Official Development Assistance: what role in financing for development?

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Presentation: main points

1. The scale of ODA
2. ODA and public financing ‘gap’
3. ODA and subsidising private investment
4. Conclusions
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Scale of ODA: % GNI vs $
ODA: how much arrives?

- ODA spent in donor country high
  - Refugee costs = 11% total (2016)
  - Country Programmable Aid = $103bn in 2015 (vs ODA $132bn)
- ODA to LDCs low + falling – 17% of total (2016)
- Double counting
  - E.g. 2013-14: 84% of public climate finance = ODA
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ODA and the public finance ‘gap’ - revenue

- Domestic revenue shortfalls:
  - Limited tax bases
  - Losses to tax evasion / avoidance / competition
- Scale of ODA low overall but not in LDCs
  - 37 countries, ODA= <10% GDP (2010)
Domestic revenue

Source: IMF World Revenue Longitudinal Database.
ODA and the public finance ‘gap’ - expenditure

- Public expenditure for:
  - Rule of law
  - social services,
  - social protection
  - Infrastructure
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ODA and private investment: 3 roles

- Public goods
- Procurement
- Subsidies
ODA and the ‘double dividend’

- Tying = undermines poverty focus + increases costs 15-30%
- 2001 agreement on untying – limited
- 17% under agreement still tied
- But 46% went to donor firms
ODA to subsidise private investment

• WTO subsidy definition
  • Financial contribution
  • Public body
  • Benefit
• ODA meets these features
ODA and subsidies: issues

• Key = opportunity cost
  • Vs other forms of public expenditure
  • National level decision
• Impact is critical question
ODA and subsidies: issues (II)

- ‘Leverage’ ratio irrelevant
- Confuses decision-making
- Can’t assume ‘additionality’
- Small $$ = lower leverage
- Poor evidence of development impact
- Why link to developed country institutions?
Private Sector Instruments

• PSI = Guarantees, loans, equity: possible major expansion
• Many concerns with current proposals
  • e.g. higher ODA for private vs public loan
  • Need safeguards first e.g. tied ODA
4. Conclusions

- Aid Effectiveness principles: centre on ownership: who decides on use of ODA?
- Proper ODA measurement – no in-donor costs + no double counting
- End tied aid – in policy and practice
- Rethink PSI – do not ‘incentivise’ it