national interests and, specifically, of global public goods.
Managing an unequal world

It is likely that in a world where all countries have more or less equivalent incomes, there would be only very small international concessional flows – as is the case with countries of similar income levels today – and that these would typically be in humanitarian situations. In such a world, all countries would no doubt contribute to global public goods. But as long as large intercountry income differences persist, ODA and other forms of official concessional flows are likely to continue, and the richer countries will have to bear the largest share of international concessional finance for global public goods. It is, therefore, worth looking at the prospects for reducing international inequality.

Evidence shows that both intercountry and interpersonal disparities have grown over the past 200 years. More recently, rapid growth in the emerging economies is producing what Martin Wolf has called a “great convergence” (Wolf 2011) in intercountry disparities. Average incomes in China today, for example, are much higher in relation to OECD countries than they were 20 years ago. Even in Africa, growth in per capita income has recently outpaced OECD countries. Nonetheless, the absolute levels of inter-state inequality are still vast: in 2007, even China’s gross domestic product (GDP) per head was only USD 5,050 (in purchasing power terms) compared to USD 43,200 for the United States. It will take several generations for many countries, and certainly most least developed countries, to meaningfully reduce these inequalities.

Interpersonal inequalities are larger than interstate inequalities. Recent estimates suggest that despite India’s growth, the average income of the top 5% of the population is still lower than the average income of the bottom 5% of the population of the United States. Worldwide, the top 5% of income earners account for 37% of world income – the bottom 5% a mere 0.2% (Milanovic 2011). Basic living standards such as those set out in the Millennium Development Goals (MDGs) will remain beyond the financing capacity of domestic taxpayers in many low-income countries for decades to come.

Along with this continuing inequality – despite possible evening-out at the interstate level – by 2050, the world will need to cope with an additional 2-3 billion people and, even more significantly, with the implications of rising living standards. These factors, along with global warming, will inevitably put pressure on all forms of natural resources and ecological habitats.

There is not necessarily a conflict, at a broad level, between action to resolve such global issues and efforts to address the needs of poor people (who tend to be the most seriously affected by climate change and resource scarcity). But there is the danger that in response to climate change, poor countries will be pressed to do things whose main benefits fall to others (such as investing heavily in relatively high-cost clean energy production), and therefore whose incremental costs they themselves should not be expected to finance. At the very least, if the bulk of official concessional trans-boundary flows comes to be in support of specific global public goods, this would make it difficult for aid-dependent countries to manage their public expenditure in a balanced way. At the same time, it is impossible to make a rigid distinction between ODA, with its prime purpose of economic development and welfare, and financing in at least some areas where the benefits will be perceived beyond the recipient country itself.
All this means that at a broad level, it is probable that there will be continuing development demands for international concessional flows from a gradually diminishing number of low-income and lower middle-income countries. It is also likely that there will be increasing global public goods demands, which will put pressure on richer country governments to, in particular, contribute concessional finance. This will happen against a background of an unusually difficult budgetary situation in many OECD countries, with voters who are in many cases more likely to be uncertain about their own income prospects than in the relatively benign period of 2001-07. This presents a challenging scenario both for ODA and, at least in the short term, for private charitable donations. At the same time, the ability of poorer countries to access commercial finance will probably continue to increase, as should the capacity of emerging economies to make concessional flows available to Southern partners.

Four proposals for effective development finance

Against this background, what sort of agenda might encourage scarce official international concessional flows to be used to the best and most sustainable effect on development and the reduction of poverty?

Proposal 1: Self-discipline, transparency and autonomy

While national interests are, of course, entirely legitimate, too much focus on short-term national/mutual interest often leads to results that are not sustainable: prestige projects that become “cathedrals in the desert”, technologies that suit the provider rather than the recipient, cosy deals with convenient dictators, among others.

Three approaches can and should be pushed further:

- Promote collective self-discipline. After many difficult discussions during the 1980s, the OECD successfully brought collective self-discipline into mixed-credit competition for commercially attractive projects through the New Disciplines for Tied Aid and Associated Financing (1991, known as the Helsinki Disciplines). This agreement effectively ended tied ODA from OECD members for commercially viable projects, except on extremely concessional terms. This measure was extremely effective in keeping ODA from being diverted into “buying contracts”. Broadening such agreements to include other providers of soft credit and tightening the remaining loopholes would be important steps forward.

- Enhance transparency. Exposing financing arrangements to public scrutiny is an effective means of keeping institutions honest, and international transparency standards for providers of ODA-type flows are highly desirable. The experience to-date of the International Aid Transparency Initiative, the leader in this field, shows that such moves take time, but that they are technically feasible. To secure wider consensus on the need for specific transparency standards, and to implement them, more political drive will be needed.

