

The International Policy Centre for Inclusive Growth is jointly supported by the United Nations Development Programme and the Government of Brazil.

# The nexus of ODA and the SDGs: a scoping review of performance and statistical methodology

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## 1 Introduction and overview

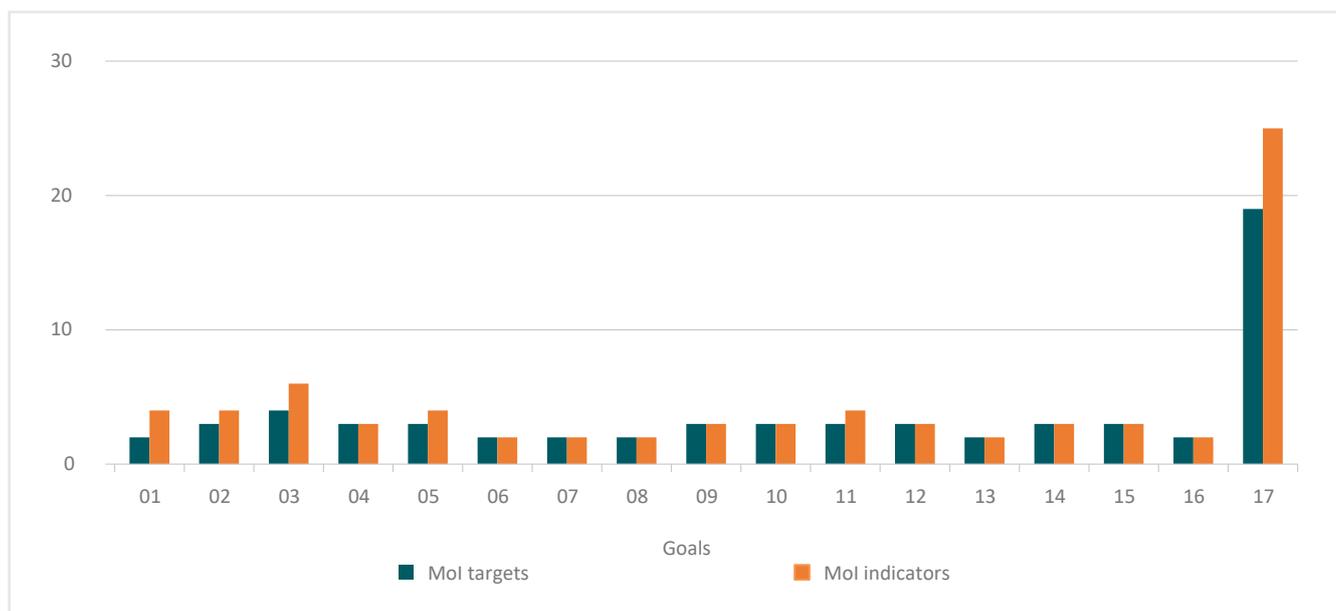
When the Millennium Development Goals were adopted, the financing for the goals came to the world's attention two years later in Mexico at the Monterrey Conference of 2002. In view of slow progress and fragmented efforts in the implementation of the goals, a follow-up mid-term financing for development (FfD) conference was convened in Doha, Qatar, in 2008 and called for continued and coordinated action. Against this background, the third International Conference on FfD in Addis Ababa, Ethiopia, in 2015 established a groundbreaking agreement, the Addis Ababa Action Agenda, which provided a global framework for financing the sustainable development outcomes ahead of the adoption of the 2030 Agenda for Sustainable Development and its 17 Sustainable Development Goals (SDGs). This created an organic relationship between them.

In a parallel effort, the multilateral development banks enthusiastically promoted the 'blended finance' approach. Their shared agenda claimed that combining public with private development funds "innovatively" would transform FfD by providing new opportunities to drive significant new investment flows into the SDGs by an order of magnitude from "billions to trillions" (World Bank 2015).

At the heart of the 2030 Agenda, finance is recognised as an essential means of implementation included in all 17 thematic SDGs and their 169 corresponding targets. In SDG 17 ("Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development"), which specifically addresses the means of implementation, finance comes at the top of the means of implementation. That is why SDG 17 is the only SDG reviewed at the United Nations High-level Political Forum every year.

## FIGURE 1

'Means of implementation' targets and indicators in the SDGs



Note: 'Means of implementation' (Mol) targets indicated by a letter (e.g. 1.a, 1.b etc.). Note that all 19 targets under SDG 17 are Mol targets, even though they are indicated by numbers rather than letters.

Official development assistance (ODA) is considered one of the important means of implementation in FfD. ODA includes both debt-creating (i.e. grants) and non-debt-creating (i.e. concessional loans for projects) financial inflows.

