



United Nations



# Improving ODA allocation for a post-2015 world

## Executive summary<sup>1</sup>

### **From the MDGs to the post-2015 development agenda: a more ambitious vision**

The Millennium Development Goals (MDGs) were an unprecedented international agreement to pursue global progress on poverty eradication and social measures. The emerging post-2015 development agenda presents a vision that is broader, more holistic and more ambitious. The Sustainable Development Goals aim to complete the ‘unfinished business’ of MDG targets that were not met, move beyond ‘half way’ targets to get to zero on extreme poverty, and seek progress across all three dimensions of sustainable development: social, economic and environmental.

### **Mobilising the contributions of all development actors**

As a shared vision for development evolves, the means of implementation – tools, resources and partnerships – are also being re-examined. A renewed global partnership for development will look to mobilise the contributions of all actors, public and private, domestic and international.

### **The distinctive role of official development assistance**

While smaller in scale than many other resources, official development assistance (ODA) remains the key international public financial resource for development purposes that can be dedicated to poverty reduction. As such, it is important to consider the role that ODA should play in a post-2015 setting. There is need for both more and better ODA – for commitments to be met, including the 0.7% of DAC donor GNI to ODA and the 0.15-0.20% of GNI as ODA to LDCs targets and allocations improved for better development results.

The way in which ODA is delivered and used is important for ensuring that spending is effective and sustainable. However, despite political engagement about the need to improve effectiveness, a lack of strong mechanisms and incentives for improved delivery means that progress has been slow.

This study focuses specifically on improving ODA allocation for a post-2015 world:

- How can ODA best contribute to all aspects of a broader and more ambitious post-2015 development agenda?
- In which aspects of the post-2015 development agenda does ODA have a comparative advantage over other resources?

### **Three key paradigm shifts that can be expected to shape ODA allocation post-2015**

This study explores key considerations for ODA allocation post-2015. It focuses on three paradigm shifts from the MDGs to the emerging post-2015 development agenda that are most relevant to the question of how to allocate ODA:

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<sup>1</sup> This independent study was commissioned by UNDESA for the 2016 Development Cooperation Forum, as part of a UNDESA research project funded by UKAID on development cooperation in a post-2015 setting. The views presented do not necessarily represent those of the United Nations or the Government of the United Kingdom.

- **From halving poverty to ending poverty in all its forms everywhere**

MDG1a set the target of halving the proportion of people living in extreme poverty (defined as less than \$1.25 a day) between 1990 and 2015. This target was achieved ahead of time in 2010. The Open Working Group on Sustainable Development Goals of the United Nations General Assembly has set an ambitious vision for ending poverty as the primary goal of the global development agenda for the next 15 years. It targets the end of extreme poverty by 2030 (target 1.1) and halving poverty in all its dimensions according to national definitions by 2030 (target 1.2), within a longer-term vision of ending poverty in all its dimensions everywhere.<sup>2</sup> Given the scale, depth and complexity of poverty and the goal of leaving no one behind, achieving this vision will require dedicated resources.

- **From an ODA-led agenda to an all-resources agenda**

External financing for the MDGs, with their emphasis on basic social needs, was focused around ODA, particularly in the early years of the Millennium. Discussions about how to implement a post-2015 development agenda are considerably broader in scope and aim to draw in and mobilise the contributions of a wide range of actors from the public and private sectors at the domestic and international levels.<sup>3</sup> While the role of ODA in providing direct support to basic social services remains critical, many aspects of its role are evolving, from directly driving change to mobilising and creating partnerships with other resources that can support implementation.

- **From the sustainability and development agendas to a unified and universal post-2015 sustainable development agenda**

The sustainability and development agendas have to date largely evolved separately from each other. The post-2015 development agenda aims to bring these two together behind a single vision of sustainable development, applicable to all countries, with coordinated implementation. The shared sustainability challenges that affect everyone across the planet and their disproportionate effect on the world's poorest people require substantial additional financing.

