Rijksoverheid

Interministerial Policy Review: Towards a new definition of development cooperation
Considerations on ODA

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Abbreviations

AIV	Advisory Council on International Affairs
BCO	Policy coherence for development
BRICS	Brazil, Russia, India, China and South Africa
CGD	Centre for Global Development
CIRR	Commercial Interest Reference Rate
DAC	Development Assistance Committee
ECG	Export Credits Group
ECDPM	European Centre for Development and Policy Management
EIB	European Investment Bank
EKI	Export credit insurance and investment guarantees
EU	European Union
FMO	Entrepreneurial Development Bank
GAVI	Global Alliance for Vaccines and Immunisation
GEF	Global Environmental Facility
GNP	Gross National Product
HIPC	Heavily indebted poor countries
HLP post-2015	High Level Panel on the post-2015 agenda
IPR	Interministerial Policy Review
IMF	International Monetary Fund
IOB	Policy and Operations Evaluation Department
IPG	International public good
LDC	Least developed country
LIC	Low-income country
MDG	Millennium Development Goal
MIC	Middle-income country
NGO	Non-governmental organisation
ODA	Official development assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Cooperation and Development
OODF	Other official development flows
OOF	Other official flows
ORIO	Development-related infrastructure development
PRSP	Poverty Reduction Strategy Paper
SRHR	Sexual and Reproductive Health and Rights
UNDP	United Nations Development Programme
UN	United Nations
WRR	Scientific Council for Government Policy

Summary

The international definition of official development assistance (ODA) has determined the goals, instruments, sources and conditions of spending used to promote development cooperation since 1972. The voluntary international target adopted by the world's governments to pledge 0.7% of their gross national product (GNP) to development cooperation is measured against this definition.

Since then, the global development cooperation agenda has broadened, with more attention now being focused on climate, security and migration and new and innovative forms of development financing have emerged. As a result, the original definition no longer satisfies the current practice of development cooperation or the needs of developing countries. The definition of ODA has become outdated and few donors commit themselves to the 0.7% target. As a result, international agreements on development cooperation need updating.

A new global development agenda, the 'post-2015 agenda', will therefore be elaborated in the next few years, to build further on the United Nations' Millennium Development Goals (MDGs). The new agenda will also include targets to safeguard international public goods. Against this background, the OECD/DAC donor countries have agreed to draw up a new yardstick for measuring total official development assistance. The Netherlands supports this decision, and the Rutte-Asscher government has committed itself to advocate updating the relevant criteria for ODA.

This interministerial policy review describes and analyses the current international framework for development cooperation and presents a number of variants which the Netherlands could use to contribute to its modernisation. The review analyses policy goals, including those governing international public goods, the selection of beneficiary countries and the instruments used to provide official development assistance.

The current international framework: definition and target

The following definition of ODA was agreed by the DAC to measure and compare the expenditure of donor countries:

> Official development assistance is defined as those flows to countries and territories on the DAC List of ODA Recipients and to multilateral institutions which are:
>
> i. provided by official agencies, including state and local governments, or by their executive agencies; and
>
> ii. each transaction of which:
> a)is administered with the promotion of the economic development and welfare of developing countries as its main objective; and
> b) is concessional in character and conveys a grant element of at least 25% (calculated at a rate of discount of 10%).

The decisive factor in determining whether funding qualifies as ODA is that its primary aim must be to promote economic development and prosperity in developing countries. Only concessional aid qualifies as ODA. These funding flows

must come from official government agencies and must be spent in countries on the DAC list of developing countries and multilateral institutions.

Donor countries register their expenditure with the OECD. In doing so, they can decide for themselves what they choose to regard as development cooperation. The DAC does not carry out checks on these registrations. Registered expenditure is only evaluated during the periodic review of donor countries' development policies. The DAC registrations do not show the benefits that development aid generates for recipient countries.

In addition to the DAC definition, the UN has formulated an international target of 0.7% of donor countries' gross national product to be spent on ODA. This is a 'best efforts' target, with no consequences if it is not met. In 2012, only five of the 26 DAC members, including the Netherlands, allocated 0.7% or more of their GNP to ODA. Average ODA expenditure among the DAC countries is 0.3% of GNP.

Dutch development cooperation

Within the context of the ODA definition, the aim of development cooperation is described as the promotion of economic development and prosperity. Poverty reduction has long occupied a central role in the Netherlands' development cooperation policy. In recent years, however, the focus has shifted more toward economic development, and attention is also given to other IPGs, such as climate, security and migration. The Netherlands' contribution to international cooperation in 2012 came to EUR 5.7 billion, EUR 4.29 billion of which was ODA expenditure. In 2017, the Dutch share of ODA will fall to 0.55% of GNP.

Changes in the context of development cooperation

Development cooperation has now become part of a broader and more complex global agenda focusing on IPGs and investments and the question of who should pay for them. This interministerial policy review identifies four relevant changes:

Goals: The number of goals associated with development cooperation is growing, with more now relating to IPGs such as climate, security and migration. The same trend is visible in the Millennium Development Goals. The UN High Level Panel that advises on the global development agenda beyond 2015 is building further on this development.

Instruments: Development cooperation tools are being upgraded and updated. Donors originally provided development aid in the form of grants and loans; however, increasing use is now being made of innovative financing instruments such as guarantees and insurance in order to minimise risks and as a catalyst to lever private funding. Demand for public-private partnerships as a way of boosting economic development is also growing. The knowledge and expertise provided by private enterprise can benefit donor governments, while public sector involvement can reduce the risks for businesses.

Donors: Ever more donors are providing development cooperation. Private funding flows in the form of charity donations, remittances and investments are increasing. Statistics published by the World Bank show that in 2010, ODA accounted for only 3.7% of the total incoming finance flows of middle-income countries (MICs), including emerging economies, whereas private capital flows to these countries have risen dramatically. For low-income countries (LICs), however, ODA continues to be the main source of financing, accounting for nearly half of the total incoming flow of finance.

Effectiveness: There is growing emphasis on the need to achieve results. The agreements concluded in Rome (2003), Paris (2005), Accra (2008) and Busan (2011) sought to make development cooperation more effective by emphasising the co-responsibility of donors and recipient countries. These agreements centre on the pledge by both parties to shift the focus towards achieving and measuring results.

The expert meetings and interviews held as part of this interministerial policy review also stressed the need for budgets and spending to take their lead from the development goals themselves. In practice, this means focusing more fully on the policy goal and the degree to which it is realised.

Problems with the current definition

These developments have made the current definition of ODA problematical since:

1) not all development-related goals now fall under the definition;
2) not all the available (innovative) policy instruments are compatible with the definition;
3) spending by new donors does not tie in with the definition;
4) ODA is not an accurate measure of effectiveness.

Innovative financing instruments do not fit in the current definition since they do not always take the form of a flow of funds and are not always concessional. The current list of recipients includes countries such as China and Brazil, which now fund their own development projects in other countries. The system for registering ODA also needs improving to make transparent how much aid recipient countries receive in total and what results are being achieved. Moreover, the rules governing concessionality are leading to unrealistic estimates of the grant elements of loans due to the overly high discount rates applied.

The current definition allows administrative costs, education programmes for foreign students, technical assistance, emergency aid, the reception of refugees and debt relief to be registered as ODA. On the other hand, expenditure on military-based security operations and new forms of financing to alleviate the effects of climate change and migration cannot at present be registered as ODA, despite their close links to development cooperation. These strict delineations do not sit comfortably with new insights into what constitutes development cooperation, and inhibit the use of more effective instruments.

Although the 0.7% ODA target sends out a political signal, it has only limited binding force. Only five donors have actually met the target over the last few decades. The target’s main aim is to underline the importance of development cooperation internationally, but it encourages a tendency to focus – also at national level – more on whether expenditure is ODA-eligible than on whether it is effective.

Variants

This report suggests five variants, all of which take into account the consequences of the new development agenda for the definition and financing of development assistance. Each variant puts forward choices relating to the aims of development cooperation, the list of recipient countries, the instruments to be used, concessionality, target management and international registration. The variants each differ in their level of ambition, also from a political perspective. Therefore, each variant gives an evaluation of the international balance of power as perceived by the working group during the preliminary discussions. All the variants include innovative financing instruments in the definition of ODA and apply concessionality to the IMF and World Bank working method, to provide a more realistic estimate of the grant element. All the variants include a broad appraisal of effectiveness and indicate the overall budgetary consequences.

1. Pure ODA for low-income countries

The aim of this variant is to limit the ODA definition to, and make it more effective for, those countries that will remain highly dependent on development financing for the foreseeable future: namely the world's poorest countries and fragile states. Instruments that do not make a direct contribution to the development of recipient countries would no longer be ODA-eligible. The country list would be restricted to LICs and the entire ODA budget would focus only on these countries.

This variant could be more effective than the current ODA definition since it would target development policy at a small number of countries. However, ODA-eligibility can still be a determinant in the choice of instruments. It is internationally accepted that the country list needs revising. Donors that have previously met the 0.7% spending target would probably not welcome a contraction of the list since this would make the target more difficult to attain.

2. A broader range of instruments for middle-income countries with a guarantee of ODA for the poorest countries

The aim of this variant is to tie in more closely with the differentiation between developing countries and the demand for other forms of cooperation, notably by middle-income countries. In this variant, there would be no restriction on the types of international cooperation instruments deployed for MICs. What would be registered as ODA to MICS would be outcome rather than an a-priori budget allocation to eligible instruments. Low-income countries would continue to be guaranteed ODA funding for poverty reduction and security, to be registered in the form of a target for DAC members of 0.25% of GNP.

The effectiveness of development cooperation policy for low-income countries could improve under this variant since aid would be more strongly focused on the specific problems in these countries. Because the current registration system for ODA would not change, this variant would allow ODA-eligibility to continue to play a role in policy considerations. However, for middle-income countries, the question of whether expenditure still qualifies as ODA would no longer arise, making it possible to select the most effective instruments for boosting economic development.

Some of the larger OECD members would be attracted by this variant since it would bring security into the ODA definition. Donors who have traditionally met the 0.7% spending target are likely to be sceptical about this variant, since it would reduce the target's importance. And donors who allocate only a limited proportion of their

ODA budget to low-income countries would probably object to the subsidiary target for LICs.

3. Refining the ODA definition and registering other official flows

The aim of this variant is to improve the registration of all development-related expenditure and contributions without fundamentally changing the definition of ODA. This variant involves a limited refinement of the current ODA definition, like the previous two, and a broader registration of other official flows (OOF), that is, other forms of funding to developing countries which do not currently fall within the current definition of ODA, to make them more internationally transparent and comparable. Countries can then call each other to account for their OOF spending, as they currently can with ODA.

Since innovative instruments would be included in ODA, this would make it easier to select instruments based on their relative effectiveness. On the other hand, there is no guarantee that choices would be made on this basis. The stronger emphasis on the registration of OOF is likely to limit the extent to which ODA-eligibility plays a role in policy considerations relating to development cooperation.

This variant is more limited in its ambitions since it would involve only a minor adjustment to the current approach. This would probably be welcomed by OECD members, given that they have already agreed to a broader registration of OOF.

4. Development needs and results as the guiding principal

The aim of this variant is to increase the focus on the anticipated results of development cooperation policy. Decisions concerning expenditure would be based on projected results and a financial cost estimate. This variant would be based on a joint formulation of development goals by donors and recipients within the framework of the MDGs and their successors. The choice of instruments would not be restricted and would be based on an appraisal of effectiveness in relation to specified goals.

This more ambitious variant would meet the desire for a results-based approach to development cooperation, with no restrictions on the choice of instruments. ODA-eligibility would play no role in decisions about which policy to pursue. This would create more scope to target assistance at a broad development agenda which takes account of the latest insights on effective development. There is strong international demand for a more results-based management of development. International comparability of donor efforts would still require some thought under this variant.

5. Widening the definition of ODA to include IPGs

This variant is specifically designed to address development cooperation in the context of the IPGs. In view of the growing importance and interdependency of international public goods other than poverty reduction, this variant approaches all the IPGs – poverty reduction, migration, climate and security – as an interrelated whole. The Netherlands' contribution would take the form of a definition of ODA that covers all the IPGs, with corresponding agreements on the funding of each. This would effectively require a new definition of IPGs which covers all contributions to IPGs, of which current ODA would form a part. Policy efforts would be targeted toward the anticipated results.

An integrated approach to the IPGs would be an ambitious variant. It could increase the effectiveness of policy, in that the effort to pursue the various goals could be coordinated and compared. This variant would dovetail with the recommendations concerning the UN's post-2015 agenda. The feasibility of an approach of this kind will be easier to assess in the next few years as this agenda takes shape. Developing countries are also increasingly recognising the need for a global approach to cross-border problems which could inhibit their own development. At the same time, some developing countries are concerned that increased spending on IPGs will reduce traditional funding flows for ODA.

Method

This review was based on a literature study and four expert meetings on poverty, security, economic development and sustainability. Discussions were also held at national and international level with experts and representatives from donor countries, developing countries, NGOs and international institutions like the IMF, the World Bank, the OECD and the United Nations.

Concluding remarks

The analysis clearly shows that the outlines of a new development agenda are being formed for an increasingly differentiated group of developing countries involving multiple actors, broader targets and a more varied range of instruments. This will have major consequences for the definition and financing of development-relevant spending in an international context. We will need to make urgent progress in redefining ODA if we are to formulate a new, effective development cooperation strategy within the post-2015 agenda currently under discussion by the UN.

1 Introduction

The international definition of official development assistance (ODA) has determined the goals, instruments, sources and conditions governing spending on development cooperation since 1972. This definition is based on insights into assistance for developing countries which are now 40 years old. Since then, the global agenda has substantially widened, the number of donors has increased and further diversified and new forms of financing are being applied. This new international context and agenda call for a review of the current definition of ODA.

At present, ODA forms the core of international development policy, in combination with the voluntary international target of 0.7% of GNP for development cooperation. However, this definition of development cooperation no longer ties in with reality; ODA in fact now accounts for only half the private and public capital flows to low-income countries and the ODA expenditure of most donor countries does not reach the 0.7% target. As a result, ODA is losing its meaning as a reporting framework for the management, measurement and evaluation of development policies of donors.

Over the next few years, a new global development agenda will be compiled which will build on the United Nations' Millennium Development Goals. Part of this new global agenda is an increased attention on other areas such as energy, climate, security, financial stability and migration. The UN-appointed High Level Panel on the post-2015 development agenda has now issued 12 recommendations through which a new global development agenda can be presented. The OECD will revise the ODA definition in the light of this new agenda over the next few years.

The Rutte-Asscher government has committed itself to updating the criteria governing ODA.[1] This interministerial policy review presents a number of variants designed to assist the Netherlands' contribution to this international process and to guide its future expenditure.

1.1 Definition of the problem

Due to the exploratory nature of this review, the central question was formulated as follows:

How can the current definition of ODA be updated to take account of the changing international context?

There is obviously more than one answer to this question. For that reason, after analysing the current global framework and reflecting on the current definition and expectations concerning the new development agenda, a number of variants were formulated. Each can be seen as a possible direction which the government can take in its efforts to revise the definition of ODA both nationally and internationally.

This review was based on a literature study and four expert meetings on poverty, security, economic development and sustainability. Discussions were also held at national and international level with experts and representatives from donor countries, developing countries, NGOs and international institutions like the IMF, the World Bank, the OECD and the United Nations.

1 Government Coalition Document 2012, p. 15.

1.2 Structure of this report

Chapter 2 outlines the current national and international policy framework for development cooperation, followed by a breakdown of Dutch development expenditure. Chapter 3 analyses the policy framework described in the previous chapter, exploring the performance of the current framework in more detail and identifying its strengths and weaknesses. Specific attention is focused on the role of development-related financing instruments which do not qualify as ODA under the current framework. Finally, chapter 4 presents the proposed policy variants, discussing the choices to be made for each variant and the corresponding budgetary consequences, based on the current development cooperation budget.

