



THE 2014 DATA REPORT

FIGHTING
POVERTY AND
FINANCING
AFRICA'S FUTURE

ONE

The Waterside Market of Monrovia, Liberia.
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EXECUTIVE SUMMARY

In the long journey to end the injustice of extreme poverty and help ensure opportunity and dignity for all, we have arrived at a crossroads. The Millennium Development Goals (MDGs), which are due in one year's time, have helped to focus international attention and resources towards ambitious goals.¹ Tremendous progress has been made in many areas, including tackling global health challenges, child mortality and access to clean water. At the same time, the proportion of people living in extreme poverty has been halved globally and is now on the decline in Africa.² But in other areas there has been far less improvement, and future progress is under threat from growing challenges such as mass youth unemployment, rising inequality and the impact of climate change.

In the next 12 months, the world will be asked to agree ambitious and inspiring new development goals for the coming 15 years, along with a strategy for their implementation. It is critical that the goals be focused and measurable, and that they build on the momentum of the MDGs while embracing important emerging issues, with a global push to end extreme poverty by 2030.

The political will and financial investment required to achieve this agenda is unprecedented – but at the same time, there is greater wealth in the world than ever before. The question is how best to harness more of this wealth for a positive impact on people's lives.

Governments of every country – together with citizens, the private sector and others – must now agree a robust plan of action for financing the new Sustainable Development Goals (SDGs). In July 2015, the Third International Conference on Financing for Development will be held in Addis Ababa.³ This will be a critical opportunity to advance discussions on a strategic framework for development finance as we move towards the SDGs. Preparations for this conference are already well under way. At the same time, discussions are progressing in the OECD Development Assistance Committee (DAC) – the membership body for traditional aid donors, which monitors and reports on official development assistance (ODA) – to reform the definition, scope and targeting of ODA, and to agree a new system to measure development finance. This improved measurement system will need to fit with a global financial landscape that is changing rapidly, while ensuring that the poorest and most vulnerable countries continue to receive enough grant aid.

The future of development assistance is changing, but aid investments will continue to play a critical role in many countries. Global patterns of poverty are shifting. Currently, sub-Saharan Africa is home to around a third of the world's extreme poor, but by 2030 it is expected that the majority – perhaps the vast majority – will live in the region.⁴ Over half of sub-Saharan African countries are currently 'least developed countries' (LDCs), and per capita public expenditures across most of the region are still

extremely low – less than \$500 per year.⁵ LDCs remain highly dependent on aid, which accounts for over 70% of their external flows.⁶ Moreover, although all financial resources will be important, ODA is the only external flow explicitly aimed at promoting economic development and improving welfare, and it is also much less volatile than other kinds of financing, such as foreign direct investment (FDI).

At the same time, there is enormous potential in African countries for governments to generate more of their own resources for development, and eventually to move beyond dependence on aid. This includes both raising a greater amount of tax revenues and spending that money effectively, transparently and accountably to fight poverty. In the near term, aid can play a valuable role in this process by helping countries to reform their tax systems and budgeting practices.

ONE recognises that many financial flows beyond aid are crucial for developing countries, including private investment, remittances, trade and climate finance. Governments have a responsibility to promote these other flows and, as far as possible, to enhance their impact on poverty - including through coherent public policies. While tracking these myriad flows is beyond the scope of this report, ONE urges governments and other partners to spur a data revolution, including to improve the availability of robust, comparable data on all kinds of financial flows that can impact on development.

Against this backdrop, ONE's 2014 DATA Report: Fighting Poverty and Financing Africa's Future seeks to meet three objectives.

First, it continues its longstanding tradition of holding leaders to account and monitoring commitments on development finance. Using the latest official data, the report analyses trends in global and sub-Saharan African ODA, and tracks the European Union's commitment to achieve 0.7% ODA/gross national income (GNI) by 2015 and to provide half of all increases to Africa. The report includes profiles of the G7 countries and of Australia, holder of the G20 Presidency this year.

Secondly, in recognition of the DAC's process to refine and update the definition of ODA, the report includes detailed analysis of the composition and targeting of aid, and studies the implications for updating the current, outdated system that determines how concessional loans are counted as ODA.

