OFFICIAL DEVELOPMENT ASSISTANCE (ODA)

TRADE UNION CONCERNS ON CURRENT POLICY TRENDS, FIGURES AND METRICS

Briefing Paper

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TUDCN-RSCD

Contents

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1. Introduction

Over the last few years different processes have been undertaken in the OECD's Development Assistance Committee (DAC) regarding the reconfiguration of Official Development Assistance (ODA) criteria - the so-called ODA modernisation - and the DAC reform processes.

The discussions on the modernisation of ODA have been looking into different forms of measuring ODA that respond to the challenges of the new aid modalities, linked to the adoption of the 2030 Agenda, the Addis Ababa Action Agenda and the UN's Paris Agreement on climate, including the emerging role of business and different forms of private finance in delivering sustainable development.

The DAC reform process has been looking into different ways of improving the DAC's work, making it more transparent and inclusive, increasing the involvement of both external actors (governments from the Global South, other donors, Civil Society Organisations [CSOs], business etc.) and internal actors (different OECD departments). Positioning trade unions in this process through the Trade Union Advisory Committee to the OECD (TUAC) and in aliance with CSOs will be crucial.

This briefing aims to give an insight into the relevant debates that are taking place at the DAC and the implications for the engagement of trade unions.

2. Current trends on ODA

In July 2019, the DAC released an analysis of current trends in ODA based on preliminary data on 2018 ODA. This analysis showed that flows from donors have been decreasing over the last two years (by 0.3% in 2017 and 2.7% in 2018, based on preliminary data), but that this decrease is mainly related to a fall in the amount of ODA assigned to in-donor refugee costs[1] and debt relief, thus implying that ODA flows of the last few years were inflated with in-donor refugee costs. Although DAC members are increasingly funding multilateral and global entities, in certain countries, such as Japan and the United States, the fall in ODA also reflects cuts in their funding to multilateral institutions. All in all, only seven countries (Denmark, Luxemburg, Norway, Sweden, Turkey, the United Kingdom and the United Arab Emirates) met the 0.7% ODA target, two of which are not DAC members.

The share of ODA provided in non-grant form (as loans, equity or private sector instruments) has increased over the last ten years from 11% of gross bilateral ODA in 2008 to 18% in 2017 and constitutes high percentages for countries like Japan and Korea.

With regard to ODA to the private sector, the analysis shows that even though the amounts mobilised by the private sector have increased over the years[2], "the expectation of the 2015 Addis Ababa Action Agenda that unlocking private capital could convert billions of ODA to trillions of development finance is not yet being met"[3].

Most of the finance has been mobilised through guarantees (42%), although these, together with syndicated loans, are mainly being used by multilateral providers, while most of the bilateral Development Finance Institutions (DFIs) and development agencies are mainly using collective investment vehicles[4].

It is acknowledged that most capital invested today is not aligned with the SDGs. As stated by Jorge Moreira da Silva (director of the OECD Development Cooperation Directorate): "Only 5.5% of that capital went to least developed countries and less than 6% went to social sectors … While we see volumes growing, inconsistencies are emerging, and it is important to get that right." [5]

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[1] The DAC's reporting system allows counting refugee costs as ODA in donor countries during the first twelve months of stay.

[2] Since 2017 the DAC measuring the amounts mobilised by the private sector. Over the past years the DAC has expanded the scope of data collection to six leveraging mechanisms (guarantees, syndicated loans, shares in Collective Investment Vehicles, direct investment in companies and Special Purpose Vehicles, credit lines and simple co-financing) and is currently discussing the inclusion of Special Purpose Vehicles and co-financing arrangements.

[3] OECD-DAC, Development Cooperation Profiles 2019, Trends and insights on development finance: https://www.oecd-ilibrary.org/sites/5e331623-en/index.html?itemId=/content/component/5e331623-en&_csp_=b14d4f60505d057b456dd1730d8fcea3&itemIGO=oecd&itemContentType=chapter#chapter-d1e15

[4] Collective investment vehicles bring together capital from different investors (these could include different DFIs amongst others) to invest in a portfolio of projects or companies.

[5] What to watch in development finance in 2020: https://www.devex.com/news/what-to-watch-in-development-finance-in-2020-96472

So, the development finance community should focus on getting resources to the areas that will create development impact, and this implies harmonisation of definitions and metrics. Metrics related to decent jobs and the generation of quality employment are essential in this respect, and trade unions should keep demanding these key criteria[6] of donors and of the development finance community.