2 Outline of policy

2.1 The international context of development cooperation

The view that developed countries share responsibility for providing aid to developing countries evolved in the 1950s and 1960s. That view underpins the current international development policy framework, namely the definition of ODA and the international commitment to pledge 0.7% of rich countries' gross national product to ODA. This international framework is not binding: it is a guideline which donors can use to register their expenditure, and the 0.7% target is an international voluntary commitment to make concrete efforts to reach a certain level of spending. The international definition of ODA, the 0.7% target and other funding flows to developing countries are briefly explained below.

2.1.1 Definition of official development assistance

The current definition of official development assistance (ODA) was agreed in 1972 by the OECD's Development Assistance Committee (DAC). Formulating a common international definition made it possible to measure and compare spending by donor countries. To do so as accurately as possible, the definition was divided into a series of subsidiary guidelines.[2] The 26 DAC members register their ODA contributions with the OECD in accordance with the definition and guidelines. The DAC organises peer reviews of members' development policies in which this information is taken into account.

The definition of ODA is as follows:

> **Official development assistance** is defined as those **flows** to **countries and territories on the DAC List of ODA Recipients and to multilateral institutions** which are:
>
> i. provided by **official agencies**, including state and local governments, or by their executive agencies; and
>
> ii. each transaction of which:
> a) is administered with the **promotion of the economic development and welfare of developing countries** as its main objective; and
> b) is **concessional** in character and conveys a grant element of at least 25% (calculated at a rate of discount of 10%).
>
> Source: DAC Statistical Reporting Directive, OECD, 12 November 2010 (DCD/DAC(2010)40/REV1).

The current definition of ODA centres on five elements (printed in **bold** above):

1. Aid flows

These flows take the form of a transfer of capital, goods or services. Short-term loans with a maturity of 12 months or less do not qualify as ODA because their development impact is regarded as limited. The ODA performance is corrected to take account of negative flows, for example when a developing country repays a loan. Funding commitments to multilateral institutions and funds and debt cancellations *do* qualify as aid flows. For example, if a bilateral debt is fully cancelled, its net cash value can be added to the ODA results of the donor country in the form of a grant in the year of cancellation.

2 DAC Statistical Reporting Directive, OECD, 12 November 2010 (DCD/DAC (2010)40/REV1).

2. Sources
Only funding provided by official public authorities (central, federal, regional, local, and government agencies) can qualify as ODA. Private donations are therefore not ODA-eligible. Grants from non-OECD member states are also not registered as ODA.

3. Recipients
The guidelines include a list of developing countries, contributions to which are ODA-eligible. There is also a list of international multilateral and non-governmental organisations to which ODA contributions can be made. Both lists are periodically revised.

4. Development and welfare goals
The main criterion designating a flow of funds as ODA is that its main aim should be to promote economic development and welfare.[3] A wide range of expenditure can qualify as ODA, such as civil projects within military peacekeeping missions or the temporary reception of refugees from developing countries.

5. Concessionality
ODA must include a grant element (concessionality) of at least 25%, calculated at a 10% discount rate (see 3.3.2). Commercial loans do not qualify as ODA.

Donor countries register their development cooperation expenditure with the DAC in accordance with the aforementioned definition of ODA. However, not all countries interpret the definition in the same way. Donors themselves decide which funding flows to register and the DAC does not carry out annual checks on their reports. The peer reviews, which are conducted periodically, can include remarks about reported expenditure which does not fall within the definition but this does not result in the figures being adjusted retrospectively. International comparisons based on OECD reporting of ODA performance are therefore necessarily limited.

2.1.2 The 0.7% development assistance target
The international definition of ODA must be seen in conjunction with the internationally agreed spending target of 0.7% of a donor country's GNP for Official Development Assistance, adopted in 1970 by the UN General Assembly.[4] The agreement is a voluntary undertaking rather than a legal requirement. No consequences are attached to failure to meet the 0.7% target.

The percentage is based on an econometric model devised by Dutch economist Jan Tinbergen, who calculated that developed nations must allocate at least 1% of their GNP to set developing countries on the path to sustained autonomous growth. It was assumed that the private sector would provide 0.3% of the capital required. In 2001 the UN agreed a separate target for least developed countries (LDCs)[5], for which part of the 0.7% budget (0.15-0.20% of GNP) would be set aside.

2.1.3 Other flows to developing countries
Other capital flows are also directed at developing countries, in addition to ODA. There are different types, with varying goals (development goal/no development goal), sources (public or private) and conditions (concessional/non-concessional).

3 'Welfare' is here taken to mean the degree to which the population of a country can meet its own needs.
4 International Development Strategy for the Second United Nations Development Decade, UN General Assembly Resolution 2626 (XXV), 24 October 1970, paragraph 43.
5 Least developed countries; this term is used by the UN to denote the world's 49 poorest countries (http://www.unohrlls.org/en/ldc/25/).

Capital flows from the governments of donor countries to developing countries which do not meet the conditions governing ODA are referred to as other official flows (OOF). The DAC has recently decided to improve the way these flows are registered. This could result in the application of ECDPM's (2012a) distinction between other official development flows (OODF) and other official flows (OOF), in which capital flows that have a primary development goal but do not qualify as ODA can be registered separately. This would enable the costs of peacekeeping missions in developing countries and loans with too low a grant component, for example, to be registered as OODF. Capital flows whose main aim is not to promote economic growth and prosperity in developing countries would be registered under OOF.

Private flows in developing countries can be divided into three types, depending on their aim and conditions: private development cooperation (such as remittances and charitable initiatives), other private development financing (such as non-concessional loans or direct investments with a development goal) and private flows without a development goal.

The DAC recently decided that more attention and recognition should be given to these non-ODA flows, given that they are becoming more important. More specifically, in addition to registering OOF, it will make more efforts to register private flows and financial instruments like export credit financing and insurance, guarantees, non-concessional loans and loans without development goals. The DAC is now also giving more attention to registering climate financing, the leverage of public funds to promote private investments in infrastructure, the impact of taxation on development and the prevention of illicit financial flows. The aim is to end up with as comprehensive a picture as possible of all forms of external development financing, with a breakdown to indicate the total contribution by donors (donor effort) and the total benefit to developing countries (recipient benefit).

2.2 Recent international developments

In four high level meetings in Rome (2003), Paris (2005), Accra (2008) and Busan (2011), donors and recipients of development financing concluded reciprocal agreements on ways to improve the effectiveness and results of development financing.[6] These agreements are designed to help achieve the MDGs, for which donors and recipients explicitly share responsibility. The essence of the agreements is that developing countries and donors alike must shift the focus to the results of development and their measurement. To this end, developing countries must formulate their own strategies for poverty reduction, institution-building and reducing corruption. Donor countries must support these strategies, use local systems and procedures wherever possible and guard against duplicating their efforts through better coordination and the exchange of information.

Adjusting the goals of development cooperation

The MDGs have provided a strong direction for donor efforts over the past decade.[7] The goals will reach their deadline in 2015, and the UN is therefore working hard to formulate a post-2015 agenda. Many areas are still open, but discussions in the UN point to the likelihood of a single agenda being adopted in which the various global policy agendas will be merged and given universal applicability. This means that the

6 Rome Declaration on Harmonisation (2002) (http://www.oecd.org/dac/effectiveness/31451637.pdf); Paris Declaration (2002); Accra Agenda for Action (2005) (http://www.oecd.org/dac/effectiveness/34428351.pdf); Busan Partnership for Effective Development Cooperation (2011) (http://www.oecd.org/dac/effectiveness/49650173.pdf)
7 http://www.un.org/millenniumgoals/

new post-2015 agenda will in theory apply to both developing and developed nations.

Development cooperation efforts post-2015 will build on the current MDGs, which are generally regarded as having been successful in generating additional development funds and in directing development policy. Major successes have been achieved. Some MDGs, such as halving extreme poverty and improving access to primary education, have already been met. The remaining goals will however not be met by the 2015 deadline. A major difficulty is that these goals remain out of reach for some of the poorest countries and fragile states.[8] There is also growing criticism that the MDGs have been too narrowly formulated, for example by not concentrating on issues such as climate change, human rights and economic inequalities.

On 31 May 2013, a High Level Panel (HLP) submitted recommendations for the post-2015 agenda to the UN Secretary-General.[9] These recommendations must now be converted into universally endorsed goals through an intergovernmental process. The HLP's recommendations consist of 12 goals, with a small number of quantifiable targets for each goal. Eradicating extreme poverty and promoting sustainable growth are the main goals. The new global development agenda will be broader than that of the current MDGs, whose eight goals nonetheless had the appeal of simplicity. The results-based focus of the new agenda will tie in well with the structure of the MDGs, although the resources that will be required have not yet been estimated, nor in some cases will it be easy to quantify them.

At its spring 2013 meeting, the World Bank adopted two leading goals for the development cooperation it would be financing in the coming years. The first is to reduce the share of the global population living in extreme poverty to 3% by 2030.[10] The second is to work towards a fairer distribution of economic growth in which income growth is realised by the poorest 40% of the population. This goal of 'shared prosperity' is designed to create equal opportunities for all and to promote gender equality. These targets are likely to be included in the UN's post-2015 agenda.

Possible review of the ODA definition

There is no doubt that international perspectives on development goals will influence decision-making on the future definition of ODA. The DAC members have agreed that a decision will be taken to review of the definition in 2015. This is part of a process to improve the measurement and monitoring of all external development financing. It will include a review of both donor effort and recipient benefit. They will be measured using newly developed methods, which could play a role in the decision as to whether or not to update the definition of ODA.

In practice, changing the ODA definition and the guidelines will be a complex process due to the need to reach consensus in the DAC. However, discussions with some of the larger DAC members do not yield a clear picture. Some donor countries only want limited modifications, to prevent any politically motivated changes from being made. They fear that broadening ODA-eligible spending for a specific target will be seen by recipient countries as a cost-cutting operation. Discussions with

8 The OECD defines fragile states as those whose governments lack the political will and/or capacity to provide the population with the basic requirements for poverty reduction, development, security and human rights. See also: OECD (2012), Fragile states 2013: resource flows and trends in a shifting world.
9 High Level Panel of Eminent Persons on the Post-2015 Development Agenda (2013), A New Global Partnership: eradicate poverty and transform economies through sustainable development.
10 The percentage of the population living on less than 1.25 dollars a day. This was 20.6% in 2010 and will have fallen to approximately 16% by 2015.

recipients, notably middle-income countries, also show that there is growing demand to include other types of development cooperation, including forms of public-private partnership, in the current definition.

Countries in favour of change want above all to see new financial instruments included in the ODA definition. They also support clearer definition of other official flows, which do not currently fall within ODA. Since many South-South flows are expected to fall under OOF, an additional aim is to get the new donor countries to commit to registering their development flows. The introduction of OODF as part of OOF could give this category more weight as an indicator of the development efforts of donor countries next to their ODA commitments.

All the discussion partners agree that the DAC list of recipient countries is obsolete. On the other hand, experience has shown that countries are strongly opposed to being omitted from the list and that failure to reach unanimity is thus a major obstacle to its revision. As long as there is no international consensus on a radical reduction of the DAC list, the argument for differentiating between developing countries will become stronger. Developing countries themselves have also said they would welcome more differentiation. They recognise that the poorest countries and fragile states are likely to remain heavily dependent on ODA for the foreseeable future. However, ODA forms a diminishing share of the flow of funds to middle-income countries. MICs require other forms of financing which do not fall within the current definition.

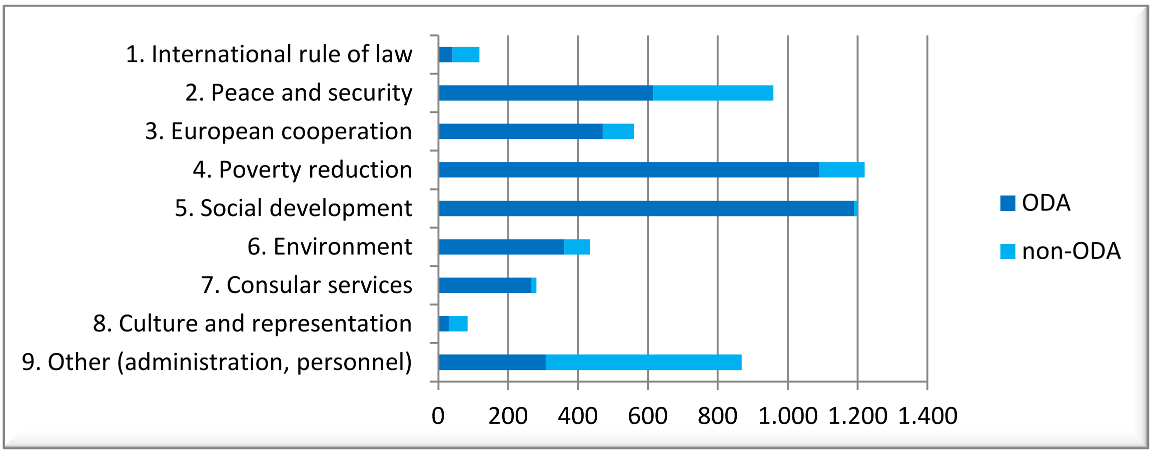
These recent developments play a role in the discussion to update the definition of ODA. Chapter 3 analyses the various options available.

2.3 Dutch development policy

2.3.1 The Netherlands and the definition of ODA

The Netherlands defines development cooperation as expenditure on ODA and refers to other foreign policy spending, part of which benefits developing countries, as international cooperation. A combined account of both ODA and non-ODA spending is presented in the HGIS report.[11] HGIS spending is shown in figure 1.

Figure 1 HGIS expenditure in 2012 per policy theme in € mln. (total € 5.7 bn.)



11 HGIS stands for homogenous budget for international cooperation. HGIS has been part of the national budget since 1997 and shows the combined spending by the various ministries on foreign policy.

Within the definition of ODA, development-relevance is broadly described as economic development and prosperity that boosts the self-sufficiency of developing countries. Poverty reduction has for many years been central to Dutch development policy. In the light of more recent policy aimed at fragile states, it is now accepted that development and security are closely aligned. In recent years, the focus has shifted towards economic development and attention is also being given to other international public goods (IPGs) such as climate and migration. The definition of development cooperation therefore depends on the context in which it is provided and the political choices that are made. This also influences views on development-relevance.

With the appointment of a Minister for Foreign Trade and Development Cooperation by the current government, the Netherlands has struck out in a new direction. The new vision of development cooperation in relation to foreign trade is outlined in the policy document ‘A World to Gain’. This vision centres on three aims:[12]

1. to eradicate extreme poverty in a single generation;
2. to promote sustainable, inclusive growth all over the world;
3. to facilitate success for Dutch companies abroad.