- Help recipients of co-operation organise themselves to challenge providers of ODA-type flows as needed. This can be done, for example, by strengthening the ability of finance ministries to scrutinise capital investments; by supporting the establishment of sound appraisal and evaluation methods (international agencies can and should do more of this); and by helping countries resist inappropriate conditionality. This is all the more important in relation to non-concessional flows, where failure to exercise rigorous approaches to borrowing – and to the use of the proceeds – can all too easily lead to recurring debt crises.
Proposal 2: A new results framework, locally driven and globally defined

Ministers responsible for ODA are right to be increasingly demanding about seeing results from this expenditure. How to demonstrate results is the big issue.

Two things need to happen:

- At the international level, the world needs an agreed “results framework”. This framework will need to cover, say, a ten- or 15-year period after the Millennium Development Goal (MDG) framework expires in 2015. Despite its defects, the MDG framework has been vital in promoting what can be seen as an incipient “global poverty project”. Stemming from the Millennium Declaration (2000) and the Monterrey Consensus (2002), this project is supported by the Gleneagles and Brussels decisions of 2005 to increase ODA, as well as by the High Level Forums on Aid Effectiveness in Rome (2003), Paris (2005), Accra (2008) and by the efforts towards the upcoming one in Busan (discussed later in this chapter). The successor could either be an improved anti-poverty framework or, more ambitiously, a framework to tackle key planetary challenges. The eradication of extreme poverty (seen as a multi-dimensional concept, not just as an economic one) would be an important element of this framework, along with the need for essential global public goods.

I would like to see six key changes in any new results framework:

- Instead of one-size-fits-all targets “imposed” from New York, it would be preferable to set agreed minimum targets for key parameters at the global level. With this baseline, each individual country or group of countries could then be encouraged to set their own targets for these (or additional) parameters. This would strongly encourage local ownership.

- The headline goals should be cast in terms of outcomes – for example, minimum levels of educational achievement by a certain age would replace “output” goals such as school attendance.

- A clearer poverty focus should be built into the design so that targets cannot be achieved merely by shifting the people just below a target level to just above it. Options include: a weighting system; systematic disaggregation of reporting, at least by gender and income; or setting targets explicitly for, say, the lowest quintile of the population.

- The perception that the MDGs prioritise welfare over sustainable growth and access to infrastructure services should be tackled by setting targets for access not only to water and information and communications technology (ICT), but also to transport and energy.

- Consistent with the Millennium Declaration, a new framework should take human rights and empowerment explicitly into account.

- The inadequate MDG 8 should be replaced by a set of “enabling conditions” (including, but not limited to, the provision of concessional trans-boundary finance) that would facilitate achieving the new goals and require action by governments of both rich and poor countries.
The results accounting of providers of ODA-type flows (whether bilateral or multilateral) should be built around systems established locally by the users of the flows rather than persisting with a plethora of donor-oriented monitoring and evaluation approaches that place unreasonable demands on local institutions. This will require: a big shift towards local data monitoring (including stronger and more responsive national statistical systems and more country-led surveys done to international standards); locally set and monitored results frameworks; and locally led (but rigorous) evaluation, supported by institutions such as the International Initiative for Impact Evaluation (3IE). It is encouraging that the DAC Senior Level Meeting of April 2011 recognised the need for such approaches.

Proposal 3: Better delivery – by and for all

Steps need to be taken to enhance the effectiveness of the delivery of ODA-type flows with a view to achieving real results for poor people. This means, in particular, addressing problems such as: lack of local ownership; lack of alignment to local priorities; insufficient accountability to parliaments and citizens (as opposed to donors); bypassing of local systems (as opposed to energetic action to help improve them); over-emphasis on state-led action (as opposed to, for example, encouraging the private sector and community groups); and lack of real mutual accountability (including accountability of donors for reasonable predictability of their funding). These problems are more severe the more dependent a country is on ODA-type flows.

All of this is, of course, fully in line with the agendas developed at the High Level Forums in Rome, Paris and Accra, and with the issues that will be discussed at the upcoming Busan High Level Forum on Aid Effectiveness (29 November-1 December 2011). And although there seems to be no tendency for aid dependency to increase, it will probably remain an issue for a considerable length of time for three groups of countries in particular: micro-states (mostly small islands) that have limited economic possibilities even if many of them are middle-income countries; conflict-ridden and post-conflict states; and a number of poor but growing economies that have used aid relatively well and that donors are ready to support for the long haul. For such countries, the aid effectiveness agenda remains particularly relevant.

