

# ODA in Turmoil: Why Aid Definitions and Targets Will Come Under Pressure in the Pandemic Age, and What Might Be Done About It

**Andrew Rogerson and Euan Ritchie**

## Abstract

In the wake of the COVID-19 pandemic, official development assistance (ODA) remains an essential, though often criticised, form of external financing for developing countries. At the same time, the pandemic risks aggravating existing pressures on ODA which may erode its credibility and the volume of public concessional, cross-border resources made available for development purposes. We revisit the evolution of ODA and discuss three such pressures: ODA/GNI ratio targets threaten ODA budgets when GNI is falling in many donor countries; flawed new rules on scoring debt relief as ODA will lead to large-scale double-counting just as debt relief looks ever more likely; and the increasingly-blurred boundary between global public goods and traditional ODA may allow the former to displace the latter. We discuss ways in which the Development Assistance Committee has sought to mitigate these pressures in the past, and conclude that alternative strategies may be required. To this end, we recommend that the DAC rolls back its new debt relief rules, considers an additional target tier for “beyond ODA” spend on global public goods, and commits to greater transparency and developing country participation in its financial metric-setting processes.

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## Acronyms

CEPI	Coalition for Epidemic Preparedness Innovations
CPA	Country Programmable Aid
CRS	Creditor Reporting System
DAC	Development Assistance Committee
DSSI	Debt Service Suspension Initiative
FID	Finance for International Development
GNI	Gross National Income
GPG (RPG)	Global (Regional) Public Good
IMF	International Monetary Fund
LDC	Least Developed Country
LIC	Low Income Country
LMIC	Lower Middle-Income Country
MDG	Millennium Development Goal
NAO	National Audit Office (UK)
ODA	Official Development Assistance
R+D	Research and Development
SDG	Sustainable Development Goal
QuODA	Quality of ODA (a Brookings and CGD aid assessment method)
OECD	Organisation for Economic Co-operation and Development
TOSSD	Total Official Support for Sustainable Development
UMIC	Upper Middle-Income Country
UNCTAD	United Nations Conference on Trade and Development
UNFCCC	United Nations Framework Convention on Climate Change
UNGA	United Nations General Assembly

# 1. Introduction and summary: Why should aid definitions keep us awake at night?

Aid agencies are being asked to help staunch as much as possible of the damage to lives and livelihoods wrought by the pandemic, and reactions to it, in developing countries. The scope of the required humanitarian, sectoral/health and macroeconomic interventions is vast, as is their geographic coverage. Internationally provided resources on soft terms are already scarce, and likely to shrink given the fiscal retrenchment, which is starting to bite in many advanced countries, just as needs in developing countries may be exploding.

In such a moment of acute stress it is tempting to argue that alternative definition(s) of “aid,” and the national and international targets attached to them, are mere statistical quibbles that should not trouble our COVID-19 aid heroes, nor the taxpayers and politicians underwriting this effort. Remember “whatever it takes,” as applied to emergency fiscal and monetary support by the trillions of dollars, announced for stricken advanced economies in the early days of lockdown?<sup>1</sup>

We can all sympathise with that generous starting principle. However, it could look dangerously simplistic when we factor in real-life political incentives to provide sufficient volumes of effective foreign aid on truly concessional terms, whilst sharing that burden fairly. Pinning down specifically what aid really is, how we measure it and who delivers more or less of it ultimately matters, at least in its broad contours. We believe there is not enough shared understanding of these terms, and that that is a dangerous place to be in the present crisis.

We suggest in particular that the pandemic exposes *three major fault lines* built into the way the so-called ODA (Official Development Assistance) basket was progressively developed and how its main targets are defined.

The *first* fault line is the practice of setting ODA targets as fixed ratios of gross national income. The headline 0.7% target was intended as an aspirational threshold linked to the wealth of donors, and once met, to provide an automatic aid budget escalator during long periods of sustained growth. It is intended as a floor. However, it could also easily be mis-cast as a ceiling, and therefore a “soft” source of budget savings, during a deep recession which throttles GNI, maybe for more than one year. The UK in 2020 provides a stark illustration of this danger.

The *second* risk is that new debt relief accounting rules mean that official creditors may soon score unreasonably high amounts of additional relief (including on commercial debt), as and when a systemic debt crisis gets into full swing. The new rules do come with an important

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<sup>1</sup> But compare that to the subsequent G20 initiative on debt service suspension (DSSI), intended for the poorest 77 countries, at a scale roughly three orders of magnitude lower, i.e. tens of billions not tens of trillions.

safeguard—a ceiling that limits the amount of ODA that can be scored in the case of debt relief—but this mitigates, rather than solves these problems.

The *third* and arguably most serious fault line is the increasingly blurred boundary between development assistance and spending to tackle global challenges, very much including pandemics as well as unsustainable climate change and migration flows. Their mitigation and suppression are of benefit to humanity, thus, also to aid provider countries themselves. So the numerator of the ODA 0.7% target—likely anyway to be smaller and padded with dubious debt-related amounts, given the first two problems—also comes under intense political pressure to accommodate so-called GPG spends one way or another, further diluting its direct development impact.

Why such risks, and how they unfold, ultimately matter is because a credible-enough ODA definition and its associated targets still have residual influence at high political levels in a few advanced countries. ODA is still “a brand with value,” (Kenny, 2020) not least because of its potential to burnish the reputation of national leaders keen to leave behind a (plausibly) tangible legacy of international generosity, statecraft, and global reach. The elite 0.7% nations’ club is still proud of its membership. A few others nearing that mark (including some “lapsed” former members) might welcome modest encouragement, including from a falling national income denominator, to help cross the line. If such incentives cease to operate, “real-enough” aid may fall further than it would otherwise tend to. Everyone may be the poorer thereby.

The international development community has come up with a number of counterstrategies, along three broad tracks, to try to protect the integrity of the ODA definition, so far with limited success. The *first* response track is to identify some broader “beyond ODA” spending basket, the most comprehensive such proposal being Total Official Support for Sustainable Development (TOSSD), offered in tacit exchange for sticking to a more rigorously shielded, core ODA definition. We suggest that there will be inevitable “leakage” between these two aggregates, and a natural drift toward targeting of TOSSD in terms of provider effort levels, even though that is clearly not its stated intent. Variants of ODA, including Country Programmable Aid and a recent CGD-developed definition of Finance for International Development (FID) (Mitchell et al 2020), similarly try to keep core concessional finance metrics free of some of the more contentious ODA items and make them broadly comparable across providers, including non-OECD ones. However, none have yet achieved comparable brand recognition to ODA, damaged goods though the latter may be.

A *second* risk-mitigation approach is to try to identify subsets of ODA spent for globally relevant purposes through “markers,” such as the existing DAC climate-change (“Rio”) and gender-focus markers or even, as currently mooted in the DAC, a new COVID-19 marker. Rigorously tracking the proportions of aid so marked, and not, which is not easy, could help determine to what extent there is displacement of previous development priorities by new GPG-related ones, even if strictly speaking it is impossible to view the counterfactual. One could also ask donors to pledge to raise overall ODA by at least as much as they increase

such marked subsets, as a way of monitoring their declarations, for example, on the “new and additional” nature of climate change financing. However, any such pledges, even if agreed collectively in principle and technically robust, are unlikely to carry equal political visibility and heft to the ODA target itself.

A *third* approach, yet to be fully defined, much less attempted, starts by accepting that there are powerful built-in pressures to progressively dilute the ODA basket, as is the case with many other public policy targets, like “teaching to the test” or the gaming of maximum hospital waiting times (a.k.a. Goodhart’s Law, paraphrased as “when a measure becomes a target, it ceases to be a good measure”). There are no perfect ways to mitigate this risk, but one strategy perhaps is to migrate to a more nuanced ODA basket formulation, then using this to reconsider the target. For example, introducing a separate tier related to global public goods above the 0.7% band, say of 1.0% in total, could be a step forward, by taking pressure off the lower tier, though that too might trigger gamed responses. An alternative would be to avoid any formal second-tier target, but invite providers to follow Luxembourg’s lead in voluntarily excluding (some) climate change that would otherwise legitimately score as ODA, and in-donor refugee-related funding, from the existing 0.7% baseline..

In any case, further institutional changes are likely to be needed at the DAC. Increasing the power of developing country voices would have benefits beyond the defence of ODA’s integrity. This has been an explicit aim of TOSSD, the concept of which was predicated on part on the need to recognise the importance of new development actors, and has been developed by experts from both “providers” and “recipients” As demonstrated throughout this paper, the definition of ODA is not solely a technical question. Nor is it treated as such: the ultimate decision as to how ODA is defined already resides with political representatives, not statisticians. Its political nature warrants the inclusion of the perspective of those that it should be helping. Recipient countries should not just be present as “observers” but have an active role in deciding on rule changes. This would bolster the credibility of ODA, but also introduce decision-makers with a different set of incentives. In addition, the DAC should scrupulously abide by transparency standards that it has repeatedly endorsed, specifically in relation to future changes to ODA rules.

The rest of the paper is organised as follows. Section 2 reviews the history of the ODA definition and targets, identifies major changes to both the “development” basket and to the scoring of ODA loans, and charts the evolution of ODA’s main components over time. Section 3 considers the above 3 main disruptive elements (GNI ratios, loans and debt relief, and GPG spending) and offers some preliminary estimates of their likely impact. Section 4 looks at the political economy of “defending” the ODA definition and considers alternative risk mitigation strategies, starting with complementary development finance definitions and markers, none of which as yet have targets associated with them. Section 5 asks whether a fundamental problem linked to the inherently corruptive effect of fixed targets could be alleviated by a more nuanced target structure, and concludes with emerging policy recommendations and suggestions for further research.

## 2. Definitions of ODA and its main components over time

In this section we review how the definitions of ODA negotiated and interpreted by the Development Assistance Committee (DAC) of the OECD have changed since they were introduced in the late 1960s and early 1970s. We focus on ODA's two main pillars, "development content" and "concessional," and how ODA's composition has evolved over time. We also look briefly at the origins of the 0.7% ODA target and different phases of, and donor differences in, progress toward it.

### 2.1 Evolution of the ODA definition: (A)—The development test<sup>2</sup>

The original 1972 ODA definition, which stood unchanged for over 40 years, is as follows (DAC, 2006):

ODA consists of flows to developing countries and multilateral institutions provided by official agencies, including state and local governments, or by their executive agencies, each transaction of which meets the following test: *a) it is administered with the promotion of the economic development and welfare of developing countries as its main objective, and b) it is concessional in character and contains a grant element of at least 25% (calculated at a rate of discount of 10%).* (Our Italics)

From the outset, the debate on what should, or should not, count as ODA has focused mainly on interpreting this deceptively simple twin-test of what legitimately constitutes aid embedded in this definition, i.e.: (1) is the economic development and welfare of developing countries its main objective?; and (2) is it "concessional" in character? We discuss each part in turn.

### Broadening the definition

Under the first part, *the "development" test*, several definitional expansions were subsequently introduced, prompting long debates within the DAC and concerns (to this day) by the wider development community. First, administrative costs became allowable as ODA from the late 1970s "because they are development motivated and part of the official aid effort," although donors already incorporated such costs to different degrees in their reported programme delivery spends, and continue to do so. Second, development awareness spending (on public information and education in donor countries), initially not scorable as ODA, also became eligible in 1979. Third, imputed student costs incurred by donor-based educational institutions were initially rejected by the DAC, as clearly not being development-motivated (and any indirect development benefits being contingent on students' return to countries of origin), but then also allowed, from the mid-1980s onward. Fourth, refugee costs (in the donor's own territory) were similarly initially rejected, as having a humanitarian, but no clear developmental, motivation, but were later (1988) included, for the first year after asylum

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<sup>2</sup>This section draws heavily on Hynes and Scott, 2013

claimants' arrival. We remain agnostic on whether some of these items merit inclusion in the ODA basket or not: many argue not, but they can represent real donor effort and confer at least indirect development-related benefits that are valuable in their own right.

All four of these “in-donor” spends are excluded from a narrower subset of ODA, called Country Programmable Aid, or CPA (Benn et al, 2010), which restores much of the original intent of ODA to measure only *cross-border* concessional flows to developing countries. CPA makes other deductions from ODA, including core funding of NGOs, on the grounds they generally do not negotiate end-uses with partner governments. It also excludes humanitarian assistance, as intrinsically “non-programmable,” and aid not from primary aid disbursing ministries. Widely used aid effectiveness metrics, such as CGD and Brookings Quality of ODA Index, or QuODA (Birdsall et al, 2011, Mitchell and Mckee, 2018), typically therefore use an expanded base, i.e. (CPA + Humanitarian). We revisit CPA patterns below.