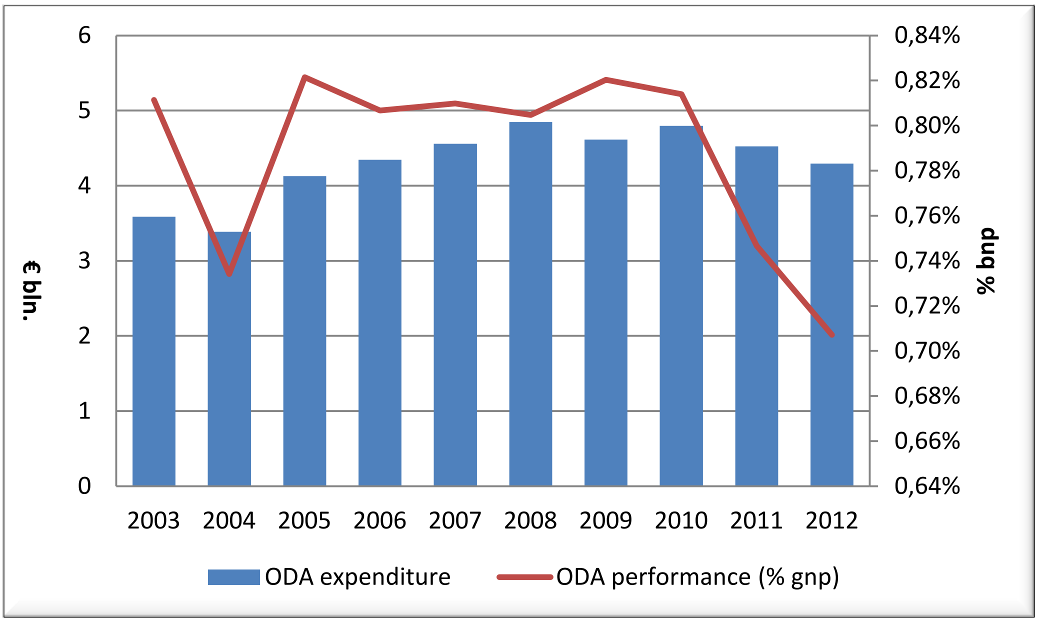
The Netherlands’ development cooperation goals are based on four priorities: security and the rule of law, water, food security and sexual and reproductive health,[13] much of which qualifies as ODA. The Netherlands is thus complying with international agreements to make policy more results-based.

Part of the Dutch development cooperation budget is reserved for emergency aid (EUR 200 million), multilateral contributions (EUR 575 million) and other expenditure. Finally, EUR 1 billion is set aside for the EU, overhead, the reception of asylum seekers from DAC countries during their first year, and debt forgiveness (export credit insurance). This expenditure is registered as ODA and is therefore referred to as ODA allocations. From 2014, EUR 250 million a year will be earmarked for a separate international security budget (BIV). Decisions on the spending of this budget will be based on an integrated approach,[14] in which coherence between development, defence and diplomacy is a requirement. The BIV can be used to finance both ODA and non-ODA activities.

The Dutch ODA budget is directly linked to GNP and is determined by the GNP estimate published several times a year by the Netherlands Bureau for Economic Policy Analysis (CPB). This means that the ODA budget must be also periodically adjusted throughout the year.[15] Prior to 2010, the Dutch ODA budget was protected from the wide-ranging cutbacks in public funding and was maintained at around 0.8% of GNP. Thereafter, the government twice decided to reduce the ODA budget and to relinquish the 0.7% target with effect from 2013, as a result of which the budget will fall within a short period of time from 0.81% in 2010 to 0.55% in 2017. The diagram below shows the evolution of the Dutch ODA budget from 2003 to 2012.

12 Policy document ‘A World to Gain: A new agenda for aid, trade and investment’, 5 April 2013.
13 Letter to parliament on progress in achieving the priorities of development cooperation, 2 November 2012.
14 This is known as the ‘3D approach’ (defence, diplomacy, development), and will be deployed to promote global peace and security, including international crisis management operations and peacekeeping missions.
15 Norway, Sweden and Denmark, by contrast, aim to keep their ODA budgets higher than 0.7% of their GNP. These budgets are not revised throughout the year to take account of new GNP estimates. Germany does not apply the 0.7% target but pursues a specific policy agenda and calculates afterwards what proportion qualifies as ODA.

Figure 2 Dutch ODA spending in € bn. as a percentage of GNP



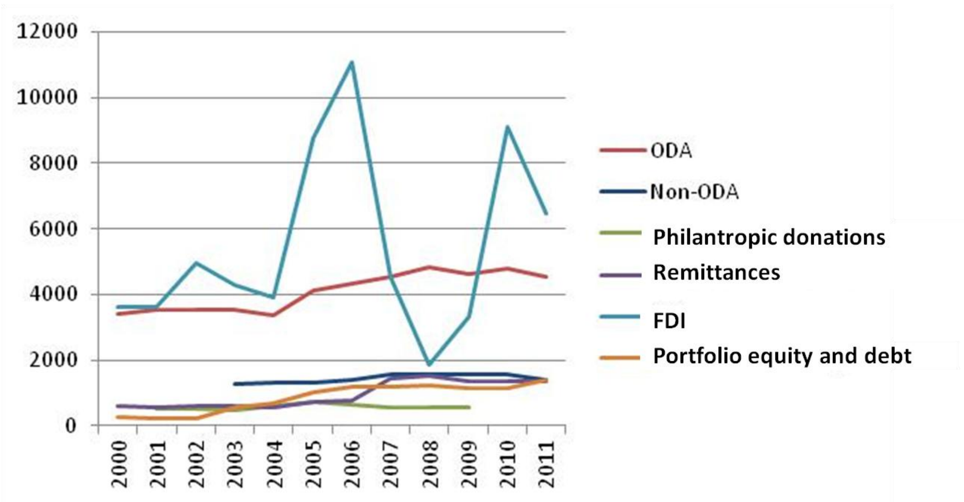
The Dutch ODA budget will develop as follows over the coming years:[16]

Table 1 The Netherlands' ODA budget 2013 - 2017

	2013	2014	2015	2016	2017
ODA (*EUR bn.)	4.28	3.63	3.75	3.85	3.72
ODA as % of GNP	0.70	0.58	0.58	0.59	0.55

ODA forms part of the overall Dutch contribution to developing countries, under which private funding flows also fall. Figure 3 illustrates these funding flows.

Figure 3 Dutch funding flows to developing countries (in € mln.)



16 Figures based on CPB June estimate (2013).

Explanatory notes to figure 3:

Philanthropic donations
Philanthropic donations are contributions in the form of capital, goods and/or time (expertise) which are given voluntarily by individuals and organisations. In 2009, they totalled over EUR 570 million.

Remittances
Approximately half of all non-Western migrants send money and goods back to their countries of origin.[17] Remittances sent from the Netherlands in 2011 amounted to EUR 1.3 billion.

FDI (foreign direct investments)
In 2011, 15% of the Netherlands' total FDI went to non-OECD countries, the lion's share to countries with which the Netherlands has a transitional relationship, including the BRIC countries.

Portfolio investments
Purchases of international securities by Dutch residents, which in 2011 totalled over EUR 1.4 billion.

2.3.2 *Reflections on Dutch development policy*

The 2011 DAC peer review concluded that the effectiveness of Dutch development cooperation could be improved through more focus, predictability and transparency, and by making more use of the institutions of recipient countries.

Dutch development policy is of comparatively high quality. In 2010, the Brookings Institute and the Centre for Global Development carried out a detailed study on the quality of development cooperation (Birdsall et al, 2010) in which they compared seven multilateral and 24 bilateral donors in four areas: efficiency, using and improving the institutions of the recipient country, reducing the administrative burden of the recipient country, and transparency.

In terms of efficiency, all the multilateral institutions performed better than the Netherlands, which came 10th of the 24 bilateral donors. The European Commission came fifth. The Netherlands achieved better scores for the other areas, coming third in both using and improving the institutions of the recipient country and in reducing the administrative burden, and seventh in transparency and lessons learned.

2.3.3 *Measuring the results of Dutch development policy*

Parliament is regularly notified of the results of Dutch development policy. A recent example is the letter on progress in achieving the priorities of development cooperation,[18] which analysed the progress of activities funded by the Netherlands up to the end of 2012 in each priority area.

The ultimate question, of course, is what impact the Netherlands' efforts have had on the development of the recipient countries. Periodic evaluations of the effects of Dutch development activities are therefore carried out by the Policy and Operations Evaluation Department (IOB). Reports summarising these evaluations reveal a mixed picture (WRR, 2010). The IOB does not evaluate the policies of multilateral institutions since this is done by the evaluation services of the institutions themselves. It has, however, recently evaluated Dutch policy and the Netherlands' contributions to the World Bank.[19]

17 NCDO, Solidarity with country of origin through informal grants – donations by non-Western migrants 2007, study 42, 2008.
18 Letter to parliament on progress in achieving the priorities of development cooperation, DEC-248/2012.
19 IOB (2013), Working with the World Bank: Evaluation of Dutch World Bank policies and funding (2000-2011), IOB Evaluation 374.

3 Analysis

3.1 Introduction

The context in which development cooperation operates has changed. It is now part of a broader and more complex global agenda concerned with international (cross-border) public goods and investments and the question of who pays. These changes in the context of development cooperation have been highlighted by Dutch and international experts alike (see e.g. Birdsall & Kharas, 2012; Severino, 2009; WRR, 2010; Walz & Ramachandran, 2011).

In the light of these changes, the definition of official development assistance requires updating. ODA no longer fully reflects donor effort since:

1) not all development-related goals fall under the definition;
2) not all the available (innovative) policy instruments are compatible with the definition;
3) spending by new donors does not tie in with the definition;
4) ODA is not an accurate measure of effectiveness.

While ODA does provide an indication of donor effort (total expenditure on ODA), it does not give an insight into recipient benefits (the benefits of development cooperation for the recipient countries). Both nationally and internationally, policy decisions appear to be dictated by whether expenditure can or cannot be registered as ODA. The result is that development cooperation is not based on up-to-date thinking on what is most effective and efficient.

Section 3.2 analyses the changing context of ODA. Section 3.3 shows where these changes clash with the current definition of ODA and the ODA target.

3.2 The changing context of development cooperation

Three changes in the context of development cooperation are of significance in reviewing development policy and the international definition of development cooperation.

First, there are now more and different actors on the global scene; countries like China, India and Brazil are playing an ever-increasing role in development cooperation and the share of private initiatives and capital transfers is also growing. The classic division of rich and poor countries has been replaced by a world with a large number of middle-income countries.

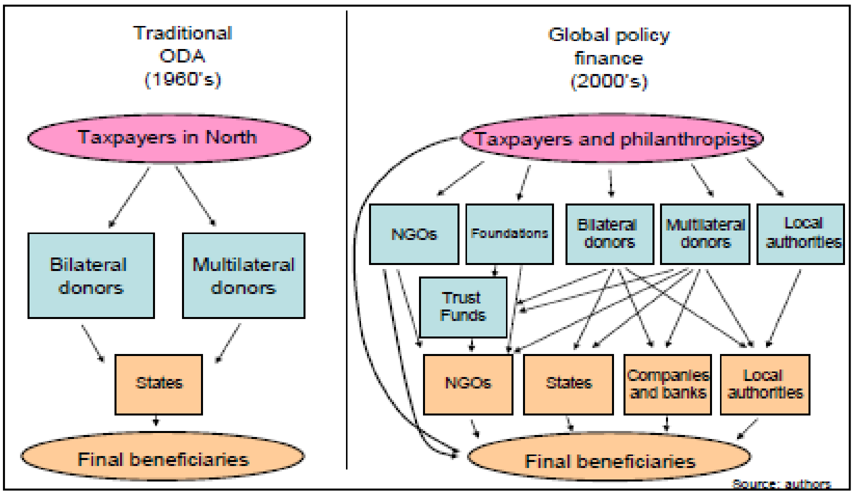
Second, global interdependencies are increasing the number of policy goals: other IPGs are moving up the international agenda alongside traditional development cooperation.

Third, the number of instruments used by these actors has increased and innovative methods are being applied. Finally, the effectiveness of development cooperation is coming under closer scrutiny.

3.2.1 More public and private donors

A growing number of actors are becoming involved in the development of countries on the DAC list of ODA recipients. Next to governments and NGOs, private initiatives and the recipient countries themselves are playing an increasingly important role. 'Emerging donors' have also appeared on the stage, each with their own approach to development cooperation. Figure 4 shows the changes that have taken place in the development cooperation landscape.

Figure 4 Changes in the development landscape (source: Severino, 2010)



The diagram reflects the growth in the number of development organisations. Each year, more countries and donors enter the sphere of development cooperation. Around 40 years ago, the vast proportion of development cooperation consisted of direct aid from governments and multilateral organisations, with less than 10% provided by NGOs and the private sector in developed countries. Today, NGOs and private foundations like the Bill and Melinda Gates Foundation account for an estimated one-third of development cooperation (Riddell, 2013). Large new theme-based funds, such as the Global Alliance for Vaccines and Immunisation (GAVI) (which is targeted at AIDS) and the Global Environmental Facility (GEF), specialise in a limited number of issues or sectors.

The shifts in the balance of global economic and political power have had major consequences for the architecture of development cooperation. The emergence of countries with rapidly growing economies, like China, India and Brazil, and wealthy Middle Eastern countries and highly populous countries such as Indonesia, Vietnam and Pakistan, has radically altered international relations. Many of these countries have themselves now become donors (although they object to being described as such) and make development-related choices that are not guided by the ODA definition.

This view is corroborated by capital flows. World Bank statistics show that ODA spending by all donor countries to all developing countries as a share of total financial flows has fallen sharply in the last decade. This applies especially to middle-income countries, including emerging economies. Table 2 shows that in 2010 ODA accounted for only 3.7% (USD 52 billion) of the total capital flows of USD 1.471 billion that reached MICs. Ten years ago, the share of ODA was over 10%. ODA has therefore become less relevant for middle-income countries.

In 2010 ODA flows to low-income countries accounted for 47% (USD 40 billion) of total funding flows, compared with over 60% a decade ago. So the share of ODA is also falling here while still remaining vital for these countries.

Table 2 Financial flows to LICs and MICs (in billions of dollars. Source: World Bank)

	2000	2005	2010
Middle-income countries			
Foreign direct investments	146.5	312.4	501.2
Portfolio investments	14.0	67.4	129.7
Remittances	75.6	177.1	300.7
ODA	27.3	66.0	52.2
Debt forgiveness		135.2	487.4
Low-income countries			
Foreign direct investments	2.4	4.5	13
Portfolio investments	0	0	0
Remittances	4.1	9.9	24.6
ODA	10.4	22.0	40.7
Debt forgiveness		2.6	7.8

The total capital spent on development cooperation thus accounts for only a small share of the total flow of funds channelled to developing countries, and this share is shrinking in relative terms. It is important to point out, however, that ODA remains vital for low-income countries (ECDPM, 2012a).

Table 2 also shows that private flows to middle-income countries have risen sharply in the past decade. This not only applies to private investments in MICs but also to remittances, which have increased fourfold in the last ten years. Remittances to low-income countries have continued to grow in importance compared with other funding flows.

3.2.2 More goals

There are three perspectives on modern development policy, each accompanied by goals that adopt different, though not mutually exclusive, breadths of focus. The narrowest perspective focuses on poverty reduction and improving living conditions (social sectors such as health care and education). The second approach has a wider focus on structural improvements that promote sustainable economic development and political stability, plus institution building. Finally, the approach with the widest focus targets contributions to international public goods such as climate, food, energy, security, stable financial markets, harmonising tax systems to prevent tax avoidance and evasion, and migration policy.

Global poverty has declined since the 1990s, mainly due to economic growth and demographic changes in developing countries, and also due to ODA in countries where there has been minimal per capita income growth (Kenny, 2012). However, this is not true of fragile states. A scenario study by the Overseas Development Institute has concluded that in the next decade, the biggest share of global poverty[20] will be concentrated in a small number of fragile low-income states, chiefly in Africa (Birdsall & Kharas, 2012), where fragility as well as poverty is a major obstacle to development. The narrow-focus approach to development cooperation will therefore address these most pressing problems, while giving more attention to the issue of security.

20 That is, situations of extreme poverty in which people are living on less than USD 1.25 a day.

Although Dutch development policy traditionally gives high priority to poverty reduction and improving living conditions (the narrow-focus approach) (WRR, 2010), these issues are often linked to other problems. Besides security, development is inhibited by climate change, limited access to trade, high transaction costs, reduced mobility of labour, low investments and lack of respect for the rule of law. Developing countries are often disproportionately affected by exogenous global shocks, against which they are less resilient.

