

Abstract

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The End of ODA: Death and Rebirth of a Global Public Policy

Jean-Michel Severino and Olivier Ray¹

Abstract

The world of international development assistance is undergoing three concomitant revolutions, which concur to the emergence of a truly global policy. First, it is living through a diversification of the goals it is asked to pursue: to its traditional objective of ushering convergence between less and more developed economies have progressively been adjoined those of financing access to essential services and protecting global public goods. Secondly, faced with this new array of challenges, the world of development aid has demonstrated an impressive capacity to increase the number and diversity of its players, generating a governance conundrum for this eminently fragmented global policy. Thirdly, the instruments used by this expanding array of actors to achieve a broader range of policy objectives have themselves mushroomed, in the wake of innovations in mainstream financial markets. Yet surprisingly, this triple revolution in goals, actors and tools has not yet impacted the way we measure both the financial volumes dedicated to this emerging global policy nor the concrete impacts it aims to achieve. This paper argues for the need to move from the conventional measure of Official Development Assistance to the construction of clearer benchmarks for what ultimately matters: resources and results that concur to 21st century international development.

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FOREWORD

INNOVATIONS IN AID PUBLICATION SERIES; Death of ODA

From its inception, the Center for Global Development has made its mark on issues of aid and aid effectiveness. Many of our staff and non-resident fellows—Owen Barder, Michael Clemens, William Easterly, Carol Lancaster, Ruth Levine, Todd Moss, Mead Over, Steve Radelet, David Roodman, Arvind Subramanian, and myself, too—have been key contributors to a [lively debate](#) on the question of whether and how aid and the aid system work.*

Though we normally include in our working paper and other series only analyses by CGD staff and non-resident fellows or analyses we commission ourselves for a particular program, in this special series we are pleased to publish from time to time at our discretion papers and essays prepared outside the Center. Our aim is to share more broadly otherwise unpublished work in which authors propose new thinking about aid and the aid system and new approaches to operationalizing aid transfers. The focus will be on innovations—whether in ideas or operations.

Our goal is that the Innovations in Aid series speeds and broadens access to new ideas, and contributes to more effective aid programs—public and private, bilateral and multilateral, traditional and new donors.

In this paper, Jean-Michel Severino and Olivier Ray describe shifts in the objectives of ODA (overseas development assistance) over time, and conclude that it is time to put the concept itself to bed—in favor of what they propose should be called “Global Policy Finance.” These are bold words from Severino, currently the CEO of Agence Française de Développement and a former vice president of the World Bank.

Nancy Birdsall
President
Center for Global Development

*http://www.cgdev.org/section/topics/aid_effectiveness

Introduction

‘Official Development Assistance’ (ODA) is dying. Not that it really ever existed, at least in the neat form of a global fight against poverty with consensual objectives and means. Nor that international solidarity is decreasing: it isn’t less but *more* money that is being poured each year into what can be called ‘international public policies’². But what we are witnessing is the dilution of an outdated concept – one based on long gone illusions about the unity, the clarity and the purity of the ‘international community’s’ goals – into a new complex breed of public policies that attempt to confront the challenges of a globalized world. A triple revolution of objectives, players and instruments is reshuffling the cards, dynamiting old practices and habits. The bustling creativity of development finance is precipitating a change of era: a new phoenix is rising from the ashes of a half-century old policy.

This sudden metamorphosis of the world of international development assistance leads to a problematic question. Do global standards such as the famous objective of allocating 0.7% of donor countries’ GDP to Official Development Assistance remain relevant? We will show that the fact that what this benchmark measures is senseless may give us a clue as to why it is not reached. As to why it cannot be reached. Time has come to change the thermometer – and speak the truth. For behind seemingly technical questions of measurement lay complex policy issues made even more abstruse by the absence of clear benchmarks: the world is treading a perilous mountain path blindfolded.

This paper walks us through the ever-expanding range of global concerns that the international community has come to deal with. It describes the rising tide of stakeholders active in the emerging field of global policy tasked with confronting these challenges. It then illustrates the amazing change in methods and instruments that are being used to do so. Changes that are commonly – and improperly – referred to as ‘innovative development finance’. It shows how, as a consequence of this triple revolution in goals, stakeholders and instruments, the current understanding of ‘ODA’ is becoming increasingly irrelevant as a tool for action. This analysis leads us to suggest a few elements of common sense on how to make progress in measuring what counts. Because measurement matters.

² The term ‘international public policies’ is used in this article to describe international actions that serve broadly agreed public ends. One of the theses of the paper is that international development assistance forms a kind of global public policy dealing with North/South relations, which has come to incorporate three different subsets of objectives: the economic convergence of developing nations, the provision of basic services to all human beings and the protection of global public goods.

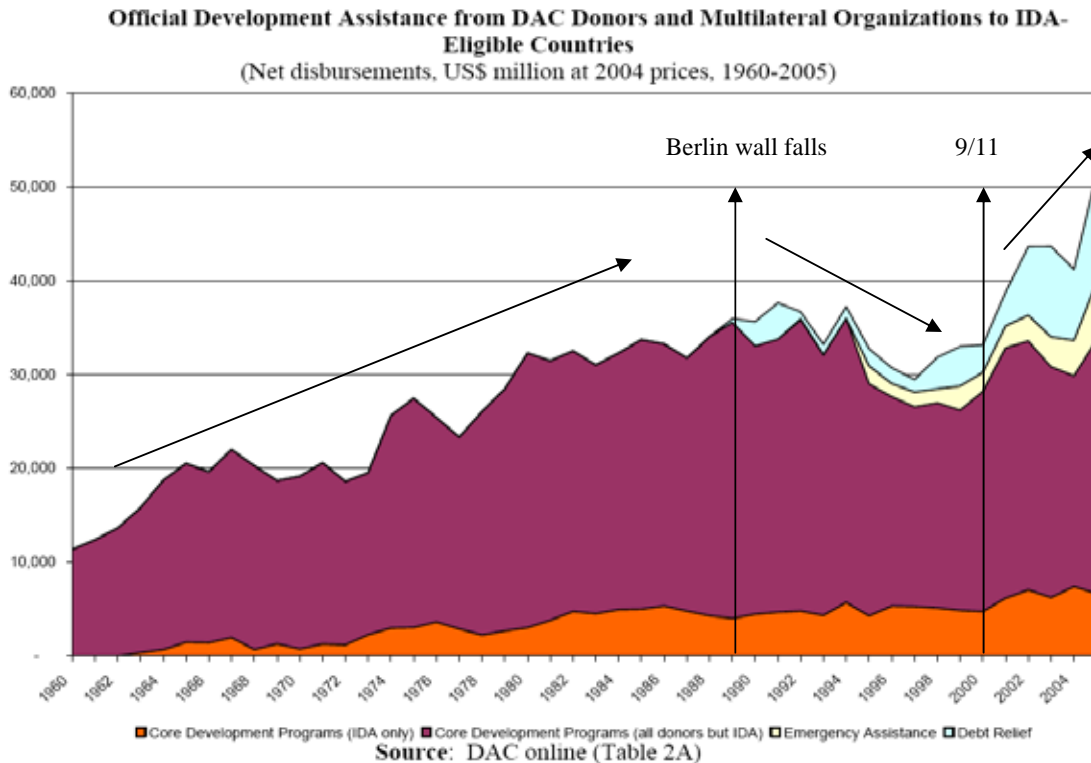


Figure 1. From *Aid Architecture : An Overview of the Main Trends in Official Development Assistance Flows*, IDA May 2008

1. Three revolutions in one

1.1. A new set of challenges

The first major revolution recently undergone by international development assistance is one characterized by a drastic expansion of the very *goals* assigned to this emerging global public policy.

Development aid has always served a wide range of economic, political, social and cultural objectives. Yet for the greater share of its existence its main driving force was geopolitical. Its actors were nation states. Financing expensive economic development projects helped European nations retain a say in the political and economic life of their former colonies. Development aid also served to purchase influence in the Cold War. The increase of ODA flows throughout the Cold War was largely due to the competition that raged between the capitalist and the communist alliances over the Third World: parallel to the global arms race, a ‘race for influence’ took place in the South – one in which the economic performance of satellite nations served as a benchmark to assess the ideology of the patron. Vast sums were disbursed to keep regions in the right camp, ensuring a few swing states and shrewd leaders a comfortable geopolitical rent. This did not mean that donor states were deprived of more ‘noble’ development objectives, or that the men and women serving this policy were not genuinely concerned about the fate of the countries they assisted. Nor that development aid was totally ineffective in promoting economic convergence. But ODA served a broader strategic policy of donor states.

Then came the fall of the Berlin Wall and the – presumed – ‘end of History’³. In this new world order economic liberalism prevailed on all continents and virtually all countries. The big ideological struggle that had defined and structured international relations (and heavily influenced international aid flows) had disappeared, leaving a form of vacuum. The birth of the ‘Last man’ brought along a major identity crisis for official development assistance: logically or paradoxically, this period of hope for the world was characterized by a melting of official development flows. ODA of the United States, France or the United Kingdom was halved in the space of seven years (the United States’ ODA fell from \$16.2 to 8.4 billion between 1990 and 1997⁴), which may explain why the structural adjustment of African economies was so painful. One reading of this evolution is that the main driver behind ODA – geopolitics – had disappeared. International solidarity was no longer part of a ‘grand scheme’, it was no longer considered as a strategic public policy. Instead, the relationship with countries of the South was increasingly driven by ‘compassionate ethics’. What mattered was less their long-term economic growth than their not collapsing into famine and chaos. In these ‘compassionate years’, development assistance budgets were largely used to refinance developing countries’ public debts, contain humanitarian crises and fight the most troubling social consequences of the structural adjustment programmes. This translated in a radical shift in the structure of development assistance: aid became much more people-centred than in the earlier decades⁵, and much less growth-oriented. An increasing share of ODA went to the social sectors, while budgets for infrastructures or agriculture were sliced. This is also the time when private solidarity boomed. Because North-South relations were no longer perceived as strategic, states happily gave up the monopoly they once had – such that shrinking public aid flows were partly compensated by rising private aid. International aid programmes of philanthropic foundations doubled between 1998 and 2001, when they reached \$3.3 billion⁶.