Results of the Global Partnership for Effective Development Cooperation's (GPEDC) 2019 monitoring round

More widely, on development cooperation trends, the Global Partnership's biennial monitoring results provide an insight on how international development cooperation is put into practice. The GPEDC's monitoring looks at progress through ten specific indicators referring to the development effectiveness principles (country ownership, focus on results, inclusive partnerships and transparency and mutual accountability). The last monitoring round – 2018/2019 – shows that:

- The enabling environment for CSOs is deteriorating, especially around the legal and regulatory frameworks for freedom of expression and association, but also around the predictability, transparency and accessibility of donors' funding and the quality of government consultation with CSOs.
- Partner country governments view the quality of public-private dialogue more favourably than private sector actors, with the most significant divergence being on the inclusiveness of the dialogue.
- The untying of aid has progressed over the last two years and it is now at 80%, but in practice ODA funded contracts are still largely awarded to suppliers from donor countries and we are still not at the point of untying all aid.
- In partner countries, the share of development cooperation included in national budgets subject to parliamentary oversight is decreasing (from 66% in 2016 to 61% in 2018).
- Donor alignment to partner country priorities and country-owned results frameworks are declining (the use of the latter has been reduced from 64% in 2016 to 57% in 2018).
- The use of national procurement systems has notably increased (from 37% in 2016 to 50% in 2018), but it still remains low.
- Predictability of donor cooperation at country level has fallen (only 56% of funding is predictable).

These findings show that there is an urgent need to reverse declining trends in many areas and make concerted efforts for progress to advance in a more effective development cooperation, where trade unions are recognised as development actors in their own right.[7] An increased engagement in the GPEDC monitoring process at country level will allow trade unions to:

- Put forward their concerns in terms of the respect for the rights to freedom of association and collective bargaining and the right to organise.
- Participate in the discussions on private sector engagement in development cooperation to promote decent work creation, the respect of workers' rights and greater transparency and accountability.

[6] Trade unions have been calling for results-based assessment frameworks on decent work for many years: see "Making private sector investments in development programs aligned with the SDGs"

[7] https://www.ituc-csi.org/IMG/pdf/international_cooperation_for_sdgs_en-2.pdf

3. Some implications of ODA and private sector instruments

The ODA modernisation process has been looking into different ways of adapting the DAC's measurement of ODA to establish clear criteria for (1) the inclusion of private sector instruments and new ways of measuring concessional loans[8] and (2) eligibility rules for peace and security as well as in-donor refugee costs. Although advances have been made in some areas, others still lag behind, and there are currently no clear rules for the use of private sector instruments[9].

One of the key discussions taking place since the end of 2014 is on introducing a new way of measuring loans in ODA. This new measurement is called the "grant equivalente"[10] and, as argued in an article by Simon Scott, former head of the DAC statistics division, it is currently contributing to the distortion of ODA figures[11].

Since 2016, the DAC has been shifting from recording ODA loans on a cash-flow basis[12] to counting loans on a grant equivalent.[13] The grant equivalent is calculated applying discount rates that account for different levels of inflation and risks as the "effort" that donors are putting into a loan. A discount rate is an interest rate applied in reverse, applying tomorrow's value to today's money.

These discount rates end up being excessively high[14] and are applied uniformly. Therefore, they "underestimate the present value of loan repayments, leaving inflated grant equivalents, even for loans that are at market rates"[15]. This, in practice, means that donors are reporting a higher contribution to ODA than what they are making.

A further problem which arises with this new method of calculation is that it is applied to loans to the public sector but not to loans to the private sector. This is because the implementation rules for private sector instruments have not yet been agreed upon, mainly due to disagreement over the discount rates to be used in calculating the grant equivalent. This leads to problems of comparability of data.

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[8] Concessional loans refer to loans that are give with a grant element, which usually consists of interest rates below the market rates or grace periods for reimbursement.

[9] See the DAC's Reporting methods for Private Sector Instruments of December 2018: http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DCD/DAC(2018)47/FINAL&docLanguage=En

[10] For more information on the history and calculation of the grant equivalent see Scott Simon, 2017, Development Centre Working Paper No. 339: *The grant element method of measuring the concessionality of loans and debt relief.* http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DEV/DOC/WKP(2017)5&docLanguage=En

[11] Scott Simon, 2019, *A note on current problems with ODA as a statistical measure* in Brookings: https://www.brookings.edu/blog/future-development/2019/09/26/a-note-on-current-problems-with-oda-as-a-statistical-measure/

[12] Recording ODA loans on a cash-flow basis refers to counting the money that was lent as positive ODA (where the money lent is added to the donor's contribution to ODA) and repayments as negative ODA (where the money received as repayment is subtracted from the donor's contribution to ODA).