A broader approach to development cooperation would also tie in more closely with the problems faced by middle-income countries. Although poverty reduction is still a major priority in certain regions,[21] it is also important to focus on sustainable economic development and political stability. Discussions with the IMF and the World Bank show that this group of developing countries has a particular need of infrastructure and long-term financing to realise their development agenda.

The solutions to regional poverty in middle-income countries can be sought in improved communications with the region, internal migration or emigration, stronger institutions, direct cash transfers and improved social, political and economic integration throughout the region (Bird et al, 2010). The Advisory Council on International Affairs (AIV) recommends that regional poverty in MICs should be tackled primarily through civil society and human rights. This might help to ensure that poverty reduction expenses by donors in these countries does not lead to a situation in which the recipient countries fail to appropriate their own budgets according to their needs, thus allowing external development financing to replace domestic funding (AIV, 2012).

In line with the High Level Panel's recent recommendations for the post-2015 agenda, further development of the broadest-focus approach to development cooperation in the form of a single agenda would seem to be the logical way forward. Such an agenda would cover all the international public goods, combined with development cooperation, for which both donor countries and developing countries are responsible. These broader goals are not currently included in the definition of ODA.

3.2.3 New instruments: development-related instruments and policy

Development cooperation instruments evolve in line with the anticipated goals. Originally, grants and loans were mainly used as development instruments, primarily for infrastructure and agricultural projects. When poverty reduction began to play a bigger role in the 1970s, prompted by considerations of solidarity, the emphasis shifted to small-scale social projects and capacity-building, and later to structural adjustments based on debt forgiveness and institution-building. Since the start of the present century, the MDGs have taken the lead and the number of development-related financial instruments has grown.

Of particular importance is the emergence of innovative financing instruments, which are designed, amongst others, to lever or increase private investments. Many of these instruments are not compatible with the current definition of ODA, generally because they do not meet concessionality requirements or are not regarded as official funding flows. Innovative financing instruments can be divided into three broad groups:

21 Recent estimates suggest that by 2025, a hundred million of the total of 560 million people living in extreme poverty (i.e. subsisting on less than USD 1.25 a day) will still live in non-fragile middle-income countries (Kharas & Rogerson, 2012; Ravallion, 2013).

New public financing
These instruments are primarily designed to find creative ways of spending public funds. One example is the creation of capital markets in local currencies, which reduce the costs and exchange rate risks of loans and investments in developing countries, many of which still have to be issued in euro's and dollars. The World Bank and regional development banks, such as the African Development Bank, support bond issues in the local currencies of developing countries. The Netherlands is also active in this area, supporting The Currency Exchange Fund (TCX), which gives developing countries cover against exchange rate risks.

Catalysing mechanisms
Instruments in this group are mainly targeted at the private sector (i) to insure against, or minimise, risks, or (ii) to generate a leverage effect in which a relatively small government contribution releases a relatively large allocation of private funds. This group includes financial guarantees for the private sector, direct investments in businesses regarded as too risky by the private sector and guarantees of future donor co-payment, for example in levering finance to pay for a vaccine. In the latter case, it reduces the risk and uncertainty for manufacturers, encouraging them to develop new vaccines.

Public-private mechanisms
These instruments encourage new forms of cooperation and public-private partnership financing. Donor countries can team up with private actors to use the knowledge and expertise provided by business, while government involvement can reduce risks for the private sector.[22] One example is the issuing of bonds on the international capital market which are supported by binding long-term commitments from donors. The income from bonds issued by the International Finance Facility for Immunisation, for example, can be used to directly finance vaccinations provided by GAVI. Development expenditure can thus be brought forward in time.

As with the more traditional development cooperation instruments, it is important to carefully consider which instrument will be the most effective in a particular context. Since a number of innovative financing instruments are relatively new, experience is still being gained as to the situations in which a specific instrument is most effective. Experience shows, however, that catalysing mechanisms are generally more effective in middle-income countries because private actors tend to be more willing to invest in them.

The pricing and valuation of innovative financing instruments is a key consideration. Unlike grants, for example, many innovative financing instruments do not result in direct expenditure, due to their conditional nature. However, this does not mean that these instruments are 'for free' or risk-free, either for donors or recipient countries. The rules for applying these instruments in the Netherlands are laid down in the budget guidelines. Internationally, the frameworks still need to be agreed.

New methods for recruiting funding (such as issuing bonds covered by long-term donor contributions to bring disbursements forward in time or international taxes and levies to cover the rising costs of climate change) are already covered within the current ODA definition. Development spending can also be linked to national levies

22 http://www.iob-evaluatie.nl/sites/iob-evaluatie.nl/files/B85_617412_13%2007_Publiek-Private%20Partnerschappen_Web.pdf.

which are subsequently given development cooperation status. The definition of ODA is not a problem here since it does not specify how funding should be obtained.

Growing attention is being focused on policy coherence for development, that is, on whether the policy choices made by donors might be having unintended negative effects on developing countries and undermining the results of development cooperation. The Scientific Council for Government Policy (WRR) states that coherence is not so much a technical exercise as a 'political process in which policymakers often have to weigh up conflicting interests and widely varying estimations of the potential consequences of policy against each other'. This calls for technical knowledge and expertise, monitoring and evaluation, and political commitment (WRR, 2010: 229-230).

For this reason, policy on trade, migration, arms exports, intellectual property rights, tax treaties and environmental requirements is increasingly appraised for its potential impact on the economic development and prosperity of developing countries. The OECD registration methods for ODA do not take account of the coherence of donor countries' policies.[23]

3.2.4 *Effectiveness and efficiency of development cooperation*

The effectiveness of development cooperation policy is coming under increasing scrutiny. Like other policy areas, development cooperation is increasingly results-based. The experts in meetings and discussions conducted for this review frequently stressed the need to take development policy goals as a starting point, including when defining ODA and setting budget levels. In practice, this means focusing on policy goals and the degree to which those are met.

The current system of development cooperation is defined by the complex institutional context in which donors operate. The rise in the number and type of donors calls for more directional guidance from recipient countries to ensure that funds are effectively allocated. The Paris Declaration (see chapter 2) contains agreements which seek to tie in with the current strategies and procedures of recipient countries.

More and more donors are contributing to the growing prosperity of poorer countries through a range of organisations, channels and instruments. While this is a positive development, various aspects of the current system inhibit the effectiveness of development cooperation:

- unpredictability of financing: what is pledged is not always given and there are sharp fluctuations in funding from year to year;
- fragmentation of financing and high administrative costs for the recipient agencies;
- tied aid in the form of the compulsory purchasing of products or services;

23 A first step is to analyse the coherence of Dutch policy by measuring its effects in two countries. The measurements for Ghana and Bangladesh give one or two indications of where incoherence may occur, e.g. the distortion of competition through internal aid to agriculture and tax avoidance through tax treaties. These initial findings do not however provide enough evidence to include a properly quantified assessment in the policy variants. On the other hand, all the variants could include a significant role for policy coherence (Ministry of Foreign Affairs, 2013c).

- disproportionate concentration of aid ('aid orphans' and 'aid darlings').[24]

In some cases, all the preliminary agreed outputs (such as a certain number of connections for clean drinking water and sanitation) may have been achieved, but the outcome itself – the envisaged social effects (such as improved public health) – have not. As well as being due to the unforeseen effects of policy or to inadequate coordination between donors, this may also occur if development cooperation is not seen as additional by the recipient country. This is referred to as fungibility: donor financing creates budgetary scope for the recipient country to invest in other policies that may not contribute directly to development.

Information is needed about the effectiveness of the various development instruments in order to assess their appropriateness. Information about traditional instruments can be found in the evaluations by the IOB and other organisations. Innovative financing instruments could have a major impact on development due to the size of the potential funding flow generated by the private sector, yet there is still very little information available about how effective they are in reducing poverty or achieving other development goals. Debt sustainability is a key prerequisite for applying innovative financing instruments, since some of these instruments can lead to increased debt levels.

There are various ways to supervise the effectiveness of development cooperation. Results-based management (RBM) is one recommended strategy which governments use to ensure that policy and spending are working towards the anticipated results. RBM is based on clearly defined accountability regarding the results and requires monitoring, self-evaluation and performance reports (UNDP, 2009).

The 'payment on delivery' system links spending on development cooperation to its results. Goals are set in advance and the donor pays once they have been attained. Projects are thus pre-financed by the government of the recipient country or the implementing organisation. One problem with this approach is that not all the results are easy to quantify. However, the advantage is that it boosts the sustainability of results because it ties in with the needs and policy implementation of the developing country itself, and also transfers the financial and other risks of implementing projects from the donors to the recipient countries. This encourages the partner countries to achieve results (DFID, 2013).[25]

Effectiveness at three levels

Micro: The results of specific projects for which targets are generally agreed. Such projects are 'close to the ground'. Output is easy to measure; so is outcome, but this takes longer.

Meso: The results of programmes at sector or branch level. Output is easy to measure but outcome is more difficult.

Macro: Results at macro level. A direct causal link between the specific policy that has been implemented and its impact at the highest level is difficult to demonstrate due to the large number of interdependencies involved.

24 'Aid darlings' are developing countries that receive a relatively high level of aid. 'Aid orphans', by contrast, receive comparatively little aid from donors (see: http://www.oecd.org/dac/aid-architecture/Identification_and_Monitoring_of_Potentially_Under-Aided_Countries.pdf).
25 See also: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/49552/dfid-pilots-payments-results.pdf.

Instruments are generally evaluated separately. Comparisons are rarely carried out and are in any case not easy to make. It is therefore difficult to say anything about their relative efficiency, since this depends on the context. However, research has shown that both large-scale budget support and small-scale human rights projects can be both efficient and effective.[26]

More important than the size of a project is whether it ties in with the priorities of local actors and the coordinated implementation of activities in a range of different areas. In a World Bank study, Knack and Rahman (2007) concluded that donor fragmentation ultimately worsens the quality of local bureaucracy. It also increases the risk of overlap which can in turn reduce the effectiveness and efficiency of the aid.

In a recent EU study, Bigsten et al (2011) calculated that potential savings in management costs of over 20% of the aid budget could be achieved through a better allocation of tasks between donors. Reducing the *number* of activities can in this way result in lower transaction costs in the preparation, negotiation and management of activities. Better donor coordination can lead to more efficiency within development cooperation.

Clay et al (2008) believe that tying aid is another factor that reduces its efficiency. Tied aid must be spent in the country providing the aid. Because tied aid increases the costs of assistance, it reduces efficiency. This study concluded that tied aid was 15 to 30% less efficient than untied aid.

The Dutch government can provide development aid through four channels: bilaterally, through multilateral institutions, through civil society organisations or through private sector development programmes. Funding is also provided for the cancellation of export credit debts through export credit insurance and investment guarantees (EKI) and for attributions and other ODA-eligible cost items.

Table 3 Expenditure per channel 2004 - 2012

Channels	2004	2008	2012
Bilateral	30%	35%	28%
Multilateral	32%	26%	33%
Civil society organisations	22%	23%	19%
Private sector	3%	7%	5%
EKI	5%	1%	2%
Other	8%	8%	13%
Total	**100%**	**100%**	**100%**

Table 3 shows the share of each channel in total ODA expenditure. The question of which channel is the most efficient is more difficult to answer. The IOB has concluded that it is only possible to compare channels in specific cases. The AIV (2013) concludes that each channel provides its own added value and that this added value and opportunities for synergy must be assessed at the outset. Birdsall and Kharas (2010) conclude that as a rule, multilateral institutions are more effective than bilateral programmes. A previous interministerial policy review on the

26 http://www.iob-evaluatie.nl/sites/iob-evaluatie.nl/files/Jaarbericht%202012%20webversie_1.PDF.

effectiveness and coherence of development cooperation put forward a variant with increased multilateral development cooperation, because of the advantages of clustered available knowledge, reduced management costs, scope for prevented fragmentation, and multilateral assistance being untied (Ministry of Finance, 2003).

3.3 The current aid target and definition of ODA in a changing context

The changing context of development cooperation is having an impact on the current 0.7% target for development aid and the definition ODA. The growth of different development flows, both public and private, is reducing the relative share of ODA in the total external flow of financing. More and other goals are now being pursued which may not be compatible with the definition and more and other instruments are being deployed on which the definition may have an inhibiting effect.

3.3.1 A single target for development cooperation

The ODA target of 0.7% of GNP adopted by the UN General Assembly is not mandatory for OECD/DAC countries, despite the fact that members often support it. Moreover, there are no consequences for not making the target. The size of the ODA budget and its relation with the 0.7% target are however subject to peer reviews in which DAC members regularly assess each other’s performance.

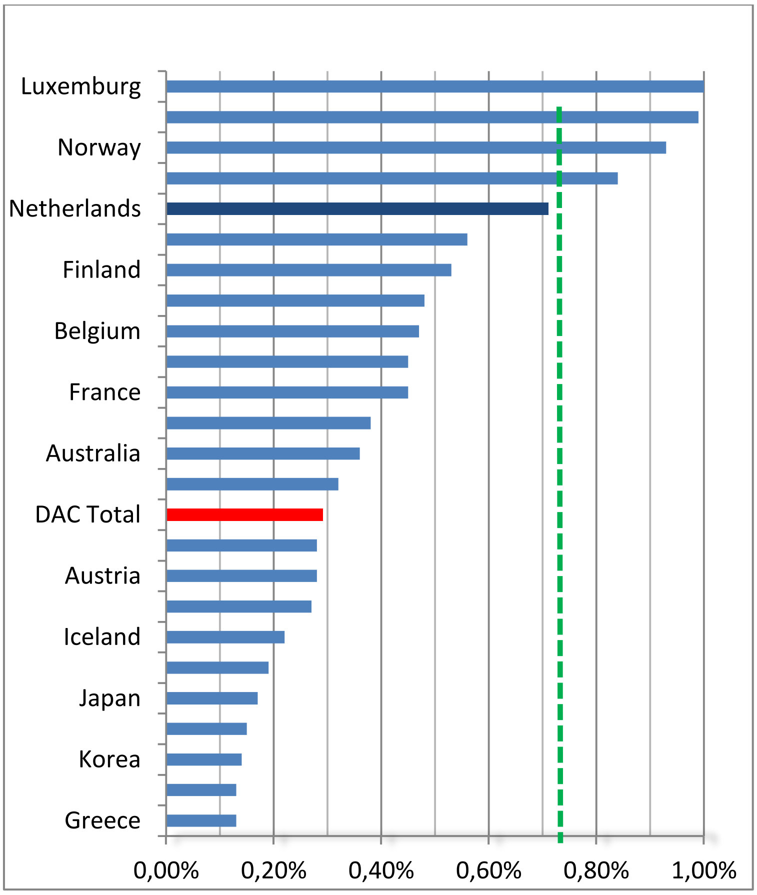
The target is primarily a common goal shared by donor countries. It sends out an important political message and highlights the need for a joint international commitment to development cooperation. It also encourages the international registration of ODA contributions, promoting a global debate on the scope of development spending. Discussions show that developing countries in particular see the target as a guarantee that they will continue to receive a development budget, despite the fact that many donors fail to reach the 0.7% norm.

The ODA target prioritises spending on development cooperation. Discussions at national and international level show that the question of whether expenditure is ODA-eligible plays a significant role in the budget allocation and can therefore lead to instruments not being used optimally. On the one hand, the ODA definition prevents countries from registering expenditure that have little relevance to development, thereby guaranteeing a certain degree of effectiveness for ODA. On the other hand, the definition contains scope for prioritising ODA-eligibility over effectiveness. The registration of ODA expenditure and hence the attainment of, or progress towards, the 0.7% target can thus become a goal in itself.