Finally, the report follows on from last year's analysis of domestic resources, providing the latest assessment of progress by sub-Saharan African governments against spending commitments in health, agriculture and education.

2015 poses a historic opportunity. The decisions made next year will test our resolve to confront the economic, social and environmental challenges facing all of us. The recommendations in this report are not exhaustive, but by following them governments around the globe can demonstrate their determination to provide the financial resources required to end extreme poverty and create a fairer, more equal and more prosperous world.



Through strong community health networks, mass media education and support from the GAVI Alliance and other partners, Rwanda has achieved routine vaccine coverage of about 97% for diphtheria, tetanus and pertussis, also known as whooping cough. In 2009, it became one of the first African countries to introduce the pneumococcal conjugate vaccine into its routine immunisation programme; pneumococcal disease kills an estimated 800,000 children under five annually, most in the developing world.

Photo: Riccardo Gangale/GAVI

KEY FINDINGS

1. Official development assistance rebounded in 2013, but most donors have not made good on their aid commitments and are not channelling a high enough proportion of aid to the poorest countries.

ODA increased to \$131.2 billion in 2013 after a two-year decline, but donors' total aid last year represented only 0.29% of their collective GNI – a lower ratio than in 2009 and 2010, and far below the UN target of 0.7% ODA/GNI. Progress is very uneven across donors. Some countries, including the UK, Japan, Germany and Norway, increased their ODA significantly in 2013. The UK achieved 0.7% ODA/GNI

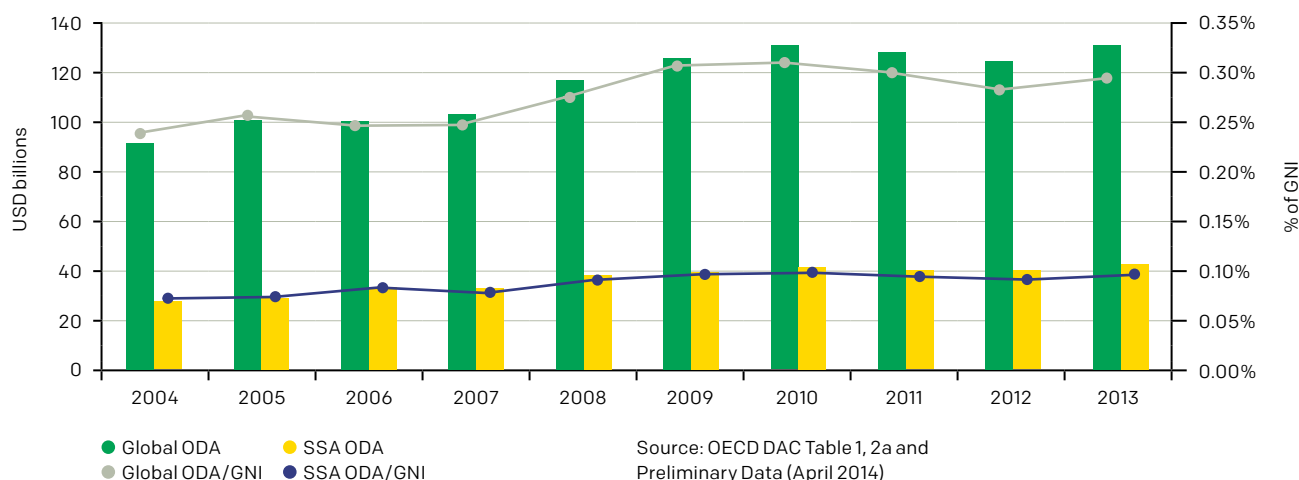
for the first time, and joined Norway, Sweden, Luxembourg and Denmark as the only DAC donors meeting that promise. On the other hand, some former development champions are slashing their aid budgets, including France, Canada, Australia and the Netherlands. Total EU aid bounced back by 3.3% to \$73.8 billion; however, the EU is still \$51.9 billion short of meeting its commitment of 0.7% (and based on current projections, its contribution will rise by only \$8.5 billion in 2015).

