



Should We Worry About Declining ODA?

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How much do we spend on Official Development Assistance (ODA)? Is ODA growing or declining? How do donors compare to each other? Where does ODA stand as a share of Gross National Income (GNI)? Are we on track to spending 0.7% of GNI on ODA?

Every year in April the release of the DAC's data on ODA flows – and the comments it provokes – make amply clear that the concept of ODA has acquired the status of undisputable yardstick to assess donors' "efforts for development". This article wants to challenge this.

1. Defining and measuring ODA

Brought down to its essence the DAC definition of ODA reads as: concessional financial flows (i.e. grants or soft loans) from the official sector of DAC member states, directly or via multilateral development institutions, to countries that are on the DAC list of developing countries and which have the promotion of economic development and welfare as their main objective.

This definition – as any definition would do – creates a separate category of "foreign efforts for development". Out of the endless variety of "efforts" DAC members might be able and willing to undertake to support development, one category is isolated. The effect is decisive: as ODA is the only category that is expressly defined, it is automatically envisioned as being THE "effort".

Is it justified to practically identify ODA with "efforts for development"? That would be the case if we could demonstrate that the actual impact on development of this particular "effort" is significantly higher than that of other "efforts" such as, to name only a few, international contacts, diplomatic representation, conflict management, adequate environment policy, trade and investment. The point is: there is no such evidence. On the contrary, we know that development is a much too complicated societal process and the impact of "foreign efforts" is much too uncertain for us ever to be able to find such evidence.

In spite of this, *ODA is raised on its pedestal*, all but the only "effort" that deserves measuring, analysis and political debating. As an upshot, ODA tends to monopolize all thinking about development. The issue of development is put in a separate silo, the silo of foreign aid.

Moreover the ODA definition is a textbook case of reductionism: the complex, dialectic relationship between “efforts for development” and their impact is brought down to one indicator, the input of money.

This leads to a simplified and incomplete image of what development really is and of what can be undertaken to support it from abroad. It creates the impression that development is straightforward, and that *aid is a gigantic machine of money-in-development-out*.

It may well be that this was less pernicious in the early stages of development aid, when the world could arguably be divided in the developed North and the developing South and when problems such as defective trade and financial systems, climate change, water scarcity and food shortages on a global scale were still decades away. In today’s world however, where the issue of development is to a very large extent the issue of cross-border global public goods, assessing “efforts for development” principally in terms of money spent is like assessing the effectiveness of fire fighting by measuring the quantity of water used.

In the context of ODA the concept of “ownership” gets a distinctive meaning: *it is the donors who “own” the aid*. They define what is aid and what is not; they measure it; and they do so with their own yardstick.

But the donors own and father their aid also in a more fundamental sense: as real fathers tend to do, they overestimate the significance of their progeny. It is striking how in donor countries’ public debates, the impact of ODA is often reduced to the simplest cause and effect relationship without consideration for counterfactuals. We see the boldest claims being made and the effect of aid generally being overstated with scant concern for hard evidence.

All this smacks of donor pretention and, it must be said, of patronizing and contempt for the resourcefulness and the self-reliance of the assisted people.

In addition, it is striking that the most confident claims about the effects of ODA are adduced by organizations and institutions that belong to the sector. They are also the most confirmed advocates for increasing aid levels. The fact that their turnover or the amount of subsidies they receive is dependent on the level of ODA budgets must call up questions about the innocence of their pleas.

According to the DAC definition, as long as “economic development and welfare of developing countries” is the “main objective”, outlays are registered as ODA.

This has important prejudicial consequences. Indeed, as the ODA definition stays silent about the real impact of aid on development, the impression is automatically conveyed that, other things being equal, *more ODA results in more development*. This, however, is simply not true. One doesn’t need to go along all the way with Dambisa Moyo’s “Dead Aid” to acknowledge that aid can have, and regularly actually has, negative effects on development.

At the very least, we are certain that there is no evidence whatever of a proportional causal, quantifiable relationship between input of money and development results.

And yet, donors seem to be possessed by a deep-seated conviction of the contrary. That, at least, is what we infer from their attitude vis-à-vis the 0.7% of GNI target.

2. All towards the 0.7% of GNI!

Let us recap what we have seen so far. The ODA definition wrongfully raises ODA to the status of chosen, well nigh exclusive “foreign effort for development”. It suggests a simplistic image of what development is about and of what can be done from abroad to support it. It is a donor-centric concept leading to a blown up image of what aid really can achieve. And it tends to create the false impression that more aid necessarily means more development.

Isn't it surprising then that on the basis of this conceptually shaky and politically lopsided definition, donors are encouraged to keep raising their ODA and, as a minimum, to reach the target level of 0.7% of GNI? It no doubt is. Sadly, there is worse to be said about the 0.7% aid target.

The idea of linking aid targets to the national income of the supplier has a long history, a history that cannot be the subject of this article.