### **ODA has a comparative advantage in focusing on leaving no-one behind and ending poverty**

ODA can be targeted at the poorest people in a way that other resources cannot. It is the main international public resource that can be explicitly dedicated to ending poverty, and the wide variety of instruments that constitute ODA allow it to adapt to the context, whether leveraging new finance or delivering services. This study demonstrates that the current and likely future scale of domestic resources in many developing countries is insufficient to achieve poverty eradication by 2030. Other resources, such as private flows, may be larger in scale than ODA, yet their nature, characteristics and distribution mean that such flows cannot explicitly target poverty.

### **What does the evidence say about current ODA allocation?**

#### **ODA is more poverty sensitive than other flows, but allocations do not effectively target poverty**

Current ODA allocations do not effectively reflect the key dimensions of poverty, although ODA is more poverty-sensitive than other resources. In per-poor-person terms,<sup>4</sup> more ODA is allocated to countries with fewer people living in poverty and with lower depth of poverty.

#### **ODA allocations are not sufficiently mobilising wider resources, public or private, for impact on the poorest**

ODA per person living in extreme poverty is lower in countries with fewer domestic resources. ODA that supports the effective mobilisation and use of domestic resources will be an important part of development cooperation post-2015, yet current support for domestic resource mobilisation (DRM)

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<sup>2</sup> The Open Working Group Proposal for SDGs: <http://sustainabledevelopment.un.org/focussdgs.html>

<sup>3</sup> See the report of the Intergovernmental Committee of Experts on Sustainable Development Financing, August 2014; [http://www.un.org/ga/search/view\\_doc.asp?symbol=A/69/315&Lang=E](http://www.un.org/ga/search/view_doc.asp?symbol=A/69/315&Lang=E)

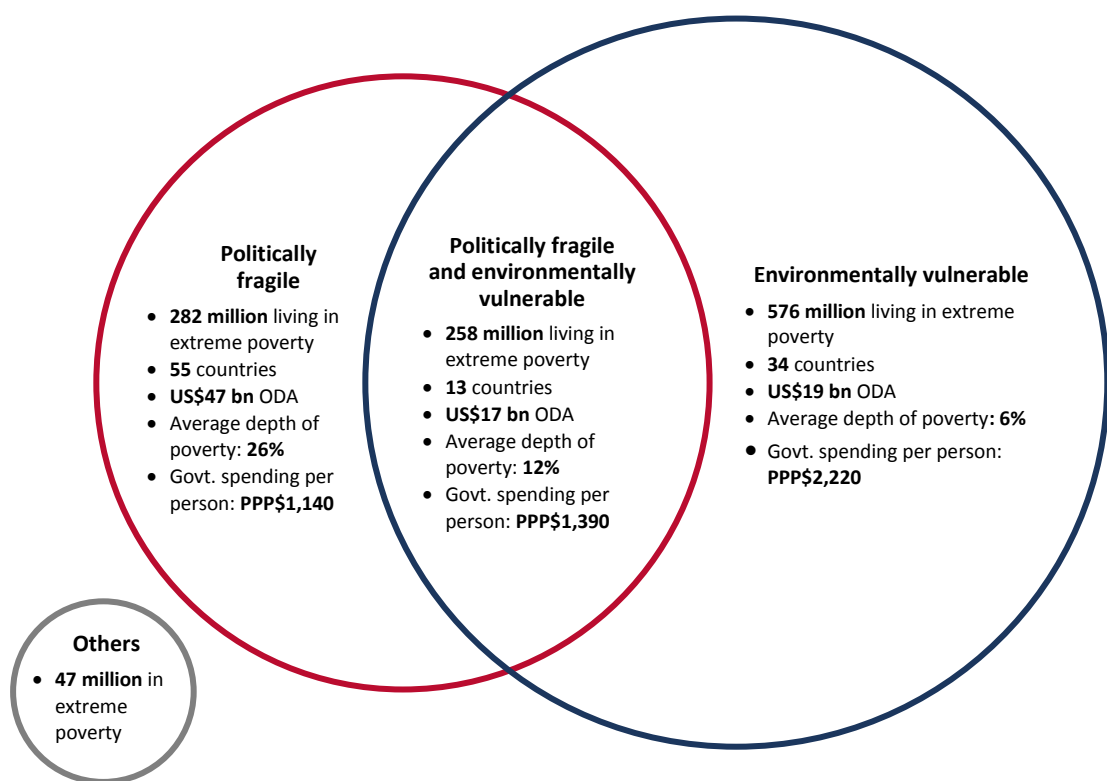
<sup>4</sup> I.e. total ODA allocated to each country divided by the estimated number of people in extreme poverty