After a decline and then a freeze in aid to sub-Saharan Africa in 2011 and 2012, flows to the region increased in 2013 by an estimated 6.9%

to \$42.7 billion. However, findings from the DAC's 2014 survey on forward spending plans suggest that aid to LDCs, the large majority of which are in sub-Saharan Africa, is likely to decrease in the coming years.

As a whole, DAC donors spent just 0.09% of their collective GNI on aid to LDCs in 2012, well below the UN target of 0.15–0.20%. Only eight donor countries met the target. LDCs remain highly dependent on aid, which accounts for over 70% of their external flows and is equivalent, on average, to half of their tax revenues.⁷ Liberia demonstrates the continued need for donor support. Its economy is growing at 10% a

Figure 1: Global and Sub-Saharan African ODA (total net, excluding debt relief), 2004–13



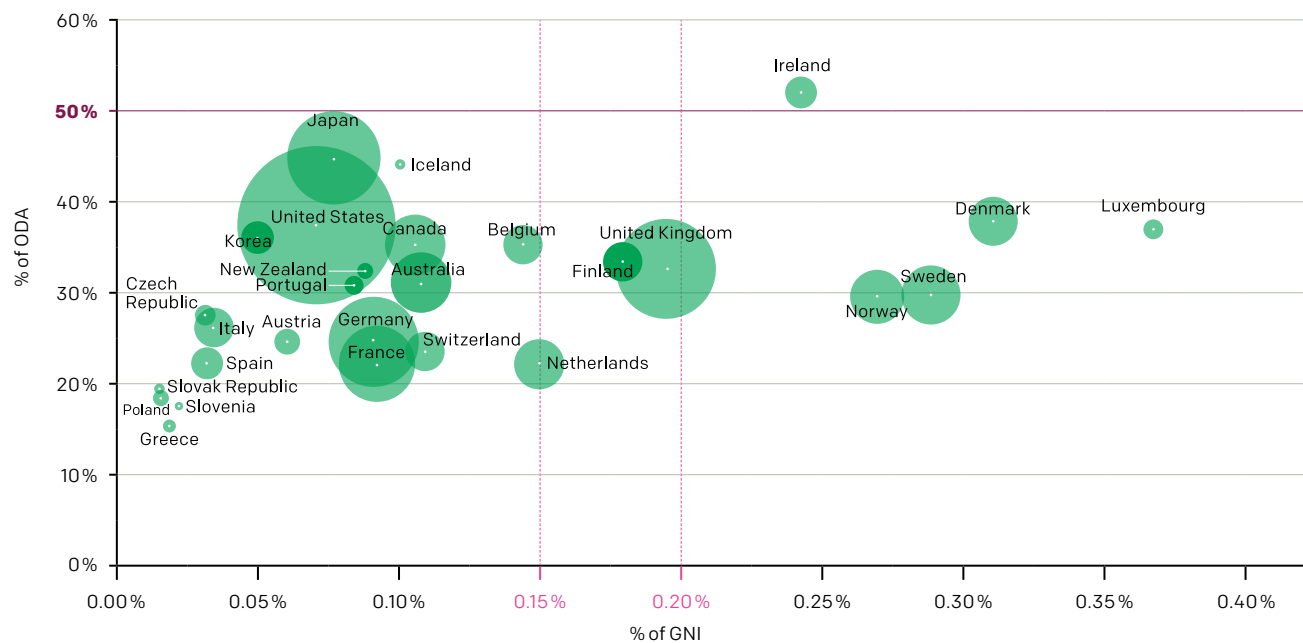
year, investment is booming and it achieved an impressive tax-to-GDP ratio of almost 29% in 2012, yet tax revenues at even this level amounted to just \$132 per capita. If all DAC donors had spent 0.20% of GNI on LDCs, this would have raised an additional \$50 billion in 2012 for the world's poorest and most vulnerable countries.

