Eurodad Statement to the OECD DAC High Level Meeting (HLM)

February 2016

1. The European Network on Debt and Development (Eurodad) is a network of 46 non-governmental organisations from 20 European countries that advocate for an environmentally sustainable financial and economic system that works to eradicate poverty and ensure human rights for all.

2. Everyone has the right to live free from poverty and deprivation. Governments' own budgets account for the majority of public resources in developing countries, but Official Development Assistance (ODA) will continue to be crucial for providing basic services, especially in Least Developed Countries (LDCs). For example, for many countries, aid has played a significant role in providing the resources that have allowed primary school enrolment in developing regions to reach 91%.

3. The high-level meeting (HLM) offers an opportunity for its member states to refine the definition of ODA to ensure it fully supports the achievement of the Sustainable Development Goals, and to remove or improve several elements that do not belong. Given the current scandal surrounding the reporting of refugee costs, it also offers member states a chance to restore their credibility as champions of poverty eradication. While many of the issues up for discussion are seemingly technical, the decisions made will have a significant impact on the future content and character of financial resources dedicated to development cooperation.

Summary of recommendations

4. Elements that do not meet the criteria for ODA should not be allowed:
    - **Private finance instruments should not be counted as ODA until significant improvements have been made in their evaluating and monitoring.**
    - **In-donor refugee costs should not count as ODA.**

5. To prevent the serious risks of bad incentives that could encourage ineffective, expensive or counter-productive ODA, the following elements should not be allowed:
    - **All flows reported as ODA should be fully untied both in policy and in practice.**
    - **There should be no dilution of the existing rules on security expenditures.**

6. **The OECD DAC should open up its discussions and decision making bodies** to ensure that all stakeholders, particularly those affected by its decisions, have the transparent access to information that is their right.

7. **Items which are excluded from ODA could be quantified in other measures, to ensure a complete picture, with separate and balanced accounting to prevent bad incentives.**

Eurodad recommendations for the HLM

Private Flows

Private sector instruments should not be counted as ODA until significant improvements have been made in their evaluating and monitoring.

First, it is clear that private finance 'mobilised' or 'leveraged' by public resources should not be reported as ODA. Including private flows in resources reported as ODA would represent a drastic change to the entire ODA concept, as they would not be official resources.

Second, public resources that are used to support private sector instruments should not be counted as ODA, unless they are concessional in nature. Public resources used to mobilise private flows represent a form of direct or indirect subsidy by donors to the private sector. As the OECD DAC clearly states, "it seems to be a widely accepted principle that private-sector instruments should generally not be concessional in order not to distort the markets." As ODA by definition consists of concessional finance, then non-concessional instruments by definition do not qualify as ODA.

Third, officially supported private sector instruments that meet concessionality requirements should not be counted as ODA until very clear guidelines are put in place that overcome two major barriers:

- **Assessing additionality**: there is currently no adequate measure to assess the additionality of public support for private investment, in particular to gauge whether the investment would have occurred without the public support. Currently, most donors simply assume this to be the case, which is particularly problematic when the 'leverage ratio' (ratio between public support and total investment) is very high. Developing such a measure will take time, so until this is complete, such flows should not be counted as ODA.
- **Measuring true net values**: it is obviously important to count any reflows earned from private sector instruments as negative ODA, but this only scratches the surface of estimating the true net value. In addition, when equity investments are sold, the actual value earned during the sale should be counted as negative ODA. Private investment is by its nature risky, and, as it is (rightly) driven by commercial incentives, the development impact may not always materialise. This means that ODA-supported private investments should be tracked to completion, with any failed investments, or investments that turn out to have negative development impacts counted as negative ODA.
- **Guarantees should only be counted if used**: this would have the benefit of tracking genuine resource transfer, and also help overcome the additionality problem mentioned above.

In addition, all flows should align to principles of aid effectiveness. Beneficiaries of such finance should be expected to comply with all the transparency and disclosure requirements associated with ODA and should be held accountable to both donor countries and recipient countries where they operate. This is particularly necessary in the case of financial intermediaries where CSO experience has shown that lack of accountability and transparency has led to development resources contributing to environmental degradation, forced relocation and in extreme cases targeted violence against impoverished communities and human rights violations.