A fifth source of interpretation under the development-objective test, is the as-yet limited eligibility of security and peacekeeping costs, which may come under renewed pressure post-COVID-19. A portion of donors' contributions to UN peacekeeping operations also became eligible, rising from 6% in 2006 to 15% from 2016. These coefficients are calculated so as to exclude equipment costs, but now allow for modest costs of military personnel, as well as civilian and police staff in UN contingents, who deliver defined humanitarian and development services (OECD 2016a). They were established through empirical UN surveys of services delivered and related expenditures.

## **Broadening the interpretation**

Wider use of military equipment and personnel in development remains a hot topic for debate in a few DAC countries. Health service delivery to civilian populations via e.g. military hospital ships may be effective in certain contexts, for example, but such facilities are also rapidly re-deployable to conventional wars. Currently, only “additional” costs can anyway be counted—those over and above standing costs—but there are understandable pressures in many donor countries to expand the share of aid budgets available to their defence forces. As yet, however, this does not occupy a major portion of ODA, especially as compared to our sixth and final category, GPG.

Global and Regional Public Goods (GPG/RPG),<sup>3</sup> These by definition confer benefits to many or all countries—often including aid providers— often making it conceptually hard to determine whether their main objective is the welfare of developing countries. At present, climate change mitigation “in general”, such as creating carbon sinks, is not ODA-eligible. Only development cooperation activities already fully justified as such, but which may also target mitigation, are eligible. In other words, the core test of whether the spending has the

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<sup>3</sup> No standard, universally recognized definition of GPGs exists, despite the term being in common use. Birdsall and Diofasi (2016) offer the following definition: “Global public goods are institutions, mechanisms, and outcomes that provide quasi-universal benefits to more than one group of countries, extending to both current and future generations. They are nonrival and nonexcludable.”

“welfare of developing countries as its primary objective” still applies. In practice, aid programmes in developing countries with a climate mitigation focus usually have primary development benefits sufficient on their own to justify the investment, for example through energy efficiency and public transport improvements.

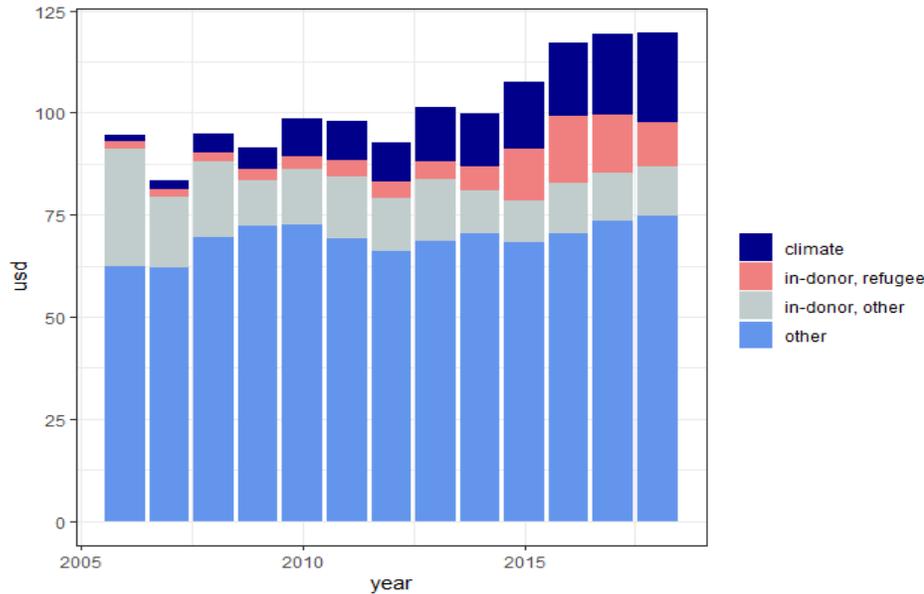
Interpreting this test, however, (a) is subject to political pressure and ethical debate, and (b) needs to be backed with sufficient capacity for robust implementation. At the level of politics and moral principles, why should climate change mitigation spending not become ODA-eligible in its own right, at planetary survival level, especially if it “mainly” averts catastrophic consequences for developing countries, as compared to others? Similarly, if a COVID vaccine saves lives across humanity, three-quarters of whom live in developing countries, but also benefits advanced countries, why should that not be included as ODA in the future? And who should decide such matters? These are eminently political, not just technical, choices—as we discuss in Section 5.

At the level of practical implementation, there are growing complexities to be managed. For example, as ODA rules stand now, donors cannot score investments like carbon capture and storage, which are unlikely to be least-cost in terms of national development objectives but may have a wider climate justification. Technological innovation and relative price shifts will increase the scope for such trade-offs. These items would need to be assessed and filtered out by national reporting agencies and checked by the DAC secretariat, both within their already finite staff resources.

For the time being we are left in a hybrid situation where ODA is not deliberately intended to fund “pure” global public goods, but in practice a substantial share of it is dual-purpose, having both development and GPG (or regional public good-RPG) co-benefits. Counting that overlap—the share of ODA which spills over into international public goods—is not easy, either under a narrower welfare economics definition of GPGs or a looser interpretation, such as tackling major challenges faced in common by many countries. For example, climate change adaptation is typically considered only a national public good, using the first lens (footnote 4), as against a GPG, using the second. (We look at the climate “Rio Marker” system in the next section: an attempt to help identify spend with climate objectives).

Nevertheless, environment, global public health (including R+D) and non-health R+D are generally estimated to be, in declining order, the largest GPG-related uses of ODA (Development Initiatives, 2016.) Climate finance is increasing its share of ODA as measured by the Rio markers: disbursements marked as having mitigation or adaptation as a significant or principal objective have increased significantly since 2006, from USD 1.7 billion to USD 22.1 billion.

**Figure 1. Composition of DAC bilateral ODA, constant 2018 USD billion**



*Notes:* ‘Climate’ includes all spending marked as having adaptation or mitigation as principal or significant objective. ‘In-donor other’ includes debt relief, student costs, promotion of development awareness and administration costs. ‘Other’ includes everything else: loosely corresponding to ‘traditional’ ODA. CRS data pre-2006 is incomplete (OECD Technical Guide to terms and data in CRS, n.d.)

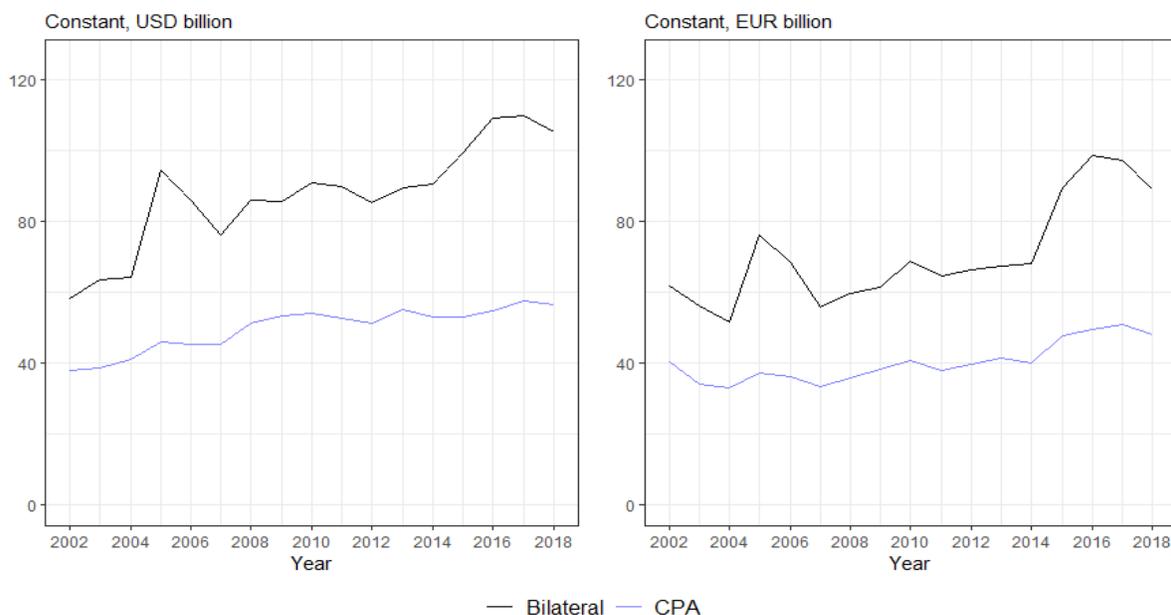
*Source:* CRS <https://stats.oecd.org/DownloadFiles.aspx?DatasetCode=CRS1>

The other large spending category which is often interpreted as a GPG/RPG-related is **refugee costs** within aid-provider countries, which dramatically gained in importance during the so-called “refugee crisis” in the mid-2010s. Following 2015–2016, total ODA jumps markedly (Figure 2), whereas CPA is broadly flat, so there is no clear evidence of a displacement effect from these episodes.

However, when examining trends in aggregate dollar figures, currency movements can obscure the impact of actual policy/spending decisions taken. The year that the number of people claiming asylum in Europe jumped (2015) also saw a significant appreciation of the dollar against the Euro, lowering the dollar value of aid from the Eurozone. When measured in EUR, the boost to ODA from refugee spending was even larger, but cross-border aid also saw a marked increase.

There are also issues with aggregating across countries with differing trends. Germany, which accounted for around 60 percent of the total increase in donor-country-refugee-ODA spending between 2012–2014 and 2015–2017, also recorded an *increase* in its non-refugee ODA spend (in constant dollars). To the extent that ODA declined after subtracting in-donor refugee costs, this was largely driven by countries that did not increase ODA spending on refugees (Australia and France recorded by far the largest falls in non-refugee ODA: in the former case refugee ODA also fell, in the latter case it was flat).

**Figure 2. Total DAC bilateral ODA and CPA, in USD and EUR  
(constant 2018 prices, billion)**



Source: DAC table 1 <https://stats.oecd.org/Index.aspx?DataSetCode=TABLE1>

Broadly, figure 2 demonstrates that there is much greater variation in “broad” ODA than in subsets that are truer to its original intention. When extraordinary ODA-relevant events occur, such as debt-relief in the 2000s and the “refugee-crisis” in the 2010s, spikes occur on top of relatively flat cross-border aid, suggesting that in these cases donors have allowed ODA/GNI ratios to vary, rather than letting such extraordinary events cut into other ODA.

## 2.2 Evolution of the ODA definition: (B)–The concessionality test

From its inception, the DAC was much preoccupied with the financial terms on which aid was given. Indeed, the 1972 ODA definition itself was partly an outgrowth of DAC discussions around the periodic renewal of its Recommendation on Financial Terms and Conditions, which attempted to set standards for the overall “softness” of official flows to developing countries (Scott, 2015).

The grant element was then, and remains, the best-known technique for combining in a single measure the impact of the key loan parameters of interest rate, grace period, and maturity. The 1969 Recommendation introduced grant element tests applying to total ODA. The 1972 revision of the Recommendation then tightened the ODA definition by requiring each individual ODA loan to have a minimum grant element of 25%, calculated at a 10% discount rate. This threshold then became the transaction-specific second ODA test in the 1972 definition quoted in full above.

This approach allowed 100% of the face value of loans complying with the threshold to score, and conversely, zero for any falling even slightly below it (arguably undervaluing loans just below the cut-off). Disbursements were then recorded as positive ODA and subsequent repayments of principal as negative ODA, whilst interest payments did not count. This implicitly failed to distinguish between more and less concessional terms, as both netted to zero over the lifetime of the loan. This formula stood from 1972 until 2014.

*Major debates and 2014 “ODA modernisation” (OECD “Modernisation of the DAC Statistical System,” n.d.).* The cliff-edge nature of the 25% qualifying threshold, and the uniformity and arguably excessive leniency of the 10% discount rate, regardless of actual lender and borrower market conditions, endured decades of criticism. It was also viewed as manifestly unfair that some DAC members could borrow on their home markets, lend on to developing countries at a profit, yet still have those loans score dollar for dollar as ODA alongside pure grants from other donors ( see e.g. Lowcock, 2014). At the same time, the fact that repayments on such loans counted as negative ODA meant that for these countries, current ODA figures were influenced by actions taken years in the past. These problems eventually led to major changes in the ODA concessionality test. These were decided in late 2014 and have been implemented from the 2018 reporting year onward.

This reform had three main facets. First, ODA loans were now to be scored only at their grant equivalent at entry, using reference discount rates. Second, there would now be three such rates, one for each per capita income category of borrowers, higher for low-income and lower for low-middle and upper-middle income (9%, 7% and 6% respectively). This was intended to adjust for the higher expected risk of default by lower-income borrowers. Third, there would also be higher qualifying grant element thresholds for lower-income countries (45%, 15% and 10%), ostensibly to encourage official lenders to respect the relatively weaker debt carrying capacity of poorer countries.