The UN target of 0.15–0.20% of GNI, however, is very dependent on a donor's overall ODA/GNI ratio and

does not necessarily represent a significant proportion of aid going to LDCs. A new target of 50% of all aid to be allocated to LDCs is now being called for, including by LDCs themselves in the Cotonou Agenda adopted in July 2014. Only one donor country (Ireland) allocated half of its total aid to LDCs in 2012, and nine donors allocated less than a quarter. If all DAC donor countries had allocated half of their aid to LDCs in 2012, this would have raised an additional \$22 billion for those countries. Given that DAC donors

allocated only 0.28% of their GNI to ODA in 2012, the 50% volume target to LDCs would have amounted to only 0.14% of their GNI. Therefore it would have been less ambitious than the existing 0.15–0.20% ODA/GNI target. However, in the long run, as donors progress towards meeting the 0.7% ODA/GNI target, the 50% volume target would mean significantly more ODA for LDCs than the existing GNI target, as it would imply 0.35% of GNI.

Figure 2: ODA to LDCs, as % of ODA and % of GNI, 2012



Source: OECD DAC Table 2a

Note: The size of the bubble represents the absolute volume of ODA to LDCs in 2012. ODA is total net, excluding debt relief. ONE does not count an estimated portion of regional and global unallocated ODA to LDCs.

RECOMMENDATIONS FOR POST-2015 FINANCING

- In the spirit of renewed global partnership for 2015, every donor government must explicitly recommit to the longstanding international commitment to deliver ODA at a level of at least 0.7% of GNI, and set out a concrete timetable to increase their aid budgets towards this goal as soon as possible.

Those countries that have met the 0.7% target should continue to lead by example, and encourage others to do so.

- Donors should better target their development assistance to the poorest and most vulnerable

countries by committing to channel at least half of their development assistance to these countries, in line with what LDCs themselves are calling for. The existing UN 0.15–0.20% ODA/GNI benchmark could be used as an interim target by some donors that are already close to meeting it.

2. The existing architecture for measuring development finance is not fit for purpose. Decisions made by countries over the coming months will have a real impact on the future of aid quality and credibility beyond 2015.

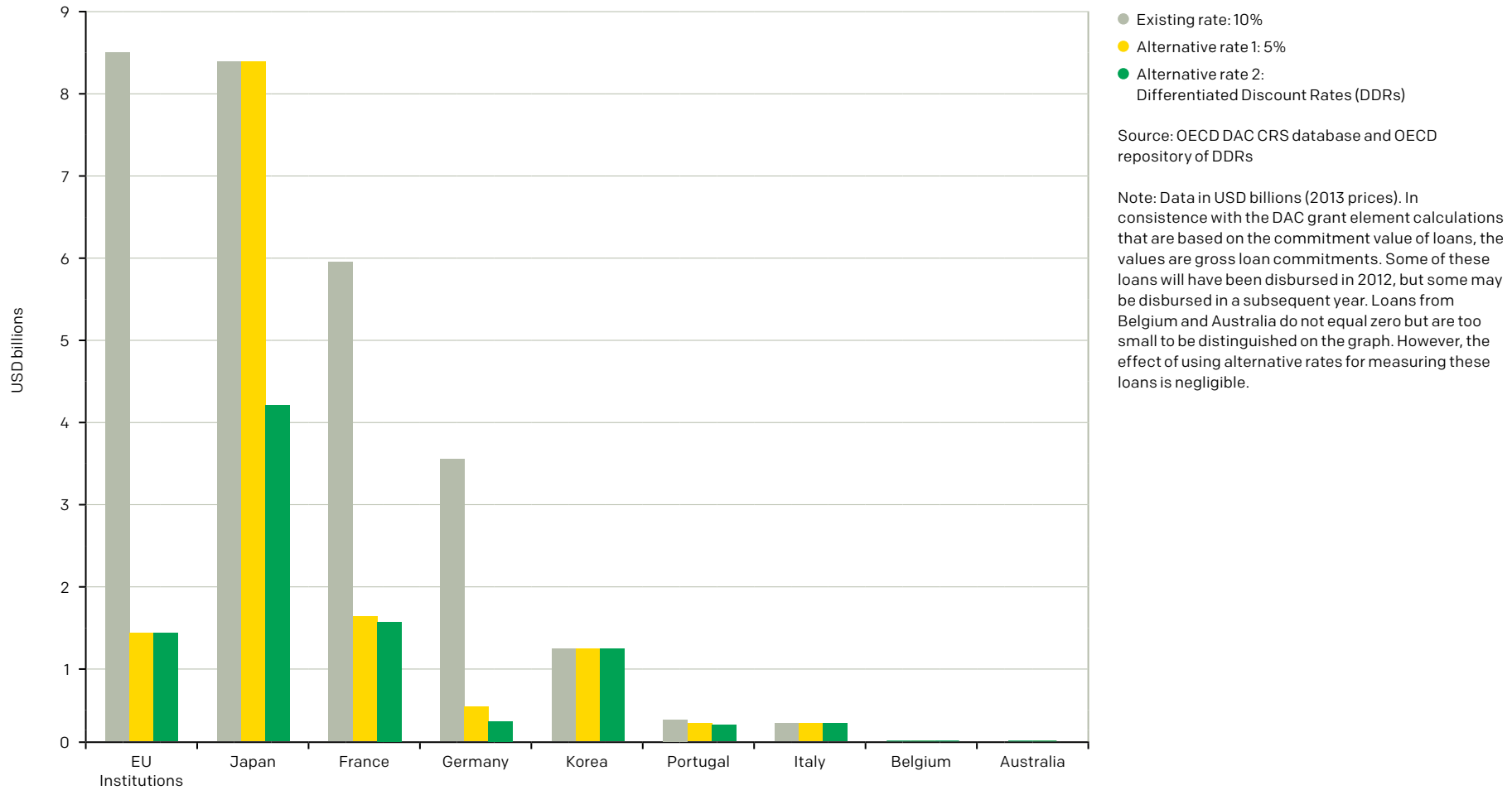
ODA includes a mix of different financial flows that are spent on development activities, within both developing (recipient) countries and donor countries. Between 2000 and 2012, 17% of total aid never left donor countries, amounting to \$250 billion that was attributed to debt relief and in-donor expenditures (such as refugee costs, student costs and unallocated administrative costs). While it can be argued that some of this in-donor spending benefits developing countries, it is not clear how much does, and there is a lack of transparency and consistency among donors