[13] Since 2016 both the grant equivalent and cash-flow count have been applied in order to allow for a transition period towards the sole application of the grant equivalent, which is being used for 2018 data (published in January 2020).

[14] The DAC is applying fixed discount rates of 6, 7 or 9 per cent (depending on the level of development of the country)

[15] Scott Simon, 2019, *A note on current problems with ODA as a statistical measure* in Brookings: https://www.brookings.edu/blog/future-development/2019/09/26/a-note-on-current-problems-with-oda-as-a-statistical-measure/

In sum, the process towards the modernisation of ODA is further complicating definitions, hindering comparability of data and can lead to overinflated figures. Trade unions need to expose methods of inflating ODA, such as the grant equivalent. As the discussion on the use of private sector instruments unravels within the DAC, trade unions will need to join efforts with other CSOs to push for a transparent reporting system that adequately accounts for the degree of concessionality of these instruments.

4. Total Official Support for Sustainable Development (TOSSD)

In light of the adoption of the 2030 Agenda, the OECD has been working on a new measure called Total Official Support for Sustainable Development (TOSSD), which has been proposed as an additional indicator for SDG 17.3.[16]

TOSSD is a new metric that is being put in place to measure all resources, beyond ODA, provided to promote the Sustainable Development Goals (SDG) in developing countries and at the global and regional levels. It therefore covers different forms of flows (both concessional and non-concessional[17]) beyond those from traditional donors, including South-South Cooperation, Triangular Cooperation, resources from multilateral institutions, emerging donors and mobilised private finance.

TOSSD uses a two-pillar approach to analyse resource flows. Pillar I looks into resources that are sent to a specific developing country (bilateral cooperation), whereas Pillar II looks into global and regional expenditures that are not directed to a particular country but contribute to the SDGs overall (e.g., resources that go to norm setting activities such as those of the ILO or those to fight climate change).

In TOSSD all resources must be directly linked to a specific SDG target and must have no substantial detrimental effect to other targets. Data is mainly collected from donor countries and institutions, but it is also complemented by data from recipient countries. TOSSD recipient countries for Pillar I include those on the DAC list of ODA recipients plus non-DAC donor countries that have requested to be included in the TOSSD process. Pillar II includes international institutions. However, some countries and institutions have a dual (donor-recipient) role.

WHAT DOES TOSSD INCLUDE?

TOSSD resource flows are provided through financial instruments such as grants, debt instruments, mezzanine finance instruments, equities and shares in collective investment vehicles, but TOSSD also considers guarantees, which do not necessarily generate a flow from the provider to the recipient country. Officially supported export credits may also be included in TOSSD when they are extended in association with development finance or explicitly designed to contribute to sustainable development. But TOSSD also covers technical resources, including payments for hiring international experts or in-kind contributions corresponding to the deployment of experts from donor countries.

[16] Target 17.3 is: Mobilise additional financial resources for developing countries from multiple sources.

[17] Concessional flows refer to flows including a grant element, such as grants or loans at below-market interest rates, whereas non-concessional flows can include any kind of flow without a grant element.

TOSSD measures resources allocated to and mobilised from the private sector. It collects information on official resources provided to leverage funds from the private sector regardless of the financial instrument used or the level of concessionality. An important element of the TOSSD measure is the tracking of leveraged funds from the private sector through different instruments[18]. Leveraged funds are nevertheless presented under a separate heading. A link between the finance made available for a specific project and the leveraging instrument used is required, and resources mobilised from public entities are excluded.

CHALLENGES

Even though this new metric will collect new data on contributions to the SDGs and will therefore increase the available information on development finance, there are some concerns with the metric as it stands. For example:

- Due to the applied methodology and the lack of precision in several of the reporting standards in Pillar II, there are concerns around the possibility that the data that is submitted may result in serious inflation of TOSSD and undermine its utility as a metric. The fact that Pillar II may include certain expenditures incurred by providers in their own countries or in non-TOSSD eligible countries (such as research and support to refugees) is part of this concern[19].
- With respect to in-donor refugee costs, TOSSD goes beyond the first 12 months rule[20], and this could result in significant discrepancies, given the diverse policies applied by countries in supporting refugees.
- TOSSD does not measure the quality and development impact of activities and does not aspire to disaggregate data to measure impact or progress on the groups furthest behind. It is therefore critical to ensure that TOSSD is not just about tracking providers' stated intentions, but also about overseeing quality and development impact.
  On the basis of these considerations, including the development effectiveness principles in the reporting would be a fundamental step.
- The inclusion of peace and security expenses[21] in TOSSD is another characteristic that is worrying. Although the expenses included are expected to be guided by a number of principles including a commitment to do no harm, these will need to be carefully monitored.