Statistics show that in practice, commitment to the ODA target is in fact limited. Although this commitment has been regularly endorsed in recent decades,[27] figure 5 shows that in 2012 only five of the 24 DAC members, the Netherlands among them, spent at least 0.7% of their GNP on ODA. Average ODA spending among the majority of DAC members is 0.3% of GNP.

27 At the UN Financing for Development conference in 2002, at the G8 summit in Gleneagles in 2005 and in Doha in 2008, shortly after start of the global financial crisis.

Figure 5 ODA as a percentage of GNP per DAC member in 2012



In 2005 the individual EU member states agreed to redouble their efforts to meet the 0.7% target, as did the European Union as a whole. However, in 2012 neither the collective EU budget (0.43%) nor those of the individual member states (which averaged 0.39%) succeeded in doing so, and in fact their ODA contributions fell compared with the previous year.[28]

3.3.2 *Definition of ODA*

Due to the aforementioned changes in the international context of development cooperation, the current definition of ODA is no longer compatible with a new development agenda whose targets are more broadly formulated. As a result, ODA is progressively becoming a less suitable yardstick for measuring the development efforts of donors. The OECD has therefore agreed to decide on the need to modernize the definition of ODA by 2015.[29] This section looks at each element in the definition and describes where it no longer corresponds with the practice of development cooperation policy. This will need to be taken into account when updating the definition of ODA.

1. Funding flows

Innovative financing instruments are not as a rule registered as ODA because they do not generally involve an official flow of funds to a developing country. In the Netherlands, a reservation is made on the budget in such situations, to cover the

28 http://europa.eu/rapid/press-release_IP-13-299_en.htm.
29 Initial road map for improved DAC measurement and monitoring of external development finance, OECD, 2013.

risk. Guarantees only cover funding flows to developing countries (and are therefore ODA-eligible) when they are called. Because guarantees are called in case of default, they are only considered as development funding if they fail. Both insurance and guarantees can be valuable instruments for correcting market imperfections.

2. Sources

Development assistance from donor countries is not provided by the public sector alone. Private actors also make significant contributions. More and other donors have begun to play a role in development cooperation, yet their contributions are not reflected in ODA statistics since they are not OECD/DAC members.

Public funding for private initiatives is also omitted from the ODA statistics in the cases where fiscal measures (tax expenditure) applied by the government encourage private initiatives, even though they act as a lever to release private funding flows.

3. Recipients

It has been observed at expert meetings and in discussions that the list of recipients of development aid is too long. It is based on per capita GNP and divided into four categories. 56 of the 150 countries and regions on the DAC list are upper middle-income countries with a per capita GNP of between USD 3,976 and USD 12,275.

The list needs revising, given that some of the countries that are still registered with DAC as recipients of aid are now conducting their own development policies, notably Brazil, China and India. It would therefore be logical to remove upper middle-income countries from the list. One compromise might be to continue providing aid to specific regions (pockets of poverty) within those countries.

4. The development and welfare promotion of the transaction

In the international debate on ODA, some reservations have been made about various government interventions that fall within the current definition of ODA (ECDPM, 2012a; Severino, 2009; CGD, 2011). These chiefly concern the following expenditures:[30]

Administrative costs

The costs of designing and implementing development policy and programmes fall under the current definition of ODA, but this is not without its critics. Although they are vital for work relevant to development, there is no consensus about precisely what expenditure they cover. One example of contested ODA-eligible administrative costs is those relating to retired diplomatic staff (ECDPM, 2012a).

Costs of international education programmes

Both individual grants and spending by educational establishments to attract international students can be registered as ODA. Each aims to train students from developing countries in donor countries so that they are better able to contribute to economic development when they return home. There is almost no system for measuring the effectiveness of international student grants and it is therefore not known how many students return to their countries of origin. The Centre for Global Development states that developing countries benefit regardless, since many

30 Publications by organisations such as ActionAid are based on the aforementioned discussion, and present the level of donor effort based on OECD statistics if it were corrected to take account of the discussion points mentioned. According to this publication, the Netherlands' development contribution would be 26.6% lower (ActionAid, 2011).

students retain links with their countries of origin and often send part of their income back home in the form of remittances (CGD, 2011).

Technical assistance
Technical assistance covers the cost of experts, research and training for a developing country, often in the form of tied aid in which funding is used to recruit expertise in the donor country. In the past, technical assistance was often supply-led rather than demand-driven. This resulted in a lack of ownership and insufficient alignment with the needs of the recipient country. These aspects are now being given more attention. The Dutch ORIO programme, in which requests must be formulated by the recipient country, is a good example.[31]

Emergency aid
Emergency aid[32] is financed from the ODA budget. In recent years, the links between emergency aid and development have been far less contentious, since it is now understood that emergency situations have major negative effects on development (WRR, 2010: 123). Spending to prevent and combat emergencies is therefore ODA-eligible. On the other hand, emergency aid is not designed for long-term structural development (ECDPM, 2012a).

Care of refugees is also part of emergency aid. The definition of ODA also permits refugees to be accommodated in donor countries. This includes medical treatment following a natural disaster. The costs of sheltering refugees who have fled their countries for reasons of race or political or religious convictions are also ODA-eligible.[33]

Debt relief
The question of whether debt relief helps to alleviate poverty is regularly discussed (ECDPM, 2012a), although it is broadly accepted that it does contribute to the wider goal of economic development and prosperity. Debt relief directly improves a country's debt sustainability since it creates new opportunities to attract financing. In recent decades, debt relief has always been coupled with wide-ranging IMF and World Bank programmes (HIPC, PRSPs),[34] in which macroeconomic, political and social conditions have been imposed on developing countries. In its evaluation of the HIPC programme in the DRC, the IOB concluded that debt relief was having a positive effect on economic development. It could not however establish whether the programme was having a direct effect on poverty reduction there (IOB, 2012). In Nigeria, however, the IOB did establish that debt relief was helping to alleviate poverty (IOB, 2011).

Although the five expenditure categories mentioned above form part of the definition of ODA, their inclusion is sometimes called into question. Whereas on the one hand there is a tendency to limit the definition, there is on the other a tendency to

31 ORIO aims to encourage the development of public infrastructure in developing countries. Applications can be submitted by the governments of countries on a prescribed list (http://www.agentschapnl.nl/programmas-regelingen/ontwikkelingsrelevante-infrastructuurontwikkeling-orio).
32 'Humanitarian aid is assistance designed to save lives, alleviate suffering and maintain and protect human dignity during and in the aftermath of emergencies.' (DAC Statistical Reporting Directives, 2010, Line 184, p. 38).
33 'A refugee is a person who is outside his/her home country because of a well-founded fear of persecution on account of his/her race, religion, nationality, social group or political opinion. Assistance to persons who have fled from their homes because of civil war or severe unrest may also be counted under this item.' (DAC Statistical Reporting Directives, 2010, Line I.A.8.2, p. 27).
34 This applies to Heavily Indebted Poor Countries, which receive both debt relief, together with a Poverty Reduction Strategy Paper setting out the policy the country will pursue to promote growth and reduce poverty.

broaden the goals to include international public goods (for example in the post-2015 agenda), mainly in terms of expenditure on climate, security and migration.

Climate
Under the provisions of international climate agreements, developed countries finance the costs of climate measures in developing countries (preventing and reducing emissions, known as 'mitigation', and adapting to the effects of climate change, known as 'adaptation'). Current climate spending on behalf of developing countries is compatible with the definition of ODA. In the future, when more private funding flows will need to be brought on-stream, public instruments that do not fall under the terms of the definition will become more important.

Instruments designed to lever private sector funding for climate measures do not fall within the definition of ODA due to the fact that they may not be concessional enough or may not involve a flow of funds (as with guarantees). These instruments are however vital in generating the biggest possible leverage between public and private funding. There is also some debate about the degree to which private sector spending in developing countries, which has been prompted by policy interventions or financial incentives by developed countries, should be included as part of the donor country's climate performance.

Security
Boosting security and stability is an important prerequisite for effective poverty reduction and the proper functioning of democracy and the rule of law in developing countries. It has already been pointed out that in the next few years, a high proportion of global poverty will be found in fragile states. Several experts identify a strong link between poverty and conflict. Collier (2007), for example, states that '73% of people in societies in the bottom billion have recently been through a civil war or are still in one.' Collier stresses that a weak economy contributes to a weak state. Civil activities by the military during peacekeeping missions fall under the definition of ODA, but military activities, such as the deployment of troops to fight and to train (para) military forces, do not.

Migration
Global migration flows are growing, as well as becoming increasingly complex and diverse. As a result, traditional countries of origin are now also countries of transit or destination. This applies especially to countries in North Africa and in Central and Eastern Europe. Migrants are vital to the economies of their countries of destination and can also simultaneously contribute to the development of their countries of origin. At present, only the first year of care for refugees is ODA-eligible. Migration and development are increasingly interdependent.[35] Key reasons for migration include economic redistribution and changes in the security situation or the rule of law. Migration and development can only partly be regarded as communicating vessels, and then only in the long term, with investment in development generally leading to a decline in migration.

Migration can promote growth in developing countries by giving immigrants access to the labour market and higher wages, which makes it easier for them to send back goods and remittances. Between 2000 and 2010, remittances to low-income

35 UN High Level Dialogue on International Migration and Development and the Global Forum on Migration and Development (GFMD).

countries grew six-fold (see table 2). Migrants also develop and maintain economically relevant networks for their countries of origin (CGD, 2012).

5. Concessionality

The ODA requirement for concessionality and the provision of an explicit flow of funds inhibits the use and eligibility of some financing instruments. The main hurdle is the fixed 10% discount rate prescribed by the DAC in the calculation of the grant element, which must be at least 25%. This is a different methodology to that employed by the IMF/World Bank and by the international working group of public export credit insurers and financiers (the OECD Export Credits Group (ECG)).

The IMF, World Bank and ECG calculate concessionality using a discount rate based on the Commercial Interest Reference Rates (CIRR) applied by donors. The CIRR indicates the actual loan costs charged by donors, which differ for each donor country. This method is thus more realistic than the fixed discount rate used by the ODA definition, and is a better way of ensuring that donors' contributions are properly compared.

There is also discussion in the DAC on whether the recipients' perspective and the high costs they are usually charged for commercial loans should be taken into account. Once again, the IMF and the World Bank apply a different policy, which only takes account of the debt sustainability of the recipient country.

No concessionality requirement can be applied to guarantees because they cannot be fixed in advance. The IMF and World Bank's Debt Sustainability Framework is therefore a better way of determining the suitability of an innovative financing instrument. The framework calculates the debt sustainability of countries based on their institutional capacity and risk of developing an unsustainable debt. Countries that score well in both areas can make more use of commercial loans. A minimum concessionality rate is applied to countries with the lowest scores where there is no scope for financing at market rates. Innovative financing instruments with conditions attached would therefore be less suitable for these countries.

6. Registration of development cooperation spending

As well as indicating what is and is not ODA-eligible, the current ODA framework also serves as a registration system, enabling the development policies of donors to be compared and assessed. However, the current reporting system lacks some of the key data required for a proper evaluation of development performance.

The reporting method does not provide an accurate overview of the total international cooperation funding received by each recipient country. This is not just a problem affecting new donors and non-concessional funds. Even for traditional funding flows, only the source is registered, not the destination. This reduces the transparency of the total development financing received by recipient countries.

The output and impact of the allocated resources is not registered, and the degree of leverage exerted by a financing instrument is not measured. There is a strong trend in all the donor countries to concentrate more on results and to present them in a clear and comprehensible way. International comparability however is a major challenge.

The total net budgetary expenditure on development cooperation by donor countries cannot be quantified. Although this would appear to be a logical benchmark, the necessary statistics are currently lacking. For example, the tax incentives that allow development donations to be made, and also to some extent the costs associated with guarantees and innovative financing constructions, are not included in the registration, and tax revenue is not deducted.

3.4 Conclusion and priorities for policy options

The analysis above shows that development cooperation has changed radically since the ODA definition and the ODA spending target were formulated. Both the goals and instruments used are being called into question, partly influenced by the fact that ODA accounts for a progressively smaller share of the total external financing of the large and diverse group of developing countries and by the fact that new instruments are being applied which are not currently ODA-eligible. This is reducing the effectiveness of current ODA instruments. Moreover, an international comparison should ideally look not only at expenditure but also at what it is used to achieve. A revision is therefore needed.

This section lists various options for revising or abandoning the current ODA framework. The policy options present options related to:

1. the aim of development cooperation and the list of recipient countries;
2. applicable instruments and concessionality;
3. target management;
4. financial measurement;
5. international registration.

3.4.1 The aim of development cooperation: focus and locus

Under the current definition of ODA, development policy aims to promote economic growth and welfare in developing countries. The country list forms part of the ODA definition. As a result, the choice of development cooperation goals comprises both focus (substantive goals) and locus (countries targeted).

With regard to the locus of development cooperation, the current DAC country list is highly diverse, containing not only LICs, but also MICs that are undergoing strong economic growth or even providing development aid to other countries. Limiting the country list would make it possible to concentrate resources on developing countries in greatest need of financial aid for poverty reduction, while pursuing broader forms of cooperation with others.

Since the 1970s, the traditional focus of development cooperation has been on poverty reduction. More recently, however, financial stability, migration, good governance, security and the rule of law, promoting trade and mitigating climate change have also become development goals. These goals may or may not be regarded as ODA-eligible.

An alternative might be to concentrate on the needs and development direction of the recipient country and not to include any goals in the ODA definition. The development needs of a recipient country could be assessed against an international framework of goals (such as the MDGs or the UN's post-2015 agenda) or against the framework applied by the donor country. This would tie in with the agreements made in the Paris Declaration on Aid Effectiveness.

3.4.2 *Development cooperation instruments and concessionality*

The current definition restricts the instruments that can be used to allow development cooperation to be considered as ODA. There are three ways to address this problem:

1. Selective reduction of current instruments
   Instruments that do not contribute to recipient benefit would be removed from the list. This calls for sufficient knowledge on the effectiveness of the instruments, as well as insight into whether their relative effectiveness for all countries and situations is likely to remain the same over the coming years.
2. Selective expansion of current instruments
   Each new instrument would be screened to see if it can be applied in the context of development cooperation in line with future criteria. The framework would ensure that the choice of instrument takes account of the interests of the recipient country and will not negatively affect its development.
3. Abandoning the ODA framework for instruments
   Abandoning the ODA framework would mean that all instruments could be used for development purposes. This would create scope for the donor and recipient to discuss how best to match the choice of instruments to the stated goals.

There are also three ways to address the concessionality requirement:

1. Replace the fixed 10% discount rate with the CIRR in accordance with the method used by IMF and the World Bank.
2. Retain the current concessionality requirement and calculation method.
3. Base non-concessional official loans on a debt sustainability analysis.
   This choice implies that these loans will only be granted if they do not exceed a country's level of debt sustainability: if the debt threatens to rise too far, loans will no longer be granted.

3.4.3 *Target management*

Over the past few decades, the Netherlands has met the international target of allocating at least 0.7% of its GNP to ODA. From 2014, however, it will no longer meet this target.

Various alternative target management agreements can be concluded internationally, which place a stronger focus on the results of policy. Donor effort could then be expressed in terms of specific results, such as the eradication of a particular disease. Recipient benefit could be expressed in similar terms.

The following options are possible:

1. Financial target
   Agreeing a percentage of GNP as an international target. This means that development spending would not fall below a fixed percentage of GNP. A results-based target could be applied at programme level.
2. In addition to a financial target, results-based targets could also be used. When one of the two targets (financial or results-based) has been met, expenditure for the current year would be stopped.
3. Differentiated approach
   A minimum budget based on a percentage of GNP would be set aside for one or two goals, for example, spending at least 0.25% of GNP a year on poverty reduction or on a certain type of country.