in reporting these costs. Reporting of debt relief is also problematic. Donors agreed in Monterrey in 2002 to provide debt relief without detracting from aid. However, in practice, they can report as aid the full value of the loan (including interest) at the point of debt forgiveness, leading to an 'artificial' boost to ODA. Donors should get credit for the allocations they make for bilateral debt cancellation in their annual budgets (for example, this could be included in the new proposed measure of 'total official support for development' (TOSD). But exactly how much should be counted is currently unclear, due to lack of transparency by donors in terms of budget provisions for debt cancellation.

ODA includes a mixture of grants and loans. Bilateral ODA loans from DAC countries increased by 34%

between 2006 and 2012, from \$10.6 billion to \$14.2 billion. A few major donors – France, Germany, Japan and the EU institutions – are driving these growth trends. Future projections suggest a continued increase in loans to middle-income countries, while core aid to LDCs is likely to continue to decrease. Since public spending is very low in LDCs, their ability to sustain debt is limited and other external flows are very volatile, grants remain the most appropriate instruments for these countries. In addition, analysis has revealed that a significant volume of loans is being extended to countries suffering from, or at high or moderate risk of, debt distress. The DAC should introduce a debt sustainability criterion for loans to count as ODA, which takes into account the recipient country's level of indebtedness and risk of distress, its income level and the purpose of the funding.

Figure 3: Value of ODA Loan Commitments Passing the 25% Grant Element Test under 10%, 5% and DDR-Based Reference Rates, 2012



The DAC is also reviewing its rules to determine whether and how much of a loan can count as ODA. The current rules only count loans as aid if they are made on sufficiently concessional, or generous, terms. The 'discount rate'⁸ used to determine whether or not a loan meets these terms is outdated. It allows more loans to count as aid, which effectively inflates the total value of aid. Currently, it is even possible for donors to report loans that they do not subsidise – and on which they even make a profit – as ODA. More

realistic discount rates have been proposed.⁹ If these rates had been in effect, the total value of loan commitments counting as aid in 2012 could have been between \$14.9 and \$19.1 billion less.