The grant equivalent system post-2014 undeniably brought some improvements over the earlier cash-flow system. Countries’ current ODA figures are no longer affected by decisions long into the past, which makes managing budgets easier, especially for countries attempting to hit particular ODA/GNI ratios. Interest payments are also factored into the calculation, meaning that a loan charging 2% will score less ODA than an interest-free loan, which was not the case under the cash-flow system which ignored interest payments. Contrary to what is sometimes claimed, the new rules are not necessarily more generous. True, actual loan repayments (as distinct from contractual obligations) are ignored., but these would only count as negative ODA if all repaid, and inevitably some will not be. In addition, the new concessionality threshold levels for low-income countries and LDCs are stricter than the old test (25% concessionality threshold at 10% discount with a discount rate of 10%) and the discount rates are lower than before for all countries, even if it was only used for eligibility, rather than for the amount of ODA actually recorded.

However, these discount rates remain exceptionally high for their intended purpose. The risk implied by the discount rates is far higher than that which has been realised on ODA loans historically (Ritchie 2020 b), and this has led to accusations that they are overly generous

towards lending donors (Atwood et al 2018). Indeed, the IMF uses a discount rate of 5% to calculate the grant equivalent of loans to least developed countries, lower even than the DAC discount rate for (purportedly safer) upper middle-income countries.<sup>4</sup> Using more realistic discount rates could reduce the value of bilateral loans by over a half.

**Table 1. Terms for calculating grant equivalent of loans**

Country group	Discount rate	Concessionality threshold
Least developed/low income	9%	45%
Lower middle income	7%	15%
Upper middle income	6%	10%

*Source:* OECD “Modernisation of the DAC Statistical System” <https://www.oecd.org/dac/financing-sustainable-development/modernisation-dac-statistical-system.htm>

As part of the 2014 negotiated package of reforms, all future principal repayments on pre-2018 loans—the gross disbursements of which had already been scored at 100% of face value—were henceforth no longer to be deducted from ODA. This, plus the shift to grant-equivalent reporting, had the immediate effect of improving ODA performance significantly for a few creditors, notably Japan, and a longer-term one of generating a very large artificial ODA boost many years into the future (below, section 3). *Total ODA in 2019, as reported a few months ago by the DAC (OECD 2020a) would have actually declined in real terms, were it not for an offsetting, nearly 4%, increase traceable directly to the new loan counting methodology.*

A number of tricky transition questions were left unresolved, or were re-opened, by the DAC after the landmark 2014 change. These include the treatment of official loans to, and equity investment in, the private sector, which thus far continue on the previous basis (cash flow for loans, and “book value”<sup>5</sup> for equity), and more generally the scoring rules for private sector instruments, which permit alternative, non-comparable scoring options. These we do not elaborate on further here, but continue to raise concerns (Griffiths 2018, Atwood et al. 2018, Scott 2019).

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<sup>4</sup> The IMF minimum grant element threshold is 35% however, slightly lower than the ODA eligibility threshold for low-income countries, but this is more than outweighed by the lower discount rate. As an example, a 25-year loan with an eight-year grace period (fairly typical ODA terms) would meet the concessionality threshold only for interest rates of 1.4 percent or less by the IMF definition, but 3 percent by the DAC definition. Loans that fail the IMF test cannot in principle be reported as ODA anyway, and countries under active IMF programmes are usually barred from incurring debt on such terms.

<sup>5</sup> Measurement of equities is often referred to as being on a cash-flow basis, but this is not quite accurate given the cap on recording negative ODA from profitable equity sales. See for example (OECD 2013) for more detail.

Most concerning of all, for present purposes, the DAC also failed to agree, right until July 2020, on the eve of a likely new debt crisis, on the treatment of future debt relief on ODA-eligible loans.

At this point the DAC decided that future repayments that are not made because of debt relief, appropriately discounted, should count as ODA (subject to the safeguard that the total amount recorded on a transaction should not exceed the original loan face value). However, given that principal repayment streams due on all pre-2018 loans (\$183 billion) have already been “cancelled” in full as deductions from future ODA, there is no case for claiming further ODA credit for any future forgiveness of that stock. No longer counting repayments is functionally equivalent to forgiving them under the old system, so effectively they now stand to be forgiven twice. This only applies to loans for which some repayments have been received prior to 2018, otherwise the safeguard referred to above ensures no further ODA is scored for debt relief. This is a timebound problem, relating to the transition between two systems, rather than a problem inherent in the new one, but nevertheless risks overstating ODA for some time into the future.

Secondly, for loans made starting in 2018, and now scored at entry at their grant equivalent, the risk-adjusted discount rates used in the grant equivalent calculation supposedly already factor in expected default, so scoring debt relief on top of that is also double-counting. In a background paper to 2014 DAC high level meeting, the counting of additional ODA for debt relief was explicitly ruled out (DAC 2014 b):

*“Given that the new system would value upfront the risk of default on ODA loans, the eventual forgiveness of these loans would no longer be reportable as a new aid effort”*

The final communique from this meeting (DAC 2014 a, annex para. 14) also recognised the risk of double-counting.

Third, one of the most contentious elements of the previous rules remained: the ODA eligibility of debt relief on officially guaranteed commercial loans, along with charges and accumulated arrears. We return to these three increasingly urgent problems in Section 3.

### **2.3 Progress toward the 0.7% target: The rise and the fall**

The origins of the 1970 UN goal of 0.7% of gross national product, later adjusted to GNI, have been well covered in the literature (see for example DAC 2002, revised 2016). A more eye-catching target of 1% of national income flowing to developing countries (sometimes credited to economist Arthur Lewis) had been in circulation for over a decade, but included private flows, over which donor governments had no direct control.

This point is worth emphasising in today’s context: the origins of the 0.7% target lay in a broader desire to encourage a flow of capital to developing countries. Absent private capital, the bulk of the effort fell on public capital, or ODA. Today, net capital flows to developing countries are negative. Any revision of development finance concepts, including ODA,

should start from the problem of reversing this “uphill flow,” both to help developing countries and to improve the efficiency of global capital allocation. And ODA can also be used to capitalise multilateral banks which can massively leverage private markets without further recourse to donor budgets (Kharas et al, 2020).

There have been very few commitments to attain a 0.7 percent ratio over a specific time period, and fewer still have been met. Phrasing has usually emphasised a desire to “exert best efforts” (UNGA 1970) or “make concrete efforts towards” (UN 2003) attaining the ratio. Clemens and Moss (2005) note that generally “donors promised to walk uphill, but not to attain the summit.”

This has changed slightly in more recent years. A few countries have made national commitments to maintaining, or reaching, the 0.7 percent target, and the UK has enshrined the target in nation legislation (HOP 2015), although sadly it has just announced (HOC, 2020) that it will propose amending the International Development Act in 2021 to a lower target of 0.5%, for an unspecified transitional period. This type of legislation is, or was, a relative rarity in terms of setting a fixed national output share allocated for specific purposes, regardless of the macro-fiscal context. For other countries it has equivalent political weight (Luxembourg for example has a formal policy commitment to spend 1% of GNI on ODA, but has stopped short of legislating this so far). At the other extreme, the US has since 1970 (Clemens and Moss 2005) stated clearly and repeatedly that it did not consider itself bound by any such target.

Figure 3 shows the historical evolution of ODA performance as a share of DAC GNI. After a brief period of optimism, total ODA from the DAC (darker blue line) has been consistently less than 0.4 percent of its GNI, with the 1990s a particular low point. The current aggregate level is just below 0.3%. These trends are heavily influenced by the US. In the earlier part of this period the US accounted for over half of both ODA and DAC GNI. Figure 3 therefore also includes an unweighted average of ODA/GNI ratios among the DAC (blue line), which gives a better indication of the average member’s policy stance. This average is currently close to mid-70s levels. Given that the US still comprises over 40 percent of DAC GNI, the continued decline in its ratio (from 0.21 percent to 0.16 percent over the last decade) outweighs increases elsewhere.<sup>6</sup>

The unweighted DAC average (light blue) line also supports the contention that the very existence of the target may have initially encouraged a rise in average ODA efforts in the early years. However, we cannot know the counterfactual of this trajectory absent a UN target, and it had started to rise well before 1972, perhaps in expectation of the UN approach. Similarly, we cannot know the hypothetical of what aid efforts might have looked like in later decades without the target: maybe it acted as a “conscience” brake on otherwise

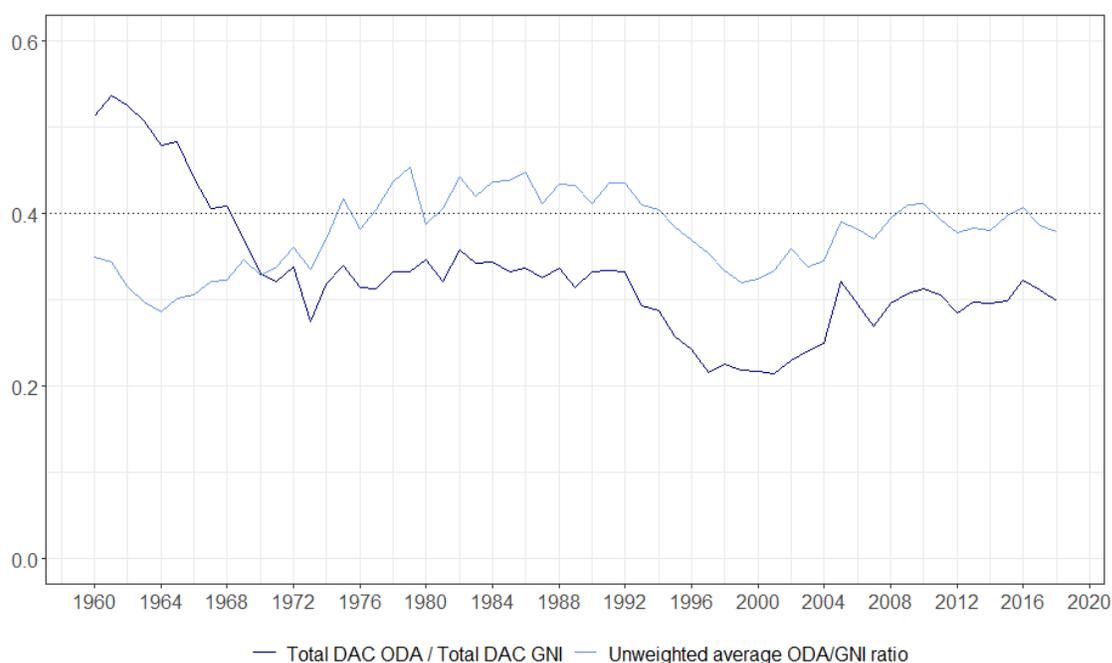
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<sup>6</sup> A minor qualifier to this trend is the changing grant composition of ODA. In 1960, the split between grants and loans was about 50:50. In subsequent decades the proportion of grants steadily increased, reaching a peak of 90% in 2005, suggesting donor effort increased more than the flat ex-US headline ratio might suggest. After 2005, the proportion of loans in ODA began to increase again.

much steeper falls. Nonetheless, average ratios have clearly stagnated for a very long time, around an extended bust/boom cycle in the 90s and early 00s, so it is hard to make a clear-cut case for any sustained, across-the-board positive incentive effect.

Note, finally, that the pronounced ODA “recovery” phase after the trough of about 2000 coincided with the advent of the Millennium Development Goals, a set of agreed outcome targets, as opposed to just input targets. ODA is also now an instrument (one of many) to attain the 2015–2030 SDGs, which include major action on global public challenges, as we discuss in the following sections. This lends support to the idea of an “upper tier” of public development finance focused on the GPGs, which we propose in Section 5.

**Figure 3. Historical trend in ODA/GNI ratios among DAC countries (%)**



Source: DAC table 1 <https://stats.oecd.org/Index.aspx?DataSetCode=TABLE1>

Only 5 of 29 DAC member countries (Denmark, Luxembourg, Norway, Sweden, and the UK) met or exceeded the 0.7% goal in 2019, and as we discuss below, the UK is about to leave the club. Since the ODA definition crystallized in 1972, three others, Netherlands (most recently in 2015), Finland (in 1991) and Germany (in 2016, thanks in part to a surge in refugee spending) have also met it, but have since fallen back. 11 other current EU countries, including Germany and France, have nonetheless periodically (most recently in 2015) reiterated their collective and individual commitments to meet it by 2030 (EC 2018). France’s forward estimates show that thanks to a surge in debt relief scoring, it will effectively meet the target in 2021, as we discuss in the next section. ODA performance relative to GNI has fallen significantly (by 0.03 GNI percentage points or more) in 12 out of 29 DAC members over the past decade, risen significantly in nine, and stayed roughly

constant in eight. Section 5 discusses the likely future incentive value of the target, as a glass half empty or half full.