With the broadening of providers of international concessional flows, however, the post-Busan aid/development effectiveness agenda needs to be developed by all relevant players, including providers of funding outside the DAC, and with a particularly strong voice from the recipients of such funding. The DAC has played a very creative role in “incubating” the Working Party on Aid Effectiveness, which has developed into a key multi-stakeholder forum for discussion of these issues, and where the voice of recipient countries has grown stronger. But a clearer relationship is needed between the activities of the Working Party and the discussions of similar issues held under the auspices of the United Nations (UN) Development Co-operation Forum, which has the potential as a UN body to exercise a broader policy overview. Future arrangements should also reflect whatever conclusions emerge from the latest monitoring round with regard to the “effectiveness of the effectiveness dialogue”: is it really driving behaviour change? Can there be more focus on a limited agenda of very important issues?
Proposal 4: ODA in a post-2015 world

A post-2015 international results framework will need to be supported by an appropriate resource framework, including official concessional flows. While access to aid is by no means the only or the most important enabling condition for achieving international results, it does continue to have relevance, especially for the poorer countries of the world. There is, therefore, a good case for revisiting the ODA concept in the broader context described earlier, with a view to implementing any changes in the same time frame. Returning to the qualifiers outlined at the beginning of this chapter, several issues loom:

- **Who pays?** Some agreement on core definitions is needed between donors who apply the DAC definition of ODA and those providers of South-South co-operation who see their important contributions as different in nature.

- **What's it for?** Some important boundary issues need to be addressed, notably with finance for global public goods. Is “economic development and welfare” still appropriate as a definition of purpose, or should there be a recognition of other purposes, for instance relating to the sustainable management of the planet? How can mutual interest considerations, highlighted by providers of South-South co-operation but by no means unknown to traditional donors, be handled?

- **How concessional is it?** It is surely time to revise the existing definition of what flows can be counted as concessional. This definition, by using a standard discount rate set at an outdated level, positively encourages DAC members to provide transactions of questionable concessionality in order to meet the aid volume targets to which they have signed up. This sets a very poor example to providers of assistance outside the DAC. A logical direction would be to align the definition of concessionality with that used by the International Monetary Fund (IMF) or indeed with the one used by the OECD itself for tied aid credits. At the same time, there needs to be better accounting of the important official flows that fall below any agreed level of concessionality. While financial transactions with low concessionality have been responsible for many problems (the operations of export credit agencies were a major factor in the debt crisis faced by poor countries in the 1980s and 1990s), such flows are important for development – as are those of the bilateral development finance institutions and of the multilateral development banks. These flows will become relatively more important as poor countries continue to graduate to the point where they can access such finance and, more generally, market-based finance in a sustainable way.

This is a complex agenda and one that will raise challenging problems both within the DAC and beyond the OECD. It could easily provoke, for example, a difficult debate about the level of official concessional flows needed to help deliver the results targeted by a post-2015 framework, as well as about what targets are appropriate for richer (and possibly also less rich) providers of such flows. It is also likely to raise questions about the meaning of “additionality” (for example in relation to commitments to finance global public goods) – an issue that is frequently debated and that needs to be discussed in a more sophisticated way than is usually the case. Some elements of this agenda will necessarily be beyond the competence of the DAC. But the DAC, with its half century of experience in accounting for international concessional flows, can and should play a central role in addressing them.
Notes

1. One of the first tasks of the OECD DAC was to define the international flows that it would attempt to maximise and improve. It determined that its focus would be on official development assistance (ODA), and that this would be defined to cover flows that: i) are from official sources, ii) have a purpose of development or welfare and iii) are concessional. Of course, ODA is not all the DAC is about; this Committee has an increasing depth and breadth of activity in the policy area, and this work is fundamental to help states grow out of aid dependence.


3. Country programmable aid (CPA) reflects the amount of aid that can be programmed by the donor at partner country level. CPA is defined through exclusions, by subtracting from gross ODA aid that is unpredictable by nature (humanitarian aid and debt forgiveness and re-organisation), entails no cross-border flows (development research in donor country, promotion of development awareness, imputed student costs, refugees in donor country and administrative costs), does not form part of co-operation agreements between governments (food aid and aid extended by local governments in donor countries), is not country programmable by the donor (core funding to national NGOs and international NGOs), or is not susceptible for programming at country level (e.g. contributions to public private partnerships, for some donors aid extended by other agencies than the main aid agency).

4. The 2011 Survey on Donors’ Forward Spending Plans (OECD 2011) shows that global CPA is programmed to increase at a real rate of 2% per year up to 2013, compared to 8% per year on average over the previous three years. The projected deceleration is likely to be more critical for low-income countries and for Africa, where aid is projected to increase at about 1% per year in real terms, compared to a 13% real annual growth rate in the past three years.

5. The International Development Association (IDA) is the arm of the World Bank that gives soft loans to poor countries.

6. Progress on putting the principles outlined in the Paris Declaration on Aid Effectiveness into practice is closely monitored in three rounds of monitoring surveys (2006, 2008 and 2011). The evidence from these surveys constitutes a powerful tool to hold developed and developing countries accountable for their aid promises. Over time, the number of countries participating in the survey has grown from 33 in 2006, to 55 in 2008, to around 80 countries in 2011.
References