A second problem with the current system is that as long as its 'grant element' (the portion of the loan that the developing country does not have to pay back) meets a certain threshold, the full value of the loan qualifies as aid, whereas a loan whose grant element

falls even slightly below this threshold does not count at all. Dropping this arbitrary threshold, and counting only the grant component as ODA, would overcome this problem and would give some level of credit for all development loans. Nevertheless, all loans should have to fulfil a debt sustainability criterion (see above) to count as ODA.

RECOMMENDATIONS FOR POST-2015 FINANCING

- DAC member states should agree upon a redefined concept of ODA that (i) excludes debt relief; (ii) excludes the majority of in-donor costs; and (iii) includes only the grant component of concessional lending (calculated at a realistic discount rate).
- Concessional rules should be amended to meet today's market realities and to prevent the practice among some donors of providing unsubsidised loans as

ODA, through adopting more realistic discount rate(s) to calculate the concessional level of loans.

- To guide the choice of grant or loan, an adequate debt sustainability assessment should be made, which takes into account the recipient country's level of indebtedness and risk of distress, among other factors. The DAC should adopt a debt sustainability criterion, whereby loans must pass

this assessment in order to count as ODA. To avoid imposing a debt burden on LDCs, donors must publicly commit to the OECD DAC recommendation of providing at least 90% of their aid to LDCs in the form of grants. In addition, the international community should establish a fair, impartial and transparent international debt arbitration mechanism to ensure efficient restructuring of debts when a debt crisis arises.

3. Overall financial resources – including domestic government spending – in Africa are growing rapidly, but they vary widely between countries. Furthermore, data suggests that most African governments are not meeting their own commitments to allocate sufficient spending to key development sectors such as health, agriculture and education.

Total government expenditures across sub-Saharan Africa have almost tripled since 2004, to \$376 billion. However, this headline figure masks significant differences between countries. South Africa, Nigeria and Angola alone account for 63% of this total. Most countries still have a shockingly low level of per capita spending, owing to a limited tax base and the loss of potential government revenue through corruption and illicit financial flows. Four countries spent less than \$200 (Purchasing Power Parity (PPP)) per person in 2012 (less than the UN's minimum threshold to provide a basic package of public services), and a further 22 spent less than \$500 PPP. This compares with average spending by

OECD countries of more than \$15,000 per capita. These low levels of government spending demonstrate the continued need for external development assistance to help provide the most basic services. Even these figures can be misleading, since in many countries it is very unlikely that the poorest citizens actually receive this amount, given the inequitable distribution of public resources (for example, as in Equatorial Guinea).