### **3. Three major ODA fault lines exposed by COVID-19**

This section considers three major risks that COVID-19 raises for development aid funding, linked to known weaknesses or “fault lines” in the inherited ODA definition and/or the formulation of its headline 0.7% target. We begin with the latter, and how the ratchet effect of linking aid to national income can go into reverse in a deep recession. We then look at the unresolved ODA “accounting failures” related to debt, particularly debt relief, which could become increasingly relevant if, as we expect, widespread debt restructuring initiatives are called for in the wake of COVID-19. Finally, we introduce the more fundamental blurring of the line between development finance and the funding of action against global challenges, of benefit also to donor countries, and the growing “wedge” the latter are likely to occupy within ODA.

#### **3.1 Problem 1: ODA ratio targets can have unpredictable effects in a synchronised global recession**

As of October 2020 (IMF 2020), GNI is projected to fall in advanced economies by 5.8% in 2020, and by even more for the Euro area (8.3%) and the UK (9.8%). For the four (European) donor countries still thus far respecting the 0.7% target, when its denominator falls at such a rate, the aid spending in the numerator is clearly vulnerable to the obvious pressures of skyrocketing budget deficits and austerity at home. Initial indications by the UK Government (UK Gov 2020), for example, were that the aid budget will be cut by up to £2.9 billion, or over 18% of the originally planned amount based on 2020 GNI projected pre-COVID. This is intended to redirect the savings to other national priorities. However by November 2020, (HOC 2020), this position had changed to cutting the target itself to 0.5%, for a total saving of £5 billion per year, for an unspecified period of economic recovery. Legislation to that effect is to be presented “in the second half of 2021”, implying no reversal before 2022 at the earliest, if the proposed change passes. There is a risk that in other countries without a legally mandated minimum ratio, cuts could also overshoot a falling, but unknown, GNI—i.e. that the floor does not hold. Budget corrections in 2021 and beyond may also lag underlying output recovery and its statistical reporting by many months at least. Figure 4 shows that while a few countries maintained increases in ODA even as GNI fell in 2009, this was against the trend, and a greater number saw more-than-proportional declines.

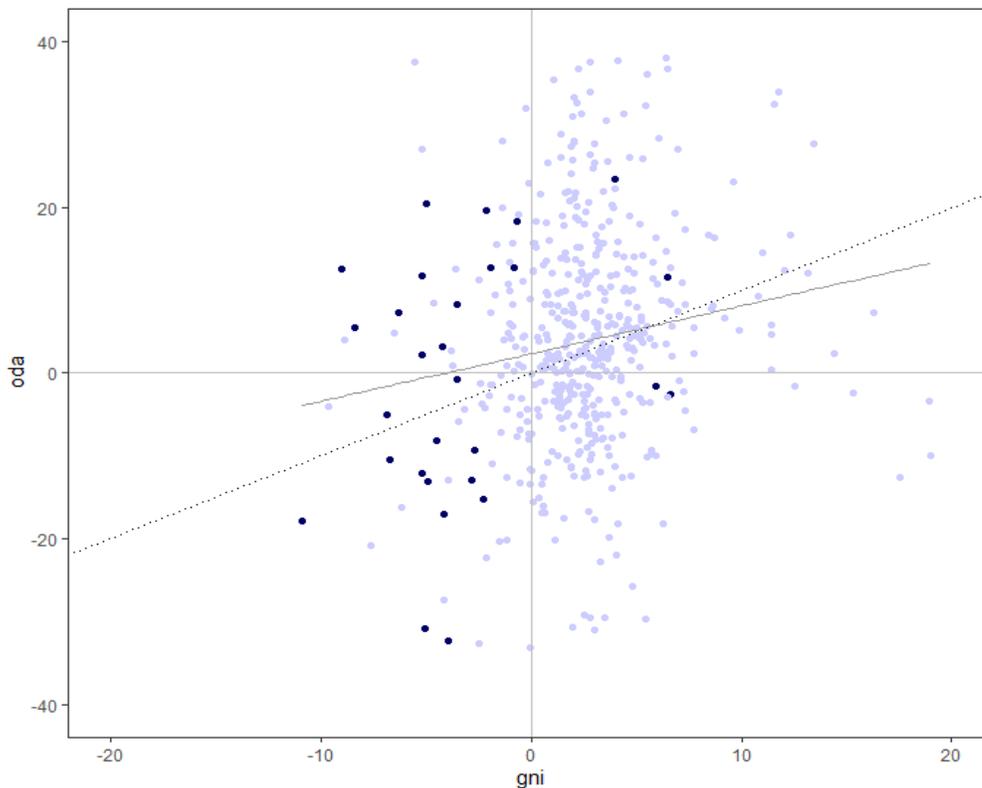
For one or two countries not far below 0.7% immediately before the pandemic—notably Germany at 0.6% and the Netherlands at 0.59%—there might be an offsetting temptation to stick to earlier planned absolute aid budget levels, and thus make it easier to reach 0.7% (again) sooner. That choice needs to be weighed against the obvious political appeal of redirecting the equivalent savings, or most of them, to more pressing crisis-related needs. The case of France is particularly interesting, as its sharp current fall in GNI, associated with a sustained aid budget, is responsible for a first-round forecast increase in the ratio, from .44

in 2019 to .52 in 2020 (MAE, 2020). Then in 2021, debt relief alone (on currently negotiated Paris Club arrangements) will add over a quarter to French ODA, helping take it to the brink of the target, at .69%, and potentially overtaking Germany, and certainly the UK, as the most “generous” G7 country. The political dynamics of this shift, hinging also on the continued credibility of ODA scoring, will only become apparent over time.

For the vast majority of DAC members for whom the 0.7% horizon, if still meaningful at all, is still at best remote (say at least one or two electoral cycles away), the savings incentive presumably dominates. Indeed, some cosmetic combination of maintaining or marginally improving the previous ODA ratio, while also redirecting major absolute savings to other priorities, could prove irresistible. The overall risk is therefore slanted one way.

Aid behaviors during and after the Global Economic and Financial Crisis of 2008–2010 may or may not be a useful guide to likely donor reactions this time round (table 2). Overall (real terms) ODA peaked in 2010, fell in 2011 and 2012, then recovered in 2013 to 2010 levels.

**Figure 4. Annual % change in GNI against annual % change in ODA by country between 2001–2018, (constant 2018 \$) (2009=dark blue)**



*Note:* Each point is the percent change in ODA against the percent change in GNI for a specific country-year combination, for DAC countries between 2001 and 2018. While there is a relationship between declines in GNI and contemporaneous declines in ODA, it is weak, possibly as a result of structural lags in aid programming. The grey line is the line of best fit; the dotted line is the 45-degree line.

*Source:* DAC table 1 <https://stats.oecd.org/Index.aspx?DataSetCode=TABLE1>

**Table 2. Total DAC ODA and GNI since 2008 (constant 2018 \$ billion)**

		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Value	ODA	119	121	128	127	122	128	130	138	154	153	150
	GNI	40,255	39,524	40,883	41,370	42,839	43,136	44,052	46,460	47,700	49,247	50,313
2008=100	ODA	100	101.5	107.1	106.2	102.1	107.5	109.2	116	128.8	128.5	125.7
	GNI	100	98.2	101.6	102.8	106.4	107.2	109.4	115.4	118.5	122.3	125

*Source:* DAC table 1 <https://stats.oecd.org/Index.aspx?DataSetCode=TABLE1>

There are structural lags built in to aid programming which may explain part of this delayed effect. The rebound however, was aided by an arguably non-replicable factor: the long-standing cross-party UK commitment to reach 0.7% by 2013, which in a major timing coincidence was confirmed in the incoming 2010 coalition government’s manifesto. This was actually achieved on schedule, by increasing UK ODA in the single 2012–2013 year by a record 28% in constant dollar terms (DAC table 1), or 30% in domestic currency. This huge increase (\$4b approximately) on the part of the then third-largest DAC donor explained over half of the total net DAC improvement over 2012 levels, and hence its bounce-back from the crisis. Between 2009 and 2012, however, a clear majority of 18 out of 27 DAC countries reduced their ODA volumes relative to GNI, albeit mostly by relatively small amounts.

The 2020/2021 situation, and the appetite for collectively counter-cyclical aid pledges by the DAC, looks much more fragile by comparison. In particular, it does not benefit from any obvious major “champion” as in the earlier UK-led case. The muted wording of the recent DAC undertaking, only to “strive to protect” (DAC 2020a) aid levels in the face of likely fiscal constraints, is indicative of this lower level of resolve. We must assume that absolute aid cuts—hopefully, not entirely in line with GNI—will become the norm by the 2021 budgetary year in most donor countries. Recovery of GNI thereafter may also be relatively gradual, in some cases incomplete in 2021 alone, so 2022 aid budgets are also likely to remain under heavy pressure.

The truly global nature of the shock from the pandemic illustrates an oft-noted problem with focusing on an input target: resources fall exactly as needs are rising. A target that was linked to developing country needs would obviously be moving in the opposite direction to that currently in place.

Another question however is what aid actually consists of—how much of the numerator will remain “real aid”—to which we now turn.

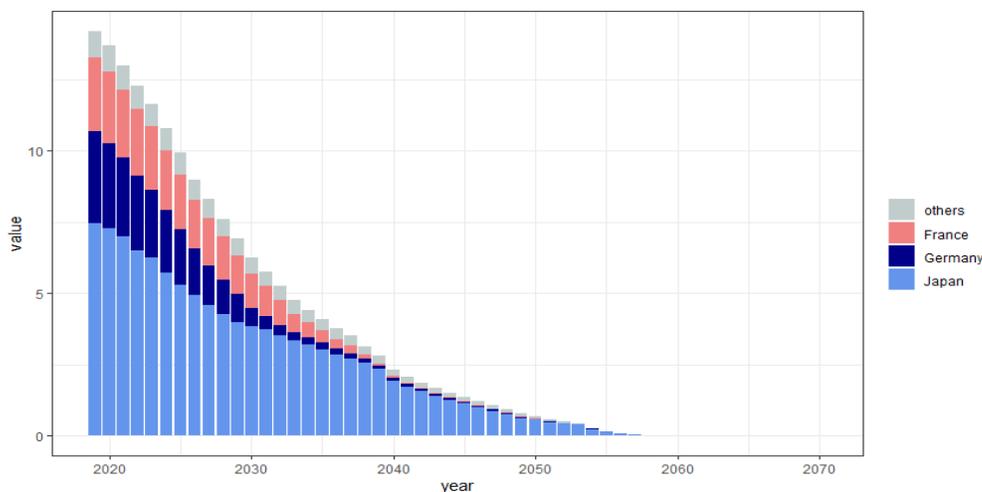
### **3.2 Problem 2: Large-scale ODA double-counting of debt and debt relief**

As explained above, the DAC’s 2014 decision on scoring of public sector ODA loans left some major unfinished business. Several knowledgeable observers cited earlier, not least respected former DAC chairs and senior statistical advisors, had long lamented the resulting

inconsistencies. Robust long-term comparisons with the new measure are all but impossible, although to their credit the DAC are still producing the information with which to calculate ODA according to previous rules. Now however, on the eve of what may turn out to be years of large-scale debt relief negotiations, this topic assumes renewed urgency. Flawed debt relief accounting rules, including those relating to debt held by private creditors (which are unchanged, but have always been controversial), now on a much larger scale compared to earlier crises, could result in ODA being massively diverted and/or diluted, away from its core development purpose. Evidence from previous debt-relief episodes—when this risk did not materialize as much as may have been expected—gives some cause for hope. But whether past experience is a good guide is not yet clear. (As noted, France has already signalled it will count significant amounts of debt relief ODA in 2021 (over a quarter of its total ODA), and that this may even help it reach the 0.7% line, at least for one year (MAE 2020). That may flatter its performance relative to other donors, but so far its stated intent is to maintain and improve, albeit at a slower growth rate, non-debt ODA also).