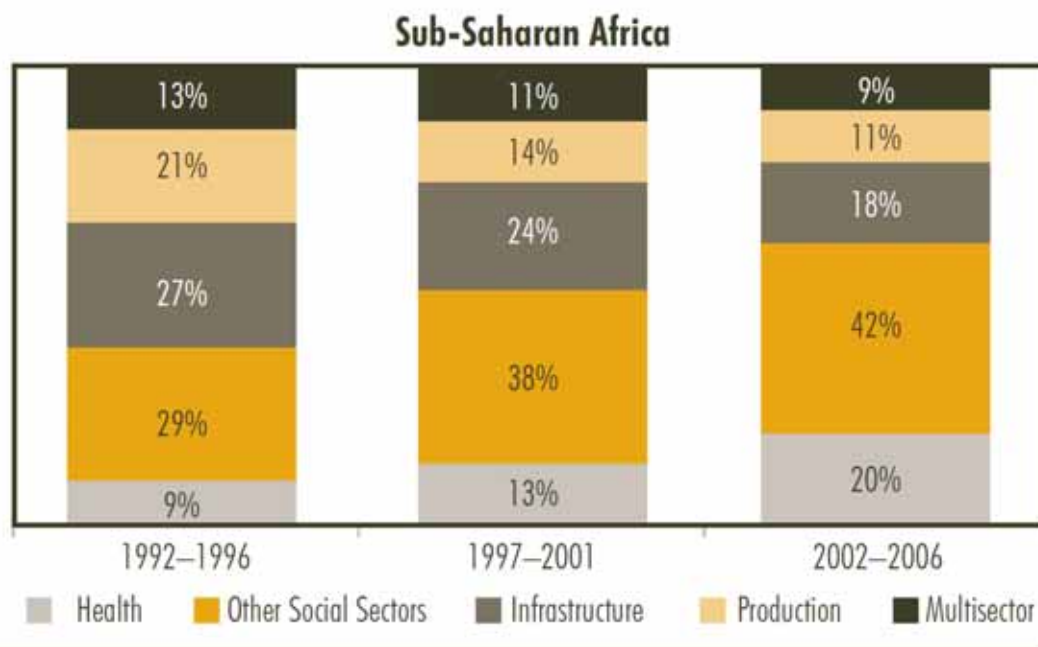
³ Francis Fukuyama, *The End of History and the Last Man*, Free Press, New York 1992.

⁴ OECD-CAD statistics, ODA net disbursements expressed in 2006 USD.

⁵ A similar shift had taken place in the 1970’s when the World Bank’s President Robert McNamara decided to centre the Bank’s activities on basic human needs and poverty reduction. However this emphasis on microeconomic projects changed again in the 1980’s, when the focus shifted to concerns of macroeconomic stability.

⁶ Zimet and Chervalier, ‘American Philanthropic Foundations: Emerging Actors of Globalization and Pillars of the Transatlantic Dialog’. *German Marshall Fund* policy paper. January 2006.

Figure 2, Distribution of Sector Allocable ODA commitments to Sub-Saharan Africa. %, 1992-2006



From Aid Architecture : An Overview of the Main Trends in Official Development Assistance Flows, IDA May 2008

Since the turn of the century however, the international community has come to discover other, less appealing characteristics of the ‘new world order’ we live in. Challenges that begged to be managed, and whose management could not solely depend on compassionate ethics. For many, the attacks of 9/11 materialized the level of interdependency between developed and developing nations, and how dangerous the deepening global social divide can be. Much ODA was poured in the Iraqs and Afghanistans of this world – at least the ones that appeared most threatening for global prosperity. Vast amounts of money were dedicated to so-called ‘failed states’ (or ‘low income countries under stress’, to quote the charming acronym used by the World Bank to name the countries not supposed to perform according to its growth models). Conflict prevention and management became a high-level item in the agendas of global conferences and diplomatic talk. In the space of only a few years, brand new global collective action problems came to the fore of the international agenda. The SARS, Bird Flu and Ebola pandemics showed the risk of transmittable diseases spreading globally in a few days or even hours though commercial trade or international travel. The increasingly perceptible loss of biodiversity and the first ‘chilling’ effects of global warming brought home the urgency of finding international solutions to the global environmental crisis – and the realization that the world was ill-equipped to respond to such truly global challenges. The Asia crisis and the tough Doha round negotiations called for aid agencies to strengthen the capacities of developing countries to cope with economic globalisation. The international food crisis spelled the comeback, after decades of overproduction, of concerns for global food security. At the same time the energy crisis came as a reminder of the sensitivity of poor countries’ growth to the cost of production factors. Lately, the subprime crisis in the United States and the ensuing global financial meltdown illustrated that in an integrated world economy, misguided policy choices in one country could penalize the system

as a whole. Of course this new set of global challenges has not replaced, but compounded the historic challenges of human poverty and inequality. Unlike what many early thinkers of globalisation believed it isn't the global that has subsumed or transcended the local, but local challenges that have become an integral part of global stakes.

Because their work was the best proxy to a global public policy bringing together countries of the North and the South, because it quickly became clear that any efficient response would imply both financial and technical transfers from the former to the latter, international development banks and aid agencies have been tasked with finding solutions to this additional array of challenges. After a decade of uncertainty and vacillation international development assistance has *de facto* been assigned a new 'grand purpose': managing global interdependencies in a globalized world. This is no small task, as it implies three conceptually distinct (yet necessarily overlapping) subsets of objectives: (i.) accelerating the economic convergence of developing nations with industrialised economies; (ii.) providing for basic human welfare (conceptualised by the Millennium Development Goals framework as universal access to essential services); (iii.) finding solutions for the preservation of global public goods.

1.2. A new set of actors in the growing market of global public policy

A second Copernican revolution has shaken the field of international development in the last ten to twenty years. Faced with a new array of challenges, the 'market for aid'⁷ has demonstrated an impressive capacity to expand the number and range of its players.

The end of state monopoly in development assistance has sparked a boom in private giving. Initiated in the 1990's, this trend has continued to this day. A whole range of left-wing, conservative, secular, faith-based, small, average or huge Non-Governmental Organisations (NGOs) have mushroomed in all industrialized countries, and come to represent a considerable proportion of North-South financial transfers. The largest ones (Oxfam, Care, Save the Children...) have annual budgets in the range of \$700 - \$800 million, and have become key players in the field of international solidarity. In all, NGOs are estimated to have contributed \$14.6 billion to actions of international solidarity in 2006, against \$8.8 billion in 2002. Private foundations have also become major actors of the solidarity business⁸. The Bill & Melinda Gates Foundation, endowed with a capital of close to \$70 billion plans to disburse close to \$6 billion over the next two years. It finances vaccine research with \$287 million, i.e. a third of world R&D expenses on HIV-Aids vaccine. It has thus become one of the cardinal players of international health policy, with considerable influence on bilateral and multilateral aid institutions. In the United States, ODA already accounts for a smaller share of total economic engagement with developing countries than private philanthropy⁹.

Businesses have also emerged as a growing component of international transfers. And they did not only join the field of traditional charity: corporate social and environmental responsibility agendas have also surged, linked to the globalization of world business. Indeed there is a growing sense among transnational companies that their economic fate is linked to the improvement of their public image in the countries where they invest, as well as to their

⁷ Michael Klein, *The Market for Aid*, World Bank 2005.

⁸ The number of US philanthropic foundations alone jumped from 32 000 to 56 000 between 1990 and 2008. An increasing share of them engages in international development activities.

⁹ Homi Kharas, *The New Reality of Aid*. Wolfensohn Center for Development at Brookings, 2007. P. 10.

capacity of delivering solutions to the major national public policy challenges. Most pharmaceutical firms have for example developed private programs aimed at improving access of poor countries to drugs, in order to avoid major changes to the intellectual property rights regime under the WTO.

The emergence of new challenges has also inspired institutional creativity on the side of governments. Global institutions have flourished as never before: the United Nations now counts close to seventy organizations or special funds dedicated to development¹⁰ – more than the least developed countries (LDCs) they are supposed to assist. Behind each of those structures lies a respectable international concern, but oftentimes a lobby that resists restructuring and streamlining: development institutions are born every year, yet they seldom die. Thematic funds such as the GAVI, the Global fund against AIDS or the Global Environment Facility (GEF) have considerably impacted the logics of international action: whereas the field of development used to be organised along a country-specific basis, the sector-specific entry has now become one of the main ways to address global issues. These new funds accounted for 7% of multilateral aid in 2005¹¹ – a share that has continued to expand since. The average number of agencies per donor country has also increased, while new donor countries joined the ball: many eastern European (Bulgaria, Romania, Latvia...) and Asian countries (China, Malaysia, Thailand...) who received ODA until recently now have their own bilateral development agencies. Because overall cash transfers to the field have not significantly increased over the years, this mushrooming of development actors has implied that the average size of projects or operations financed has decreased sharply.

Recipient states themselves have contributed to making the international landscape more complex. Political liberalisation in many developing countries has led to the birth of many civil society organisations, themselves on the receiving end of an increasing share of development funds. Local governments are also taking a greater role as political decentralization advances throughout the world – underwritten by the triple process of democratisation, urbanization and demographic growth. Local businesses and financial institutions have also been increasingly involved in socially and environmentally responsible projects. Their charities have grown tremendously, generating an unprecedented movement of local solidarity.