In an excellent paper, Clemens and Moss, 2005¹ delve into the scientific origins and the economic rationale behind the target. They demonstrate that it was calculated using a series of assumptions that are no longer true, and was justified by an economic model that is no longer considered credible. They rightly conclude that *the 0.7% target is a purely arbitrary figure* that can have no relevance whatever as a basis for development policies.

They also point to the folly of using the size of rich economies (as measured by their GNI) to set the allegedly right level of aid to developing countries.

Advocates of raising ODA levels will retort that we should forget the origin and the (lack of) economic meaning of the 0.7% target; we should use it as *a tool to lobby rich governments* to raise their aid budgets.

This would be a convincing argument if we had any certainty that calling for higher ODA levels is at all justified; that is, if we were sure that higher ODA levels lead to more development. The point is: there is absolutely no certainty about that. As said, we have no evidence of a quantifiable proportional causal relationship between ODA outlays and development outcomes. There may even be a reverse relationship, for there are examples of rising aid levels having adverse effects. Shouldn't such uncertainty encourage us to be extremely cautious when talking about the appropriate level of ODA and, at any rate, to stop insisting on raising it?

What's more, people who are lobbying for more ODA should be aware of the possible adverse political effects of their actions. They should realize that they strengthen the status of ODA while standing little chance of affecting governments' real commitment to development. Quite the opposite, raising ODA levels (whether or not

¹ Clemens, M. and Moss, T. 'Ghosts of 0.7%: Origins and Relevance of the International Aid Target', *Center for Global development*. Working Paper Number 68. September 2005

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by changing the yardstick, as we will see further) and thus giving excessive political weight to ODA may provide governments with an alibi for not taking action in the many other fields that have an impact on development.

The prevailing fixed aid target also contributes to making ODA supply-side driven and, hence, donor driven. It prevents donors and recipients from moving towards aid flows that are based on recipients' requirements and on the probability of effective development outcomes.

As long as the target level of aid flows is a given, it is hardly feasible to estimate the real needs of the partner countries. Indeed, it is a well-known fact that the demand for a resource tends to expand to match its supply. In other words, *the availability of a budget creates the needs to use that budget*, regardless of expected results. And there is no reason to believe that this rule would not apply to aid budgets.

In any case, since it is fair to presume that genuine aid requirements and the chances of real aid-effectiveness vary over time and are country-specific and context-specific, it speaks for itself that an aid level fixed for half a century and for the whole world hardly makes sense.

Once ODA has been elevated to the status of THE "effort for development", pledging to increase ODA levels and endorsing the 0.7% target comes as a matter of course. Indeed, no country would ever want to be seen as failing in its dedication to development. Sadly, the upshot is that spending aid money is identified with supporting development and... spending ODA becomes an objective! Foreign aid may well be the only major field of human activity where *spending money is an autonomous objective*.

Numerous reports and analyses have pointed to the adverse effects of this spending pressure. More often than not aid programs are designed with a view to rapid spending rather than real needs and sustainable long-term outcomes. Officers of aid institutions are pressured to respect budgetary timetables, regardless of what happens on the ground. Aid agencies are evaluated by their political masters on the basis of turnover, i.e. aid outlays. Monitoring and evaluation hardly ever leads to stopping or reducing aid flows. Policy conditionalities are set and used in such a way that disbursement is seldom threatened. As recipient governments know donors are impatient to disburse, aid loses its leverage on policies and governance and its role as catalyst. In short: spending pressure weakens the effectiveness of aid.

In spite of all this, donors want to disburse. Or rather, they want to be seen disbursing. *Visibility is a major motive*. And donors understand very well what a wonderful tool the DAC's ODA definition is for that purpose. As ODA is a pure input-variable, irrespective of results, you can tinker with it. Raising ODA without disbursing more money is easy enough: simply change the yardstick; categorize more of your outlays as ODA.

The debate in the DAC on whether or not to include peacekeeping operations in the definition of ODA is a case in point. Nobody is under the illusion that this would have any impact on the effectiveness of such operations let alone on development. That is not the purpose anyhow. The purpose is to embellish the blazon of donors.

The coming years may well see more tinkering with the ODA definition. Since the EU made the commitment to reach the 0.7% target by 2015, one wonders whether the goal will be reached – if ever – by increasing the budgets or by changing the rules.

3. To conclude: let us advocate for commitment, not for ODA

It is difficult not to conclude that the concept of ODA, and the target of 0.7% that is linked to it, is a profoundly unsound way of approaching the issue of development. Raising ODA to the level of THE “effort for development” and, as a corollary, identifying disbursement of ODA with dedication to development has plenty of pernicious effects.

This conclusion inevitably should lead to a plea, not only for dropping the 0.7% target, but for plainly abandoning the concept of ODA. Sense of reality says us however that this is all but a political impossibility. So, let us go for a less ambitious goal and *drag ODA from its pedestal*. Let us stop caring about the ODA level.

This shouldn't mean that aid becomes irrelevant, of course not. What it means is that the object of our advocacy should be radically shifted from ODA to genuine commitment to human development, against social exclusion, for the right policies at all levels, in all countries, and for true care for global public goods.