There are several different levels of concern involved here. The first, as mentioned already, is that the entire nominal stock of pre-2018 ODA public sector loans meeting the old 25% threshold, which stood at \$183 billion in January 2018 (CRS), was counted as ODA going in, but subsequent principal repayments no longer count as negative ODA ever after. Creditor countries as a group simply “forgave themselves” these amounts, by cancelling their obligation to report loan principal repayments. In the years immediately following 2018, we estimate that this decision equates to an annual boost to ODA of around \$14 billion, which is heavily concentrated in three countries: Japan, France and Germany. This figure will decline over time as loans expire, but we estimate that these countries will receive a significant boost for decades to come (figure 5). To be clear, this is a result of the transition, and is therefore a temporary problem, but one which will extend for many years.

**Figure 5. Estimate of ‘ODA boost’ from transition to new system (USD billion)**



*Notes:* Estimate is based on loan repayment dates and equal principal payments, and does not take into account arrears (loans for which there are outstanding amounts but should have been repaid already) of around 2% of total outstanding debt amount. The area under the chart otherwise equals total outstanding debt amounts.

*Source:* CRS <https://stats.oecd.org/DownloadFiles.aspx?DatasetCode=CRS1>

This figure shows the amount of ODA debt outstanding, spread over the remaining repayment period of the relevant loans. This is the ODA effect of the one-time repayment concession in isolation, ignoring all future lending.

The July 2020 DAC decisions on debt relief (OECD 2020b), in consultation with the Paris Club of creditor nations, attempted to draw a line under such concerns, but as we shall see have signally failed to do so, instead creating further problems.

The central thrust of the new decision is to allow ODA lenders who reschedule loans to score as ODA the difference between the present values of the old and the new payment schedules, using the same battery of discount rates. It also introduced what appeared to be an important safeguard. To ensure that the new debt relief approach “does not generate more ODA for a loan and subsequent debt relief than a standard grant would generate” (OECD 2020b, p.2), the maximum relief scorable as ODA cannot exceed the difference between the face value of the original loan and its grant equivalent. This means that if an ODA loan of \$100 was made with, say, a 46 percent grant element, the maximum debt relief that can ever be scored is \$54.

There are five problems with this arrangement. Together, they undermine the coherence of the definition, mixing up conceptually different quantities and making it unclear what is being measured (neither donor effort, nor resources available to recipients are well reflected by the new rules). Moreover, they risk powerfully incentivising the provision of loans over grants, and rescheduling over forgiveness, as well as significantly exaggerating ODA. Loans are of course valuable development instruments, and we are not arguing against loans or for grants per se. But loans and debt relief should be treated neutrally in ODA; we argue they are not. We outline the key problems below, but for a more detailed explanation of the key problems see (Ritchie, 2020a), or for an exploration of some fundamental underlying issues, see (Riegler, 2020b):

- The *first is using discount rates which already factor in non-repayment risk*. This problem was already recognised by the DAC Chair in 2017 and by earlier communiqués from DAC high level meetings (DAC 2014 a, b). The discount rates already factor in the expected risk of non-repayment, thereby allowing more ODA to be scored up front when lending to “riskier” countries: the grant equivalent can be thought of as measuring *expected* losses. When *actual* losses are added in the case of debt relief, there is by definition double-counting.
- The *second is not counting past repayments against the relief cap*. Repayments of principal received by ODA creditors prior to loan rescheduling, or cancellation, do not count against the maximum relief cap. This means that it is possible for donors to score ODA up to the maximum even after recipients have made substantial repayments on a loan.
- The *third is giving double allowance for repayments made before 2018*. As explained earlier, repayments on pre-2018 loans no longer count as negative ODA: they have effectively been forgiven already from the donor’s perspective (and ODA is

supposed to be a fair measure of donor effort under DAC modernisation). Counting additional ODA in the case of debt-relief is therefore completely unwarranted, but is allowed by the new rules in any case where some repayments have been made on such loans pre-2018.

- *The fourth is the eligibility of relief on non-ODA commercial loans.* The July 2020 decision confirms earlier years' DAC rulings that ODA will continue to be scored for relief given on commercial loans, essentially export credits underwritten by DAC members' official guarantee agencies, and subsequently forgiven. These agencies are supposed to be strictly self-financing under OECD competition rules, and the eventual forgiveness of these credits and associated calls on guarantees therefore typically involve no fiscal effort by creditor countries. It is essentially an accounting entry between different government branches within the creditor/guarantor country. Despite this, DAC policy allows the entire face value of the cancelled commercial credit to be counted as ODA, plus accumulated interest and penalty charges, but ignoring all premium income received. Moreover, the ODA loan cap safeguard does not appear to apply to them, meaning forgiveness could count for much more than if a grant had been made instead. This may improve the recipient's fiscal space, but it is hard to argue that it accurately reflects donor effort.
- *The fifth is overcounting of loan arrears.* When loans go into arrears before being forgiven (as is mostly the case) the amount recorded as ODA relief will usually be more than the amount actually owed. This is because, while future payments are reduced by a discount factor to bring them into "current year's value," payments that *should* have been made in the past are compounded by the same discount rate, despite the fact that these rates explicitly take into account default risk and so should not be used retroactively. Unless penalty charges etc. also compound at such high rates (1.09 per annum for LDCs), then the amount "forgiven" will inevitably grow faster than the amount contractually owed. A donor could then record higher additional ODA than if they had instead given a grant to cover the amount owed.

Left unchanged, the combined effect of these decisions could potentially inflate the ODA numerator over the next several years with tens of billions of dollars of accounting entries,<sup>7</sup> corresponding to few or no additional resources actually provided to developing countries. These decisions were intended to correct for previous flaws in the ODA system, but in our view, the new rules on debt relief are not a sufficient positive forward step, and introduce more problems than they solve.

To the extent that individual donor country postures with regard to their ODA targets remain unchanged, or become more bearish on the whole than they are today, these highly questionable accounting items could also substitute dollar for dollar for the rest of ODA. At

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<sup>7</sup> Author's assumptions based on previous debt relief episodes and current stock of outstanding ODA debt.

the very least, by making any earlier ODA target far easier to meet, they will reduce pressure to maintain or increase other, more clearly developmental spending.

### **3.3 Problem 3: The increasingly blurred line between “development” and donor “enlightened” self-interest: Global public goods and ODA**

Protecting the global commons, including from pandemics, but also unsustainable climate change, migration, and related challenges, sits at a natural boundary between the self-interest of donor countries and their solidarity with developing countries. One obvious concern is that at any given level of ODA, a more inclusive attitude towards using aid to fund GPGs potentially means less remaining ODA for more traditional purposes (i.e., ODA provided primarily or solely for the benefit of the recipient, without regard to regional or global spillover benefits). Whether such trade-offs correspond meaningfully to developing country priorities or not (would they prefer more support for education and less for carbon emissions reductions or *vice versa*, for example?) is a moot point. They should at least be given a voice in the matter (see below, Section 5).

The relationship between development aid/ ODA and GPG funding, especially for climate change, has been a difficult one historically. There have long been powerful arguments (Kaul et al. 2015) for funding such action entirely outside of development aid, including through new global revenue streams (e.g. levies on emissions trading or global financial transactions). More recently, particularly after the Paris Climate Change Agreements (2015), climate activists as well as developing countries have increasingly insisted on “new and additional” funding for climate change, including in relation to existing or committed levels of ODA. The phrase “new and additional” has been interpreted in different ways, and so the argument that finance for climate mitigation is crowding out other uses of ODA is better assessed at the donor level. Two polar examples discussed in Box 1 illustrate this (Calleja 2020, forthcoming).

### **Box 1. Climate finance additionality—a tale of two countries**

Luxembourg has an explicit policy of not counting any new climate finance towards its ODA, even when otherwise eligible by DAC rules (it takes the same clear-cut approach to excluding in-donor refugee spending). In conjunction with a firm national 1% ODA/GNI target, comfortably exceeded in 2019, it seems likely that its climate finance spending is entirely additional, all the more so to the minimum 0.7% UN target.

The UK has also stated that climate finance will be on top of existing ODA commitments, but this is hard to reconcile with its actual funding decisions. The UK’s legal requirement to spend at least 0.7% of GNI on ODA has consistently been treated as a ceiling as well as a floor: the UK has hit 0.7 more or less exactly since 2013. As such, new climate mitigation initiatives introduced since then and counted as ODA are clearly not on top of existing ODA commitments. Since then, the UK has committed around £6 billion in international climate finance (UK Devtracker), and another £1 billion to the climate-mitigation focused Ayrton Fund (UK Gov, 2019), along with substantial amounts to other climate-focused international funds. This spending is surely worthwhile, but given that it all counts as ODA, it is clearly displacing other ODA that would otherwise have been required to meet the 0.7 legislation.

UK finance for climate mitigation may yet be additional, but only in the narrower (and not very meaningful) sense that there were no such mitigation commitments on the books at the time the additionality pledge was made. But the claim that such commitments are on top of pre-existing ODA commitments is harder to defend.

The DAC has attempted to identify the extent of this climate/development overlap by using so-called “Rio Markers” to assess where development aid programmes contain strong elements of climate change mitigation or adaptation, though not necessarily how much.<sup>8</sup> This qualitative scoring system is a little like identifying by colour alone, or a quick sip, that there is some syrup in a glass of water, without being able to separate the respective volumes of each. We discuss the limits to this approach further in Section 4. Note also that actual quantification of climate change finance comes under the mandate of the United Nations Framework Convention on Climate Change (UNFCCC) (although, many countries explicitly use the marker system to identify their external climate finance when submitting data to the UNFCCC, (UNFCCC 2019 a, b)).

### **GPGs, ODA and health care in the pandemic age**

The original, ring-fenced concept of ODA—concessional spending whose main objective is the development of poorer countries is coming into question, as we saw in section 2. This pressure would have been difficult to withstand in normal times, but post-COVID, with huge additional spending requirements on, say, scientific R&D that clearly has GPG

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<sup>8</sup> There is of course much climate finance provided that falls outside the scope of ODA entirely, as discussed in Section 2 above

characteristics, the threat to traditional ODA is all the more urgent. The temptation to change ODA definitions, or allow more flexible reporting, so as to include much more such spending—maintaining the appearance of large ODA budgets while strictly development-focused flows to developing countries fall—will be strong.

The benefits of such spending, which governments worldwide should rationally encourage at greater scale and speed than private investors would undertake by themselves, are ultimately reaped by all humanity, not just the citizens of the successful research locations (assuming appropriate intellectual property regulation etc). But as over three-quarters of humanity lives in developing countries, by what right would we not also consider those countries' welfare as the main objective in the case of tackling health pandemics? On the other hand, unless ODA/GNI ratios rise to accommodate this additional load—which looks unlikely given past trends—counting such spending, even if evidently worthy, means less ODA resources available for developing countries for all other purposes.

Two further problems emerge from allowing a more “inclusive” interpretation of GPG-related spends. One is that existing activities, or activities that would have happened anyway, now might meet the definition, including large increases in official in-provider support for R+D. This was found retrospectively (NAO 2017) to have occurred in the case of the UK in 2017, though the UK could be an outlier, given the specific national context of meeting the statutory 0.7% target at the time.

Secondly, there is likely to be considerable variance in both the understanding and practical implementation by donors of the current ODA standard for mitigation-related scoring. Officially, for eligibility, the primary objective must first be the economic development of developing countries, after which, for Rio Marker purposes, the principal (or significant) objective of the same programme is identifiably climate change mitigation. A common-sense, but wrong, interpretation is more likely to conflate the two, i.e that such a programme is principally justified by climate change mitigation, not development, in the first place. R+D for health research, and especially in the current crisis for COVID vaccines and treatments, is another debatable case. The DAC (to its credit) has so far proposed that such upstream, GPG-related health R+D should NOT count as ODA, and has therefore, for example, excluded COVID-earmarked, as against core, contributions to CEPI for this purpose. Specifically, they argue “research for a vaccine/tests/treatment for COVID-19 would not count as ODA, as it contributes to addressing a global challenge and *not a disease disproportionately affecting people in developing countries*” (OECD 2020b, our italics). Although this effort to set a clear boundary is laudable, we wonder if it will make practical sense much longer in a world where most major health burdens, communicable and not, are rapidly converging between developing and developed countries, and people living in developing countries form the overwhelming majority on the planet.<sup>9</sup>

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<sup>9</sup> Health burdens, including not just communicable but non-communicable diseases like cancers, cardiovascular illness and diabetes, are converging across country income groups, especially between upper- middle-income and

The post-COVID displacement effect for health is not anyway limited to upstream R+D, but linked more widely to a likely surge in health-related spending, most of which already unequivocally counts as ODA. Some elements of R+D cost will anyway be factored into ex-factory drug and vaccine prices, even if these are capped by private-public agreements at break-even levels, at least for delivery to low-income markets. Those prices underpin the subsequent massive distribution and delivery chain, right through to patients in primary care settings in developing countries.