All these concerns lead us to carefully reflect on the possible use of the TOSSD measure as an SDG indicator, potentially overruling ODA and bringing in new flows and activities that are not necessarily in line with development assistance.

It is fundamental that TOSSD remains complementary to ODA, preserving global commitments to 0.7% of Gross National Income (GNI).

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[18] These include guarantees/insurance; syndicated loans; shares in collective investment vehicles (CIVs); credit lines; direct investment in companies, grants and loans in simple co-financing arrangements; and project finance schemes.

[19] The preliminary results from TOSSD survey data showed that donors reported new activities, not communicated so far, representing an increase of up to 20-25% of the volume of finance. The new kind of activities that were reported included, among others, issues such as research and peace and security.

[20] The DAC only considers in-donor refugee costs in ODA for the first 12 months of their stay, whereas TOSSD does not establish this limit.

[21] The TOSSD guidelines consider peace and security activities related to peacekeeping operations; disarmament activities; law enforcement activities, including the fight against organised crime and terrorism; engagement with partner countries' military and international tribunals, and establishes specific criteria for each.

5. ODA alignment with the Paris Agreement

Since the adoption of the Paris Agreement in 2015, donors are increasingly moving towards aligning their development cooperation to its commitments. A preliminary analysis of 2018 ODA data shows that DAC members are investing more in the environment and adapting to climate change and that "development finance is the major source for cross-border climate finance reported to the United Nations Framework Convention on Climate Change (UNFCCC)".[22] Donors have made progress in including the Paris Agreement's objectives into their plans, processes and practices, but additional efforts are still necessary. Development finance is used for activities that undermine sustainable development, and action to accelerate the fight against climate change in developing countries is still insufficient.

In this context, the DAC launched the report [Aligning Development Co-operation and Climate Action: The Only Way Forward] to support donors' efforts in this area. The report includes concrete references to the need for a Just Transition as included in the Paris Agreement. It states that development cooperation that is aligned to the Paris Agreement has four main characteristics:

- it moves from "do no harm" to contributing to the required transformation to achieve low emissions;
- it supports countries' transitions to low emissions through targeted finance, engaging in policy support and capacity development;
- it supports the financing and implementation of Nationally Determined Contributions[23] and long-term low greenhouse gas emissions strategies; and
- it responds to evidence and opportunities to address needs in developing countries.

To align development cooperation with the Paris Agreement, donors are encouraged to take action at three levels:

1. At home: integrating the need to respond to climate change into their mandates and systems and eliminating policy conflicts between their foreign policy and the Paris Agreement commitments.
2. In developing countries: supporting developing country governments to include ambitious climate objectives into national development plans, sector policies and budgetary processes.
3. At the international level: adopting definitions and mechanisms to ensure Paris alignment at global level; supporting consistent international standards and pursuing ambitious multilateral action and effective partnerships.

In addition to these recommendations, the DAC could collectively revise the ODA-eligibility criteria to exclude support for new fossil fuel-related activities.

It is important to support the DAC's effort in this area. Trade unions should call for alignment of all development initiatives to the Paris Agreement as a cross-cutting criteria for funds allocation. This certainly implies stronger efforts to scale up resources.

[22] OECD-DAC, Development Cooperation Profiles 2019, Trends and insights on development finance: https://www.oecd-ilibrary.org/sites/5e331623-en/index.html?itemId=/content/component/5e331623-en&_csp_=b14d4f60505d057b456dd1730d8fcea3&itemIGO=oecd&itemContentType=chapter#section-d1e419

[23] Nationally Determined Contributions are countries' efforts to reduce national emissions and adapt to the impacts of climate change under the Paris Agreement.

6. DAC's work with CSOs

The DAC is currently finishing off a study on how DAC members work with civil society, which will hopefully be followed by a Recommendation and/or Guidelines on this issue. The study will be based on the findings of the working paper Enabling Civil Society for Sustainable Development.

This working paper tells us that between 2010 and 2017, aid to CSOs increased by 15% and in 2017 these figures stood close to 20 billion USD (15% of total bilateral aid). CSOs are being supported by donors in two ways: as development actors in their own right (support *to* CSOs as an end) and as implementers of specific projects on behalf of donors (support *through* CSOs as a means). However, funds allocated to CSOs as implementing partners are much higher (almost six times higher in 2017) than those allocated to strengthen them.

