Preparatory Process for the Third International Conference on Financing for Development

Session 3: "International Public Finance, including Official Development Assistance (ODA)" (12 November 2014)

Informal Summary by the Secretariat

Morning Session: ODA and Aid Effectiveness

The session was moderated by Mr. Amar Bhattacharya, Senior Fellow at the Brookings Institution. The panel comprised Mr. Erik Solheim, Chair of the OECD Development Assistance Committee (DAC); Ms. Harpinder Collacott, Director of Engagement and Impact at Development Initiatives; Mr. David Roodman, Public Policy Consultant; Mrs. Dorothy Mwanyika, Deputy Permanent Secretary in the Ministry of Finance of Tanzania; Mr. Vitalice Meja, Coordinator of the Reality of Aid Africa Network; and Ms. Smita Nakhooda, from the Overseas Development Institute.

The moderator of the session, Mr. Amar Bhattacharya, noted the great progress that had been made since Monterrey in the realm of international public finance, but stressed that the context had changed significantly. On the supply side, fiscal pressures in donor countries impacted the supply of Official Development Assistance (ODA), while other resources had become more important. On the demand side, 80 per cent of the overall population of developing countries lived in middle income countries, implying new demands on ODA. In this light, he suggested that discussions addressed how ODA commitments could be met, and how ODA should be allocated in a post-2015 agenda.

The first panellist, Mr. Erik Solheim highlighted the significant development successes of recent decades. He also pointed out that resources were sufficient to meet financing needs. Nonetheless, he noted that ODA would continue to play an important role. Specifically, he mentioned four areas where the Addis Ababa Conference could make real progress: increases in ODA and a particular focus on ODA for the Least Developed Countries; support to domestic resource mobilization, both through targeted ODA and through addressing illicit flows; greater incentives for private investment in developing countries; and a smarter and more effective use of ODA. Mr. Solheim also reported on ongoing efforts to modernize the definition of ODA in the OECD DAC, stressing both the transparency of the process and the commitment to not artificially increase ODA figures.

Ms. Harpinder Collacott stressed the critical importance of ODA in eradicating poverty. She noted that 83 per cent of the absolute poor live in countries that have both very limited capacities to raise domestic public resources and that have comparatively low growth projections going forward. For this reason, she argued that ODA should be targeted where the poorest live. While ODA does currently target poverty better than other flows, this could and should be further improved, e.g. by giving development cooperation agencies an explicit mandate in targeting poverty reduction.

Mr. David Roodman first highlighted that in a more multipolar world, the main challenge would be to jointly resolve global challenges, which highlighted the importance of seeing aid in the broader context of trade, migration, and other policies that affect development. He also underlined certain types of aid that had proven to be effective, such as health aid and direct giving. Such demonstrable successes would be critical to create and maintain political support for ODA.

Mrs. Dorothy Mwanyika, Deputy Permanent Secretary in the Ministry of Finance of Tanzania, noted the large role that ODA played in her country, in particular in financing the development budget. In terms of its modalities, Tanzania preferred budget support, which facilitated its use in line with national priorities and under the supervision of parliament. For this reason, she regretted the decreasing appetite among donors for budget support. To further increase ODA effectiveness, she also called for greater predictability of aid flows, the use of national systems, and mutual accountability mechanisms, to ensure a genuine partnership between donor and recipient countries.

Mr. Vitalice Meja, Coordinator of the Reality of Aid Africa Network, emphasized the importance for developed countries to meet the target of 0.7 per cent of GNI for ODA, and called for a binding mechanism to achieve this goal. He also noted that while many developing countries now had middle income status, they still rely on ODA to finance some of their needs. With respect to aid effectiveness, he underlined the importance of the Busan principles, and in particular democratic ownership and the participation of all stakeholders. Inclusive fora such as the United Nations Development Cooperation Forum have the ability to bring all stakeholders together in an inclusive manner.