A current working assumption (Gates 2020) is that a substantial majority of the population of developing countries (itself over 6.2 billion), to reach herd immunity, needs to be reached at an average “in arm” treatment cost of about \$3 per dose, and that perhaps two shots will be needed per person, in which case there would be a first-year ODA-eligible cost of the order of \$20–25 billion, with recurring spends thereafter contingent on multiple effectiveness and immunity factors. This initial cost probably already factors in some level of official or philanthropic subsidies, without which ODA-eligible costs would be even higher. Over and above these ‘unprecedented’ immunisation campaign costs, there will be large additional investments needed in health systems and infrastructure, drug treatments and diagnostics etc. These are all completely legitimate uses of ODA, it must be stressed. However, is not hard to see how this would all heavily crowd-into the remaining ODA, even if official R+D spending on COVID in aid provider countries is not fully ODA-eligible as such. This also partly explains official interest in establishing a new “COVID-19 marker” (See section 4.2)

There is no “magic bullet” solution, therefore, based simply on excluding all GPG/RPG-related spends, or including only those with “disproportionate” impact on developing countries. A more logical and sustainable route would be to give clear credit for growing investments, and perhaps set targets for them, but also keep them distinct from ODA. We revisit this idea in the final section.

#### **4. Risk mitigation strategies: A proliferation of alternative development finance measures**

This section looks closer at two classic ways that donors and donor groups like the DAC have sought to reduce the risk of dilution and loss of credibility of the aid/ODA definition, especially as a result of encroachment by GPG-related spending. The *first* such defence has been to suggest new, broader concepts of development finance that complement ODA, which may make it easier to keep the latter to a stricter definition. The most fully elaborated such concept is TOSSD (Total Official Support for Sustainable Development), which is not without its own problems, especially if intended as a “shield” for ODA. Alternative, narrower metrics have also been suggested by non-governmental researchers, including

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advanced economies, to the extent that screening out health R and D likely to be of benefit “primarily” or “overwhelmingly” to advanced countries and not others becomes increasingly difficult, if not entirely futile (Rogerson and Blampied, 2018).

CGD, which strip out most of in-donor spends and simplify concessionality, thereby “cleaning up” some of ODA’s more controversial elements. The *second defence*, already alluded to above, is to extend the use of markers, and advocate that donors at least increase ODA more than they do their specific GPG-marked components. We argue here that neither route is likely to have enough traction to save ODA from continued erosion/dilution and the disincentive effects that entails. (A *third* track therefore is needed, perhaps involving re-imagining the ODA target itself, which we cover in the fifth and final section.)

#### **4.1 “Beyond ODA” and “real aid” approaches as a way of protecting core ODA**

As criticisms of ODA have proliferated, so too have suggested alternative measures. These include “Real aid,” Official Development Effort, International Development Contributions, Finance for International Development, Effective Development Assistance (Chang et al 1998) and Net Aid Transfers (Roodman 2012), and surely others, which add to the OECD’s own CPA, presented above. Although they all share discontent with certain aspects of ODA, they have all been developed with slightly different purposes in mind and so there has been little coalescing around any one alternative. We list some prominent alternatives here, not to endorse any particular set, but to document their proliferation; we remain agnostic here on the merits of each.

Perhaps the earliest alternative metric is “real aid.” However, rather than a single alternative metric, this means different things to different organisations. The term goes back as far as 1982 at least (Independent Group on British Aid 1982) but has been in more common use since 2005 (Action Aid 2005). This report stripped out numerous spending items, including aid with “a lack of poverty focus,” technical assistance (their choice, not ours), debt relief and others, to arrive at a “real aid” figure which was 39 percent of official ODA. A number of organisations, including both EURODAD and “Reality of Aid,” now mostly use the term to refer to ODA with only in-donor refugee costs and imputed student costs removed (e.g. Poel, 2020).

Another measure, proposed by Hynes and Scott (2013) , is Official Development Effort. This primarily strips out a number of items spent in the donor country—including in-donor refugee costs, “development awareness” programmes, imputed student costs, along similar lines to the Country Programmable Aid (CPA) aggregate (Benn et al, 2010). Hynes and Scott also suggested counting only the grant element of loans (a pivotal change adopted by the DAC in 2014, as reviewed above). Moreover, consistent with this approach, debt relief was excluded. More recently, CGD produced a similar measure—Finance for International Development—primarily with the purpose of being able to compare a broader set of countries, but which also took the opportunity to remove controversial elements. In principle, it also removed the concessionality threshold altogether by including all loan grant equivalents, where data coverage allowed.

As well as these new measures, there exist complementary indicators that assess the quality of ODA spend, such as QUODA (Birdsall et al. 2011) and the Real Aid Index (ONE

Campaign). Among other things, these consistently draw attention to the proportion of aid actually spent in recipient countries. While the tactics are different, the overall purpose is the same: to pressure governments to prevent what is seen as further deterioration of ODA by highlighting these adverse trends. At the same time, greater granularity and transparency of aid data, including DAC data, and more user-friendly reporting formats have greatly improved civil society scrutiny.

These multiple efforts do not seem to have checked the creeping expansion/dilution of the ODA basket. As demonstrated in section 2.1, spending surges on categories long out of favour (e.g. refugees, debt relief) respond to current events rather than steady accounting principles. One potential reason is that these alternative measures comprise an ‘embarrassment of riches’: there are sufficient new measures available for it to be difficult for civil society and researchers to coalesce around any one alternative. If they were able to, this may have more influence. Moreover, even these modified metrics only imperfectly address the more serious fault lines highlighted above, e.g. climate-related and health-related GPG spends, which are becoming much harder to disentangle from ODA.

**TOSSD** (Total Official Support for Sustainable Development) is in a different league, at least in its intent. This fully elaborated new set of statistical directives (as of August 2019), proposed by a broadly representative international task force with mainly OECD support, but not yet fully reviewed or approved by the UN as such, is ambitious in scope. It aims to collect in one place, alongside ODA, all official finance of arguably major value to international development as elaborated in the SDGs.

Its first pillar (Benn et al 2019) collects cross-border flows that are in part less concessional than the post-2014 ODA rules, including multilateral bank loans measured as outflows and private flows that are directly “mobilized” through official support. Its second pillar brings together a whole array of spending on broader development challenges, including GPGs in the climate, scientific research and security arenas, which do not now qualify for ODA (but still have major development benefits). TOSSD’s main aim is to add value by identifying a broad range of finance useful from a recipients’ perspective. At least implicitly, it could also potentially protect ODA by deflecting further demands for expansion/dilution of its basket into the new metric.

Almost from the beginning, however, it has drawn widespread criticism, mainly because of the perceived dangers of “leakage” to and from ODA (e.g. Besharati 2017) and because of the apparent inconsistency in measuring support for global public goods, such as climate finance, without acknowledging actions which undermine them, such as fossil fuel subsidies (Griffiths 2015). More recently, there have been critiques of TOSSD (Riegler 2020a) focused on the significant areas of overlap between ODA and TOSSD. The latter for example uses a broader interpretation of the “development” test, but a tougher standard for grant element calculation (for concessional loans), than the former, a change we understand to be at the specific request of developing countries themselves.

**Figure 6. TOSSD framework**



Source: TOSSD Survey report <http://www.oecd.org/dac/tossd/TOSSD-Survey-Report-A4-Brochure-final-1505-spreads2.pdf>

TOSSD’s component parts are heterogenous-much more so even than ODA-and therefore their aggregation is not easily interpreted within, let alone, across the two pillars. To their credit, its proponents have never proposed targeting TOSSD as a single aggregate measure. But if and when its component parts are agreed and regularly tracked, that is most likely what will start to happen anyway. So, for example, the recently published 2019 TOSSD Survey (DAC 2020c) identified a headline \$295 billion of TOSSD, of which some \$80 billion accounted for by official spending on global challenges, and \$215 billion for an expanded set of cross-border flows, including development finance on non-concessional terms. It also recorded \$40 billion of “private finance mobilised by official interventions.”

Such aggregates already partly include, and can be contrasted with, ODA in different ways, some more legitimate than others. There will be strong perverse incentives for provider countries that do not perform well using conventional ODA definitions to cite selectively instead, or as well, any relatively more favourable positioning under one or other TOSSD components, leaving the general public bemused or misinformed.<sup>10</sup> Think, for example of the vast R+D support budgets of the US government, an order of magnitude larger than most other providers (with the notable exception of China). The possible blurring of the line between private flows and official support likewise draws concern.

<sup>10</sup> To some extent this is already possible, but ODA currently retains primary focus as a measure of donor effort, meaning it is harder to credibly select and present other, more favourable measures.

Some of these problems could be sidestepped (Kharas and Rogerson, 2016) if TOSSD was strictly limited, as was arguably its original intent (OECD 2016c), to provide only a resolutely recipient-focused perspective on different types, sources and terms of development finance flows. The international community should reject, if at all possible, their subsequent use as any new benchmark of provider effort. But by the same token, any implied protective wall around ODA would be weaker.

## **4.2 Pushing “markers” to the limit, to slow down GPG encroachment on ODA**

The idea here is to document systematically what proportion of ODA is going toward GPG-related purposes, be it climate change or the control of infectious disease, as an evidence base from which to try to protect the rest of ODA from excessive encroachment. This is done in the first place by detecting if and where the overlap is occurring and secondly, if necessary, by agreeing on minimum and/or maximum shares by type of ODA, with and without substantial GPG elements.

Originally, ODA markers—for example for so-called “Women in Development” in the 1980s—were tools for recognising how much emphasis was given to some dimension or theme *within* development aid. Asking aid agency staff to identify and report systematically on such priorities undoubtedly helped spread awareness of their importance. Their subsequent extension to obvious GPGs like climate change mitigation, however, sits more awkwardly alongside the ODA “development main objective” test, unless one can be confident that national development impacts alone fully justify the relevant programme—which is the ODA test at present. This, in turn, is hard to reconcile with the definition of “principal” objective offered by the “Rio Markers Handbook” (OECD 2016b) which states that for a principal marker to be applied (either mitigation or adaptation), it has to be that “the activity would not have been funded (or designed that way) but for that objective” (p.5).

In practice it is often impossible to disentangle intended climate *mitigation* benefits completely from traditional economic development ones. Japan provides a clear illustration of this. Nearly a fifth of all ODA with a “principal” climate mitigation objective from 2006–2018 is accounted for by Japan’s investments in the rail sector, mainly in a handful of metro-rail projects in India (CRS data). These programmes could arguably be justified on other, economic grounds (Donaldson, 2018), and indeed similar projects from other countries are not marked as having the same principal objective.

The sheer variety of potential co-benefits of such projects allow for subjectivity in the application of these markers. Our preliminary analysis shows that donors are typically increasing the mitigation “intensity” of their ODA scoring within specific programmes or sectors they are already focused on, rather than switching their ODA towards sectors more traditionally associated with climate mitigation (Box 2). There is also increasing recognition of the intrinsically high mitigation content of some types of project (the share of “Energy policy and administrative management” projects with a climate mitigation marker has risen from 12 percent to 72 percent between 2008 and 2017), alongside expanded claims of

climate benefit from less traditional sectors ( the share of “Financial policy and administrative management” projects with a climate mitigation marker has risen from zero to 55 percent over the same period). This is not to suggest that mitigation-markers are necessarily misleading, only that the DAC should be concerned that the increase in the amount of spending so marked represents a real change in behaviour, rather than seeking additional credit for pre-existing activities.

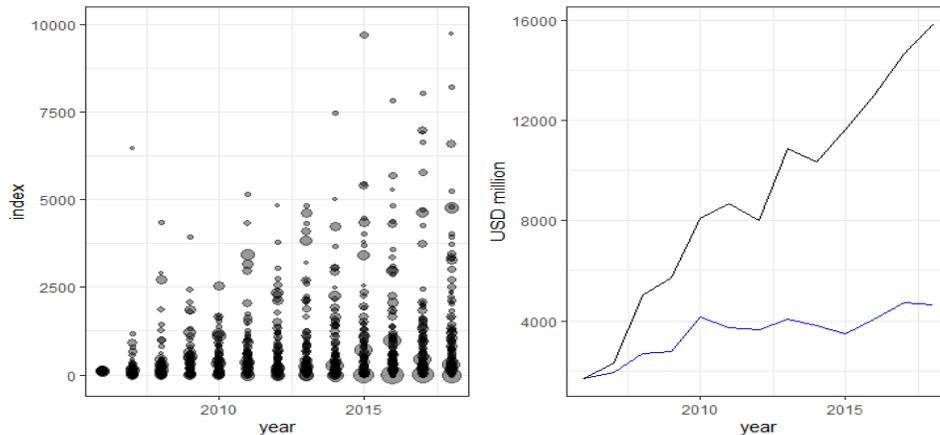
In the case of climate *adaptation*, strict separation is even harder. If attaining a higher stage of development is one of the most effective ways to increase resilience to climate change, arguably all ODA could be classed as adaptation which would call into question the usefulness of such markers. Where there is a specific climate-adaptation goal (building a seawall to protect coastal agriculture) identifying the climate-specific costs and benefits presumes hard-to-measure counterfactuals (how high would the seawall have needed to be in the absence of global warming?). In practice, almost any adaptation activity is fully and legitimately ODA scored under the relevant development area (agriculture, reforestation, infrastructure rehabilitation etc). Separating climate finance from traditional ODA will therefore always be more of an art than a science, and as pointed out above, it anyway falls within the mandate of the UNFCCC not the DAC. However, by the same token, there are significant limits to using DAC markers to try to protect ODA from crowding out by GPG, or COVID-19 or any other thematic-priority spending. Meanwhile, the analysis in Box 2 looks at some of the dynamics of climate markers.