Over the past four years, since the 2030 Agenda came into effect on 1 January 2016, ODA has been at the epicentre of the great debate about FfD. Indeed, the status quo of ODA presents a foreboding forecast for the future of the 2030 Agenda for Sustainable Development and its related SDGs. This scoping review will focus on addressing two issues on ODA: **donors' performance** and **statistical methodology**.

## 2 ODA performance

All developing low-income countries (LICs) and middle-income countries (MICs) are eligible for ODA, with special commitments made to the least developed countries (LDCs).

The 2018 report titled 'Development aid drops in 2018, especially to neediest countries' (OECD-DAC 2019) outlines the shocking findings. Combined ODA in 2018 amounted to USD143.2 billion, representing only 0.31 per cent of gross national income (GNI), compared to USD147.2 billion in 2017. This fall of 2.7 per cent in real 2017 terms reflected a continued reduction since 2016 in in-donor funding costs for refugees and asylum-seekers from fragile and post-conflict countries, and net bilateral ODA to the group of LDCs showed a falling trend. Loans extended to developing countries represented 17 per cent of gross bilateral ODA in 2018. Humanitarian aid fell by 8 per cent in real terms to USD15.3 billion. In 2018, only 5 of the 30 members of the Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) met the 0.7 per cent target of their annual GNI in ODA—namely the UK, Sweden, Norway, Luxembourg and Denmark.

In fact, the findings reflect the worrying trend where the world's major donors are failing to:

- align their ODA with recipient countries' own priorities;
- meet the long-standing United Nations target to provide 0.7 per cent of their annual GNI as ODA to developing countries, and 0.15–0.20 per cent to LDCs in greatest need; and
- finance specific priority action areas where significant funding or investments are needed, such as in infrastructure for energy, transport, water and sanitation, etc.

The action undertaken to date on ODA makes it clear that achieving Agenda 2030 and its related SDGs is an aspiration rather than a reflection of the current reality of global financing requirements. It might be argued that the current downturn in the global economy, trade wars and geopolitical tensions have repercussions for ODA commitments and the ability to establish a stable flow of ODA. However, evidence shows that donors have largely failed to provide the 0.7 per cent of their annual GNI as ODA to developing countries for almost half a century since the United Nations set the target.

In a broader context, global FfD performance renders the multilateral development banks' 'billions to trillions' agenda of blended finance an aspirational goal rather than a successful endeavour. The thinking to crowd in flows of private finance to scale up investment efforts by an order of magnitude to achieve the SDGs has been both unclear and challenging in FfD practice. The agenda and the many concerns associated with it, particularly the rising debt burden of the LDCs, have received very little attention. As of today, there has been no organised initiative to evaluate current debt capacities relative to achieving the SDGs (SDSN 2019). These considerations resonated strongly with the main themes and acceleration actions emphasised in the inaugural SDG Summit 2019 (24–25 September)—the first United Nations summit on the SDGs since the adoption of the 2030 Agenda—and the High-level Dialogue on Financing for Development (26 September), which were held at the United Nations Headquarters in New York on the sidelines of the 74th session of the United Nations General Assembly.<sup>1</sup>

## 3 ODA statistical methodology

Since 1970 the OECD's DAC has been the international body entrusted by the United Nations as the actual custodian agency, setting the rules and conventions around ODA for its members, gathering the details and data on transaction flows that correspond to ODA via its Credit Reporting System (CRS) database and publishing global monitoring and evaluation reports. The DAC currently comprises 29 member countries: Australia, Canada, Iceland, Japan, New Zealand, Norway, Republic of Korea, Switzerland, USA, 20 European Union (EU) members and the EU. Three EU member countries (Estonia, Latvia and Lithuania) are non-DAC OECD members, while another five (Bulgaria, Croatia, Cyprus, Malta and Romania) are neither OECD nor DAC members.

**TABLE 1**

Commitments regarding ODA and relevant specific targets

Commitment	Target
ODA to LDCs	0.15–0.20% of GNI*
ODA to all developing countries	0.70% of GNI
Average grant element in the ODA to LDCs	90% of ODA commitments
Average grant element in the ODA to all developing countries	86% of ODA commitments
Untying ODA	Zero limit on ODA to procure to companies in the donor country or in a small group of countries

Source: United Nations (n.d.).

Notes: \* The time-frame was set for the decade 2011–2020 according to the Addis Ababa Action Agenda.

\*\* The long-standing commitment for ODA of 0.7 per cent of donors' gross national income (GNI) was set by the United Nations in 1970.