This changing and ever-denser institutional environment is commonly considered as a problem both for the efficiency and the coherence of the public policy¹². And there are good grounds to do so. Indeed, the costs of coordinating the activities of multiple stakeholders with differing agendas have skyrocketed over the last decade. A 14-country survey showed that Cambodia receives an average 400 donor-missions per year, Nicaragua 289 or Bangladesh 250¹³, imposing a considerable strain on recipient countries that are not all equipped to cope. In some cases, the gains from having more actors involved are outstripped by the losses that stem from policy incoherence and coordination costs. This is stereotypically the case in crisis or post-conflict settings where international actors abound, but local government capacities to coordinate them are low.

¹⁰ *Aid Architecture : An Overview of the Main Trends in Official Development Assistance Flows*, IDA May 2008.

¹¹ *Trends and Issues in Development Aid*, Homi Kharas, Wolfensohn Center for Development Working Papers, November 2007.

¹² 'The proliferators: transactions costs and the value of aid' by Arnab Acharya, Ana Fuzzo de Lima and Mick Moore, Working Paper 214, *Institute of Development Studies*, January 2004.

¹³ Burall, Simon, Simon Maxwell with Alina Rocha Menocal (2006), 'Reforming the international aid architecture: Options and ways forward', ODI, Working paper 278.

But the thesis that holds the proliferation of aid actors to be unambiguously harmful supposes that aid follows a single policy goal (such as economic growth, or improving access to essential services). As we have seen, this just isn't the case. This view also suggests that there is no added-value in the plurality of actors – a stance that would be enthusiastically shared by central planners in a socialist system. In fact, this bustling creativity of new development actors has dynamited traditional visions, and shaken old ways of acting. It has unleashed a form of innovation that would probably not have come about had conservative public administrations continued to monopolize this field of policy. NGOs have brought in 'microsocial' and microeconomic concerns from civil societies of the North and the South. Philanthropic foundations have come into international development with modern business practices and a desire to provide systemic responses to system-wide problems. Sovereign funds, international financial institutions and other equity investors have introduced sophisticated financial techniques, bringing down the somewhat simplistic divide between 'profitable' and 'development' activities. Microfinance, which has brought together these three categories of new actors, their concerns and instruments, is particularly symptomatic of this evolution. Longstanding conceptual questions are brought to the fore by a wave of instrumental innovation carried out by actors who weren't active in the development business only ten years ago.

We probably underestimate the consequences of this seismic change for our half-a-century-old public policy. The explosion of the number of both public and private actors in the development business will have considerable impacts on the way it is run. And it is not a move that can be curbed significantly: whether we applaud or lament it, the genie will not come back into the box. Tomorrow's major development challenges will need to be resolved in this new, tumultuous field. In the era of globalization coherence will be built through multi-actor coalitions, and global public policies managed through what we have called 'hypercollective action'¹⁴.

1.3. A brand new toolkit

Quite logically, to each combination of goals and actors has historically corresponded a different set of tools. In the days when aid was about geopolitics and states, sovereign grants and loans had the lion's share of ODA. These were largely channelled to infrastructure and agricultural projects. When compassion and private solidarity came to drive the field, smaller-scale social-sector projects surged in parallel to large-scale debt relief: in the 1990's, the share of social sectors rose from under 30% to over half of ODA, while the share of infrastructure and production (including agriculture) fell from 60% to 40%. What will be the instruments of a new public policy tasked with finding solutions to very different global ills – and staffed with a wild combination of actors? Unsurprisingly, the tools are likely to be of a very diverse kind, and – for part of them at least – of very different nature from the ones that have existed until today.

Let us be clear: this new creativity in development aid should not – cannot – ambition to replace traditional aid channels and resources in any way. Many traditional development problems will require traditional development solutions, i.e. standard infrastructure or health

¹⁴ Jean-Michel Severino and Olivier Charnoz, 'De l'ordre global à la justice globale : vers une politique mondiale de régulation', *En Temps Réels* Volume II, 2008.

projects financed by grants and loans to states. But faced with the new combination of needs and actors, it is both vital and natural that the field diversifies its tools and resources.

In fact a tract of the international aid community has already moved far beyond ‘old school’ development aid. Because this has happened extremely rapidly, it has probably not fully realized that it has done so – nor the nature of the change this has brought to the policy. Yet over the space of a decade, international development assistance has witnessed an astonishing revolution in its set of instruments: taxation or quasi-taxation mechanisms (such as airline ticket taxes); increased investment in risk capital; increased tapping in the financial market toolkit (such as the International Finance Facility, insurance mechanisms, guarantee schemes, Advanced Market Commitments, ‘special’ bond issues); new aid channels such as the ‘vertical’ global funds and programs; countercyclical / contingent lending instruments, etc. This instrumental revolution is often referred to as ‘innovative development finance’ – improperly, as these innovations are not exclusively financial, and as they do not only deal with ‘development’¹⁵.

While they are often derived from mainstream market innovations, development finance’s new tools differ from the latter in one crucial way. Instead of exacerbating them, the financial engineering that has blossomed in this very peculiar financial market has the effect of *correcting* some of the excesses and limits of mainstream markets. Behind the proliferation of new instruments gradually developed to respond to these new challenges lie four broad types of innovations that are dynamiting traditional practices – and announce further instrumental revolutions for the years to come.

¹⁵ We shall come back to this point in the second part of this paper, suggesting a more appropriate term. For now we will stick to the commonly used term of ‘innovative development finance’.

Table 1. Various modes for mobilising and using financial resources for development.

Resource mobilization / Resource use	Recurrent public financing	Recurrent private financing	‘One shot’ collects	Pooling resources	Use of market instruments
Recurrent uses	Payment of ecological services / Taxation systems	Socially responsible investing (ethical finance)	IFFIm	The Global Fund to Fight AIDS, Tuberculosis and Malaria	Product (Red) ¹⁶ initiative (marketing for development)
Investment	Financing infrastructures through concessional loans	Clean Development Mechanisms		Improving productive use of migrant remittances	Thematic donor first-loss investment funds (e.g. microfinance, agriculture) / Migrant bonds
Leverage effects		Microfinance	Debt-to-health (converting debt relief to investments in health)	Pooled procurement initiatives	Equity investment
Systemic effects	Climate policy loans	Awards for scientific advances in the field of development		GAVI / UNITAID	WFP local purchases / Advanced market commitments
Securitization / Prevention	Preventive programmes against global pandemics	NGO projects in conflict prevention	Humanitarian appeals for trust funds	Emergency funds / IMF exogenous shocks facility	Guarantee and insurance instruments

➤ *From discrete to continuous financing*

‘Old-school’ development assistance typically consisted in loans and grants from development budgets that subsidised start-up costs of projects whose recurrent *operational* costs were meant to be borne by the beneficiaries themselves. The idea behind this practice was to avoid donor-dependency toward aid flows. The principle according to which projects need to be financially and economically viable had even become one of the cornerstones of development assistance¹⁷. Although such projects obviously continue to exist – and justly so, as the needs they respond to have not disappeared – the precondition of economic viability and the practice of discrete transfers have been set aside to allow for more long-term, recurrent transfers.

In the *Millennium Declaration* for example, the international community took the resolute decision to embody the principles of the United Nations Charter in concrete and operational

¹⁶ (RED) is a business model created to raise awareness and money for the [Global Fund](#) to fight HIV/Aids by teaming up with the world's most iconic brands to produce (RED) branded products. A portion of profits from each product sold goes directly to the Global Fund to invest in African AIDS programs.

¹⁷ This gave rise to the “recurrent cost problem”, i.e. the risk that available resources may be constrained in the years following the completion of a project, thus limiting the capacity of future budgets to finance the recurrent costs implied. We refer to the writings of Peter Heller (1974, 1975, 1979), Mead Over (1981), Club du Sahel (1980), and A. Jennings (1983).

programs. In this truly cosmopolitan logic, each citizen of the planet, by virtue of his or her humanity, is given the right to a minimum living standard. Figures, however, show that many states will not have the macroeconomic capacity to guarantee these basic standards for many decades to come. By aiming for targets that are out of reach from the neediest countries' public authorities, the 'international community' (i.e. donor nations) has therefore accepted to substitute itself to some states in the provision of basic social services through long-term financial transfers¹⁸. The consequence is that the concerns of financial self-sustainability have been dampened: no one asks whether projects funding the education of Mali's children or the access to clean water for urban dwellers of Haiti are 'economically viable' in themselves. This change of philosophy implies a real revolution for the development community, one which very few states have fully apprehended: the efficiency of a programme is no longer evaluated on the basis of its recipients' capacity to emancipate themselves from international transfers through economic growth, but through the sole improvement of the targeted populations' basic living standards. In a way, official development flows have moved beyond a logic of economic investment to include one of long-term social redistribution.

The need to protect and finance global public goods, although very different in nature, leads to a similar paradigmatic shift in practice. International health, for example, responds to a 'weakest link' logic: pandemics tend to break out in the countries with the least capacities for prevention, early warning and emergency treatment. If the world is to protect itself from global pandemics, it will continuously need to act so as to bring up the weakest links in the international health system up to internationally acceptable standards. Concretely, this form of 'insurance' against global pandemics requires long-term financial and technical transfers to subsidise basic public health systems, veterinary programs or early-warning networks. The fight against climate change corresponds to what has been called the 'additive production' logic, where every actor's effort counts (although some clearly count more than others). Getting industrialising nations to improve the energy-efficiency of their factories or countries hosting large areas of rainforest to preserve them for the good of humanity will similarly require continuous programs and financial transfers. In both cases, the requirement of project-specific economic viability is incongruous: what we are doing instead is financing long-term cooperation in favour of a global public good (global health, a sustainable climate...) by sharing the burden of action according to actors' capacity to pay.

This movement away from discrete financing of circumscribed programs and towards open-ended cooperation based on recurrent financial transfers has implied mobilising more stable sources of funding on the one hand, and finding corresponding disbursement mechanisms on the other.