## Box 2. Do marker systems naturally tend toward exaggeration?

It is instructive to compare the percentage of expenditure on climate mitigation within each “purpose code” (codes that classify the purpose of aid spend). If climate mitigation spending is truly increasing in importance, then purpose codes particularly relevant to this goal, for example, wind or solar energy, could be expected to receive a greater share of aid. If, on the other hand, donors are, for reasons of expediency, trying to find additional activities that plausibly have a climate mitigation impact, then we would expect more and more activities to be assigned a mitigation marker *within* each type of activity. The two figures below show how the percentage of climate mitigation-marked spend has generally increased across all purpose codes, with far less increase coming from switching between them. To be clear, the increase could arise from better reporting, which would imply that providers were spending more than we realised on climate mitigation in previous years. But this still implies that the *change* in mitigation finance is exaggerated.

**Figure 7. Increase in mitigation-marked ODA mainly within same types of activity, rather than switching to more obviously mitigation-focused activities**

- a) Share of disbursements with climate mitigation focus within each purpose code (2006 = 100)
- b) Climate mitigation spend, actual (black) and with % of Rio-marked spend held constant within each purpose code at 2006 levels (blue)



Notes: 1) Panel A has omitted nine negative values, which resulted from negative disbursements making percentage changes hard to interpret. The median share of climate-mitigation spend within purpose codes rose from 1% to 11% between 2006 and 2016. The mean rose from 9% to 26% over the same period.

2) Blue line in panel B holds the percentage of climate-mitigation-marked spend constant within each purpose code, so that any increases are entirely from switching towards purpose codes in which climate mitigation is more prevalent.

Source: CRS <https://stats.oecd.org/DownloadFiles.aspx?DatasetCode=CRS1>

*Box 2 continued*

Panel (b) quantifies this: holding the percentage of climate-mitigation-marked spend constant within each purpose code since 2006, climate mitigation spend would have increased by 173 percent, instead of 832 percent. In particular, there has been no noticeable trend in purpose codes that are especially relevant to climate change (such as in renewable energy, or energy policy).

This is not conclusive; even with 245 different purpose codes, the categories are still aggregated enough for there to be scope for differing mitigation-related activity levels within each. But it is notable how much of the increase in Rio-marked activity comes from *within* categories, especially in those such as rail transport, with obvious mitigation-related justifications. There are even several examples of the climate focus seeming to change over time within the same project (as identified by the CRS codes and descriptions): i.e. disbursements in earlier years recorded as having no climate mitigation focus, but climate mitigation as a “principal focus” in later years (see Ritchie and Tahmasebi 2020 for more detail). However, it is not easy to assess whether these examples are common, or indeed if they actually reflect a change of strategy within the project, as against better reporting or quality checks. While this increase may be partly as a result of better reporting, it remains the case that many countries use these markers to identify progress against the \$100 billion climate finance target, despite the intention that the markers be used only qualitatively (UNFCCC 2019 a, b)

The appeal of the marker approach as a half-way-house to distinguishing GPGs partly explains why the DAC is also now considering (Chadwick, 2020) introducing a new “COVID-19” marker. However, this also illustrates a more fundamental problem with markers. As we cannot know what the without-COVID counterfactual might have been, we also cannot infer purely from before-and-after comparisons what difference COVID has made, or will soon make, to ODA programming. The proposed DAC statistical guidelines specify, for eligibility for the marker, that “activities would not have taken place if not for responding to the COVID-19 pandemic” (DAC, 2020 a). While this boundary is reasonably clear for many aid programmes, it is exquisitely unclear at the margin—as with so many other activities in our with-pandemic lives. Almost all of ODA, from humanitarian to social/sectoral to macro-economic programmes, could credibly reference some “COVID-response” rationale from now on, and presumably for several years to come, as we prepare for “intelligent reconstruction” (Kharas et al. 2020). It is not clear what added value such a Rubik’s cube of overlapping markers, potentially covering most of ODA, would bring.

## 5. Targets inevitably corrupt: Re-configuring ODA and conclusions

There may be other policy options available to defend ODA—or extend its useful life at least—that take into account the generally perverse effects of politically binding targets on the integrity of the metrics targeted, loosely known as Goodhart’s Law, yet preserve the essence of the 0.7% “brand,” still valued by some political leaders. A new upper tier of spending on a defined basket of global public goods, with development but also “enlightened” donor self-interest attributes, could be introduced, with or without an attached target. In the former case, it could also be treated as a “surge” budget, with a sunset provision. 0.3% of GNI might be an eye-catching top-up, restoring the original idea of a 1% overall “stretch goal,” but the two tiers would need to be re-assessed in a consultative process. Alternatively, DAC donors could unilaterally pledge to keep (some such) climate-related funding out of their ODA reporting, as Luxembourg. Such arrangements’ anchoring in the political economy contexts of different country groups should be weighed carefully. For example, given that it is so difficult to separate purely climate mitigation-motivated spends in developing countries from those also justified on country development grounds, would “promoting” mitigation into a distinct tier tend to result in an increase of the overall total or not? We conclude with three blocks of recommendations: **on debt, on GPGs, and on transparency and ownership.**

### 5.1 Goodhart’s Law: When targets corrupt

Goodhart's law is an adage named after British economist Charles Goodhart, later simplified by anthropologist Marilyn Strathern (1997) as “When a measure becomes a target, it ceases to be a good measure.”<sup>11</sup> . It referred originally to the choice of monetary aggregates targeted as proxies for inflation under Thatcher-era policies in the UK. Other examples abound of where politically binding targets lead to perverse incentives and gamed responses, often frustrating the original intent of the target. Most well known in the latter category are “teaching to the test” by schools and the artificial improvement of reported hospital waiting lists (or police response times) by changing the points at which reporting starts and stops, or the range of situations reported—sometimes perversely prioritising larger numbers of “easier” cases above fewer, but more serious ones.

*Is ODA inevitably bound to go down this slippery slope, or indeed has it already done so? **Most likely yes.*** The process of ODA modernisation over the past several years has on balance improved its credibility, or at the very least slowed down its deterioration, and corrected some inherited flaws, but the pressure for Goodhart-type corruption remains strong and

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<sup>11</sup> Goodhart’s formulation (1975) was more specific “Any observed statistical regularity will tend to collapse once pressure is placed upon it for control purposes.” The same year, in the context of education tests, Donald Campbell similarly wrote “The more any quantitative social indicator is used for social decision-making, the more subject it will be to corruption pressures and the more apt it will be to distort and corrupt the social processes it is intended to monitor.”

some recent collective decisions, notably on debt relief, have not been ideal in this regard. The incentive dynamics of including various types of spend in the ODA basket at the national level are complex. At least for the small handful of countries which have the 0.7% target enshrined in national policy commitments, expenditure qualifying as ODA clearly benefits from significant political protection from budget cuts. This is not unlike, say, the NATO-related 2% of GDP defence spending commitment (also taken seriously, though not legislated literally, by a subset of its membership). But the list of such spending mandates is very short-in fact it just about stops there.<sup>12</sup> A world in which minimum public expenditure ratios were mandated for all major spending categories would largely make ministries of finance redundant.

This shielding effect has not escaped the attention of aid critics, and the attention of other ministers around the cabinet table. There are constant pressures for activities under the latter's control (such as military deployment for arguably development-related activities) to get a bigger share of the ODA pie, as mentioned in Section 2 above, though this arguably applies most to a minority of DAC members. There are other cases, including some egregious examples we have reviewed here, like "parking" debatable losses on export credit guarantee schemes in ODA, or covering some research by the donor's scientific establishments which would anyway have been publicly funded without ODA.

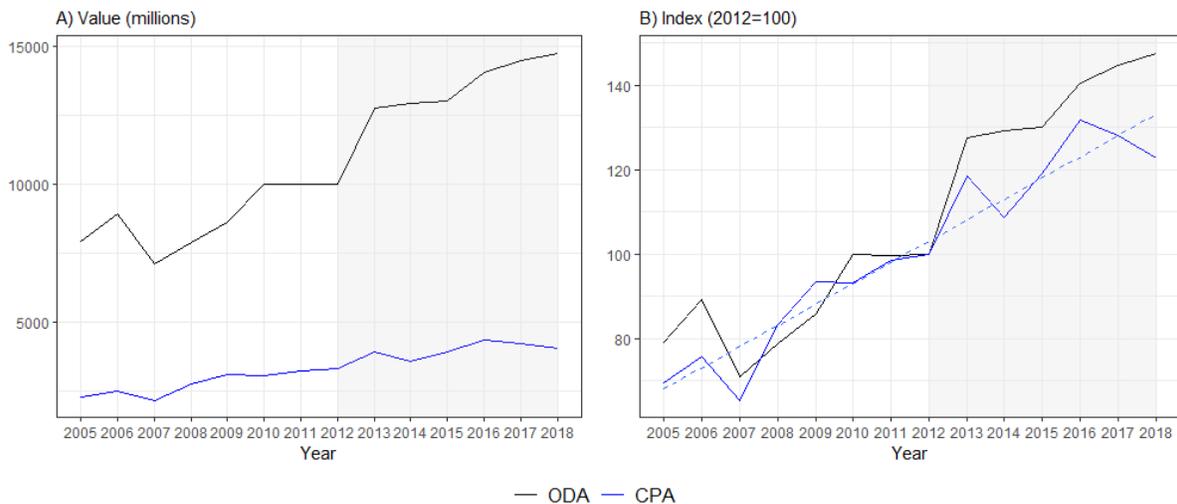
One of the clearest examples of ODA being "enhanced" by counting existing activities which can be rebadged is the UK, which also faced at the time one of the strongest pressures to meet the target given its legal requirement to do so. When the target was first met, it was partly through such reclassification (NAO 2017). Many large funds were originally designed with entirely different motivations, and their descriptions barely altered when subsequently labelled as ODA activities (Ritchie & Kenny 2020). When a target must be met, and it is more costly to do so with real behaviour changes than by accounting interpretations, the latter are inevitable.

In the UK case this is visible in the comparison between ODA, which jumped markedly following 2012 (when the target was announced), and CPA, which continued on more or less the same trend. Panel B of figure 8 shows both UK CPA and ODA relative to their 2012 levels, and plots a linear trend in the CPA series. This trend could easily apply to either series pre-2012, in stark contrast to the later period.

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<sup>12</sup> Readers will be familiar with many other politically important spending "targets" for domestic priority areas, such as health, education etc. These tend to be formulated in terms of nominal or real growth rates over a fixed, usually electoral or shorter, spending horizon, however, not as a (perpetually) fixed share of national income, regardless of the macro-fiscal context. Likewise there are significant international reference benchmarks for, for example, the EU's overall budget in terms of the Union's combined GNI, but these can be (and recently have been) altered to suit changed contexts, and are anyway not directly enforceable at the national level.

**Figure 8. UK ODA and CPA, pre and post target, constant 2018 GBP**



Source: DAC Tables <https://stats.oecd.org/>

The UK provides a stark example, but we argue that this is not simply a UK phenomenon. Both the revisions made to measuring loans as part of the “modernisation of ODA” referenced in section 2.2, and the new debt relief rules, increase ODA recorded for any level of actual fiscal effort, and could be interpreted as “padding” on the part of lending countries (mainly France, Germany and Japan, a small but important subset of donors). For some countries, the opposite may be true in the short term, if countries have recently increased their loan disbursements and so do not yet have comparatively large reflows (although as discussed above, the “forgiveness” of these repayment themselves comprise an artificial boost to ODA). But over time, measuring loans by their grant equivalent will overstate ODA if the discount rates used in calculation are higher than warranted by the actual risk of lending.

