SIDE EVENT BY THE KINGDOM OF BELGIUM

MONDAY, 13 JULY 2015 (FROM 3.30 – 6.00 PM)

BACKGROUND NOTE

ODA AND FRAGILE ENVIRONMENTS

THE SHIFT OF DEVELOPMENT FINANCE AND ASSISTANCE IN THE POST-2015 AGENDA

3RD CONFERENCE ON FINANCING FOR DEVELOPMENT

ADDIS ABABA ETHIOPIA

FROM 13 TO 16 JULY 2015

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THE THIRD INTERNATIONAL CONFERENCE ON FINANCING FOR DEVELOPMENT WILL BE HELD IN ADDIS ABABA, ETHIOPIA, FROM 13 TO 16 JULY 2015. IT WILL GATHER HIGH-LEVEL POLITICAL REPRESENTATIVES, INCLUDING HEADS OF STATE AND GOVERNMENT, AND MINISTERS OF FINANCE, FOREIGN AFFAIRS AND DEVELOPMENT COOPERATION, AS WELL AS ALL RELEVANT INSTITUTIONAL STAKEHOLDERS, NON-GOVERNMENTAL ORGANIZATIONS AND BUSINESS. THE CONFERENCE WILL RESULT IN A NEGOTIATED AND AGREED OUTCOME, WHICH SHOULD CONSTITUTE AN IMPORTANT CONTRIBUTION TO AND SUPPORT THE IMPLEMENTATION OF THE POST-2015 DEVELOPMENT AGENDA.

All major challenges of the 21st century are development related. Poverty. Inequality. Epidemics. Religious extremism. Climate change. Uncontrolled migration. Integrating economic growth, social justice and environmental responsibility into one global and universal agenda will force us to review our development policies, our methods and our tool box. This includes Official Development Aid (ODA), but not only. Other forms of development finance , such as domestic resources, international trade, debt relief, foreign direct investment (FDI), remittances or new and innovative sources of financing have to be considered. And indeed, globally,ODA has become smaller relative to private and domestic financing. It will therefore play a key but limited role in making this new, global and universal Post-2015 agenda work.

Nevertheless, we have to recognize that ODA will remain a critical factor especially in least developed, fragile and conflict-affected countries. As poverty is increasingly concentrated in these countries, ODA will remain a critical factor to the commitment to end poverty to meet the sustainable development goals. Importance of ODA for Least Developed Countries: In the past 15 years, net ODA has been rising steadily and has increased by 66% since 2000. It has long been a stable source of financing for development. In 2014, net official development assistance (ODA) flows from member countries of the Development Assistance Committee (DAC) of the OECD totaled USD 135.2 billion, level with the all-time high in 2013 of USD 135.1 billion and net ODA as a share of gross national income (GNI) was 0.29%, also on a par with 2013.

However, this positive trend is not reflected in the flow of ODA in Least Developed Countries (LDCs) . According to the OECD, the share of ODA for LDCs has been declining since 2010. In 2014, They received only 30.3% of all ODA, down from 33.4% in 2010. A major contradiction is therefore in play today: while ODA globally increases, it diminishes in countries where it is most needed. This persistent reduction in ODA further constrains the ability of the LDCs to realize the aspirations of the Istanbul Programme of Action, given their heavy dependence on ODA as their primary source of external finance and their high poverty rates. A view on the public finances shows that the median of the ratio of ODA to government revenues hovered around 60 per cent for all LDCs. As to the high poverty rates, half of the total population of LDCs lives on less than US$1.25 per day and an even higher proportion, over 70 per cent, is below the US$2 per day threshold.

In December 2014 DAC-members agreed to allocate more of this ODA to countries most in need, such as LDCs, low-income countries, small island developing states, land-locked developing countries and fragile and conflict-affected states. They agreed to commit to reversing the declining trend of ODA to LDCs. In order to concretize and facilitate this commitment, much work still needs to be done to (1) identify and understand the reasons of this declining trend; and (2) identify and act upon the ways in which it can be reversed, both through donor and partner efforts.