On the resource mobilisation side, this new type of need has led to several promising initiatives to make the funding of long-term international efforts less vulnerable to highly volatile budget allocations. For example, the International Finance Facility for Immunization (IFFIm) initiative, launched in 2005, consists in issuing bonds backed by legally-binding 10 to 20 year donor government commitments. By frontloading long-term aid flows, this resource-mobilization instrument aims to both lock in precious resources over a given period of time and achieve a critical mass of funding to allow for quick progress towards the MDGs. The 2006 bond launch raised US\$ 1 billion. IFFIm aims to raise four times as much on capital markets over the next 10 years – enough to support the immunisation of half a billion children through campaigns against measles, tetanus, and yellow fever. Similarly, international

¹⁸ Jean-Michel Severino, www.ideas4development.org/millennium-development-goals-looking-beyond-2015/en/

taxation initiatives are likely to generate additional and much more predictable flows of resources. The airline solidarity contribution, in effect in several countries, is estimated to generate 22 million euros annually, and it is ultimately expected to raise up to ten times this amount. UNITAID, a specialised fund dedicated to bringing down the cost of drugs in developing countries, is partially funded by this airplane tax. But its promoters are appraising an additional concept to provide resources to a mechanism that needs stable and more predictable funding: collecting very small amounts of money from the vast number of air travellers worldwide, on a strictly voluntary basis. Such a scheme would be a breakthrough in three respects: first the donation would not solely be based on developed country donors; second its stability in time would not be based on binding contributions, but rather on an anticipated stable or increasing level of goodwill from the general public; thirdly internet and automatic payment mechanisms would manage the system – thereby minimizing collection costs. Because these initiatives respond to an emerging need for additional and predictable resources, instrumental innovation is likely to tread further down this highly promising path toward financing recurrence.

The need to move to continuous funding has also had important instrumental implications on the *disbursement* side. Indeed traditional project aid quickly encountered its limits when used as a basis for long-term cooperation. In response to the need for continued subsidising of public efforts made by recipient countries, general budget and sector program support has risen as a percentage of total ODA commitments from 8% in 2001 to 20% in 2004¹⁹. The number of thematic trust funds and programs has also skyrocketed as the need became clear for multi-donor efforts to finance specific causes with long term commitments. This is particularly the case in the fields of health and environmental protection. In 2007, the World Bank's trust fund portfolio alone had reached a total of \$21.4 billion, administered through 1,015 active funds and supported by 339 donor agencies²⁰. Other innovative schemes are being devised to channel resources to those in charge of protecting specific public goods. 'Payments for environmental services' (PES) are a typical example. Such programs require for consumers of a given public good to compensate for some of the costs borne by those in charge of producing or preserving it. Typically, downstream users of water cleansed by an upstream forest can pay those who manage this forest to ensure a sustainable flow of this service into the future. Such schemes are operational locally in different areas of the world, on a variety of environmental services. We can envisage that tomorrow similar instruments will cater for the provision of global environmental services, such as the preservation of rainforests by countries like Congo, Indonesia or Brazil. We could also cite the 'Clean Development Mechanism' (CDM), a global arrangement under the Kyoto Protocol which provides resources to developing countries by allowing industrialised countries or their businesses with greenhouse gas reduction commitments to invest in projects that reduce emissions in developing countries as an alternative to more expensive emission reductions in their own countries. Budget support, thematic trust funds and programs, PES' and the CDM are just a few of the new tools that have been designed to finance long-term, recurrent collaborative efforts between industrialized and developing nations. Similarly to the resource-mobilisation side, it is likely that most of these products will continue to coexist and form part of this emerging global public policy.

➤ *New financial instruments to scale up aid*

¹⁹ *Aid Architecture : An Overview of the Main Trends in Official Development Assistance Flows*, IDA May 2008.

²⁰ The Global Environment Facility, for example, received \$831 million from member states to help developing countries finance projects and programs that protect the global environment.

Faced with the daunting task of finding quick and lasting solutions to a series of new global concerns, the international community realized that the scale of the response needed to be radically stepped up. As existing public resources would clearly be insufficient, this implied boosting the means dedicated to this emerging global public policy. The scaling up of development aid has therefore led to a series of innovations whose common aim is to harness private-sector capacities and resources for development purposes.

This, however, implied plugging in some of the gaps, limiting some of the excesses and filling in for some of the limits of financial markets. The former Chairman of the US Federal Reserve Alan Greenspan has famously spoken of financial markets' 'irrational exuberance'. The gregarious behaviour of global financial markets, the pro-cyclical effects of their instruments and the excessive volatility of their resources have considerably harmed developing economies in the past – most strikingly perhaps during the 1997 Asian crisis. Ten years later, speculation on derivative markets contributed to soaring wheat and rice prices, exacerbating the global food crisis. After a couple of decades of proactive deregulation, these inherent deficiencies of financial markets are now taking their toll on the world's most industrialized nations. At a time when these gaps have become visible, it is interesting to note that international development's new toolset has gone some way in improving the access of some of the world's poorest people and nations to the benefits of global markets while reducing their vulnerability to the latter's imperfections.

Indeed lack of information on developing economies, risk aversion and gregarious behaviour often lead market players to shy away from investments that are profitable and generate considerable development impacts. A wide variety of guarantee, insurance and equity instruments have been developed over the last decades to usher pioneer market players to areas (e.g. sub-Saharan Africa or post-conflict countries) and fields of activity (e.g. microfinance, meso finance, agriculture) where they would not have otherwise invested – thus considerably leveraging scarce public resources. The creation of investment funds that combine the expertise of development actors, the resources of private investors and the public guarantee of philanthropic or public donors also enable to channel precious resources to under-funded areas or activities. For instance, the Agence Française de Développement (AFD), the bank Crédit Agricole (CA) bank and Danone have teamed up to establish an investment fund ('Danone Communities') that taps into mainstream financial markets to invest in programs with high social impact. This first common experience has led AFD and CA to launch a large fund for the general public that will guarantee the investors revenue, liquidity and security standards equal to those of any highly secure financial vehicles – but which will partly be invested in development projects. In the aftermath of the 2007/2008 global food crisis, specialized investment funds are also being devised to incite sovereign investors to finance agricultural production in Africa. The long-term yields of international financial institutions based on such business models confirm that the conceptual distinction between 'for-profit' and solely 'for solidarity' activities is largely artificial. Not only can high development impact activities be profitable (or, said differently, can profitable activities have high development impact). But reaching the necessary scale of results in the fight against poverty, climate change or the rampant food crisis will *require* using the considerable fire-power of the private sector.

Another example of how innovative development finance has made the most of market instruments while protecting beneficiaries from markets' shortcomings are the new countercyclical loan instruments. After two decades of debt crisis and multiple debt-relief initiatives, credit risked drying up for financing crucial infrastructures in countries emerging

from debt crisis. Yet creditors cannot take the political and economic risk of embarking developing nations into another cycle of unsustainable credit. One of the important causes of the debt crisis in the 1980's had been the sudden collapse of the terms of trade, due to the intrinsic volatility of primary goods markets, which made it impossible for many indebted countries to pay back their loans. Countercyclical loans, whose repayments are conditioned on a country's export revenues remaining above an agreed level, have been developed to continue important lending activities to economically viable initiatives while protecting recipient countries from the effects of sudden collapses of their terms of trade. The scaling up of such countercyclical instruments is another likely and welcome evolution in financing economic growth as development finance continues to harness market instruments for development purposes.

➤ *The quest for systemic effects*

Finding a response to the series of global ills that have manifested themselves in recent years implies changing not only the strategy and the scale, but also the *nature* of the response. 'Old school' development has tended to aim for concrete results project-by-project or program-by-program: resources went to the implementation of a given activity (i.e. building a school, a dam, or subsidising a country's health budget), and the accumulation of a sufficient number of such projects was expected to yield macroeconomic development results. Development aid has recently made significant headway by going beyond the logic of one-off projects to seek more systemic effects – thanks to the contribution of actors coming to development from the private sector.

A fundamental threshold has been crossed with instruments such as GAVI and UNITAID. The GAVI Alliance is an organisation established to pool public and private resources together in a global effort to facilitate access to the benefits of immunisation. One of the ways in which it does this is by reducing the cost of one of the essential inputs of a global health policy (immunisation drugs) and by providing incentives for its production. By making 'Advance Market Commitments' (AMCs), donors commit money to guarantee a market for vaccines once they are developed, provided they meet a number of criteria on effectiveness, cost and availability – thus enabling or accelerating the development and manufacturing of the vaccine. By guaranteeing an affordable long-term price, the AMC also supports sustained use of the vaccine. GAVI's effects on both supply (development and manufacturing) and demand (increased consumption) of vaccination provides an extremely powerful and conceptually innovative contribution to the global fight against communicable diseases. Similarly, UNITAID aims to reduce the cost of malaria, tuberculosis and HIV-Aids treatments through a mechanism that affects both demand and supply. By financing UNITAID, donors (who include governments as well as philanthropic organizations such as the Gates and Clinton foundations) give this global drug purchasing authority considerable purchasing power, enabling it to negotiate 25% to 50% rebates on the price of drugs (including antiretroviral medicine) that are then dispatched across the world to countries that need them most. By guaranteeing sustainable and predictable revenues for the purchase of drugs, UNITAID also plays an important role in influencing manufacturers – inciting them to invest in crucial research and development for drugs that would otherwise not be produced.

Another kind of innovation that aims for systemic impacts is the set of taxation or quasi-taxation instruments that are currently under investigation. Carbon saturation and the depletion of fossil fuels, two of the planet's major environmental challenges, remain insufficiently incorporated in the pricing system. In other words, despite its rapid rise over the

last few decades, the price of fossil fuels is still too low to serve as the necessary catalyser to change individual actors' behaviours. Carbon taxes are thus promising innovations to reach systemic changes by moving the lines of the incentive system. And they are not far down the road: in its new 'energy and climate package', the European Union introduced a bidding mechanism for firms to *purchase* CO2 emission rights. The proceeds will be given to member states, and 20% (minimum) of these will be affected to policies in favour of renewable energies. With this organised selling of emission rights to the benefit of public collectivity, Europe is, in effect, introducing a quasi-taxation mechanism. Other regional groupings could subsequently join or reproduce – ultimately creating a global carbon tax mechanism.