is small, at less than 0.1% of total ODA. Information about this type of support is limited. The role of ODA in supporting the private sector is controversial, though it does not target the poorest countries or sectors most relevant to poverty eradication and current core ODA support for the private sector is small, at around 2.7% of ODA.

### ODA allocations do not respond effectively to the vulnerabilities of the poorest people

96% of people living in extreme poverty live in countries that are either politically fragile, environmental vulnerable, or both. Climate adaptation financing needs significantly outweigh the scale of financing: only the lowest bounds of the most conservative estimates of cost are within the range of current adaptation ODA commitments, which totaled US\$10.1 billion in 2012. Some of the largest ODA recipients are states affected by conflict and fragility. Yet other such states are not prioritised in ODA allocation, and current allocations do not meet the need for sustained long-term financing to address the numerous, overlapping and complex challenges faced by such states.

Figure 1: Ending poverty will require investments across the economic, environmental and social dimensions of sustainable development



Source: *Improving ODA allocation for a post-2015 world, chapter 4. The size of each circle is scaled by the number of people living in extreme poverty*

### Post-2015, ODA to developing countries should explicitly focus on ending poverty

To end extreme poverty by 2030 and leave no-one behind, ODA should explicitly target poverty reduction, making and mobilising investment across the economic, social and environmental dimensions of sustainable development, to benefit the poorest people in developing countries.

### Agencies with a clear mandate for ending poverty target ODA much more effectively

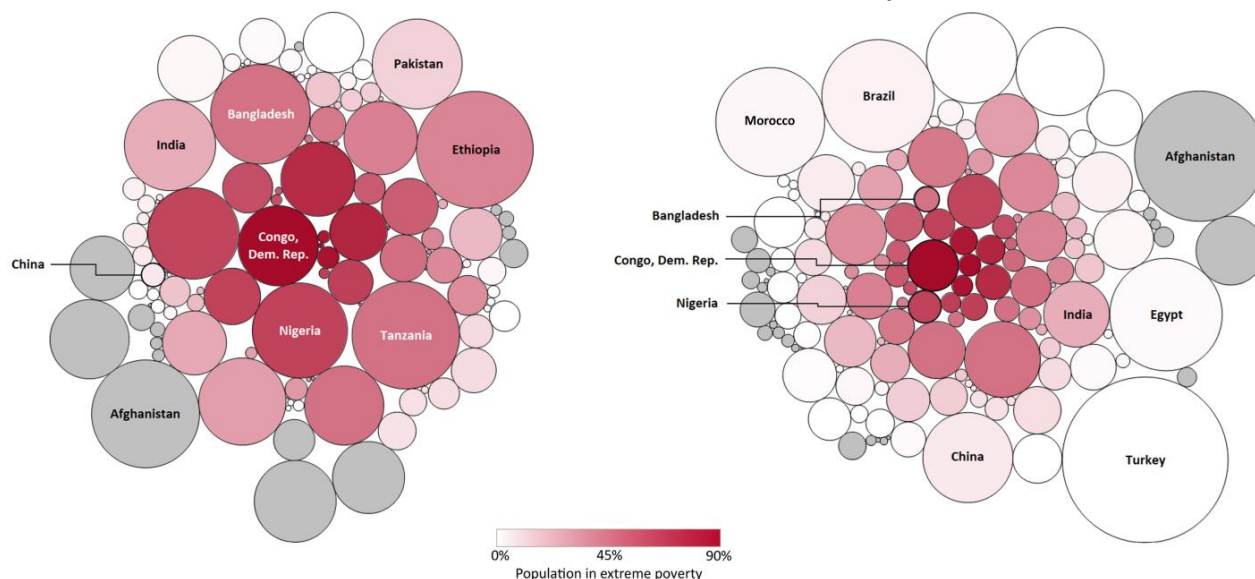
The evidence shows that development cooperation agencies with a clear mandate to end poverty are much more effective at targeting their allocations towards the poorest countries. Agencies that have a legal mandate for ending poverty allocate over 80% of their ODA to countries with an above-