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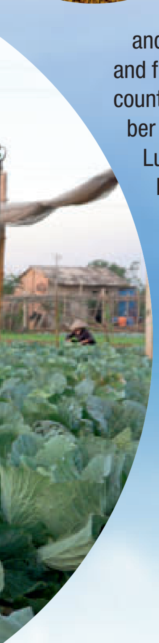
At least 50% of all ODA should be provided to Least Developed Countries: Rapid progress in the availability of FDI and other private finance to developing countries is changing the role of ODA. The relative importance of ODA compared to other external financing is decreasing for the majority of countries; however, in LDCs, ODA still represents over 70% of total external finance and their capacity to attract other sources of finance, including FDI, remains limited. Despite the increasing focus on domestic resource mobilisation, ODA flows are still significant compared to the financial resources that these countries can mobilise through taxes. The LDCs are by the UN defined as “low-income countries suffering from the most severe structural impediments to sustainable development” and would in the context of the post-2015 financing strategy deserve special attention given the challenges they face. There are currently 48 countries designated by the United Nations as LDCs.

LDCs have faced many of the greatest challenges in making progress toward the Millennium Development Goals. With limited trade and financial links to the rest of the world, they have not reaped substantial benefits from globalization yet are bearing many of the costs of global progress, such as climate change. Many LDCs have struggled with recurring cycles of conflict, in addition to corruption, weak administrative capacity and the intrusions of organized international crime networks. They are the source of substantial out-migration, and create pockets of instability that spillover in their neighborhoods and globally.

Recognising the unique needs of LDCs, the UN has already adopted (in 2001) and renewed (in 2011) an aid target of 0.15–0.20% of Gross National Income (GNI) directed to LDCs. 28 Donors committed to putting their best efforts into achieving this target. Those who have already met 0.15% committed to expeditiously reaching 0.20%, and those who already provide more than 0.20% pledged to maintain and further increase their level of ODA/GNI to LDCs. The majority of DAC countries still fall short of the target. In 2014 only eight OECD-DAC member countries reached this target: Belgium, Denmark, Finland, Ireland, Luxemburg, Norway, Sweden and the United Kingdom. While the UN LDC target of 0.15-0.20% of ODA/GNI should remain our main focus, we should encourage both existing and emerging donors to commit the provision of at least 50% of their aid and assistance to LDCs as a step towards reaching the UN LDC target.



As the ONE 2014 data report points out: In the short term, for many donors a 50% volume target could be seen as a tool to get closer to the UN’s 0.15–0.20% GNI target. Given that DAC donors allocated only 0.28% of their collective GNI to ODA in 2012, reaching the 50% volume target to LDCs (collectively) would actually result in them also (almost) reaching the 0.15% target (collectively). However, in the long run, if donors make significant strides towards meeting the 0.7% ODA/GNI target, the 50% volume target would be significantly more ambitious than the existing GNI target, as it would imply 0.35% of GNI to LDCs. Those donors already close to meeting the existing UN target could use it as a stepping stone towards the more ambitious 50% volume target.

To reach these goals, donors have to address internal obstacles to providing ODA to LDCs in terms of aid architecture and/or public opinion awareness on its importance. Emphasis should be put on working on all LDCs, fragile and non-fragile countries, using ODA as a prevention tool to tackle not only the symptoms of fragility but also its roots and causes.

ODA as a tool to address fragility at the country level: According to the 2015 OECD States of Fragility Report on meeting Post-2015 ambitions, ODA plays a crucial role in filling finance gaps for poverty eradication and other development priorities in countries and economies with low domestic revenues and will continue to do so. Sixteen of the top 20 most aid-dependent countries have been on the fragile states list since 2007, when it was first compiled.

The majority of aid that has been invested in fragile states since the Millennium Declaration has been dedicated to sectors linked to the Millennium Development Goals, while sectors related to the five Peace and Statebuilding Goals have largely remained under-funded. Aid budgets are still adapting to the Peacebuilding and Statebuilding Goals (PSGs) endorsed in 2011 by conflict-affected and fragile countries, development partners and civil society through the New Deal for Engagement in Fragile States. While there is no agreed framework for tracking aid to support the PSGs, one estimate by the OECD found that it remained low in 2012. Just 4% of ODA to fragile states and economies was allocated to the PSGs for legitimate politics, 1.4% for security sector reform and 3% for justice. This funding imbalance will have to be addressed to deliver results on the new peaceful and inclusive societies Sustainable Development Goal.