Another important example of how systemic effects are being produced is the way the World Food Program (WFP) has changed its way of operating. Instead of providing in-kind resources coming from their agricultural surpluses, more and more WFP donors are pledging money. This allows WFP to negotiate long-term production contracts with food producers in developing countries that help increase the productivity of their agricultural sector, the regularity and quality of their production as well as the redistribution of important revenues in poor rural areas²¹. In this case it is striking to see how additional development impacts do not come from additional resources, but from a change in the nature and way existing resources are used.

➤ *The fading barrier between public and private solidarity*

'Old school' development aid also used to be essentially financed by public resources coming out of state budgets, and channelled to recipient states. This 'double monopoly' has gradually been replaced by the extreme diversification of both demand and supply of aid – such that the barrier between public and private solidarity has come to fade away.

This form of decentralisation of aid has given it a new dimension, i.e. a role of linkage between societies. For example, programs have recently been designed to use migrant workers as bridges to the economies of their regions of origin. Remittances from migrant workers established in the European Union to southern Mediterranean countries represent over 10 billion euros each year, an amount that has grown by roughly 10% per year since the turn of the century. Today the bulk of these transfers are subject to the payment of relatively high commissions, and only a small share is invested in activities with long-term development impacts. Migrant organisations, private banks and development agencies have begun working together to reduce transfer costs and provide incentives for channelling remittances toward investments. Small-scale today, these public-private initiatives involving banks, migrants and development experts can potentially channel considerable resources and expertise toward small and medium enterprises in developing countries.

The 'Oudin-Santini' tax in France is another illustration of the simultaneous diversification of demand and supply in the aid industry. The objective of this levy is to mobilize stable financial resources for the improvement of water provision and sanitation in cities of some of the world's poorest countries. Contrary to conventional taxes it is based on a principle of direct solidarity between the water consumer in the North and its counterpart in the South – channelled though their municipalities. In 2005 the 'Oudin-Santini' law made it possible for local authorities and water agencies to allocate up to 1% of their water and sanitation budget to decentralized cooperation projects in water and sanitation. In 2006 the city of Paris set aside one million euros from Parisians' water and sanitation bill for its 'Water Solidarity'

²¹ Josette Sheeran 2008, <http://www.ideas4development.org/food-for-the-hungry-the-case-for-buying-locally/en/>

program toward municipalities in the developing world. It total, an estimated eight million euros were mobilised in France that year thanks to the ‘Oudin-Santini’ law. This form of ‘consumer to consumer’ donation is miles away from traditional public development aid. Yet it cannot be described as purely private aid either. This hybrid form of development assistance, halfway between states and their citizens, is likely to be one of the ways in which additional resources will be mobilised in the coming decades.

But this fading distinction between public and private policy funding is striking in a third, more significant way. In fact the headway of private actors in the development business is now so established that states have themselves largely privatized and subcontracted this formerly public policy, leaving it up to their citizens to decide both the amount of funds going to international development and the objectives pursued by this policy. First NGOs are increasingly becoming partners and operators of governments: the proportion of ODA disbursed through NGOs or public-private partnerships has increased ten-fold since 1990. But a more consequential evolution has gone virtually unnoticed. Tax exemptions on donations to international development activities have encouraged the blossoming of private, decentralised solidarity initiatives. They range from exemptions for small donations to charities to considerable opportunity costs for the governments that chose to exempt multi-billion dollar philanthropic foundations from taxation. What is striking is that although the State subsidises these private activities (at the level of the tax exemption granted to donors), it controls neither the cost incurred by public finances (i.e. the level of the exemption, which is by definition proportional to the level of private donations) nor the use that is made of these resources²². Estimates show that these represent a growing share of global development assistance, and therefore public financial support for these initiatives mechanically accounts for a growing share of a state’s development aid to developing nations²³. It is as if States had decided to have a two-tier development aid system: the first level of public resources dedicated to international development are ‘compulsory’, since they come from states’ budgets and are determined and approved *ex ante* by Parliament. These funds are destined to specific actions, allocated according to government priorities. The second level is a form of ‘open-ended solidarity’, whose volume and allocation depends solely on the choice of private citizens: if a taxpayer decides to donate to a given cause (say financing education in Mali through a charity), his or her State automatically subsidises this donation. This change of practice is a true revolution in the field of development aid – one whose implications the aid community has probably not fully thought through.

²² In most countries where this tax break on donations exists some form of ex ante or ex post control of eligible charities is provided for (by a Congress committee in the United States, by the Cour des Comptes in France). However this case-by-case control rarely takes place in practice, and when it does it generally keeps to controls on the use of the funds rather than the choice of the policy.

²³ One United States Democratic congressman notes that the tax break costs the US treasury about \$44 billion per year. Another congressman described it as one of ‘the least accountable tax breaks’. Cf. <http://philanthropy.com/free/articles/v20/i22/22000601.htm>

Table 2. Types of needs and innovations

Types of Innovation \ Types of needs		Financing global public goods	Financing access to essential services	Financing economic convergence
		<i>E.g. protection of rain forests</i>	<i>E.g. supporting national health policies</i>	<i>E.g. financing heavy infrastructure</i>
The move toward recurrent financial transfers	<i>E.g. IFFIm, airplane tax, PES</i>	+++	+++	+
New instruments to scale up aid	<i>E.g. Investment funds, guarantees</i>	++	++	+++
The quest for systemic effect	<i>E.g. AMCs and bulk purchasing, carbon taxation</i>	+++	++	+
The fading barrier between private and public solidarity	<i>E.g. Water tax for solidarity, facilitation of migrant remittances</i>	+	+++	++

The ‘+’ signs signal the degree of relevance of each innovation type to each need

2. From ODA to GPF

These are no small changes. Yet surprisingly, this triple revolution in goals, actors and instruments has not yet impacted the way the international development community measures the financial volumes dedicated to this emerging global policy. While the daily practice of aid is firmly rooted in the 21st century, the assessment of national contributions and their impacts has largely stuck to ‘old-school’ methods. In a nutshell, the Development Aid Committee (DAC) continues to benchmark OECD State contributions to international development assistance by adding grants, certain types of loans plus a whole series of ‘other’ expenses – whose link to development financing is at times tenuous. It is hard to find other examples of public policies whose performance is assessed so little on the basis of results and so much on the basis of expenses – themselves measured so imperfectly. Although profoundly unsatisfactory, these figures continue to serve as the basis for official and highly-publicised promises of development assistance: since the ‘Monterrey Consensus’, a number of donors

have restated their commitments to achieve the 0.7% target of ODA to GNI²⁴. In May 2005, the European Council decided on a new EU collective target of 0.56% by 2010, which would result in an additional €20 billion a year in ODA. At the 8 July 2005 Gleneagles Summit of the G8, donors also agreed to a massive increase of aid.

While these promises were in the making, the ‘global public goods’ theory prompted by Inge Kaul and her colleagues²⁵ was bringing to light the fantastic disconnect between old concepts and new realities. It was the first time that the task of dealing with market failures that characterize world commons was given the statute of public policy. Since then, many have tried to distinguish ‘ODA’ from Global Public Goods promotion efforts, both conceptually and technically; they have gone as far as measuring how much of each counts in the official ODA statistics. Yet this move is being actively resisted by most governments, who are keen on pouring as much as possible into the ODA basket to reach overall and thematic international goals – including resources that have very little to do with these objectives. More importantly, the end result is that the debate about additionality of international funding to, for instance, climate change, is making the Copenhagen negotiation more bitter than needed. It demonstrates the urgent need for clarity on what ill a given type of funding is designed to cure.

2.1. ODA’s three fatal sins

The disjunction between the innovations in development financing and ODA measurement, as well as the debate about additionality and the growing diversity of goals, leads to a politically embarrassing question: do the existing global financial targets have any sense? Technically, very little. ODA inhabits now a strange ‘Bermuda triangle’ of international public statistics, as it measures at the same time too much, too little and the wrong types of things.

➤ *ODA measures too much*

ODA is agonising out of its success. Born to measure a relatively narrow set of activities aimed at promoting the convergence of former colonies’ economies with their former masters’, it has become the only benchmark to assess official North-South financial flows. The result is that it measures things that are not remotely relevant to what really matters: capturing what people or institutions dedicate to a specific end, and confronting it to costs or outcomes.

In fact, ODA’s technical relevance to its historic goal (measuring ‘development aid’, whose pertinence is in no way eclipsed by the additional objectives of international aid) is even being increasingly questioned, due to the gaps OECD definitions allow. Desai and Kharas write that “Of the more than \$100 billion in ODA disbursed by rich countries to poor ones in 2005, \$60 billion was used for debt relief, technical cooperation, emergency or humanitarian relief and food aid, [leaving only \$40 billion for] actual development projects and programs”²⁶. This understanding of efficient development aid would need to be nuanced: everything that doesn’t finance ‘actual development projects and programs’ is not worthless.

²⁴ Michael A. Clemens et Todd J. Moss (2007), “The ghost of 0.7%: Origins and relevance of the international aid target”, *International Journal of Development Issues* 6(1): 3-25.

²⁵ *Providing Global Public Goods: Managing Globalization*: Inge Kaul, Pedro Conceicao, Katell Le Goulven and Ronald U. Mendoza (Eds.); Oxford University Press, 2003

²⁶ Raj M. Desai, ‘The California Consensus: Can Private Aid End Global Poverty?’ *Survival*, vol. 50, no. 4 (August-September 2008)

Number-quarrels aside however, what is obvious to anyone who has eyes to see is that ODA figures include a motley series of expenses, a minority of which actually translates into fresh funds for development programmes in the world's poorest nations. To start with, the administrative overheads of donor states count as aid – which clearly isn't the best incentive to achieving resource-efficient aid bureaucracies.