4. Results-based target
   Expenditures would be goal-based; the budget would be based on proposed targets and the corresponding cost estimates.

3.4.4 *International registration*

There are various ways in which donor effort and recipient benefit could be internationally registered. This would be partly determined by the degree to which international comparability must be maintained. There are four possible options:

1. International registration of ODA
2. International registration of other official (development) flows (OO(D)F) in addition to ODA
3. Registration with the United Nations
4. No international registration

3.4.5 *Conclusion*

Various choices relating to goals, instruments, management and registration could be made with regard to Dutch input for the international future of ODA. Each of these choices would help to formulate a possible policy variant. The various options are shown in the table on the next page. The next chapter discusses four possible combinations of these choices to create policy variants.

Table 4 Options for the future of ODA

Goals	Instruments	Target management
Focus: Economic development Prosperity Poverty reduction Good governance Promoting trade Climate Financial stability Migration Security Rule of law Demand-led in accordance with Paris Declaration, in consultation with recipient countries **Locus:** Revision of the list of developing countries (DAC)	**Framework for instruments:** Selective reduction of current instruments Selective expansion of current instruments - Commercial loans - Supplementary export credit insurance - Guarantees - Preliminary financing by recipient country (cash on delivery) Abandon framework for instruments **Concessionality:** - Align with IMF/World Bank methodology - Retain the current concessionality requirement - No concessionality requirement if debt sustainability allows	Financial target: international target for ODA budget Financial target and results-based target combined Partial financial target, tied to a single goal Results-based target: goal-based management
Registration		
International registration of ODA (in accordance with chosen definition)		

International registration (with OECD) of OOF in addition to ODA

Registration with the UN

No international registration

4 Policy variants

4.1 Introduction

Based on the above analysis of the definition of official development assistance, this chapter presents five policy variants which reflect choices that can be made with regard to policy and the definition of development cooperation:

1) Pure ODA for low-income countries;
2) A broader range of instruments for middle-income countries with a guarantee of ODA for the poorest countries;
3) Refining ODA and registering other official flows;
4) Development needs and results as the guiding principle;
5) Widening the definition of ODA to include IPGs.

These policy variants can be used as building blocks for the Netherlands' contribution to the international debate on the future of ODA. The following section recaps the international debate before discussing the various policy variants.

4.2 The future of ODA and development cooperation in an international context

The UN is currently preparing to draw up the post-2015 framework for development aid. It will in all probability opt for a single agenda which merges the various global IPG policy agendas and builds further on the MDGs, which are due to expire in 2015.

On 31 May 2013, a High Level Panel submitted recommendations to the UN Secretary-General setting out 12 goals for the entire policy area covered by development cooperation and the IPGs, together with a small number of quantifiable targets for each goal. These recommendations therefore build on the results-based approach adopted by the MDGs. There is no estimate of the needed financial resources as yet.

The World Bank has recently adopted a new two-pronged strategy aimed at reducing levels of extreme poverty (under 3% of the global population to subsist on less than 1.25 dollars a day) and achieving inclusive (more equably distributed) economic growth. These targets will probably be included in the UN's post-2015 agenda. The new development agenda is therefore likely to be a broad one in which poverty reduction and economic development are situated in the wider context of IPGs. This will affect the definition of ODA.

The DAC has agreed to decide on a review of the definition of ODA in 2015. This will be part of a process to improve the measurement and monitoring of all external development financing, including OOF and private development flows.

The new global development agenda will be implemented in a very different international context from its predecessor. Rapidly changing donor expectations and developing country needs, progressive differentiation, a growing number of actors and the deployment of innovative financial instruments will all call for a proactive approach on the part of donors and recipient countries alike. The following policy variants consider the broad choices that are available to meet these challenges.

4.3 Policy variants

The five variants presented address the broad outlines of the national and international debate on development cooperation and the modernisation of ODA. The first limits ODA to low-income countries and to instruments that make a direct contribution to recipient benefit. This would result in some instruments being added and others being removed. The second variant differentiates between low- and middle-income countries, strengthening the instruments for LICs and expanding those for MICs. The third variant makes only minor adjustments to the current working method, bringing a limited number of new instruments into the ODA framework. The current goals would remain unchanged. The fourth variant places a stronger focus on the results of development cooperation policy. Finally, the fifth variant makes development cooperation part of a wider global agenda of IPGs.

It is important to point out that each variant combines a number of choices which are not limited to the variant concerned. Other combinations are also possible.

The description of each policy variant begins by indicating what choices it entails. This is followed by an examination of the implications of the variant and its likely impact on the budget and effectiveness of development cooperation. Finally, current global relationships are outlined for each variant based on interviews with representatives from recipient countries, donors and international institutions. If there is insufficient international consensus on how to proceed, the Netherlands can obviously pursue its own approach independently. This can then serve as an example in the international debate on effective development cooperation. It should nevertheless also be weighed against the possible political disadvantages of a solo strategy.

A separate issue is how to approach the link between ODA spending and GNP, as applied until now in the Netherlands. As the preceding chapters showed, linking spending to GNP promotes international recognisability and comparability but can also reduce effectiveness, given that it is an input-based target. All the variants presented below allow the GNP link to be retained or to be released and replaced by an index method based on wage and price developments. Since the Netherlands is the only country in which ODA is explicitly linked to GNP growth, this is exclusively a national issue.

If the current fixed percentage of ODA expenditure (0.7% of GNP -/- 1 billion) were to be maintained, variants which bring non-eligible spending into ODA would obviously lead to savings and variants which remove eligible spending from ODA would result in an overspend (e.g. variant 1). This would not result in budget neutrality.

This report has opted for budget neutrality for the national budget as a guiding principle when presenting the variants. If current ODA spending categories are withdrawn, this will create more budgetary scope for the remaining categories. If new categories are added, this will reduce the budgetary scope for current ODA categories. Only if current non ODA-eligible expenditure is relabelled as ODA will the ODA budget grow (and hence ODA as a percentage of GNP) since this would reduce expenditure elsewhere in the state budget by the same amount. Conversely, if some current ODA expenditure is relabelled as non-ODA, ODA expenditure would decline by the same amount (and hence ODA as a percentage of GNP) since non-ODA spending would rise by the same amount.

Estimates of the likely budgetary consequences of each variant are based on the current ODA budget. There are currently no specific budgets for innovative financing instruments, so that new instruments will have to be included in the current budget, which is shown in table 5.[36]

Table 5 ODA budget

Amounts *EUR bn.	2013	2017
ODA budget	4.28	3.72

The effects of each variant on the current ODA budget will be clarified. Given the basic principle of budgetary neutrality, a variant which leads to an increase in the ODA budget means a reduction in non-ODA expenditure and vice versa.

A large proportion of the ODA budget is reserved for ongoing commitments and allocations. Out of a total budget of EUR 3.63 billion for 2014, EUR 3.3 billion (nearly 90%) had already been allocated by the middle of 2013. This fixed share will decline in subsequent years to EUR 1.3 billion for 2017 (approximately a third of the total ODA budget). The budget includes the following cost items:

- attributions (export credit insurance, EU, reception of asylum-seekers, administrative costs): EUR 940 million a year;
- binding commitment to the European Development Fund: EUR 180 million a year;
- commitments to multilateral institutions like the World Bank and UN: EUR 750 million in 2014;
- commitments to organisations falling under the cofinancing programme (MFS II): EUR 380 million up to and including the end of 2015.

It should also be remembered, for example for variant 1, that some of the commitments that have already been made are not directed at low-income countries.

Finally, part of the budget must be set aside to finance climate spending. The budgetary scale and timing of financing climate expenditure are still very uncertain. Based on a fair share for the Netherlands and a private funding element of 50%, a rough estimate would be EUR 330 million in 2017, rising to EUR 630 million in 2020. A substantial proportion of climate spending will take place outside LICs.

Based on interviews, the working group found that there was considerable support for making innovative financing instruments ODA-eligible and for abandoning the restriction that a flow is required. This could be expected to increase the overall effectiveness of ODA since it would then be possible to select those instruments thought to be most effective, allowing total ODA expenditure to remain the same. Making innovative financing part of ODA would reduce expenditure on other instruments. Support for calculating concessionality using the IMF/World Bank method is also growing, since this would make loans genuinely concessional. All the variants therefore provide for the inclusion of innovative financing instruments and the adjustment of concessionality to the IMF and World Bank working method.

4.3.1 Variant 1: Pure ODA for low-income countries

36 Based on the estimate for June 2013 by the CPB.

Description

The aim of this variant is to limit ODA to countries which will continue to be heavily dependent on development financing for the foreseeable future, namely the world's poorest nations and fragile states, and to make assistance more effective for them. Instruments that do not contribute directly to recipient benefit would be removed from the ODA list and the list of partner countries would be restricted to LICs.

Reducing the current instruments

The following instruments would no longer be included in the ODA definition because they do not contribute directly to development goals in recipient countries:

- administrative costs;
- costs relating to foreign students;
- first year of care and reception for asylum-seekers;
- debt forgiveness (export credit insurance) (which would be registered as OOF);
- awareness-raising activities.

Without going into the pros and cons of these allocations, the financial consequences of excluding them from ODA would represent a EUR 569 million reduction in the Netherlands' ODA spending for 2011.

Country list

Chapter 3 proposes restricting the DAC country list to LICs or to the largely identical group of IDA-eligible countries.[37] Under this variant, ODA would no longer be available for middle-income countries (including pockets of poverty within these countries). EUR 346 million of Dutch ODA expenditure in 2011 was specifically earmarked for MICs. In this variant, that would be redirected to LICs.

Expanding current instruments

Chapter 3 describes funding flows that demonstrably contribute to economic development and increased prosperity but are not ODA-eligible. Another development that must be considered is that low-income countries will very likely be also fragile states in the future, so that development cooperation will more frequently need to be accompanied by security interventions.

Restricting the definition of ODA to low-income countries will make parallel registration of OOF differentiated between LICs and MICs, and between development-relevant and non-development-relevant assistance, even more vital.

In the table below, the choices for the ODA framework under this variant are shown in red. In the 'Goals' column, security is shown in blue, as is the registration of OOF under 'International working method'. This gives non-ODA development-related contributions a place in international cooperation policy.

37 IDA-eligible countries are those that qualify for funding from the World Bank's International Development Association (IDA).

Table 6 Variant 1: Pure ODA for low-income countries

Goals	Instruments	Target management
Focus: **Economic development** **Prosperity** **Poverty reduction** Good governance Promoting trade Climate Financial stability Migration **Security** **Rule of law** **Demand-led, in accordance with Paris Declaration, in consultation with recipient countries** **Locus:** **Revision of the list of developing countries (DAC)**	**Framework for instruments:** **Selective reduction of current instruments** **Selective expansion of current instruments:** - Commercial loans - Supplementary export credit insurance - **Guarantees** - Preliminary financing by recipient country (cash on delivery) Relinquish framework for instruments **Concessionality:** - **Align with IMF/World Bank methodology** - Retain current concessionality requirement - No concessionality requirement if debt sustainability allows	**Financial target: international target for ODA budget** Financial target and results-based target combined Partial financial target, tied to a single goal **Results-based target: goal-based management**

Registration
International registration of ODA (in accordance with chosen definition)
International registration (with OECD) of OOF in addition to ODA
Register with the UN
No international registration

Guide to the table
All the variants in this chapter are presented using the table shown at the end of chapter 3 (table 4), which outlines all possible choices. The choices made under a particular variant are shown in red. Additional choices that can be opted for in addition to ODA are shown in blue. Black is used to denote what is not opted for in each variant.

Budgetary consequences

Table 7 Budgetary consequences of variant 1[38]

Amounts *EUR bn.	***OECD 2011***	***The Netherlands 2013***	***The Netherlands 2017***
Current definition of ODA	96.2	4.28	3.72
-/- Reducing the list of instruments	9.7	0.66	0.64
New definition of ODA[39]	86.5	3.62	3.08

As shown in table 7, fewer instruments would reduce ODA spending in the Netherlands by approximately 17% in 2017. The table assumes that ODA which currently benefits middle-income countries would be transferred to low-income countries. When drawing up the available budget for LICs, account must be taken of already committed expenditure (see section 4.3).

Implications for effectiveness
In this variant, ODA will be restricted to LICs: countries that will be most severely affected by poverty combined with fragility over the coming years. This variant focuses on instruments that will make a direct contribution to reducing poverty and to building stability in fragile states.

Because ODA will be concentrated on low-income countries, the international development budget will need to find other ways of structurally supporting the economic development of middle-income countries.

This variant increases the focus of development assistance by targeting it at low-income countries. This in turn makes it possible to be more effective in these countries.

Variant 1 ties in with the current system for registering ODA spending but restricts the instruments registered to those that make a direct contribution to the goal. ODA-eligibility can still play a role in the choice of instruments, but on average they would be more specifically targeted and effective than before. Some non-ODA spending which does not make a direct contribution to the development goal would be relabelled (and would continue to be provided outside the ODA framework).

Probable international response
Focus on the poorest countries and fragile states and the removal of indirect expenditure from the ODA list ties in with the views of some experts that poverty reduction should again be the key focus of development spending. Restricting the country list, regarded by many as long overdue, can also rely on growing support. However, not all DAC members will be in favour of reducing the financing instruments since this would cut their ODA spending as a percentage of GNP. The Netherlands can unilaterally decide to stop registering the costs of some instruments as ODA, even if the ODA definition is not adjusted.

38 Sources: OECD.Stat, HGIS memorandum 2013.
39 Including the budget for innovative financing mechanisms.

All in all, a number of DAC members could welcome all or part of this variant. The Scandinavian countries, which traditionally allocate more than 0.7% of their GNP to ODA, might be sceptical since curtailing the country list and reducing allocations would make it more difficult for them to meet the target. Resistance is also likely to come from donor countries such as Germany and France, which target a large share of their financing flows to middle-income countries, partly in a less concessional way. They would regard the fact that they could no longer register their development relationships with MICs as ODA as a drawback.

4.3.2 Variant 2: A broader range of instruments for middle-income countries with a guarantee of ODA for the poorest countries

Description

The aim of this variant is to broaden the range of international cooperation instruments for middle-income countries while guaranteeing existing funding for development and security in low-income countries. Variant 2 centres on a differentiation of recipient countries and a desire to meet the demand from MICs for other forms of development cooperation. Specific international cooperation goals would be formulated for these countries and instruments would be deployed regardless of whether or not they were compatible with the definition of ODA. Ongoing development and measures to alleviate the worst forms of poverty in LICs would be guaranteed by targeted ODA and agreeing a separate international financial target for the LICs.

ODA remains a substantial source of capital for low-income countries. However, this funding flow is under pressure from growing investments in climate and economic cooperation, which are concentrated in MICs. In order to prevent these goals from compromising development and poverty reduction in LICs, this variant proposes setting a financial lower limit for financing security, development and poverty reduction in these countries. This could be based on the UN-accepted norm of 0.15 – 0.2% of GNP for the least developed countries.[40] This variant takes the slightly larger group of LICs, based on the country classification used in this report and uses a target of 0.25% of GNP to calculate the budgetary consequences.[41]

The ODA instruments would be reviewed to increase the effectiveness of cooperation with low-income countries: development assistance that is spent in, or returns to, the donor country (such as tied aid, tied technical assistance, reception of asylum-seekers for the first year, imputed student costs, administrative costs and debt forgiveness) would be scrapped. Additional spending on peacekeeping operations mandated by the UN Security Council would become ODA-eligible.