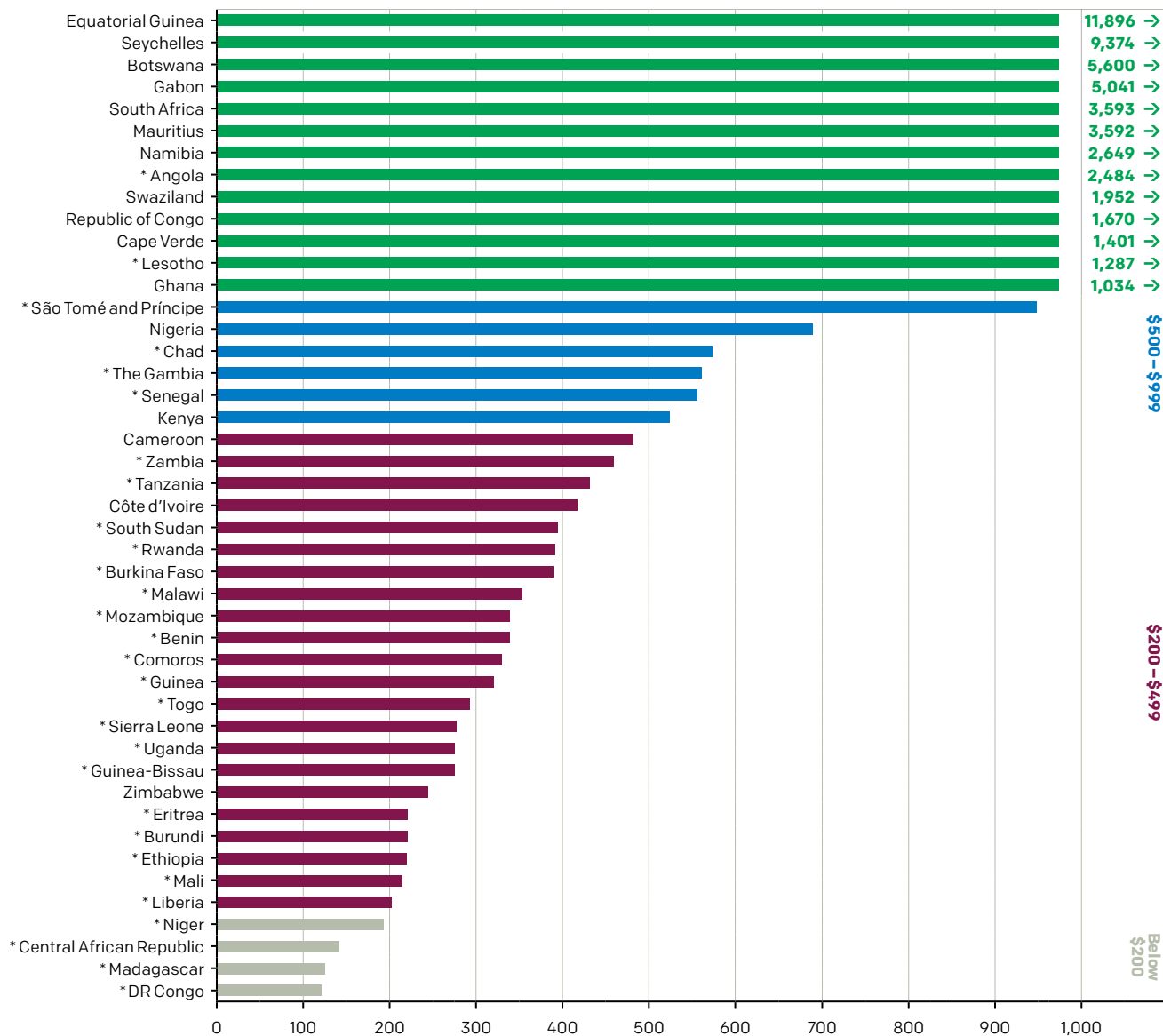
Furthermore, most African governments are not meeting their own commitments to allocate a specific proportion of their budgets to sectors that drive development outcomes for all citizens. It should also be noted that rigorous and comparable analysis on these commitments is hindered by poor budget data in most sub-Saharan African countries and a lack of agreement as to precisely which expenditures should count towards which sectoral targets.

Health: On average in 2010–12, only six of 43 countries in sub-Saharan Africa met the Abuja commitment to allocate 15% of their national budgets to health. Over these three years, an additional \$54.8 billion would have been mobilised for health had all countries met their promises. Thirteen countries achieved the minimum absolute per capita spending level on health (as estimated by the World Health Organization) of \$54, but 26 countries did not even meet half of this level.

Agriculture: On average in 2008–10, only eight of 41 countries in sub-Saharan Africa met the Maputo commitment to allocate 10% of their national budgets to agriculture. Over these three years, an additional \$18.5 billion would have been mobilised for agriculture had all countries met their promises.

Education: Between 2010 and 2013, only one of 33 countries in sub-Saharan Africa met the Dakar commitment to allocate 9% of GDP to education. Only 10 countries met the UNESCO target of allocating 20% of their national budgets to education.

Figure 4: Annual Government Spending Per Capita, 2012



Source: IMF World Economic Outlook (April 2014)

Note: Data is adjusted for international purchasing power parity (PPP) to provide a more relevant comparison between countries in terms of what these spending levels could achieve. Government expenditures per capita (PPP) are calculated using IMF data on GDP per capita (PPP) and expenditure as a percentage of GDP. The following countries are omitted from this analysis due to lack of data: Somalia and Sudan.