Within 'non-programmable' aid expenses, one also finds the costs of grants or schooling fees offered to students from the developing world who study in the donor nation. Close to \$2 billion of such expenses were declared as ODA in 2004. This would have some justification if these students all came back to their home countries to work. This is rarely the case however, such that one can legitimately question whether the grant that pays for the British university degree of a Kenyan student who then proceeds to work for an American bank in the City should really count towards the UK's development aid to Kenya.

One also finds the costs to the donor nation of catering for political refugees from developing nations. These expenses may be fully legitimate, yet their relationship to international development is flimsy at best. Emergency relief and food aid sent to zones of natural disaster or conflict also counts as ODA. Since 1990, these humanitarian expenses for ex-post recovery have taken up a growing share of development assistance flows. There is no denying the importance of such expenses of international solidarity that aim to relieve human suffering. However their link to countries' long-term economic and social development is of a very indirect kind.

Non-programmable aid also includes debt relief. This part of development assistance is largely responsible for the progression of ODA flows since the late 1990's, and represented a record-high 25% of ODA declared by OECD DAC member states in 2005²⁷. Debt relief has had significant development impact: the successive rounds of debt restructuring were clearly a progress for indebted nations who recovered essential margins of manoeuvre in their national budgets. Mali's debt relief for example helped the government free budgetary resources for worthwhile investments. However, much of Mali's debt forgiveness did not represent any budgetary cost for donors, since few of them actually expected to be paid back. And there is also something awkward in counting the cancellation of loans that at the time they were granted would not have counted as ODA. Iraq's sovereign debt, for example, largely served to pay sophisticated weaponry manufactured in industrialized nations during its long struggle against Iran. Yet the (oil-rich) country's debt cancellation today counts for official *development* aid – considerably boosting world aid statistics. ODA flows to Iraq amounted to over \$6.5 billion in 2006, about half of which was in the form of debt relief.

Beyond the endless polemic debates on 'real' versus 'artificial' ODA, one thing is clear: Official Development Assistance measures elements that do not contribute to financing development. It is in desperate need of brushing up²⁸.

➤ *ODA measures too little*

Conversely, the ODA figure misses a whole range of things that actively contribute to financing this emerging global public policy.

²⁷ *Trends and Issues in Development Aid*, Homi Kharas, Wolfensohn Center for Development Working Papers, November 2007.

²⁸ It would not be fair not to mention recent progress on this front. The OECD's DAC has introduced 'Country Programmable Assistance' data, which measures the share of aid that can directly be programmed by recipient states for their development and public investment policies. The *Center for Global Development* also devised a composite policy-coherence benchmark called 'Commitment to development index'.

For one thing, the development aid of non-DAC countries appears nowhere in statistics on international development – aside from very unofficial and approximate estimates. Yet non-OECD states have, over the last decade, clearly represented a growing share of development aid. China’s aid to Africa has recently been the subject of much debate. Because of the type of aid instruments it uses, it is extremely difficult to assess what would count as ODA were China to become an official DAC-donor. What is clear, however, is that Beijing has today become one of the major contributors to the financing of infrastructures in sub-Saharan Africa. Many oil-rich Arab states also have very generous aid policies, yet their efforts towards international development are nowhere to be found in world ODA figures. The world has changed. The club of 22 traditional sovereign donors that form the DAC can no longer claim to speak for the world’s ‘donor community’.

Estimates show that private solidarity has become the most dynamic share of development aid in recent years. In all, private giving to development actions is estimated to have reached close to 50 billion dollars²⁹, i.e. half of what we know to be inflated official figures of global official development assistance. Yet this sizeable contribution to the financing of the global policy agenda does not appear either in the official measures of development aid. More surprising still, the public subsidies awarded to private actors of international solidarity in the form of tax rebates are themselves invisible in the DAC’s official development aid statistics. For some nations, such as the United States, these amount to considerable sums.

Many of the innovative tools that have been designed over the last decades to finance development cannot count towards ODA, which only takes into consideration grants and loans with a 25% grant element. It is for example the case for a large part of equity investment or public investment guarantees, while both of these instruments can have considerable development impact. Most of the new instruments quoted above fail for one reason or another to fit in to the stone-age definition currently in effect. Not including such tools in the measure of development assistance reduces incentives for countries to use them – and thwarts further instrumental innovation. In the case of guarantees the perversion is extreme, as the official definition allows for their inclusion only if they are called. *Make bad development finance, and thou shall be rewarded...* It is also surprising that ODA does not capture non-concessional financing: when markets fail to play their part and credit is lacking, as we have recently witnessed in the global credit crunch, this type of funding can play a crucial policy role even in the absence of any grant element. It is moreover difficult to understand the arbitrary level at which ‘concessional’ has been defined. The current definition creates an incentive to use more public funds than needed to achieve a specific goal. For untied assistance for example, concessional implies that the grant element surpass 25% of the loan. But why should a grant element of, say, 10% be ruled out if no more than 10% is needed to support the targeted activity? Existing standards may be justified if the aim were to measure some form of budget cost. But this is not what the ODA benchmark does (as the inclusion of debt relief illustrates).

Many other crucial activities of the international community cannot be captured either, because they are deemed too remote from the so-called ‘core’ of the MDGs agenda. This is for example the case of some peacebuilding and postconflict activities, the training of international police forces, the construction of prisons, etc. However, few would disagree that these efforts are essential to lay the basis for lasting economic recovery. This is also the case for the financial support to the preservation of culture and heritage, whose expenses can be

²⁹ Raj M. Desai, ‘The California Consensus: Can Private Aid End Global Poverty?’ *Survival*, vol. 50, no. 4 (August-September 2008)

registered only with difficulty as a development aid. Many of UNESCO's programmes in the area of cultural heritage conservation or the promotion of contemporary cultures suffer from this arguably excessively strict definition of ODA.

➤ *ODA measures the wrong things*

As we have seen, the current and complex ODA concept relates to an essentially political goal: reaching the famous 0.7% target. But it gives us no information on what we would really need to pilot the policy coherently and efficiently. Four crucial bits of information aren't encompassed by existing measures:

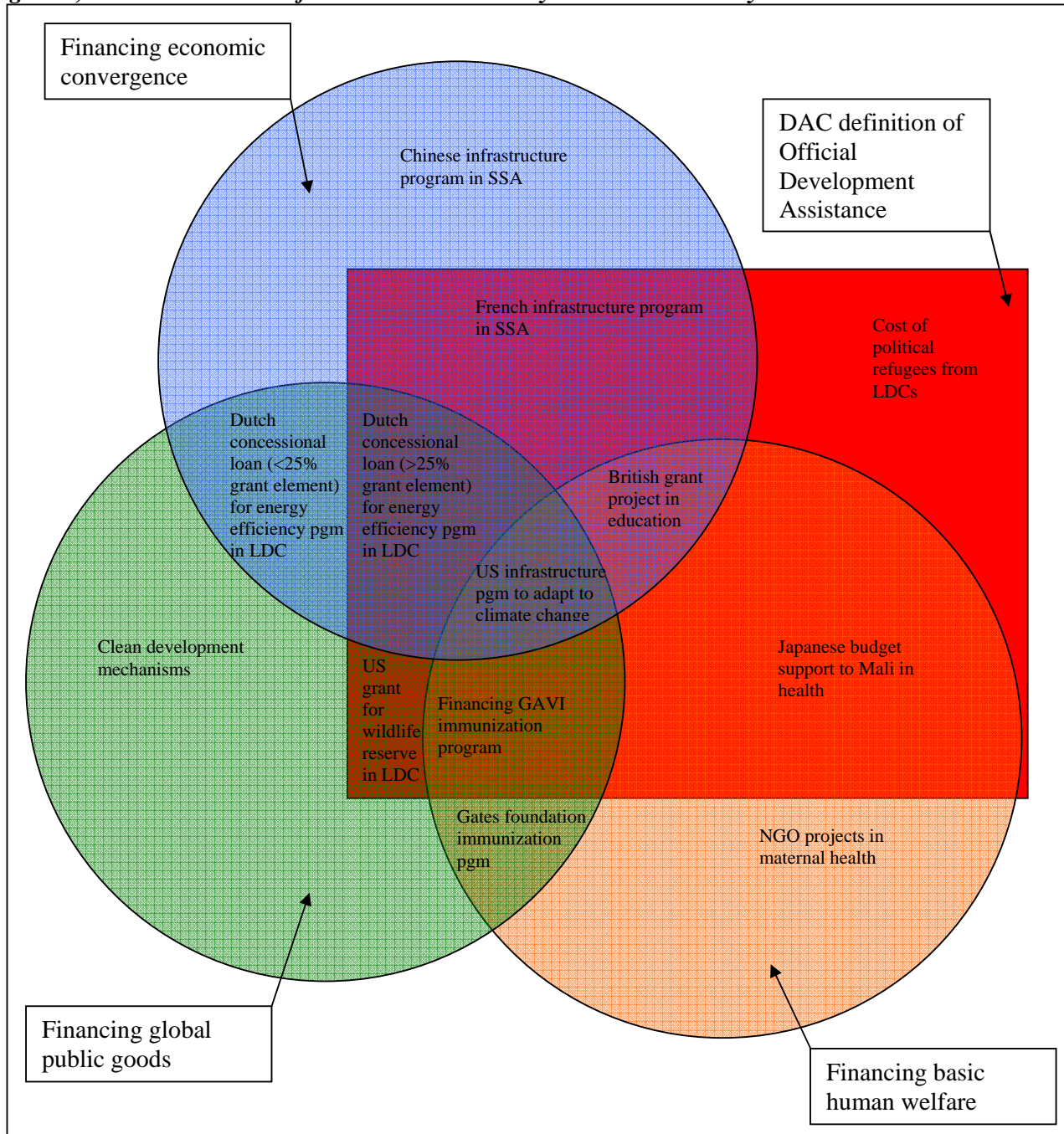
- First, what are the overall funds actually mobilized to finance this global policy – regardless of their origin and delivery method? The international community is very ill-equipped today to assess this most basic and yet fundamental benchmark. Currently ODA does not capture the total volumes dedicated to global policies. This is especially the case when they are non-concessional or private, although non-concessional financing delivered by non-profit institutions (whether public or private) can often provide an efficient solution to market failures.

