

Crafting a new rationale for ODA in a changing development finance environment

An Input into the FfD4 Elements Paper

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INTRODUCTION

Over an 18-month period, ODI is convening four dialogues that aim to reimagine Northern donorship in the 21st century, considering policy approaches, institutional functions and operational modalities that center around the delivery of Official Development Assistance (ODA).

In our first dialogue held on October 7-8 in London, ODI gathered 30 representatives of several Northern donor agencies, multilateral organisations, research institutions, analysts and southern NGOs for a two-day dialogue asking: *Why should a Northern donor exist today? Do we need a new narrative for Northern development cooperation and what should it be?*

We believe some of the inputs and conclusions of this discussion can be helpful for the Fourth International Conference on Financing for Development (FfD4) as it grapples with questions around the norms and principles that could anchor a new global financing framework for international development cooperation (Item 1 and 2c in the call for inputs for the Elements paper).

This input should not be considered an institutional position held by ODI nor the group of attendees to the Donors in a Post-aid World (dPAW) first dialogue. While heavily informed by these conversations, this note reflects the opinions of the authors alone.

KEY TAKE-AWAYS

Today, ODA is expected to deliver on multiple agendas for an ever-widening group of stakeholders. Countering China and stemming migration, averting climate catastrophe to safeguard future generations, leveraging public resource to grow private investment and offering reparations for past injustices all inform claims on the purpose and rationale of development cooperation today. As demands grow for concessional public finance, donors lack the scaffolding of a single causal 'story' that they once had (Gulrajani and Aly, 2024). In addition, in a world where the lines between 'developed' and 'developing' countries are increasingly blurred; where geopolitical polarisation between North and South is building historic levels of distrust; and amid a rejection of a donor-recipient model of aid-induced development as charity, the traditional rationale for ODA has reached its limits.

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Over the course of a two-day dialogue, we heard from nearly every donor representative present that they were “soul-searching”, having lost ground both downstream (with recipients) and upstream (with their politicians), especially amid funding cuts and elections in many of their countries.

While we set out to craft a new rationale for ODA, it became clear that ODA’s purpose cannot be determined in isolation of wider development finance flows. At the same time, the scarcity of concessional ODA requires clarity about its unique value proposition. Thus, three potential policy rationales emerged to explain the purpose of development finance in the 21st century, within which ODA’s role can then be determined.



- A. Helping the most marginalised in the least developed and most fragile countries**
- B. Providing global public goods, in particular climate, for mutual benefit of all**
- C. Transforming structures of injustice, in particular North-South economic relations, to address the historical causes of inequality.**

Each of these rationales are further detailed in a dPAW dialogue summary, which will shortly be made public.

While these rationales are not mutually exclusive and could overlap, they represent distinct ways of thinking about the most important purpose development finance should seek to serve. But what they mean for ODA specifically depends on the application of these rationales in different timeframes and scenarios.

Overall, there was clear consensus that ODA could not be the only—or even primary—source of financing for structural transformation or global public goods, given the vast gap between the \$3 trillion required for Global Public Goods (GPGs) and the \$224 billion currently available in ODA (G20 Independent Expert Group, 2023; OECD, 2024). Thus, the viability of these policy rationales depends on where ODA sits within a broader public finance capital stack.

We have identified the following principles to assess the feasibility and guide the application of these rationales over the short, medium and long-term.

	Short-Term	Medium-Term	Long-Term
	“ODA only”	“ODA & Beyond”	“Beyond ODA”
	<i>If this ODA is all the money we have, how do we use it?</i>	<i>What is the purpose of ODA when it is placed within a broader capital stack of tax reform, DRM, and private sector capital?</i>	<i>In a context of broader structural change, how would ODA evolve?</i>
 	Climate and humanitarian crises prioritised	Back to basics, with GPGs financed through a separate tool	Transition to bigger visions around Global Public Investment and transforming historical systems of injustice