Development cooperation for middle-income countries would remain part of ODA. The development targets for these countries would however be broadened to make them part of the wider sphere of international cooperation, in which development cooperation and trade promotion would be linked and targets relating to migration, financial stability and managing climate change would also be given a role. Instruments would be matched to specific goals and deployed regardless of whether or not they are ODA-eligible. Some of the funding for MICs would probably still meet the ODA eligibility criteria, even if ODA is redefined to concentrate on the needs of

40 Brussels Programme of Action for the Least Developed Countries for the Decade 2001-2010, http://www.un-documents.net/ac191-11.htm.

41 See for example the report of the HLP 2015, which mentions a separate commitment for less developed countries (HLP 2015: 55). There are currently 49 least developed countries, which are part of the group of 54 low-income countries.

low-income countries. After all, substantial populations in MICs also live below the poverty threshold (pockets of poverty). Whereas ODA performance is a target for LICs, it is for MICs just an outcome.

A revision of the country list could form part of this variant. A targeted approach to low-income countries does not however mean that the list could only include LICs.

The table below presents the ODA choices made under this variant in red. The choices shown in blue represent international cooperation policy, in which middle-income countries are also given a place.

Table 8 Variant 2: Widening the definition to include MICs, with a guarantee of ODA for the poorest countries

Goals	Instruments	Target management
Focus: **Economic development** **Prosperity** **Poverty reduction** **Good governance** **Promoting trade** **Climate** **Financial stability** **Migration** **Security** **Rule of law** **Demand-led in accordance with Paris Declaration, in consultation with recipient countries** **Locus:** **Revision of the list of developing countries (DAC)**	**Framework for instruments:** **Selective review of current instruments** **Selective expansion of current instruments:** - **Commercial loans** - **Supplementary export credit insurance** - **Guarantees** - **Preliminary financing by recipient country (cash on delivery)** **Relinquish framework for instruments** **Concessionality:** - **Align with IMF/World Bank methodology** - Retain current concessionality requirement - No concessionality requirement if debt sustainability allows	Financial target: international target for ODA budget Financial target and results-based target combined **Partial financial target, linked to a single goal** **Results-based target: goal-based management**
Registration		
International registration of ODA (in accordance with chosen definition) **International registration (with the OECD) of OOF** Registration with the UN No international registration		

Budgetary consequences

Table 9 Budgetary consequences of variant 2

Amounts *EUR bn.	OECD 2011	The Netherlands 2013	The Netherlands 2017
Current ODA definition	96.17	4.28	3.72
New ODA definition (= 0.25% of GNP)	77.91	1.53	1.68
ODA in MICs	pm	pm	pm

In the table above, the target of 0.25% of GNP for low-income countries is taken as the basis for the new definition of ODA, i.e. including spending on security (EUR 320 million), which is currently not ODA-eligible. Besides the ODA budget for LICs, there is a separate budget for financing international cooperation with middle-income countries. It is not known how much of this will be ODA-eligible. For this reason, the relevant line is marked with 'pm' in the table. When the available budget for MICs is fixed, account must be taken of the fact that the current fixed expenditure (see section 4.3) would also need to be drawn from the international cooperation budget.

Implications for effectiveness
As with variant 1, this definition of ODA would also target funding at low-income countries, where poverty combined with the problems of fragile states is likely to be concentrated in the coming years. The main adjustments to the definition will affect the country list and the instruments. This would bring it into closer alignment with the problems of LICs and would thus enhance its effectiveness. It can also make spending on MICs more effective, as the question of whether funding is ODA-eligible would no longer be relevant. More effective forms of international cooperation could thus be applied, which would help to strengthen economic development in MICs. Since this cooperation would be based on mutual interest, effectiveness could be related to the interests of both the Netherlands and developing countries (with due regard for relative weightings).

This variant, like the first, uses the current ODA method of registration. ODA-eligibility could thus continue to play a role in the appraisal of development cooperation policy, but it would have less impact on the effectiveness of ODA as a whole since there would be fewer instruments. The relabeling of a number of categories of expenditure (which would be removed from the ODA definition) would have the same effects as in variant 1.

Probable international response
Differentiation would be seen by representatives from developing countries as an appropriate response to the fact that the differences between low- and middle-income countries call for differentiated policies. This variant would give donors more scope to deploy instruments in MICs which these countries themselves have asked for and are also more interesting for the donors. It would also prevent such measures from reducing commitments to low-income countries. The target of 0.25% of GNP for LICs would tie in well with the World Bank target for eradicating extreme poverty. Restricting the country list, regarded by many commentators as long overdue, can also rely on growing support.

A number of DAC members would welcome this variant. Bringing more security-related assistance under the ODA definition would appear to be feasible if the country list were reduced and more emphasis were given to targeting fragile states. For this reason, variant 2 is also likely to be supported by France, the US and UK. The Scandinavian countries, which traditionally allocate more than 0.7% of their GNP to ODA, might be sceptical since this variant would reduce the importance of the 0.7% target. Donors that channel only a limited share of their ODA budget to low-income countries, such as Germany, could also have difficulty in accepting the subsidiary target for LICs.

4.3.3 Variant 3: Refining ODA and registering Other Official Flows

Description
The aim of this variant is to improve the registration of development-related expenditure and contributions without fundamentally altering the ODA definition. This variant makes a distinction between adapting the available instruments for development cooperation within the current ODA framework and the broader registration of international cooperation alongside the ODA framework. In this variant, the Netherlands would press its fellow donors for a limited revision of the current ODA definition in which the goals would be retained and only the instruments would be adjusted.

In this variant, the DAC would keep a permanent register of OOF alongside ODA, so that OOF, and development-related OOF in particular, would be made internationally transparent and comparable. This would allow countries to call each other to account with regard to their OOF spending, as they currently do for ODA. These funding flows partly relate to goals that are development-related but do not yet fall under the definition of ODA, such as peacekeeping operations and funding that is not fully concessional. New donors provide more OOF than ODA and would probably be more inclined to register their development cooperation under this category than under ODA, since there is no budget target attached to OOF. This new system would pave the way for more effective international agreements governing the registration of OODF and OOF.

The table below presents the choices for the ODA framework under this variant in red. Registrations of OOF are shown in blue under ‘International working method’. This gives IPGs that are not ODA-eligible but *are* targeted at developing countries a place in international cooperation policy.

Table 10 Variant 3: Refining ODA and registering Other Official Flows

Goals	Instruments	Target management
Focus: **Economic development** **Prosperity** **Poverty reduction** **Good governance** **Promoting trade** **Climate** **Financial stability** **Migration** **Security** **Rule of law** **Demand-led in accordance with Paris Declaration, in consultation with recipient countries** **Locus:** Revision of the list of developing countries (DAC)	**Framework for instruments:** **Selective review of current instruments** **Selective expansion of current instruments:** - Commercial loans - Supplementary export credit insurance - Guarantees - Preliminary financing by recipient country (cash on delivery) **Relinquish framework for instruments** **Concessionality:** - **Align with IMF/World Bank methodology** - Retain current concessionality requirement - No concessionality requirement if debt sustainability allows	**Financial target: international target for ODA budget** Financial target and results-based target combined Partial financial target, linked to a single goal Results-based target: goal-based management
Registration		
International registration of ODA (in accordance with chosen definition) **International registration (with the OECD) of OOF** Registration with the UN No international registration		

Budgetary consequences
Expanding the range of instruments would bring current spending on those instruments within the definition of ODA. The Netherlands does not at present finance these instruments, but will shortly be doing so in the context of the Dutch Good Growth Fund. How much other OECD countries spent on these instruments in 2011 is unknown. A growing number will probably be used in future to lever private capital flows. Funding to expand the use of these instruments would need to be found within the current ODA budget. The OOF which was registered with the OECD for 2011, excluding export credits, is included under OOF. A recent OOF estimate for the Netherlands for 2013 has been made of approximately EUR 350 million. The same estimate has been used for 2017.

Table 11 Budgetary consequences of variant 3

Amounts *EUR bn.			
	OECD 2011	***The Netherlands 2013***	***The Netherlands 2017***
Current ODA definition	96.17	4.28	3.72
New ODA definition	86.5	4.28	3.72
OOF (including peacekeeping missions)	4.8	0.35	0.35

The new definition includes innovative forms of financing which cannot yet be quantified. The table above shows that to date, other official flows provided by the OECD and the Netherlands have been extremely limited.

Implications for effectiveness
Expanding ODA to include innovative instruments would make the definition less restrictive and would increase the scope for selecting instruments based on their relative effectiveness. On the other hand, there is no guarantee that choices will actually be made on this basis. Sound international agreements and conditions imposed at the outset are vital in ensuring that these instruments genuinely lead to more effective development cooperation and do not reduce debt sustainability.

Broadening the range of instruments that can be registered would increase the transparency of development cooperation and improve the prospects for closer coordination with other official donors outside the DAC. Increased emphasis on the registration of OOF is likely to restrict the degree to which ODA-eligibility plays a role in the weighing up development cooperation policies. This will enable expenditure to be based more on perceived effectiveness and efficiency.

Probable international response
This variant ties in with the consensus-based character of decision-making within the DAC, since it requires only a relatively minor adjustment to the current working method. The revision of eligible instruments through the admission of new financing instruments and an adaptation of concessionality, which is also proposed in variants 1 and 2, would probably be broadly supported within the DAC, whose members have already agreed to register more OOF.

Based on interviews conducted for this review, this variant is likely to be supported by DAC members. However, once again there will probably be scepticism among Scandinavian donors, who traditionally allocate more than 0.7% of their GNP to ODA and would see a widening of the ODA definition as an erosion of this target. The US would also question the widening of the ODA definition. On the other hand, countries in favour of a broader development agenda would not consider this variant ambitious enough. The aim of encouraging new donors to become more committed to a global development programme through improved registration of OOF is only likely to succeed if these donors are more closely involved in the discussion to establish a new development agenda.

4.3.4 *Variant 4: Development needs and results as the guiding principle*

Description
The aim of this variant is to increase the focus on the intended results of development cooperation policy. The instruments used to meet development targets would be based on specified development goals. The Netherlands would thus call on the international donor community to end restrictions on the types of instruments that can be used for development cooperation.

In this variant, decisions on the allocation of funding for development cooperation would be based on specified policy goals and a financial cost estimate, in accordance with the standard budgetary process for other policy areas. The definition of ODA would not be taken as a guide in the choice of which instruments to deploy. The goals and instruments and the long-term budget would instead be outlined in the government's coalition agreement. Practical detailing and interim adjustments could be made annually and would be incorporated in the corresponding budgets.

Preparing policy and decisions concerning policy goals, instruments and the corresponding budgets would be based on international insights into the anticipated goals of development cooperation. Knowledge regarding the effectiveness and efficiency of the various instruments would also be applied. It is therefore important to clearly indicate what has and has not contributed to the development of the recipient country.

The formulation of common goals is a key priority of this variant. In accordance with the Paris Declaration and subsequent agreements concluded in Accra and Busan, it would be based on the joint formulation of development goals by donors and recipients. The current MDGs could give direction to this dialogue and could in future be replaced by the goals set out in the post-2015 agenda, drawn up in dialogue with recipient countries. This variant could be used to tie in with the commitment recently adopted by the World Bank (to reduce extreme poverty to fewer than 3% of the world population by 2030) and the way in which the MDGs are constructed. One important question would be how to manage the global coordination of development cooperation. In its recommendations, the High Level Panel has taken an important first step in this direction by recommending that the UN should be the central point for supervising progress in meeting the new goals, based on the expertise of other organisations. This would be an appropriate response to a global commitment based on a global responsibility.

This variant could be combined with the registration of development cooperation spending by the various donors, so that international efforts could be properly compared. It would therefore be logical to register all types of instruments for development cooperation. The method used would be similar to the international system used to register instruments in other sectors (such as health care, education and the social sector).

Empirical research on progress resulting from policy implementation (policy effectiveness study) would also be vital as a way of boosting effectiveness.

The table below shows the choices that must be made for this policy variant in red. The goals that could be agreed through dialogue between donors and recipient countries are shown in blue.

Table 12 Variant 4: Results-based targets for development cooperation

Goals	Instruments	Target management
Focus: **Economic development** **Prosperity** **Poverty reduction** **Good governance** **Promoting trade** **Climate** **Financial stability** **Migration** **Security** **Rule of law** **Demand-led in accordance with Paris Declaration, in consultation with recipient countries** **Locus:** Revision of the list of developing countries (DAC)	**Framework for instruments:** Selective review of current instruments Selective expansion of current instruments: - Commercial loans - supplementary export credit insurance - Guarantees - Preliminary financing by recipient country (cash on delivery) **Relinquish framework for instruments** **Concessionality:** - **Align with IMF/World Bank methodology** - Retain current concessionality requirement - No concessionality requirement if debt sustainability allows	Financial target: international target for ODA budget Financial target and results-based target combined Partial financial target, linked to a single goal **Results-based target: goal-based management**

Registration
International registration of ODA (in accordance with chosen definition) **International registration (with the OECD) of OOF** Registration with the UN No international registration

Guide to the table:
The blue text indicates the possible goals targeted by this approach to development cooperation.

Budgetary consequences
The main budgetary implication of this policy variant concerns the method by which national development cooperation budgets are adopted and allocated. A national budget, through which the goals can be pursued, would be drawn up based on specific, internationally agreed goals at programme level plus a financial cost estimate.

For the Netherlands, this would mean adopting a budget based on internationally agreed goals. The progress in pursuing the pre-agreed goals in relation to the available budget would be assessed throughout the year. Any reductions or increases required would be governed by the budgetary rules.

Table 13 Budgetary consequences of variant 4

Amounts *EUR bn.			
	OECD 2011	***The Netherlands 2013***	***The Netherlands 2017***
Current budget	96.17	4.28	3.72

Implications for effectiveness
ODA-eligibility would not play a role in the decision-making process. This would create more scope for targeting instruments at a broad development agenda, based on the latest insights regarding effective development cooperation. By removing the restriction on instruments, this variant would also allow for coordination and alignment with private funding flows for development, thereby further increasing the effectiveness of the approach.

Once the results to be attained had been agreed, there would be an incentive to base expenditure on insights regarding effectiveness and efficiency. Alignment with the policy agendas of the donor and the recipient country could improve effectiveness. At the same time, it would be necessary to ensure that the broad deployment of instruments does not lead to a reduction in debt sustainability.

Probable international response
This variant ties in with the views expressed by the experts who were interviewed, many of whom favoured a results-based approach to development cooperation in which the intended results in several areas could be approached as an interrelated whole, without restricting the instruments to be deployed. There is also considerable international support for a more results-based approach. Results-based targets are also being included in the MDGs and the post-2015 agenda.

The limits imposed by this variant would be the difficulties of measuring the international comparability of donor effort. The DAC has been working for some time to devise ways of measuring both donor effort and recipient benefit. However, it is likely to be some time before this method will be robust enough to be used as a basis for policy and to make international comparisons. Donor countries which traditionally allocate more than 0.7% of their GNP to ODA are therefore likely to be sceptical about this approach since it will reduce the importance of the 0.7% target.

4.3.5 Variant 5: Widening the definition of ODA to include IPGs

Description
The aim of this variant is to approach development cooperation more explicitly in the context of international public goods. Due to the growing importance and interrelatedness of IPGs other than poverty reduction, this variant considers all the IPGs together. The current ODA definition is not adequately equipped to do so. In this variant the Netherlands therefore would propose a new definition of ODA which covers all the IPGs, with corresponding agreements on the relevant contributions. This would effectively create a new IPG definition covering all the contributions to IPGs, of which the current ODA framework would form a part. This would tie in with the Netherlands' original objective when drawing up the HGIS budget, namely to measure its own contribution in the context of its international commitments. Current development assistance would be part of this. As the current instruments framework would no longer be compatible with the revised system, it would be necessary to decide whether a new framework was required, and if so, which

international organisation should define it. Since the UN will be formulating the broader based post-2015 agenda, it would be logical for these instruments to be discussed and adopted within the UN as well.