Recently, the DAC methodology and statistics have come under heavy criticism regarding serious issues, including the failure to meet basic statistical quality standards. The Brookings Institution published a letter of warning written by three former DAC chairs in response to changes in the statistical methodology of ODA measurement, concerned that the basic role of the DAC in measurement is being eroded. They described the changes as “politically motivated”, thus placing the clarity, integrity and credibility of ODA statistics at risk (Atwood, Manning, and Riegler 2018). Less than a year later, another letter of warning, written by a former head of the DAC statistics division, claimed that ODA can no longer fulfil its function as an objective measure of donor aid effort, and thus ODA’s definition, coverage and reporting instructions all need urgent and fundamental review (Scott 2019).

Currently, the CRS includes sector financing of ODA but does not include any mapping linked to the SDGs being targeted by ODA transactions. Technically, establishing such mapping requires addressing the intricate types of cardinality more coherently. In particular, the relationships between ODA funding and the SDGs and related targets are not always one-to-one, and one-to-many relationships are not always clear-cut.

Additionally, the 2019 methodology shift by the DAC from ‘flow basis’ to ‘grant-equivalent basis’ means that ‘headline’ ODA figures fail to meet basic statistical quality standards, and are thus an incoherent statistical measure for monitoring and analysis. The shift is argued to reflect the effort of concessional loans by donor country, on the one hand, and the benefit to the recipient country, on the other hand. Using fixed high discount rates of 6 per cent, 7 per cent and 9 per cent for upper MICs, lower MICs and LDCs/LICs, respectively,<sup>2</sup> the methodology calculates a grant-equivalent value of concessional ODA loans by calculating a level of benefit to the borrowing country compared to a loan at current market rate (OECD-DAC 2018). It represents the loan’s value, minus the present value of its expected repayments. These criteria for what counts as low-interest loans in the current grant-equivalent reporting practices mean that profit-making hard loans to developing countries are counted as ‘concessional’ ODA and create annual grant values out of the thin air without injecting any new funds. In fact, the present low interest rate environment raises challenges to the use of those high discount rate benchmarks. The methodology is also more than just some fuzzy maths, as it completely ignores private-sector instruments.

Moreover, ODA reporting by OECD DAC members is peer-reviewed every five years by other DAC member countries.

This single-side peer review process is insufficient because it pays absolutely no attention to the debtor’s side of the coin.<sup>3</sup>

#### 4 Conclusions and the way forward

This policy brief investigated the gap between pledged and delivered ODA and the lack of confidence in the quality of ODA statistics. It showed that in the context of the implementation of the 2030 Agenda for Sustainable Development, ODA has not received either the proper action or the necessary priority.

To maintain the relevance of ODA in the 2030 Agenda and the related SDGs over the next decade, the way forward is clear. First and foremost, it is definitely a high priority for donor countries to take ‘concrete’ actions to fully deliver on their strong ODA commitments. If all OECD DAC donors met the United Nations 50-year-old ODA target of 0.7 per cent of GNI, this would generate about 2.25 times the current net flow of ODA—i.e. about USD190 billion per year of additional ODA flows. Based on rough estimates of the SDG costing and financing gap for developing countries by income groups, this amount can provide a lifeline to bridge the financing gap for sustainable development in LICs.<sup>4</sup>

Sensible ODA monitoring requires the DAC to upgrade the CSR to pay due attention to its linkages and contributions to the thematic SDGs, and establish broad-based consensus on an ODA methodology to obtain comparable figures and harmonise broken data series. Finally, peer-reviewing and comparability issues, clearly, cannot be delivered by the DAC alone. A double-sided peer review of the ODA reporting system—i.e. donor and recipient, combining both creditors and debtors—would be a suggested integrated approach if it receives the right level of political capital. There is a need for the United Nations to step in. This would do a great deal about strengthening coordination of the national statistical systems worldwide and aligning them with the DAC, reaffirming confidence in the quality of ODA statistics and measuring the effectiveness of ODA in achieving the SDGs.

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1. For the proceedings of the summit, see <<https://sustainabledevelopment.un.org/sdgsummit>>.

2. As of 1 July 2019, LICs are defined as those with a GNI per capita, calculated using the World Bank Atlas method, of USD1,025 or less in 2018; lower MICs are those with a GNI per capita between USD1,026 and USD3,995; upper MICs are those between USD3,996 and USD12,375. See <<https://datatopics.worldbank.org/world-development-indicators/stories/the-classification-of-countries-by-income.html>>.

3. For information about OECD peer reviews, see <<https://bit.ly/3jeCY6X>>.

4. See, for example, Kharas and McArthur (2019).

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