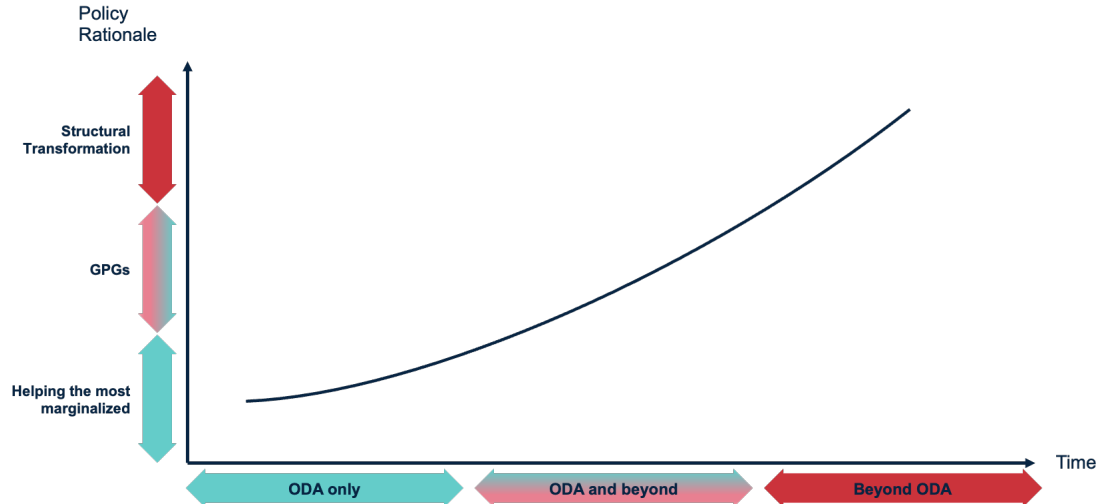
As things stand, climate action and humanitarian crises are already crowding out traditional poverty reduction spending. Many donors described development funds as already being “cannibalised” by climate action, and ODA being used in all kinds of ways it wasn’t originally intended for—hence the need for a clear rationale. As one participant put it: “We can’t answer what should ODA be going forward until we answer where the GPG money is coming from... If we can’t find that extra money, then it has to come from ODA.”

Short-term - “ODA only”: In the short-term, increases in concessional public finance are unlikely, given the fiscal belt-tightening and the political mood among most major Northern donors. Given ODA’s modest size, participants generally agreed that it is not the right tool to tackle GPGs. Rather, they advocated for a “back to basics” approach in which ODA is treated as a precious resource, re-focused on its original purpose and definition—to help the least marginalised in the least developed and most fragile countries—and allocated where it can add the most value. However, we recognise the tendency to draw on ODA to deliver broader goals is likely to continue. If we must work within existing financing levels, we advocate maintaining the integrity of the ODA regime by drawing a clearer distinction between ODA and GPG investments. This would prevent double counting and allow for an honest assessment of spending towards each development finance objective. In the absence of more funding, a necessary corollary of greater measurement integrity may be a decrease in the amount of ODA.

Medium-term - “ODA and Beyond”: As and when more development finance becomes available (via mobilizing the private sector, imposing maritime levies, taxing corporations, tapping into defense budgets, tackling illicit flows, reforming tax policy and/or supporting developing countries in domestic resource mobilization), ODA could then be increased. While remaining focused on supporting the development of the least developed and most fragile states, ODA – in this scenario – would be positioned within a much larger capital stack. This much larger pot of money would then address development and poverty reduction, as well as wider climate change, pandemic preparedness, migration and other GPGs. In this medium-term vision, ODA and GPG financing should also continue to be kept analytically distinct. However, within the boundaries of its original purpose, ODA could nonetheless grow its orientation towards climate adaptation and building resilience and be spent in ways that transform systems rather than maintain the status quo. In other words, even modest ODA spending could be used to seed the more transformative long-term visions below.

Long-term - “Beyond ODA”: Eventually, we see a sunset of the concept of ODA, and a transition towards a new modality for the transfer of international public finance akin to Global Public Investment or something similar. This vision entails a much more fundamental restructuring of aid as something temporary that countries “graduate” from to a permanent expectation of investment in the global commons within a more equitable international system where global majority countries are no longer at the bottom of the global economic hierarchy.

This tripartite approach would see the emphasis on different policy rationales shift over time as ODA’s role evolves within a wider landscape of development finance.



RECOMMENDATIONS FOR FfD4

Based on this first dialogue, we propose the following recommendations for the Fourth International Conference on Financing for Development in 2025:

1. Acknowledge the challenge around the current expectations of ODA; signal the need for a new rationale for development cooperation; and recognise that we are in a different era than that of the 0.7% target.
2. Reinforce the importance of ODA's original purpose; what makes it unique and valuable as a financing flow.
3. Recognize that ODA is only one of several development finance instruments and advance the conversation around the need for additional funding from new sources and actors to finance GPGs. This must also analytically distinguish ODA from GPG financing with clear markers.
4. Consider how to ensure that climate and development are mutually supportive objectives for development finance. ODA as currently conceived cannot afford to ignore climate adaptation and resiliency. As one participant stated, *"What kind of message would we give if ODA doesn't deal with climate at all? The public sees it as one pot."* But equally, the South will not accept a shift towards climate if Northern obligations to 0.7 are not met and climate finance (mitigation, in particular) are not additional to ODA.
5. Acknowledge the longer-term need to sunset the flow of ODA in favour of a new financing mechanism for GPGs, but only once Northern donors are seen to have made a concerted effort to meet their financing obligations.
6. Do **not** seek to set new unachievable targets. As a representative of one multilateral organisation put it: "New ideas are seen as a means to evade obligations." A Northern donor concurred: "The worst thing we can do is put a figure that three years down the line only creates more frustration and more pressure on ODA and our traditional instruments that will by then probably still be unreformed."