This variant considers all the contributions to international cooperation with developing countries as an interrelated whole. The goals that form part of the post-2015 agenda could serve as a springboard for implementation. The operationalisation of these goals could be taken as the starting point for considering which measures the Netherlands wishes to fund and what budget is required. Current agreements would be incorporated into this international cooperation agenda. The table below presents the choices that must be made for this variant in red.

Table 14 Variant 5: Widening the definition of ODA to include IPGs

Goals	Instruments	Target management
Focus: **Economic development** **Prosperity** **Poverty reduction** **Good governance** **Promoting trade** **Climate** **Financial stability** **Migration** **Security** **Rule of law** **Demand-led in accordance with Paris Declaration, in consultation with recipient countries** **Locus:** Revision of the list of developing countries (DAC)	**Framework for instruments:** Selective review of current instruments Selective expansion of current instruments: - Commercial loans - Supplementary export credit insurance - Guarantees - Preliminary financing by recipient country (cash on delivery) **Relinquish framework for instruments** **Concessionality:** - **Align with IMF/World Bank methodology** - Retain current concessionality requirement - No concessionality requirement if debt sustainability allows	Financial target: international target for ODA budget Financial target and results-based target combined Partial financial target, linked to a single goal **Results-based target: goal-based management**
Registration		
International registration of ODA (in accordance with chosen definition) **International registration (with the OECD) of OOF** **Registration with the UN** No international registration		

It is often suggested in relation to this variant that individual countries should take responsibility for one or two priority sectors in which they have specific expertise. Water and sanitation are often cited as examples of areas in which the Netherlands could take the lead. This would broaden the global framework and hence the global development agenda, in combination with donor specialisation. This would allow the

Netherlands to select instruments based on their added value for IPGs, including poverty reduction, their leverage effect on investments by Dutch companies, and their visibility.

Budgetary consequences
For the purposes of this interministerial policy review, current expenditure on the aforementioned goals in developing countries is used as the basis for calculating how a broader agenda would affect the national budget. Three-quarters of current non-ODA for IPGs consists of funding for international security. By 2017, the budget set aside for innovative financing within the Dutch Good Growth Fund would need to be added to the new total.

Table 15 Budgetary consequences of variant 5

Amounts *EUR bn.			
	OECD 2011	***The Netherlands 2013***	***The Netherlands 2017***
Current ODA definition	96.17	4.28	3.72
+/+ Non-ODA for IPGs	pm	0.41	0.41
New ODA definition	pm	4.69	4.13

A more detailed analysis of the budgetary consequences would be needed to estimate the exact financial consequences of an international commitment to one or more goals. There are various insights into the global budget that would be required to finance a broad development agenda of this kind. The World Resources Institute for example, estimates that the contribution required to help developing countries reach their climate targets alone would require a global investment of EUR 225 billion a year. Within the current ODA framework, the Netherlands is provisionally setting aside EUR 330 million in public funding for 2017 towards the agreed USD 100 billion a year for developing countries by 2020. In 2020 and beyond, the Netherlands will allocate EUR 1.2 billion a year for this goal, some of it from private funding sources.

Implications for effectiveness
An integrated approach to IPGs could increase the effectiveness of policy, making it possible to coordinate and compare commitments to the various goals. This variant would also provide more scope for coordination and alignment with private financing flows for IPGs, which would further boost effectiveness. However, it would be important to ensure that the goal of poverty reduction did not become 'snowed under' by other goals, remembering Jan Tinbergen's warning that if policy is to be effective, it should not consist of more goals than instruments.

Probable international response
In the interviews held for this review, experts placed great emphasis on the need for a broader development agenda covering all IPGs. Developing countries also increasingly acknowledge the need for a global strategy to tackle cross-border problems which might inhibit their own development. This variant, in which IPGs and development cooperation would be seen as an interrelated whole, could therefore help to promote balanced decision-making. Some developing countries are however concerned that growing expenditure on IPGs would reduce traditional ODA funding flows.

Although IPGs are discussed in the context of the DAC, the main discussion is held in the UN, outside the ODA framework. The proposals by the High Level Group, in which results-based targets for development cooperation would be part of the IPGs, are of key importance to the discussions. The feasibility of this variant will be easier to assess in the coming years as the post-2015 agenda and the relevant commitments take shape. This variant makes some preliminary choices which anticipate the results of that discussion.

4.4 Concluding remarks

The above analysis clearly shows that the outlines of a new development agenda are being formed for an increasingly differentiated group of developing countries involving multiple actors, broader targets and a more varied range of instruments. These changes will have major consequences for the definition and financing of development-related expenditure by international donors. This has already been internationally accepted: the donor countries in the DAC have agreed that a new yardstick for total official development assistance must be established. Modernisation of the ODA definition fits in with this.

This report suggests five different ways in which to address the consequences of the new development agenda for the definition and financing of development-related expenditure. These policy variants clearly show that the ODA definition can be revised in various ways, to include new instruments, to compile a different country selection or to differentiate between low- and middle-income countries, or perhaps to replace ODA altogether as an instrument for guiding decisions on development cooperation.

We will need to make urgent progress in redefining ODA if we are to bring about a new, effective development cooperation strategy within the post-2015 agenda currently being discussed by the UN. A proactive approach by the Netherlands, where the interviews with experts showed that the discussion has progressed further than in some other countries, would be appropriate.

A separate question concerns the Netherlands’ standpoint in the international debate on the development cooperation target. The internationally agreed target of 0.7% of GNP was formulated under very different circumstances from those of today and there is no longer any convincing analytical argument for retaining it. Very few countries use it as a guideline, although it does encourage some degree of obligation, thereby preventing a certain amount of free-rider behaviour. On the other hand, due to budgetary constraints, the target as it stands will remain beyond the reach of many countries for the foreseeable future.

The international target does not on the other hand exert any overwhelmingly negative effect, even though it does occasionally encourage sub-optimum expenditure. Abandoning the target would in all probability raise objections from the G77 and could compromise other policy discussions. The flexibility of the ODA concept has after all made it possible to include financial commitments in the context of the UN Framework Convention on Climate Change.

Viewed in the broader context of the commitments the international community will be called on to make to the IPGs in the form of the post-2015 agenda, an international debate on the possibility of abandoning the ODA target would only be appropriate once international agreement has been reached on a broader definition and standardisation of the global contribution to IPGs, of which poverty reduction would form a part. There is consequently much to recommend a decision on the ODA target being taken in the broader perspective of the international debate on the post-2015 agenda.

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Expert panels and interviewees

Expert meetings

Interviewee	Organisation
Theme: Security	
Frans Bekkers	The Hague Centre for Strategic Studies
Ilco van der Linde	Masterpeace
Dick Scherjon	Rabobank
Peter van Uhm	Former Chief of Defence
Theme: Sustainability	
Marga Hoek	De Groene Zaak
Bert Metz	European Climate Foundation
Harry Verhaar	Philips Lighting
Sabina Voogd	Oxfam Novib
Theme: Poverty	
Chris Elbers	VU University, Amsterdam
René Grotenhuis	Cordaid
Ton Huijzer	International Rescue Committee/Stichting Vluchteling
Joep Lange	Amsterdam Institute for Global Health and Development, Academic Medical Centre Amsterdam - Department of Global Health
Ad Spijkers	Food and Agriculture Organization
Theme: Economic development	
Nanno Kleiterp	FMO
Frank Nagel	Rabobank
Roos van Os	Centre for Research on Multinational Corporations
Robert Poelhekke	Carnegie Consult, NABU Netherlands Association of International Contractors
Thierry Sanders	BiD Network

Interviews in the Netherlands

Interviewee	Organisation
Agnes van Ardenne	Former Minister for Development Cooperation
Kommer Damen	Damen Shipyards
Ton Dietz	African Studies Centre, Leiden University
Nicole Engering	Warchild
Luc van de Goor	Clingendael Institute
Jan Willem Gunning	VU University, Amsterdam
Rolph van der Hoeven	Institute of Social Studies
Anselm Iwundu	Fairfood international
Bert de Jongh	Atradius
Saskia Jongma	NL Agency
Farah Karimi	Oxfam Novib
Michiel Keizer	VU University, Amsterdam
Monique Kremer	Scientific Council for Government Policy
Peter van Lieshout	Scientific Council for Government Policy

Jan Pronk	Institute of Social Studies
Rik van Prooijen	Damen Shipyards
Bas Pulles	NL Agency
Wim van de Put	Healthnet TPO
Winand Quaedvlieg	VNO-NCW
Kate Radford	Warchild
Bart Rooijmans	VDL Finance
Tuky Santillán	Lawid
Johan Schrijver	Atradius
Hedwig Siewertsen	DOB Foundation
Peter Trommar	Atradius
Fons van der Velden	Context International Cooperation
Gino van der Voet	Army Command Staff
Joris Voorhoeve	De Haagse Hogeschool
Robert Went	Scientific Council for Government Policy
Jaap Wientjes	Finance for Projects

International interviews

Government sector

Interviewee	Organisation
Luis-Alfonso de Alba	Permanent Representative of Mexico to the UN
Michael Anderson	DFID, UK
Joan S. Atherton	USAID
Rachel Bayly	US Department of the Treasury
Arnoud Buissé	French Ministry for the Economy and Finance
Jean-Marc Chataignier	French Ministry of Foreign Affairs
Bill Mc Cormeck	USAID
Simon Dennison	DFID, UK
Nick Dyer	DFID, UK
Joanne Gilles	US Department of State
John Hurley	US Department of the Treasury
John Keeton	US Department of State
Mootaz Ahmadein Khalil	Permanent Representative of Egypt to the UN
Marian Leonardo Lawson	Congressional Research Service, US
Lieven de la Marche	Staff member, Belgian Permanent Mission to the OECD
Christoph Merdes	DFID, UK
Frode Neergaard	Staff member, Danish Permanent Mission to the OECD
Diana Ohlbaum	US Congress, Democrats, Staff
Steve Pierce	Staff member, US Permanent Mission to the OECD
Tony Pipa	USAID
Anthony Smith	DFID, UK
Anne Strand	Staff member, Norwegian permanent mission to the OECD

Intergovernmental organisations

Interviewee	Organisation
Gyan Chandra Acharya	UN-OHRLLS
Gil Alfandari	World Bank, International Policy and Partnerships group
Kossi Assimaidou	IMF, Executive Director for Francophone African Countries
Momodou Bamba Saho	IMF, Executive Director for Anglophone African Countries
Antonella Bassani	World Bank, IDA Resource Mobilization department

Priya Basu	World Bank, Multilateral Trusteeship and Innovative Financing
Kaushik Basu	World Bank, Chief Economist
Julia Benn	OECD, DCD
Amar Bhattacharya	IMF, G-24 secretariat
Haroon Bhorat	University of Cape Town, UN
Henk Jan Brinkman	UN, Peacebuilding Support Office
Rocio Castro	World Bank, Multilateral Trusteeship and Innovative Financing
Tomas Anker Christensen	Senior Adviser for Partnerships, UN
Stijn Claessens	IMF, DES
Dirk Dijkerman	DCD, OECD
Felicia Dlamini-Kunene	IMF, Anglophone African Countries
Hazem Fahmy	Finance for Development, UN
Michèle Griffin	UN, Policy Plannig Unit
Navid Hanif	ECOSOC, DESA, UN
Kristinn Sv. Helgason	ECOSOC, DESA, UN
Abdel Rehman Israel	IMF, Francophone African Countries
Jon Lomoy	Director of DCD, OECD
Chileshe Mpundu Kapwepwe	IMF, Anglophone African Countries
Mohamed Sikieh Kayad	World Bank, Sao Tome and Principe
David Kuijper	World Bank, Multilateral Trusteeship and Innovative Financing
Agapito Mendes Dias	World Bank, Executive Director Sao Tome and Principe
Rakesh Mohan	IMF, Executive Director for India, Bangladesh, Bhutan and Sri Lanka
Julia Nielson	World Bank, Acting Director EXT Europe
Okwu Joseph Nnanna	IMF, Anglophone African Countries
Analisa Ribeiro Bala	IMF, G-24 secretariat
Sibiri Sawadogo	World Bank, Sao Tome and Principe
Jens Sedemund	OECD DAC
Daouda Sembene	IMF, Francophone African Countries
Eric Solheim	Chair DAC (OECD)
Shari Spiegel	Finance for Development, UN
Simon Scott	DCD, OECD
Jean-Claude Tchatchouang	World Bank, Sao Tome and Principe
Haimanot Teferra	IMF, Anglophone African Countries
Hans Timmer	World Bank, Development Prospects Group
Jean Touchette	DCD, OECD
Ruud Treffers	World Bank, Executive Director Netherlands constituency
Marilou Jane D. Uy	World Bank, Office of the President's special envoy
Jos Verbeek	World Bank, DECPG
Jiajun Xu	Oxford University, UN

NGOs and academic field

Interviewees	Organisation
Stephen Akroyd	Oxford Policy Management
Owen Barder	Center for Global Development
Laurence Chandy	Brookings Institute
Julia Clark	Center for Global Development
Carol Graham	Brookings Institute
Duncan Green	Oxfam UK
Romilly Greenhill	ODI

Simon Hunt	Oxford Policy Management
George Ingram	Brookings Institute
Stephen Jones	Oxford Policy Management
Geoffrey Lamb	Bill & Melinda Gates Foundation
Carol Lancaster	Georgetown University
Ben Leo	ONE
Richard Manning	Oxford University
William McKitterick	Center for Global Development
Roger Riddel	Oxford Policy Management
Alina Rocha Menocal	ODI
Sarah Rose	Center for Global Development
Zoë Scott	Oxford Policy Management
Jean-Michel Severino	Investisseurs & Partenaires
Andrew Steer	World Resource Institute
Dirk Willem te Velde	ODI

Composition of the working group

Chair

Age Bakker
Professor of Financial Markets and Institutions, VU University, Amsterdam
Former Executive Director of the International Monetary Fund

Ministry of General Affairs

Jack Twiss Quarles van Ufford
Adviser

Monique van der Bijl (alternate)[42]
Deputy Secretary of the Cabinet

Ministry of Finance

Wim Jansen
Deputy Director, Foreign Financial Relations Directorate

Richard Doornbosch (alternate)
Head, International Economy and Financial Institutions Division

Hans de Pooter
Head, IMBZ, Inspectorate of the Budget

Mickie Schoch (alternate)
Deputy Head, Strategic Analysis Office

Ministry of Infrastructure and the Environment

Jan Lintsen
Director, Finance, Management and Control Department

Hugo von Meijenfeldt (alternate)
Deputy Director-General for the Environment and International Affairs / Special climate envoy

Ministry of Security and Justice

Loes Mulder
Director-General for Immigration

Peter Díez (alternate)
Deputy Director, Migration Policy Department

Ministry of Defence

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Director, Budget Department, Directorate-General of Finance and Control

Colonel Arnoud van den Bout (alternate)

42 Alternate means: alternate working group member

Head, Prior Supervision and Policy Control Division

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Director-General for International Cooperation

Christiaan Rebergen (alternate)
Deputy Director-General for International Cooperation

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Robin Uyterlinde (alternate)
Head, Budgetary Affairs Division

Michiel van der Pompe (alternate)
Deputy Head, Budgetary Affairs Division

Ministry of Economic Affairs, Agriculture and Innovation; as of 5 November 2012 Ministry of Foreign Affairs

René van Hell
Director, International Enterprise Department, Directorate-General for Foreign Economic Relations

Selwyn Moons (deputy)
Management Team member, Economic Diplomacy and Transition Project Department

Secretariat

Jan Bade
Coordinator of the Homogeneous Budget for International Cooperation, Ministry of Foreign Affairs

Jeroen van Bockel
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