

The allocation of ODA post-2015: Targeting the poorest 20 per cent

Forthcoming study by Development Initiatives for the 2016 Development Cooperation Forum

From the MDGs to the SDGs: a more ambitious vision

The MDGs were an international framework to mobilize global progress on poverty eradication and social development measures. The emerging post-2015 development agenda will present a more holistic and ambitious vision. It will aim to complete the 'unfinished business' of the MDGs, move beyond 'half way' targets to get to zero on extreme poverty, and advance an integrated approach to progress across all three pillars of sustainable development – social, economic and environmental – supporting the transition to sustainable development for all, from the local to the global level.

Three key paradigm shifts should shape the allocation of ODA post-2015. Three key paradigm shifts resulting from the adoption of a post-2015 development agenda should shape ODA allocations. Firstly, moving from halving extreme poverty to ending extreme poverty by 2030 and poverty in all its forms everywhere in the long term. Secondly, transitioning from an aid-led agenda to an all-resources agenda that draws in and mobilizes the contributions, financial and non-financial, of a wide range of actors from the public and private sectors at the domestic and international levels. Third, from the largely separate 'sustainability' and 'development' agendas, to one unified and universal post-2015 development agenda, applicable in all countries.

ODA has comparative advantage in its focus on ending poverty and leaving no one behind. Given the scale, depth and complexity of poverty, ending poverty in all its forms everywhere will require dedicated resources. Within a context of growing wider sources of development finance, ODA remains the only international public resource that can be explicitly dedicated to poverty reduction, though in a way that advances an integrated approach to sustainable development.

ODA allocation should take into consideration heavily overlapping developmental, environmental and political vulnerabilities. Ending extreme poverty by 2030 and poverty in all its forms over the long term requires investments that improve the welfare, opportunities and resilience of the poorest people, wherever they live. 96% of the poorest people live in countries that are politically fragile, environmentally vulnerable, or both. The poorest people have least access to resources, public services or the benefits of economic development – whether in least developed countries or rapidly growing emerging economies. They will suffer most from failure to address some global challenges of sustainable development, including climate change and have generally contributed least to these problems.

To best use ODA, it should be targeted at the poorest people in developing countries. Allocations based only on average national incomes will not use ODA's comparative advantage. Latest estimates show that 17% of people in developing countries live in extreme poverty. Today, 73% of people in extreme poverty live in middle-income countries, and this may continue to evolve over time. The best mechanism to ensure ODA underpins poverty reduction is to target it at the poorest 20% of people in developing countries, rather than at the poorest countries. ODA allocations should also take into consideration the wider resources and vulnerabilities. 83% of the poorest people live where government spending is less than PPP\$ 1,500 per person a year (PPP\$4 a day). At this level, even with a continued trend of rapid expansion, government spending will not be sufficient to cover expenses for basic public services. Devoting a larger share of ODA to assist countries with the mobilization of domestic resources will hence be critical.

There is no one-size-fits-all approach to ODA allocation; the most effective assistance for the poorest 20 per cent of people will take different forms in different contexts. All assistance should mobilize wider resources to contribute towards poverty reduction, safeguard progress and increase resilience against environmental risks and political instability. However, the mix of flows of financing and other forms of development cooperation will vary for developing countries at different stages of development. ODA is a precious yet distinctive, diverse and flexible resource. While grant-based financing may be needed in many low-income or least-developed country contexts, other instruments, such as loans, risk guarantees, technical cooperation or technology transfer, can be transformational in middle-income country contexts, without necessarily requiring large investment of financial resources.

Background

The forthcoming study prepared by Development Initiatives for the 2016 DCF examines how ODA allocations should be adjusted post-2015 given three major paradigm shifts: (a) from halving extreme poverty to ending poverty in all its forms everywhere; (b) from an aid-led agenda to an all-resources agenda; and (c) from 'sustainability' and 'development' agendas, to one unified and universal post-2015 development agenda, applicable to all countries. The report finds that ODA is a precious yet distinctive and flexible resource for fighting poverty. To have the greatest development impact post 2015, ODA should target the poorest 20 per cent of people, wherever they live, across the three pillars of sustainable development and a larger share should be devoted towards strengthening domestic resource mobilization. The poorest people have least access to resources, services or the benefits of economic growth. They are most impacted and exposed to heavily overlapping developmental, environmental and political vulnerabilities. The study proposes to target investments at the poorest people, recognizing that the type of support needed by developing countries will vary at different stages of development.

Stakeholder input in the finalization of the

DCF study: Initial findings of the study were presented at Joint meeting of the Second Committee and ECOSOC on 30 October 2014 on a "A renewed global partnership for development and successor arrangements to MDG8", which also served as a preparatory meeting for the first DCF High-level Symposium to be held on 8-10 April 2015 in the Republic of Korea, and the Substantive informal session of the preparatory process for the third International Conference on Financing for Development on "International Public Finance, including Official Development Assistance (ODA)" on 12 November 2014. Comments and suggestions received during these two meetings are taken into consideration in the finalization of the DCF study.

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