* Least Developed Countries

RECOMMENDATIONS FOR POST-2015 FINANCING

- African governments should broaden their tax base by designing progressive fiscal policies and strengthening public financial management and tax administration. They should reduce corruption, stem the tide of illicit financial flows that deprive citizens of valuable public resources and improve the governance of natural resources, including implementation of the Extractive Industries Transparency Initiative (EITI) standard to ensure the full public disclosure of payments to governments by oil, gas and mining companies.
- Donors should play their part by boosting the amount of development assistance dedicated to strengthening public financial management (which currently stands at around 1% of total ODA) and particularly domestic resource mobilisation (which is estimated at just 0.07% of total ODA). They should also lead by example in improving the transparency and predictability of their aid flows, and ensuring that as much as possible can be recorded on-budget in recipient countries.
- Donor countries also have significant opportunities to address their role in maintaining tax havens, attracting illicit financial flows and enabling tax evasion and corruption. This should be done through swiftly implementing legislation requiring oil, gas and mining firms to disclose payments to governments on a country-by-country and project-by-project basis, by pursuing international agreements on the automatic exchange of tax information between countries and by implementing public registers of the ownership of companies.
- African governments must meet their own commitments to prioritise spending on programmes and in sectors that make the largest contributions to poverty reduction, including health, agriculture and education. They should use 2015 as an opportunity to listen to the demands of their citizens, especially the extreme poor, and to make new and specific commitments – backed up by adequate budgetary resources – to address these needs. Budgeting should be participatory, outcome-based and aligned with national development and poverty reduction strategies.

4. Data availability and transparency is one of the biggest constraints facing the new development agenda. If the new SDGs are to succeed, it will take a 'data revolution' to improve the availability, transparency and quality of statistics on development financing, including domestic government spending, and the outcomes achieved by these resources.

The state of budget information across most of sub-Saharan Africa is extremely poor. Only two African countries (South Africa and Uganda) are rated well on the 2012 Open Budget Index. Even where governments do publish data on their spending, it is often outdated, difficult to access

or use, unreliable, insufficiently (or overwhelmingly) detailed, and insufficiently standardised to enable comparison between countries. We urgently need a much clearer picture of domestic government spending and how it is impacting people's lives.

Donors have improved the transparency of their aid by publishing information online, but progress has been uneven, and almost all donors are currently off track to meet their commitments to fully implement the International Aid Transparency Initiative (IATI) standard by 2015. Among emerging donors, some have committed to making more data available on their development assistance, but currently there is little standardised, comparable information available.

Citizens, and their representatives in parliaments and civil society organisations, require access to accurate, comprehensive and timely data so that they can follow the money and hold governments to account. Taxpayers in donor countries have a right to know how their money is being used and the results it is achieving. In developing countries, it is crucial for governments to track how much money is flowing into and out of public accounts, and for people to know what resources are supposed to be flowing into their local hospitals, clinics and schools. Furthermore, data on financial inputs should also be linked to performance data so that governments themselves, and the citizens they serve, can track resources to results.

RECOMMENDATIONS FOR POST-2015 FINANCING

- Donors should meet their commitment and fully publish to the IATI standard by 2015. Emerging donors should also improve the transparency of their development cooperation by publishing detailed, comprehensive and timely data on their development assistance. In line with their

responsibility as major providers of development assistance, they should also considering publishing to IATI.

- African governments should systematically publish – in accessible, useful and machine-readable formats

– accurate, timely and (as far as possible) standardised and comparable revenue and expenditure data, including – at a minimum – both approved/enacted budgets and year-end reports. Governments should also link financial data to performance data so that citizens can track resources to results.

OFFICES

BERLIN

Luisenstraße 40
10117 Berlin
Germany

BRUSSELS

3rd Floor
Rue d'Idalie 9–13
1050 Brussels
Belgium

JOHANNESBURG

Silverstream Office Park
Main Building, 1st Floor
10 Muswell Road
Bryanston 2191
Johannesburg
South Africa

LONDON

151 Wardour Street
London, W1F 8WE
United Kingdom

NEW YORK

49 W. 27th Street
Floor 3
New York, NY 10005
United States

PARIS

47 rue du Montparnasse
75014 Paris
France

WASHINGTON, DC

1400 Eye Street NW
Suite 600
Washington, DC 20005
United States

ONE.ORG