- Second, what are the outputs and impacts that are reached through the projects and programs that are financed? How many children gain access to vaccination? How many extra square kilometres of rainforest have been saved from deforestation? How much GDP is being created? Because it measures only financial inputs, and because it is unable to identify the policy goal that is sought after, ODA is absolutely mute about impacts. Raising the bar slightly, ODA isn't able to measure what it destroys either: if ODA projects create economic growth, how much CO2 emissions do they produce? How much natural resource do they deplete? Research, an item that is eligible to ODA declaration, is particularly illustrative of this uneasy relationship between inputs and outcomes: have the vast amounts of scientific research financed by governmental, OECD, UNDP or World Bank teams and institutions led to successes? Were they beneficial for OECD states or developing countries? This needs to be assessed.

- Third, what budgetary costs does development aid represent for the different donor states? Although this seems as the most logical benchmark to compare states' contributions to international development, such figures are nowhere to be seen. Though grants relate directly to budgetary costs, the 'fiscal expenditure' of tax exemptions that help NGOs and foundations appeal to public generosity (and avoid inheritance tax) are not captured. Neither are the budgetary costs of concessional funding, nor, to a large extent, of guarantees and innovative financing tools.

- Finally, what are the administrative costs of delivering these public policies? ODA standards allow for declaring administrative costs but, surprisingly, they are then conveniently melted in the hodgepodge of Official Development Assistance. One should also be able to identify clearly which part of the funds is spent in the field, with direct Keynesian impacts, and which part is spent outside of developing countries – which does not mean it is illegitimate or unproductive.

Figure 3, the intricate world of international solidarity as we know it today



2.2 A new set of benchmarks for global policies financing

All in all, ODA turns out to be a poor benchmark for the emerging global public policy enriched of new objectives, actors and instruments. To sum up, it is not an indicator of *results*, but only an indicator of *means*. Yet it cannot be said to be an adequate indicator of means, since it measures both too little and too much of the means actually made available for development activities in the South – while it doesn't give any indication of the budgetary effort made by donor states.

Does all of this matter? Yes. Counting and naming things properly is crucial to lay a sound basis for 21st century global policies. Communication with public opinions North and South on the purpose and the efficiency of development aid is fundamental if this public policy is to preserve the support of citizens worldwide. And this cannot be done if the actors of development aid are not capable of placing concrete results in front of the resources mobilised. Getting the measures right is also fundamental if the international community is to mobilize the amounts of resources of a comparable scale to the needs: the fog of the Bermuda triangle does not help to devise a rational public policy. After all, any decently-run company has precise figures for its revenues any given year, and estimates about projected revenues for the year to come. It can account for the impacts of its expenses. National public policies also have a fairly good vision of the costs implied by its programs, the expected results and whether or not the adequate budgets can be made available. This is basic public accounting, which donors typically ask of recipient nations. Can the donor community continue to ignore this fundamental rule of rational economic management? The challenges ahead are sufficiently daunting for the international community not to attempt to confront them blindfolded.

Besides, including the word ‘assistance’ in the public policy’s name sends the wrong signal. In fact it misses a key change in the way global policies are being implemented: more and more developing nations contribute to financing global public policies. The airline ticket tax is funded by some of the poorest countries in the world. Middle income and emerging countries are starting to develop international funding programs, while they continue to sit on the receiving end of the World Bank, the UN or OECD bilateral agencies. MDGs have been designed jointly by developing and industrialized countries, and so has the Paris agenda for aid efficiency. International solidarity and global public goods policies have inherently become common endeavours. ODA’s original sin is to have been designed by OECD nations to assess OECD nations – with little input from recipient states. It forms an outdated supply-side index in a market where demand should matter.

What are the options to leave the current impasse? Steering this global public policy as efficiently as possible would require four things. First, putting an appropriate name on things. Second, devising an estimate of the overall funding made available for these goals, whatever its provenance. Thirdly, measuring aid’s *results* so as to clarify the policy’s goals, and leave for good the bureaucratic realm of *expenses*. Finally, assessing official aid’s *budgetary costs* as a benchmark for states’ efforts toward this policy.

➤ *Renaming the policy*

We suggest forgetting about ODA. Why not move toward a new acronym: ‘Global policy finance’ (GPF)? GPF is no less mysterious than ODA – a word that has long been associated with patronizing practices. It would include the funding of the three core components of sustainable development³⁰: convergence between economies of the North and the South, better access to essential services across the world and the provision of global public goods (environmental protection, international health, etc.). Although GPF would encompass actions that go beyond ‘old-school’ economic development objectives and delivery methods, it would in no way exclude them. Broadening the scope of what counts as GPF would make it clear that there is a change in the nature of what the international community is undertaking, and thus in what needs to be measured. It would allow contributing countries to declare, along

³⁰ We use this term as understood in the Brundtland report (1979), i.e. economic and social development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

agreed lines, a range of activities that are all very legitimate and useful for the world but cannot honestly be captured as development assistance. Many consequences stem from this suggestion. Let's consider some of the most important.

➤ *Measuring volumes*

We could begin by revising our statistics by looking for estimates of the overall volumes made available for financing the set of agreed goals of international development assistance – whatever their provenance and their degree of concessionality. Non-concessional resources could be declared as global policy funding if provided by non-for-profit stakeholders and/or disbursed in view of achieving one of the agreed policy goals. Such a measure would initially lack precision, but could provide a first yardstick of the actual financing gap once all existing public, private and 'hybrid' resources currently working towards international public policies factored in.

Each institution (private or public) or country would declare gross and net volumes along three set of goals: (i) the promotion of economic growth of less developed nations; (ii) the promotion of human welfare and the reduction of inequalities in the developing world; (iii) the preservation or production of global public goods, which could include a list of specific internationally agreed policies (global warming; biodiversity; international pandemics; peace and security ; humanitarian relief; international financial and trade systems; international migrations and population policies; cultural diversity...). A specific category could be designed to capture generic capacity building efforts for governments and societies in developing countries.

➤ *Measuring results*

One could also envisage a measure of the development *results* yielded by specific development activities or other global public policies. This would have the advantage of freeing up innovation and concentrating on what ultimately matters: impact. An agreed methodology would allow comparing the results reaped by very different actions, be they systemic (GAVI), programmatic (budget support for health policies) or project-oriented (building clinics). Each actor of development aid, whatever its nature (public or private, from traditional or emerging donor nations, etc.) would have the possibility to declare the results of his development action measured according to this methodology. Results would be open to verification.

As a consequence, ex-post evaluation would need to be revamped and improved. Donors (bilateral, multilateral, NGOs, foundations...) usually carry out internal evaluations. In the best cases the body in charge of it is independent, and its reports are available to the public. But many biases remain. Ex-post evaluation is focused on individual institutions, and does not capture overall impacts of international policies at the global or country levels. It is delivered through very different methodologies, such that comparisons between institutions are impossible in most cases – let alone benchmarking. As suggested by the CGDev³¹, an international effort would urgently need to fill the evaluation gap. It would involve recipient countries and their civil societies. It would imply harmonizing methodologies between institutions, increasing transparency, undertaking global, regional and local evaluations of policies, instruments, etc. An initiative of this sort would also imply undertaking a global

³¹ Willam D. Savedoff, Ruth Levine, Nancy Birdsall, *When Will We Ever Learn? Improving Lives Through Impact Evaluation*. CGDev, May 2006.