The DAC working paper puts forward the following recommendations for donors which give some hints on the contents of the possible Recommendation and/or Guidelines:

- Clarify definitions of civil society that reflect a more inclusive coverage.
- Have civil society-specific policies developed in consultation with CSOs that address CSOs both as implementing partners and development actors in their own right and integrate civil society issues into development policies and other policy arenas (trade, migration, tax etc.).
- Reconcile the gap between the two forms of support to CSOs (as development actors and as implementers) and investigate ways to incentivise them to address the humanitarian-development-peace nexus.
- Increase direct financial support to partner country CSOs and to a greater diversity of civil society actors (including trade unions).
- Strengthen dialogue and consultation with CSOs, especially in partner countries.
- Work with CSOs to define results frameworks and indicators and emphasise learning to inform adaptive programming directions.
- Assess and seek to minimise the transaction cost burden of administrative and financial requirements and pursue donor harmonisation.
- Advance further in supporting CSOs to strengthen their accountability and self-assess to ensure donor support does not undermine CSOs' accountability in partner countries.
- Enhance transparency of funding for CSOs disaggregated by and accessible to partner country stakeholders.

The possible Recommendation and/or Guidelines will be especially relevant to encourage greater support to trade union development cooperation initiatives that uphold the rights to freedom of association and collective bargaining and the right to organise.

7. Conclusions

Since 2015, the development landscape has been changing considerably and the DAC is adapting its processes and approaches to respond to a changing world in which the concept of international partnerships seems to be slowly replacing that of development cooperation. Trade unions will need to follow up and be active in these debates to show their growing relevance in this context. This work will in some cases take place at the DAC, but will mainly take shape in donor countries. Engaging DAC delegates in their home countries and putting forward our common asks to the different development agencies will therefore contribute to a greater influence on these policies. More concretely, trade unions will need to engage their DAC delegates at home to:

- Preserve the integrity of ODA and the 0.7% of GNI target in TOSSD and in relation to the use of private sector instruments in development cooperation.
- Push donors and the development finance community for the adoption of metrics related to decent jobs and quality of employment generation.
- Push for the respect of the rights to freedom of association, collective bargaining and the right to organise as well as the need to consider social dialogue in development cooperation's support to the private sector.
- Ensure that the imperatives of a Just Transition of the workforce and the creation of decent work and quality jobs are preserved in development cooperation's alignment with the Paris Agreement.
- Uphold the role of trade unions as development actors in their own right and encourage greater support to trade union development cooperation initiatives in the areas of freedom of association, collective bargaining and the right to organise, on the basis of the possible Recommendation and/or Guidelines on DAC members' work with civil society.

The yearly Trade Union-DAC Forum will be an important space to engage in these discussions. Trade unions' work to influence the elaboration and implementation of development policies with governments and development agencies at home is crucial.

The Trade Union Development Cooperation Network (TUDCN) is an initiative of the International Trade Union Confederation (ITUC), bringing together affiliated trade union organisations, solidarity support organisations, regional ITUC organisations, the Global Union Federations (GUFs), the European Trade Union Confederation (ETUC) and the Trade Union Advisory Committee to the OECD (TUAC). TUDCN's objective is to bring the trade union perspective into the international development policy debates and improve the coordination and effectiveness of trade union development cooperation activities.

*Le **Réseau syndical de coopération au développement** (RSCD) est une initiative de la Confédération syndicale internationale (CSI) réunissant des organisations syndicales affiliées, des organisations de solidarité, les organisations régionales de la CSI, ainsi que les Fédérations syndicales internationales (les fédérations sectorielles - FSI), la Confédération européenne des syndicats (CES) et la Commission syndicale consultative auprès de l'OCDE (TUAC). Le RSCD a pour but de traduire la perspective syndicale dans les débats sur la politique en matière de développement international et d'améliorer la coordination et l'efficacité des activités syndicales dans le domaine de la coopération au développement.*

La **Red Sindical de Cooperación al Desarrollo** (RSCD) es una iniciativa de la Confederación Sindical Internacional (CSI), que agrupa a diversas organizaciones sindicales afiliadas, organizaciones solidarias (OS), organizaciones regionales de la CSI, las Federaciones Sindicales Internacionales (FSI), la Confederación Europea de Sindicatos (CES) y la Comisión Sindical Consultiva ante la OCDE (TUAC). El objetivo de la red es aportar la perspectiva sindical a los debates políticos y mejorar la coordinación y la eficacia de las actividades sindicales relacionadas con la cooperación al desarrollo.

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