Ms. Smita Nakhooda, from the Overseas Development Institute, explained that development progress was being threatened by new challenges such as climate change, with the poorest people concentrated in countries that are most vulnerable to climate change. To address these challenges, developing countries required international public finance, in line with existing commitments under the United Nations Framework Convention on Climate Change (UNFCCC). However, these resources drew from the same pool that provided development finance. There was a substantial role for ODA in the delivery of Fast Start Finance, and climate-related ODA has grown rapidly. While these overlaps were to be expected, they had implications on allocation, with climate-related ODA more targeted toward middle income countries and towards the Asia and Pacific region.

Points made in the subsequent interactive discussion included the following:

- Many delegations emphasized that existing ODA commitments had to be met, and some called for clear and concrete timetables. Additional ODA was needed also in view of increasing international public finance flows dedicated to climate change mitigation and adaptation in developing countries, which largely count as ODA. There were also calls to increase the effectiveness of ODA, for example by increasing its predictability and flexibility, by untying aid and by making greater use of budget support as an aid modality.

- Different perspectives were raised with regard to the most desirable allocation of ODA. There was broad agreement that poverty should be the priority concern for ODA flows. Some also called for ODA to increase capacity for domestic resource mobilization, while others noted that the potential to raise revenue from taxation would remain severely limited in many countries.

- Many speakers endorsed a greater focus of ODA on LDCs and other vulnerable countries, and there was agreement that the trend of declining ODA for LDCs should be reversed. Suggestions were made to allocate 50 per cent of all ODA to LDCs. Others voiced their concern that classifications and allocations based on income per capita only would neglect other factors, such as structural vulnerabilities, and emphasized the continued need for ODA for many middle income countries as well. In addition, some speakers noted that financing for climate change mitigation is generally counted as ODA, which risks diverting ODA from LDCs.

- Several questions were raised with regard to OECD DAC efforts to modernize the ODA concept. Speakers voiced their concern over how concessionality is currently being calculated, and also noted that proposals to take country risks into consideration in a renewed measurement could incentivize higher lending to countries at risk of debt distress. Mr. Solheim noted that there was agreement within the DAC that the current measurement of concessionality needed to be changed to address some of the concerns raised. However, he assured the meeting that ODA would remain the main instrument to measure donor effort, while a new and additional measure, "Total Official Support for Development" (TOSD), would allow monitoring broader financing flows for development. In response to calls to discuss changes to the ODA concept in an open and transparent manner at the United Nations, he assured the meeting of the OECD DAC's commitment to absolute transparency.

Afternoon Session: Additional sources of international public finance: concessional lending, innovative sources of financing and South-South and triangular cooperation

The afternoon session featured two panels. The first panel was on the theme of "Harnessing additional sources of international public finance". The second panel focused on "South-South and triangular cooperation".

<u>Panel 1: Harnessing additional sources of international public finance</u>

The first panel of the afternoon session discussed international public financing flows that are not counted as ODA. The panel was moderated by Mr. Amar Bhattacharya, Senior Fellow at the Brookings Institution. The panellists were Mr. Joachim von Amsberg, Vice President for Development Finance, World Bank; Ms. Gargee Ghosh, Director of Development Policy and Finance, Bill and Melinda Gates Foundation; and Mr. Rodney Schmidt, Policy and Evaluation Consultant.

The moderator of the panel, Mr. Amar Bhattacharya, pointed to the significant potential for mobilizing additional resources and leverage financing through the multilateral development bank system.

Mr. Joachim von Amsberg underlined the role of multilateral development banks in using public resources to leverage large amounts of private resources to facilitate investments needed for sustainable development. In addition, they were also able to leverage their knowledge and experience. He further noted that the most concessional resources should be concentrated with a view to achieving efficiency and equity, by using the most concessional resources in the poorest countries, and by investing in public goods. He also spoke of plans to further increase the impact of World Bank lending, including through increased financial leverage, and by leveraging concessional finance windows.

Ms. Gargee Ghosh suggested that significant additional resources could be unlocked for development by implementing a number of specific innovations. They include a targeting of ODA grants to the poorest countries for basic human development; targeted support and access to concessional finance for lower middle income countries; assistance to developing countries to attain tax to GDP ratios of 20 per cent; more support to private finance, and philanthropic and concessional finance to fill remaining gaps; and lastly funding for investments in research and development at scale.

