Official Development Assistance
Reform Needs and Policy Options

Statement

Tony Addison[1]

Chief Economist, Deputy Director, UNU-WIDER, Helsinki

[1] Chief Economist/Deputy Director, UNU-WIDER, Helsinki. Email: addison@wider.unu.edu. These are personal remarks.

Thank you for the invitation to participate in Session 2 on 'Official Development Assistance: Reform Needs and Policy Options' in the UNCTAD Intergovernmental Group of Experts on Financing for Development (Third Session, 4-6 November, 2019) in Geneva. My remarks consist of five points:

1. ODA as a source of development finance still remains vitally important – especially for LDCs, but also for some recent 'graduates' to the middle-income category. And all countries need more finance to meet our global goals in climate change, as well as in meeting other 'global public goods' – such as the defeat of pandemics.

2. Most OECD-DAC members are not meeting the 0.7% aid target – only 5 out of the 30 OECD-DAC members met or exceeded the target in 2018 and, moreover, there is a decline in the concessionality of aid to LDCs.[2] There is potential to create a global (SDG) development fund from the retrospective payment of unfulfilled ODA commitments, as UNCTAD's TDR 2019 points out[3]. Given that the public finances of the advanced economies are (mostly) repaired after the damage inflicted by the 2007-08 financial crisis, now is the time for such a global SDG development fund.

3. Much aid is still too fragmentary and uncoordinated.[4] There are too many *small-scale* projects. Given the size of the poverty challenge we still face, in particular the need to create good livelihoods for millions of people, aid-recipient countries need *large-scale* investments (e.g in Africa's infrastructure). This can only really be achieved by recipient countries exercising full ownership over the priority-setting, within the framework of the SDGs, and control of the funds. Countries have made considerable progress in public financial management and in raising domestic tax revenues to complement ODA and other capital inflows. Scepticism on aid does not match what we know from research on aid effectiveness: on average aid has helped increase economic growth, it has been vital to securing post-conflict recovery, and – not least – it has helped finance improved education and health outcomes (child deaths from Malaria have plummeted).[5]

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[2] On OECD-DAC donor aid see http://www.oecd.org/newsroom/development-aid-drops-in-2018-especially-to-neediest-countries.htm In addition to the 5 countries meeting or exceeding the 0.7 per cent target (Denmark, Luxembourg, Norway, Sweden and the United Kingdom) the Non-DAC donors, Turkey and the United Arab Emirates, provided 1.10 per cent and 0.95 per cent respectively of their GNI in development aid in 2018. On ODA trends including the decline of concessionality see p.3 of 'Draft 2019 ECOSOC Financing for Development (FfD) Forum (09.04.2019) '. https://www.un.org/esa/ffd/ffdforum/2019-ffd-forum/outcome.html

[3] See p.93 of UNCTAD (2019). *Trade and Development Report 2019: Financing a Global Green New Deal*. Geneva: UNCTAD. "In addition, a global (SDG) development fund could be replenished by donor countries paying up to their unfulfilled commitments to the ODA target of 0.7 per cent of gross national income and provide dedicated resources to compensate for what was only partially delivered over past decades" (UNCTAD, 2019: 93).

[4] Tony Addison and Finn Tarp (2015). 'Aid Policy and the Macroeconomic Management of Aid'. *World Development* 69: 1-5. https://www.sciencedirect.com/science/article/pii/S0305750X14000655 This paper contains citations of research on the savings to be made from project to programme aid and increasing co-ordination.

[5] For a review of the evidence on aid's impact on economic growth and livelihoods see: Tony Addison and Finn Tarp (2014) 'Aid, Growth and Employment'. *UNU-WIDER Position Paper*.

4. Illicit financial flows continue to be a concern. Though it is hard to get numbers on illicit flows, they exceed ODA flows in aggregate. Our work on the Extractive industries at UNU-WIDER, highlights the difficulties in the mining and oil & gas sectors.[6] International tax coordination to reduce base erosion and profit shifting (BEPS), as well as criminal money laundering is progressing but needs to accelerate (especially in the restitution of stolen assets). Criminal finance, often associated with earnings from conflict commodities, is a consequence of state fragility – but also a cause. OECD-DAC states with large financial sectors need to do more, and the advanced emerging economies need to tighten their financial regulations (and rules on foreign property ownership).