Aside from the temporary—but significant—effect arising from the transition and demonstrated in Figure 5, the discount rates used are widely regarded to overestimate the value of ODA loans (Atwood et al 2018, Ritchie 2020, b). It should be acknowledged that the current discount rates are lower, and the concessionality threshold higher, than under the old system. However, the fact that the discount rates now directly affect the value of ODA recorded—determining how much they count, not just whether or not they count, as under the old system—gives them additional significance. More realistic discount rates that are based on historical risk of ODA lending could reduce the value of ODA loans from DAC countries since 2015 by over half (Ritchie 2020b). Similarly, the new DAC debt relief rules were developed in tandem with the Paris Club, where lending countries are heavily represented, and could inflate ODA by tens of billions (section 3.2). In short, although in many ways the move to the grant equivalent system represents a positive step, and the efforts to tighten the concessionality definition are welcome, the details of this system as implemented have the practical effect of inflating ODA from lending countries. It is hard to

believe that this did not factor into the decisions of delegates from Paris Club countries to endorse these new debt relief rules and exaggerated discount rates.

The harder questions to answer are (1) whether such dynamics, left unchecked, may soon reach a tipping point, where the ODA basket and respective targets terminally lose political credibility in aid provider countries, and (2) if so, would this have any tangible negative development consequences, or is ODA effectively already a side-show? They are deliberately phrased provocatively.

On the *first* question, the answer is *probably yes*. There is circumstantial evidence pointing to senior political leaders—most recently David Cameron who led the 0.7% chase in the UK from his coalition government’s election in 2010 to its crossing the ODA threshold in 2012/2013—seeing the target as a benchmark of their own statecraft and the country’s global reach. It is therefore still a “brand with value” (Kenny, 2020), and can be used to burnish political reputations and legacies, signalling virtue at, until recently, relatively low political cost, compared to larger and more controversial initiatives. How many other leaders out there might be similarly attracted to the target today is hard to tell, but if the brand is seen as tainted, its attraction evaporates. And whilst membership of the now four-strong 0.7% club arguably has some benefits, including exclusivity, there are presumably political limits to their willingness to keep up high burden-sharing standards, partly covering for the many non-members and non-applicants, whose effort is stagnant or falling.<sup>13</sup>

The answer to the *second* question is also intuitively *yes*, it would matter in the real world, assuming that genuine, truly grant-equivalent cross-border assistance eventually falls in response to this lack of credibility, as well as for other reasons. Real grant (and grant equivalent) aid is *not* (yet) a complete sideshow. ODA volumes have been shrinking steadily in importance relative to other development finance flows, such as non-concessional loans, remittances, FDI and commodity export revenues, and assistance from non-DAC providers has risen faster than ODA (Mitchell et al, 2020). However, not least in the teeth of a global crisis, ODA’s value as an anchor in a storm, especially for countries with weak or volatile access to those other flows, has proven itself before and may well, and should, do so again. Of course, if for political reasons ODA levels can only be maintained through further dilution, then this value is also reduced.<sup>14</sup>

An important related question we cannot explore further here concerns the potential impact of non-DAC models of assistance, using different terminology and standards, egregiously Chinese official cooperation, with its much higher share of non-concessional loans. Will

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<sup>13</sup> Luxembourg’s brave stance—to stick to 1% deliberately defined to exclude climate finance and refugee hosting—is perhaps the exception which proves the rule, as its relative generosity (even when considering its higher income, see Mitchell et al 2020 p.27) operates on a very small economic base.

<sup>14</sup> A second caveat is the extent to which non-ODA official providers, primarily China, offer different models which increasing numbers of “traditional” bilateral donors emulate, or constructively compete with (Kharas and Rogerson, 2017). One can then also ask whether the robustness of ODA definition is a relevant factor in that competition, or not. We do not know, but suspect not.

these models thrive and perhaps be emulated by others on a significant scale, and if so, will that cause the ODA brand to erode faster?

## **5.2 Are lack of transparency and participation undermining ODA?**

Two process points have arguably exacerbated the dynamics outlined above. First, there is a surprising lack of transparency about the process of defining and adjusting ODA rules. That such transparency should exist is a basic principle of sound international statistical practice, as outlined by the UN statistics division (UNSTAT a) and endorsed by the OECD (UNSTAT b). But the record of DAC is decidedly mixed. While the process leading to the changes in 2014 arguably adhered to these principles, the same cannot be said of the 2020 decision on debt relief. The Principles Governing International Statistical Activities (UNSTAT a) state that good practice includes “making documents for and reports of statistical meetings... publicly available” so that they can be subjected to outside scrutiny. This should include not just finished documents but works in progress and detailed reasoning behind changes, and documents should be widely accessible. This was not the case for the new debt relief rules, for which, to our knowledge there were no opportunities to challenge or query the changes before they were finalised.

This failing is particularly striking given, in this particular case, that the DAC had previously taken a directly contradictory view (that no further debt relief should be recorded as ODA, DAC 2014 b). We understand that recent DAC process changes have improved transparency and participation for future such decisions, but are not able to assess how successfully they have been implemented.

Second, as we have already noted (along with Kenny 2020), many wider questions surrounding the ODA basket and GPGs are political rather than technical and the ultimate choices depend also on governance and process—who decides and how—rather than only what is to be decided. This suggests broader involvement should become the norm. Donor countries have a particular set of incentives in common: insofar as being seen to increase ODA is appealing, but actually doing so is costly, the natural tendency is towards erosion of the integrity of the definition. Those on the receiving end do not share these incentives—and may have opposing ones—yet clearly have a large, legitimate stake in the outcome. For example, as discussed in Section 4, concern with TOSSD’s impact on the integrity of ODA fuelled initial criticism on the part of developing country observers. This concern could perhaps have been mitigated earlier through greater emphasis on the voices of emerging and developing countries, though credit must be given for their subsequent integration in the work of the TOSSD International Task Force, leading for example to higher proposed standards for the scoring of concessional loans. For ODA itself, such consultations could provide an external shield to limit the extent of further dilutions, motivated otherwise by narrower incentives operating mainly within provider countries.

### 5.3 A “third way”: Change the ODA basket and the structure of the ODA target?

Long before COVID, and to safeguard non-climate-related development aid from what was seen then as a massive upcoming surge in international public climate change finance, a number of observers (Maxwell, personal communication) had proposed introducing a separate “tier” of the ODA target, reserved for GPG-related spending. This could be structured within any given target by donor, so one achieving 0.4% of development aid: GNI already could commit to, say, a further 0.3% specifically for GPGs, for a grand total of 0.7%, but with the declared intent of going further in one or both tiers.

Alternatively, (after Prizzon and Rogerson 2020) this new tier could also be framed externally, so 0.7% would still remain the formal headline goal for development-related ODA (more on its boundaries below). However, a new additional target of, hypothetically, 0.3%, or perhaps just a new tier with no fixed target, would relate to exceptional GPG spending beyond ODA, including protection of the global commons from pandemics like COVID-19. This upper-tier could also be seen as a time-bound “surge” capacity, subject to a sunset provision after periodic review. 1% in total could be an obvious and eye-catching aiming-point, in the first round-but it might be a considerable under-estimate.

Of course, this all begs the question of where precisely the line between any two such tiers should be drawn. Some have concluded (Kenny, 2020) that “it appears unlikely that ODA could or should include spending on climate mitigation projects *unless those projects are primarily motivated by the fact that they deliver considerable economic benefits to the recipient country in which they take place*. A different measure should be developed to capture and celebrate all spending on GPGs including climate change” (our italics). This condition helps us define the main tier boundary. In fairness, this is what ODA eligibility currently requires: it is however likely to come under political pressure, as well as capacity limits to implementation, which is where the carrot of establishing a new tier, with or without an initial fixed target, could help.

We do not minimise the difficulties of actually making such a triage in a transparent and legitimate way, for example determining what constitutes “considerable” and whether costs and benefits are calculated at market or shadow prices, and if the latter, how is carbon to be valued many years into the future? Nonetheless, this position recognises the dual-nature of all adaptation and most mitigation investments in ODA-recipient countries.<sup>15</sup> The upper end of the upper, mostly-GPG tier, sometimes caricatured as investing to detect and deflect an asteroid hit on planet Earth, is also clear. It seems logical that most research into COVID-19, and future such pandemic risks, fits much the same bill. In between the two ends of the spectrum there will be plenty of room for debate, which is beyond our scope here.

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<sup>15</sup> Only a few mitigation technologies deployed in developing countries, mainly related to carbon capture and storage (CCS), would provide very little added local economic benefit, compared to next-best, low-emission but much lower-cost alternatives, thus putting them into the upper GPG tier.

*Could such a two-tier ODA solution work?* We are fully aware of the irony of trying to de-fang Goodhart's/ Campbell's law on the corrupting effect of targets by splitting an existing ODA target into two, one called ODA and one not. Complementary steps would be needed to re-establish the credibility of the main ODA tier and its basket, including being much tougher on, for example, debt relief scoring than the DAC may feel comfortable with (see Recommendations, below). There may also be strong temptations to reduce spending on the ODA tier, in favour of the higher-visibility beyond-ODA upper tier. However, this could be picked up and hopefully corrected in the review and sunset-provisioning process. Moreover, if this continues to be the likely direction of drift, and we suspect it may, it would be better to at least recognize it transparently, for the world (and particularly developing countries) to see.

Moving toward a 2-tier system could offer other opportunities. The upper tier (in the Kenny 2020 understanding, above) could also strip out all the valid “contributions to development” credibly attributed to in-donor spending now classed as ODA, including refugee costs-while others like imputed student costs should be quietly dropped altogether. The result would be a lower-tier very close to so-called Country Programmable Assistance-an aggregate systematically compiled and published by the DAC, but not, as yet, targeted. In doing so, many of the advantages of the TOSSD approach could accrue, without some of its geo-political complexities.

If there were insufficient appetite for a full two-target solution, then at least creating two distinct development-related spending baskets, only one of which is targeted, would have considerable merit. We could also envisage a DAC-led “Luxembourg Commitment” in honour of this small, but proportionately very generous, donor who has had not just the political resolve to significantly exceed the UN ODA target, but also the self-discipline to rule out counting either refugee-related or climate change-motivated spends within it. Other donors should voluntarily follow suit.

## **6. Summary of recommendations**

### **1. Debt relief**

- The DAC should immediately reconsider and try to correct the most dangerously creditor-biased elements of the July 2020 debt relief ODA scoring rules: stop the counting of both expected and realized losses; stop counting debt relief on repayments that have already been eliminated following the transition to the new methodology; cap, if not rule out altogether, relief scored on non-ODA transactions; and don't allow more ODA to be scored than the value of what is forgiven.
- It should also revisit the discount rates used to score the grant element of ODA loans since 2018, perhaps switching to the lower Differentiated Discount Rates as already used in the OECD's Export Credit Arrangement.

## 2. Global public goods

- The DAC should consider establishing a separate spending tier, over and above the 0.7% target and complementary to it, into which it would ask members to score all in-provider expenditure which has a primary objective of addressing global challenges with a development impact, including COVID-19 R+D, and all in-developing country spending which is not clearly and primarily justified by the economic development and welfare of that country.
- Any future target for this tier should arise from discussion with relevant stakeholders (see below) and take into account both global needs and the current starting point. It could be initially set at say 0.3% of GNI, for a total (ODA plus beyond-ODA) effort of 1.0%, though the actual numbers would be subject to consultation. Such target arrangements should be tracked and reviewed by the UN within say 5 years.
- DAC members should meanwhile be invited to follow Luxembourg's lead, and voluntarily abstain from counting within their ODA any in-donor refugee expenditure as well as all climate change expenditure, whether in-donor or in-developing country (subject to the above test on co-benefits, or similar).

## 3. Transparency and ownership

- Prior to the adoption of a new tier structure and/or targets, a variety of stakeholders-in both provider and assisted countries-should be consulted and the likely incentive effects of such a switch should be subject to further analysis. In particular, recipient countries who have a legitimate voice in this discussion, should have a greater role in the decision-making process. The definition of ODA should reflect the importance of spending items to those receiving it.
- The records of the meetings in which statistical definitions and rules relating to ODA are discussed should be made publicly available and easily accessible at the same time as they reach participants. They should systematically be made available *before* final decisions are taken to allow for consultation and scrutiny from interested parties, including those from developing countries.
- The new development finance metrics proposed under the Total Official Support for Sustainable Development (TOSSD) rubric should be reviewed in terms of making them as far as possible consistent with the proposed ODA upper tier concept, and vice versa. This convergence should respect the avowed intent of TOSSD to be a measure of recipient benefit, and firmly reject the option of becoming any new benchmark of provider effort.

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