Mr. Rodney Schmidt spoke about the potential of ‘innovative development financing’ mechanisms, such as a financial transaction tax (FTT) to raise resources for sustainable development. The FTT as implemented from 2016 in eleven European countries is estimated to generate US$ 45 billion annually, and could raise US$ 75 billion if implemented across the European Union. However, there is currently no decision to allocate these resources to development. Finally, he noted that a carbon tax would be an alternative idea to raise significant new resources for sustainable development.

During the subsequent interactive discussion, the following points were raised:

- Delegations noted efforts by the Leading Group on Innovative Financing for Development to mobilize resources complementary to ODA, and highlighted the willingness of the Leading Group to contribute constructively to the elaboration of the post-2015 development agenda.

- Some concerns were raised that concessional lending could contribute to debt crises. The point was made that it was critical to emphasize prevention of debt crises and that the World Bank’s International Development Association had adopted a policy to make only grants available for countries in high debt distress.

<u>Panel 2: South-South and triangular cooperation</u>

The panel was moderated by Mr. Navid Hanif, Director of the Office for ECOSOC Support and Coordination, UN DESA. Panellists included Dr. Sachin Chaturvedi, Director-General at the Research and Information System for Developing Countries, New Delhi, India; H.E. Mr. Hazem Fahmy, Secretary General, Egyptian Agency of Partnership for Development; Mr. Admasu Nebebe, Director, UN Agencies and Regional Economic Cooperation, Ministry of Finance, Ethiopia; and Mr. Cosmas Gitta, Assistant Director in the United Nations Office for South-South Cooperation.

Mr. Navid Hanif introduced the topic and noted that South-South cooperation (SSC) – loans, grants, and technical cooperation – was estimated to amount to US$16 to 19 billion in 2011. Its key features were that it was demand driven, predictable, and fast.

Mr. Sachin Chaturvedi, reported on new institutions that Southern countries were setting up to address their priorities. They include the BRICS Bank, the Asia Infrastructure Development Bank, or reserve funds such as the Chiang Mai Initiative. These regional efforts allow safeguarding the economic interests of Southern countries. He also noted that South-South cooperation was demand driven, so that these efforts would support a post-2015 agenda in those cases where specific country demands align with the agenda.

Mr. Admasu Nebebe reported on the significant impact that SSC had had in Ethiopia to date, in particular in the area of infrastructure investment. ODA had a critical role in helping achieve the MDGs, but tends to focus less on domestic resource mobilization, trade and investment. SSC then is a successful complement to North-South cooperation. He also noted the critical role SSC was playing in knowledge and technology transfer.

Mr. Hazem Fahmy briefed the meeting on Egyptian development cooperation. Egypt had two technical cooperation funds historically, and has recently established an Agency of

Partnership for Development. He mentioned several concrete examples of partnership, including in the area of education and health, including through scholarships and training activities, as well as research on innovation.

Mr. Cosmos Gitta highlighted the role of the UN system in facilitating SSC. This includes the sharing of knowledge and experiences, supporting regional cooperation initiatives, and support for new and hybrid forms of financing, mobilizing the private sector and philanthropic actors.

The following interactive discussion included the below points:

- In the discussion, several delegations highlighted their positive experiences with SSC and triangular cooperation programmes and shared concrete success stories. There was also agreement that SSC is a complement to, rather than a substitute for, North-South development cooperation. Many also saw a role for traditional donors in supporting SSC, for example in the areas of knowledge and technology transfer, and through resources that support knowledge transfer within the South.

- In response to a question on the effectiveness of SSC, Mr. Nebebe noted that Ethiopia had in place an effective monitoring and evaluation system, with indicators in line with development plans. Speakers also called for a strengthened response of the UN system to SSC, and for its mainstreaming within the UN.

- In conclusion, the moderator identified four key messages – that there was large potential of SSC; that innovations were happening at a rapid pace on the ground, but that it will take time to translate them into policies; that while the modalities and motivations of SSC and North-South cooperation will remain distinct, there is a convergence of objectives, namely on poverty eradication; and that SSC was a large tent, where all donors are welcome to join.