5. Financing development is often seen as a purely technical matter. It certainly does require considerable technical innovation: in the design of better ODA, and in innovating to increase private flows (FDI, debt & equity finance, philanthropy, etc.) via blended finance, de-risking mechanisms etc.[7] Yet, development finance must also be placed in a larger global context of environmental sustainability, climate change, disease and pandemics, and conflict between and within states. These are political, and indeed geopolitical, matters.

   Many LDCs do not receive enough private capital flows because investors perceive high risks in, for example, fragile states (this is one reason why the share of LDCs in blended finance is so low).[8] There are limits to how far purely technical solutions (e.g. de-risking) will work in fragile states (as private flows may be simply uninsurable, for example). Moreover, some 10 per cent or more of ODA is spent within donor countries on programmes to help refugees. While generous help to refugees and IDPs in conflict countries is highly desirable, as is the provision of ODA to post-conflict reconstruction, it is essential to prevent and end conflicts in the first place – thereby releasing more funding to meet long-term development challenges. Likewise, preventing pandemics occurring, and preventing the acceleration of climate change, is better than having to allocate scarce finance to trying to mitigate the damage in the absence of action.[9]

(https://www.wider.unu.edu/publication/aid-growth-and-employment). Child deaths from Malaria have fallen by 40 per cent since 2000 (https://www.unicef.org/media/media_81674.html)

[6] See: Tony Addison and Alan Roe (eds) (2018). *Extractive Industries: The management of resources as a driver of sustainable development, Oxford University Press* (https://global.oup.com/academic/product/extractive-industries-9780198817369?lang=de&cc=lt). The book is Open Access.

[7] See Tony Atkinson (ed.) (2004). *New Sources of Development Finance*. Oxford: Oxford University Press for UNU-WIDER (https://www.wider.unu.edu/publication/new-sources-development-finance-1). The study was prepared at the request of the UN General Assembly.

[8] See p.9 of UNCTAD (2019). 'Financing for Development: International Development Cooperation and interrelated systemic issues'. Prepared for the Trade and Development Board, Intergovernmental Group of Experts on Financing for Development, Third Session 4-6 November 2019. TD/B/EFD/3/2.

[9] Shifting to carbon taxation is an urgent priority, and some of the carbon tax revenue in advanced economies should be allocated to ODA and climate financing for the developing world, given the historical (and current) contribution of the advanced economies to the stock of Green-House Gases in the atmosphere. The energy transition poses risks, but also some opportunities, for developing countries: among the financial risks are the 'stranding' of fossil fuel assets (coal especially, but also oil) in producing countries – see Tony Addison 'Climate Change and the Extractive Sector' in Tony Addison and Alan Roe (eds) (2018). *Extractive Industries: The*

The efforts of the UN and other international bodies to prevent and end conflict, to prevent and end the spread of pandemics, and to stop global climate disaster, fundamentally contribute to making ODA more effective in meeting its development and poverty reduction goals. They also make LDCs more attractive to private capital by building state effectiveness, securing macro-economic stability, and reducing the chances of climate-related disasters – thereby reducing the risks of those looking to deploy their capital to LDCs via foreign direct investment (FDI), purchasing sovereign and corporate debt, and investing in company equity, via venture capital and 'frontier' stock-markets.

We meet in the UN, Geneva. As we walk the corridors of the Palais, which was built for the League of Nations – an organization that was ultimately overwhelmed by the Great Depression of the 1930s and the resulting slide into world war – we can reflect on the intimate connection between the economics and the geopolitics of the world financial system. The UN's unique global mandate enables it to facilitate discussion and action on the linkages between finance and the evolution of the international governance system as a whole, linkages which are vital but outside the remit of forums which focus exclusively on the technicalities of finance. Meetings such as this within the framework of the UN have an important role in ensuring a more peaceful and prosperous future for us all.

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management of resources as a driver of sustainable development, Oxford University Press (https://global.oup.com/academic/product/extractive-industries-9780198817369?lang=de&cc=lt). The book is Open Access.