Yet it is of key importance not to focus only on the level of spending as such. An increased level of ODA expenditures in LDCs should be designed and its disbursement assessed in order to avoid doing harm. This calls for differentiated approaches tailored to clear peacebuilding and statebuilding compacts, road-maps and indicators.

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A greater attention should also be given to the coherence - coordination - complementarity between humanitarian and development work as well as between peacebuilding and statebuilding activities in these environments. At present no international norms exist for tracking peace and security spending. Only UN peacekeeping (almost USD 8.5 billion per year) and ODA expenditures on security are tracked. A small portion of ODA, just 1.4% in 2012, is spent on security sector reform in fragile states. Agreeing on targets and norms for monitoring spending on global peace, security and conflict prevention would sharpen the focus on the quality of international efforts to prevent and reduce crises.

Risk sharing and management: Development assistance to LDCs and fragile situations can sometimes be very demanding for aid providers. Access to alternative sources of finance is limited and local institutional and human capacities to build on remain under-developed. In conflict-affected states, the security environment can be very challenging. Therefore, the costs of implementation for any single aid provider may be high. Risks should be shared and managed jointly. In order to increase the impact of aid, a relevant and flexible mix of policy instruments and aid modalities should be on offer. Shared target setting by aid providers in accordance with clear standards on effectiveness, transparency and mutual accountability should help to increase the complementarity between North-South and South-South cooperation and stimulate the setting-up of new innovative triangular cooperation schemes and partnerships.

Approaches to risks in fragile environments should also not be limited to its fiduciary aspects. Different risks have to be weighed against one another (programmatic vs. fiduciary, intervention vs. non-action, etc.). Contextual risks, that affect the broader environment, including the internal and external political context, and events and processes at a strategic level that influence the implementation of programs, tend not to be sufficiently taken into account. Increasing ODA in LDCs necessary requires a different approach to the risks that are inherent to these environments and the very reason why donors wish to engage.

Improved accountability and transparency of all development actors: Through policy coherence for development we will need to pursue policies to create the conditions that allows assisted countries better access to the fruits of globalization. This will have implications for the way development cooperation policy and activities are conceived, formulated and implemented, implying more cooperation and greater synergies between different policy domains and development actors. In order to become development maximizers we'll need better assessments of the root causes of fragility and more harmonized and coordinated assistance efforts that can be aligned to good policies developed through local leadership.

In least developed and fragile countries that are both very aid-dependent and vulnerable to internal and external stress factors we will need to go beyond traditional channels of cooperation and promote the effective use of all resources by all development partners and actors. The potentials of South–South cooperation for trade, investment and development assistance should be fully harnessed as a key driver for LDCs development. Linking North-South and South-South initiatives is both a major challenge and opportunity. Combined efforts should be guided by shared targets. Standards and norms of effectiveness, transparency and mutual accountability should apply to all.

Mutual accountability should not only include accountability among countries but the accountability of each government to its own citizens to ensure that scarce funds are used most efficiently. At country level we need improved systems of mutual accountability and address core challenges such as coordination, predictability and greater ownership. This means opening up the full development process to all stakeholders, from initial identification of policy objectives, through implementation to evaluation of outcomes. Mutual trust and learning and transparency between all these actors should become the basis for enhanced accountability.

Accountability is impossible without transparency. The world requires nothing short of a data revolution to build a coherent picture of all the financial resources available for development in every country. Citizens in rich and poor countries alike, and their representatives in parliaments and CSOs, require access to accurate, comprehensive and timely data on both financial inputs and results, so that they can follow the money and hold governments to account. This would enable greater accountability and policy coherence and would help identify bottlenecks during implementation of the development agenda. In addition, it would contribute to learning processes to increase the effectiveness of development strategies.

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