average poverty rate. In contrast, agencies without poverty reduction as an explicit goal allocate just 31% of their ODA to countries with an above-average poverty rate.

Figure 2. A clear poverty eradication objective is the foundation for effective targeting of ODA

(i) Agencies with a legal mandate for poverty reduction

(ii) Agencies that do not specify poverty reduction as an objective



Source: *Improving ODA allocation for a post-2015 world, chapter 2*

### A refined objective for ODA: targeting the poorest 20% of people in developing countries

Latest estimates suggest that 17% of the population of all developing countries live in extreme poverty. The study proposes that the best way to incentivise ODA allocations that can underpin and drive poverty reduction and the transition to sustainable development is to refine the objective of ODA so that it explicitly targets the poorest 20% of people in developing countries. This can ensure ODA underpins the proposed goal of ending of \$1.25-a-day poverty by 2030, as well as the longer term objective to end poverty in all its forms everywhere.

The objective of ODA should be refined from the current ‘promotion of economic development and welfare’<sup>5</sup> to ‘benefit the poorest 20% of people in developing countries’. This should be formalized at the international level and institutionalized by the development cooperation agencies and institutions that provide ODA. This refined objective would be complementary to existing targets for ODA such as the 0.7% of GNI target for total ODA and the 0.15-0.20% of GNI as ODA to LDCs targets.

Such a refined objective would form the basis of a targeting discipline that incentivises the allocation of ODA in a way that considers: the scale, nature and causes of poverty and the inextricable link of poverty eradication to promoting sustainable development; the vulnerabilities and risks that the poorest face; the access that the poorest have to public services and economic opportunities; and the resources and capacity of domestic institutions to address domestic problems.

### ODA instruments should be designed within the context of wider resources and vulnerabilities

Effective ODA involves using a range of instruments to mobilise the wider resources available to contribute towards poverty reduction, working to support nationally-led implementation. It means safeguarding progress and increasing resilience against environmental risks and political instability. It means accounting for the prospects of the poor, using different instruments to support the poorest

<sup>5</sup> See full DAC definition here:

<http://www.oecd.org/dac/stats/officialdevelopmentassistancedefinitionandcoverage.htm>

20% of people wherever they are, whether in an LDC with low domestic resources or a rapidly growing middle-income economy. Effective ODA does not always require large financial transfers. ODA is a mix of varying instruments – and improved ODA allocation should mean not drawing resources away from the poorest countries but securing better development results.

The agreement of a post-2015 development agenda is a crucial moment in global development. The decisions taken during 2015 will shape how development is perceived and implemented at the global, regional, national and local levels for the next fifteen years and beyond. Refining the objective of ODA as a way to improve its allocation is complementary to, though distinct from, the OECD process to modernise the measurement of ODA. The coming months present a critical window of opportunity to define a clear role for ODA that can improve allocation to ensure that ODA has maximum impact on the poorest people and the transition to sustainable development.

This paper aims to generate ideas for the post-2015 discussions, particularly in the run-up to the Third International Conference on Financing for Development (FFD3) (Addis Ababa, 13-16 July 2015) and to the High-level meeting of the Development Cooperation Forum (New York, July 2016). Earlier versions were presented at the 30 October 2014 Joint Meeting of the General Assembly 2nd Committee and ECOSOC on “A renewed global partnership for development and successor arrangements to MDG-8” and during the FFD3 First Round of Substantive Informal Sessions (New York, 10 – 13 November 2014).

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