Refugee Costs

In-donor refugee costs should not count as ODA. The necessary funds to support refugees in donor countries must be found to ensure their needs are met and their rights respected under international law. However, financing for donor domestic refugee costs must be additional to existing and promised aid. In-donor refugee costs increased by USD 1.8 billion in 2014, a 37% increase compared to 2013, and as a result of the refugee crisis, ONE projects that in-donor refugee costs reported by European donors could rise to more than USD 10 billion in 2016. Unless donors also increase overall aid levels, this would lead to a severe diversion of ODA away from the poorest countries or artificially boost ODA levels. This undermining of the credibility of ODA has resulted in public outcry in many countries, undermining both the OECD DAC, and more importantly, the public's commitment to ODA.

Untying ODA

All flows reported as ODA should be fully untied. Recommendations on untying aid should explicitly cover all aid modalities in all countries. Tied transfers should not be reported as ODA as tying increases costs, reduces options and is not complementary to development effectiveness principles. Efforts should also be scaled up to stop informally tied aid practices which Eurodad research demonstrates de facto exclude companies in partner countries from winning ODA funded contracts. This is particularly relevant in the development of new private sector instruments. As the OECD DAC progress report on untying aid notes, "DAC members are re-emphasising the important role of the private sector in development. Many of them have developed private sector strategies and are creating new funding instruments or delivery mechanisms to support this focus. Reviews of such initiatives caution Members against merging development objectives with their own commercial interests, and against establishing instruments that would lead to an increase in tied aid." The DAC should explore root causes and solutions to informally tied aid to prevent practices that utilise ODA to subsidise activities of donor firms in partner countries.

Peace and Security

There should be no dilution of the existing rules on security expenditures. All security expenditures that are counted as ODA have significant risks attached, which can only be mitigated if the list of eligible items is very limited and very clear. Donors may face a conflict of interest in cases where they are giving ODA to a country for which they also have military and security interests, and ODA for military and security purposes can easily be misused with very serious consequences.

First, there should be no expansion of the very limited set of circumstances where ODA is allowed to finance military equipment or services. Any misuse of aid in this area can have extremely serious consequences, both for affected people in recipient countries, but also for the credibility and public support for ODA.

Second, there should be no expansion of activities in relation to the police, which should be restricted to training in routine civil policing functions only.

Third, activities preventing violent extremism should not be eligible as ODA, as the risks that this could end up supporting, for example the repression of minorities, are significant.

OECD DAC reform

The OECD DAC should open up its discussions and decision making bodies, to ensure that all stakeholders, particularly those affected by its decisions, have the transparent access to information that is their right. ODA is supposed to represent the most transparent and accountable form of finance specifically targeted to making the world a better place. Despite this the decisions that determine what counts and what does not count as ODA are largely closed to external stakeholders including Civil Society and partner countries. The secrecy surrounding proposals related to ODA reform has been unhelpful and has not promoted trust and partnership among the development community. Watchdog organisations, partner country governments, citizens and the poor themselves should not have to rely on backroom channels to know what is at stake and what is being discussed. The OECD DAC should become a bastion of transparency and accountability and seek to be as inclusive as possible in order to reflect the principles and practices of ODA.

Total Official Support for Sustainable Development (TOSSD)

Items which are excluded from ODA could be quantified in other measures, to ensure a complete picture, with separate and balanced accounting to prevent bad incentives. Recognising the centrality of country ownership, TOSSD should be focussed on providing information that is useful for recipients. The way it has been formulated so far presents a significant risk of bad incentives for donors, which could be mitigated if the accounting is complete (covers all financing), separate (does not try to add everything together to create a false target), and balanced (recognises negative as well as positive flows).

A complete picture would mean cleaning up ODA, as suggested above, by removing in-donor refugee costs, and the additional costs of tying aid in order to support donor firms, as well as other elements that do not belong there, such as in-donor education costs. If they are to be in TOSSD, then they need to pass the development impact test – which the additional cost of tied aid obviously doesn't. It would also mean cleaning up Other Official Flows (OOFs). It would be very useful to have proper accounting for official flows that don't have a development purpose, such as military aid, but OOF doesn't provide currently this.

Separate accounting would mean making estimates for each item separately, but avoiding the temptation to add them all together into a single TOSSD figure. This would prevent the danger that TOSSD will be seen as a target that donors aim to increase. Given that many elements have both positive and negative elements in their balance sheets, particularly private sector instruments, as noted above, then pushing for more TOSSD does not make sense. It also risks a massive alteration to ODA incentives.

Balanced accounting would recognise that, for example, private investments may result in additional finance initially, but may also lead to outflows over time. Failed projects result in costs. Both sides of the financial balance sheet need to be accounted for.

There should be an absolute bar on using TOSSD to account for contributions to global public goods unless negative contributions are also included.