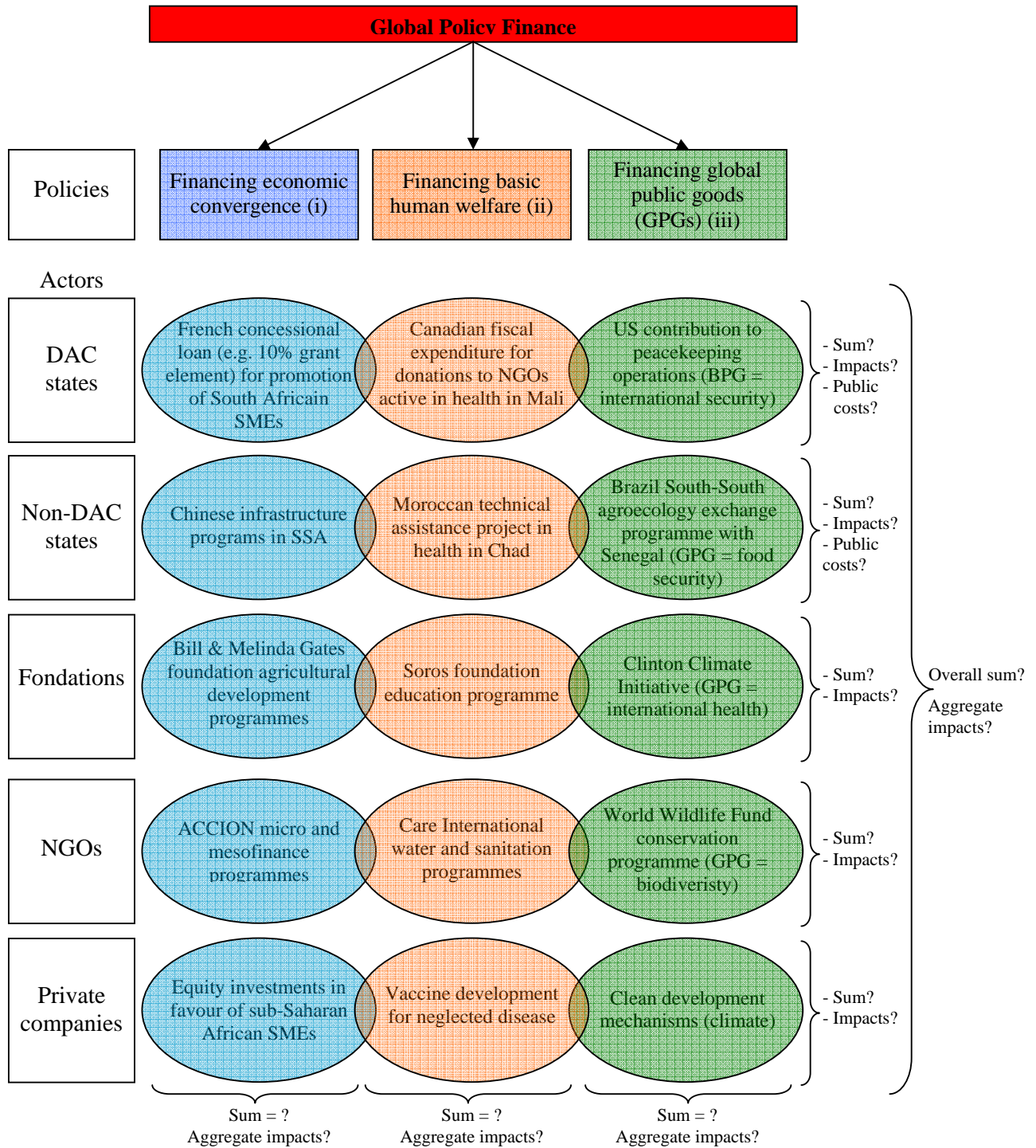
rating and ranking of public and private institutions along the lines of agreed methodologies. This would create emulation, and ultimately encourage opting out of weak players.

➤ *Measuring efforts and public costs*

We could finally consider defining ‘official global public finance’ as states’ budgetary efforts towards a set of agreed global causes. It would be measured through the amounts of *public* resources destined to finance global policies – whatever the instruments they are channelled through. This approach through aid’s budgetary costs would incite countries to maximize the leverage of their instruments, so as to enhance the impact per euro or dollar spent. It would naturally include the costs of tax exemptions that subsidise private solidarity initiatives geared towards international causes.

This would allow for measuring *administrative* costs more clearly. Not only are those costs high, but little is known about their economics – and hence about the efficiency models on which institutions sit. Is GPF a fixed-costs or a variable-cost industry? Are small projects more efficient than large ones? How to compare the relative efficiency of operating in different sectors and with different players? None of these questions can be answered without knowing more about costs. Improving this item, as ancillary as it may appear, is critical to the overall improvement of our emerging global policy.

Figure 4, Global Policy Finance as we should attempt to measure it tomorrow



2.3 What now?

Such a bold change in policy formulation and measuring has important consequences in terms of communication, institutions and process:

- *What should we do with the 0.7% goal?*

Keep it – and clarify it.

The 0.7% of GDP target has played an important communication role, and has helped naming-and-shaming ill-performing countries. Of course, defining a policy objective along its budgetary input is a weak basis. Bearing these deficiencies in mind, keeping a sort of minimum benchmark of policy input can be useful, as it is easy to communicate. One could therefore keep the 0.7% figure, but for instance specify that it should be applied only to the second category of actions (i.e. promoting human welfare and fighting inequalities). Alternatively, we could change the target (for instance, talk about 1% or 1.5% of GDP), and include all three sub-categories of the global public policy (i. economic growth, ii. human welfare, and iii. global public goods).

- *Should OECD DAC continue to exist?*

Yes. And it should be extended.

However frustrating it may have been as a platform for negotiation, the OECD DAC (Development Aid Committee) would need to be reinvented if one were to suppress it. Too formal and too narrow in its current incarnation, it can be given more substance and a wider scope. Many countries and organizations do not want to or cannot be part of the OECD, but would be willing to access a forum where global policies are debated, standards set and evaluations processed so as to build a currently deficient collective knowledge. The remarkable powerhouse that the OECD constitutes can be used to provide this public good; such is exactly its mandate. The DAC could thus widen its activity and allow non-OECD governments and agencies, NGOs, foundations and businesses (or their umbrella organizations) engaged in corporate social responsibility activities. This group would probably look very different from the current DAC. It would therefore need a new name, such as ‘global policy funding forum’.

Of course the UN system has a crucial act to play in this renovation, and it is likely that a UNDP/DAC joint-venture would provide the best and most legitimate platform to perform this global engagement. The Bretton Woods institutions would also have an active role to play, similar to the one they have been increasingly performing in the current DAC, which has consisted in bringing substance and drawing inputs from the gatherings.

- *How can such change be reached?*

Through negotiation.

In today’s world of hypercollective action, there is no possibility to structure such an international policy change through authority. Collective thinking, discussing and negotiating is the only way forward, as none of today’s players in the global policy field would accept top-down decisions – be they taken by the G8 or the G20. As we have seen, OECD

governments have lost the monopoly of global public policy, and it can be convincingly argued that they have actively contributed to this situation, if only through their fiscal policies. They must draw the consequences: new governmental and non-governmental players are now involved in this arena, and want to be part of the decisions.

This change will not happen overnight, or by itself. At some stage, a set of actors will need to take a bold initiative and clarify this emerging global policy by making it more inclusive, better measured, evaluated and communicated³². Such is the price of greater efficiency. Is it worth the effort? The world of the future will require more common action, not less. More public goods will need to be promoted, and more global public evils fought. International solidarity will have to be strengthened, not diminished. As global trade and financial ties are knot, new global social policies will need to accompany them. International migrations and inequalities have already created an international social landscape that will need to be managed. More and more destructive natural and manmade catastrophes will call for more international relief. Conflict resolution, prevention and management will continue to be at the forefront of our concerns. It is therefore high time to clarify our ideas.

Declaring the death of ‘ODA’ is neither a claim of defeat nor a claim of victory over poverty, but a statement of reality – a speech of truth in which we admit times change. Moving from ODA to GPF is about recognising that with time policies, actors and instruments also change. Such that a specific administrative measuring instrument born several decades ago needs serious revamping in order to face up to the global policy challenges of this new century.

Post-scriptum

Initial versions of this paper have benefited from the sharp comments of friends and colleagues with intimate knowledge of this complex field of policy. Their reactions have led us to add this short concluding section to dissipate any potential misunderstanding due to hasty or clumsy phrasing on our behalf.

➤ *Here are a few things that this paper is not saying:*

- Although we hold that the stakes that characterize North / South today are very different from those of the post-colonial decades or the immediate post-cold war years, we are not saying that the new set of global challenges has eclipsed previous concerns in any way, nor that the changing objectives of development assistance should lead development aid to set aside the historic goal of poverty reduction though economic growth – much to the contrary.

- We are not saying that global policies should replace local action, but on the contrary that local problems such as environmental degradation, poor health, excessive inequalities or inadequate financial regulation feed into global disequilibria and generate global systemic concerns. An effective response to these systemic challenges needs both systemic and local instruments of action. The challenge for the years to come will be to build a global and multi-actor framework to provide public goods locally.

³² This is obviously no easy task, as different actors involved in this peculiar field of public policy have different understandings of what ‘efficiency’ consists in and how to bring it about. Cf. Jean-Michel Severino and Olivier Ray , ‘Global Governance: Illusory Quest for the Levithan?’, in *La Gouvernance Démocratique, Un nouveau paradigme pour le développement ?*, Bellina, Magro and de Villemeur, Karthala 2008.

- Although we do claim that the entry of new and very different actors into the field of development assistance has provided it with a breath of fresh air (including new instruments and new sources of funding), we are not saying that the current fragmentation of international assistance is unproblematic. Many countries find it impossible to devise coherent national policies in the face of a dispersed donor community. This urgently needs to be addressed through the creation of incentives for actors to converge.

- We are not saying that the arrival of new actors in the field of international development will crowd out public actors. On the contrary, the increasing fragmentation and dispersion of international public assistance begs for states to assume a coordinating role. Only this coordination effort needs to go beyond the chimera of a centrally-planned and centrally-coordinated system.

- Finally, we are not saying that financial innovation will dispense traditional donors of increasing the amount of public resources dedicated to this policy. The new set of challenges of North / South relations calls for more money (including more 'traditional ODA'), not less. It is therefore vital that donor states respect the commitments they made in Monterrey and Gleneagles; yet for the sake of clarity, transparency and efficiency these should correspond to technically meaningful benchmarks. Moreover, assuming that these promises are kept, the additional public resources mobilised will not suffice to reach lasting results in North / South economic convergence, the financing of basic human welfare and protecting global public goods. Innovative methods to finance this global public policy will need to be found.

➤ This paper, which makes a diagnosis and suggests paths of progress for the future, does not aim to provide an exhaustive review of the topics it touches upon. The questions raised in the pages above call for further research on a few critical issues, among which:

- The type of collective action mechanisms that can build convergence between the quickly-expanding range of aid actors described without weighing on their capacity to innovate and adapt;

- The type of collaborative ex post evaluation mechanisms that can be devised to close the evaluation gap;

- How the new benchmarks of Global Policy Finance called for in this paper (estimates of overall available funds for a given policy goal; benchmarks of aid's impacts; measures of budgetary costs for donor states; and estimates for administrative costs) could be designed;

- What is the scale of the financial resources needed to respond to the three broad policy objectives outlined in this paper – i.e. how big the financing gap is today;

- Finally the political economy of this vast reform of international development aid – i.e. how to move forward given the different actors' preferences and constraints.