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MAKING SENSE OF '2015' – AND BEYOND

Richard Manning

Vienna, 1814. Napoleon has been banished to Elba, and Europe needs to be re-made. The Austrian Foreign Minister, Prince Metternich, takes the initiative. He calls the key decision makers of the day to gather in glittering Vienna for a Congress which will, for good or ill, determine the political direction of Europe for decades. In June 1815, the day after Napoleon's final defeat at Waterloo, the Treaty of Vienna is signed.

New York, 2014. Two hundred years later, key decision makers, this time not of Europe but of the entire planet, are working to put in place a framework that can also drive the direction of progress, this time towards greater sustainability, less inequality and the end of absolute destitution. Can a worthwhile framework be agreed in 2015? And what sort of contribution might Austria make this time?

WHAT LESSONS CAN WE LEARN FROM THE MILLENNIUM DEVELOPMENT GOALS?

The Millennium Development Goals (MDGs), whose target date of 2015[1] has in effect set the scene for the current debate, were established by a less than transparent process (Hulme 2009). The core set was put together under UN Secretary-General Kofi Annan's leadership through technical discussions involving agencies such as the United Nations Development Programme, the World Bank and the OECD, supported by a strong political campaign by a group of Development Ministers from European countries. There was no great buy-in from civil society, from developing country governments, or even from many donor countries, despite the fact that the goals contained a clear reflection of the International Development Goals promulgated for 2015 by the Development Assistance Committee (DAC) of OECD in its report 'Shaping the Twenty-first Century' of 1996. Academic comment was far from positive either (e.g. Saith 2006). And although Annan was responding to a request from the UN General Assembly for a 'Road Map' to accompany the Millennium Declaration, the MDGs were in the end merely 'noted' by the General Assembly and not formally adopted.

Why would goals and targets set in a backroom process have any real-world influence, not least as basic data on most of them was extremely inadequate?

As we approach 2015, we can see that the MDGs have proved to be more resilient and influential than one would have imagined even a few years ago. Progress against them has been a key reference for campaigners across the world; donors have given them increasing weight[2]; a huge surge in data-gathering has given us a far better, if still far from perfect, understanding of what is really happening[3]; and most importantly of all, more and more governments in poorer countries have measured their own progress against them and targeted improvements in the indicators that they include. The need to have more sophisticated measures of progress than just Gross National Income was given additional weight by the Commission set up by former French President Nicholas Sarkozy which reported in September 2009[4], and the OECD now enables citizens to quiz their own countries' data in a way that reflects the priorities of the citizen. As a result, the idea of having some kind of 'international results framework' for a further period has become one with wide appeal, even if ideas on its content still vary considerably.

The Millennium Development Goals had several weaknesses. For example, they were laid down from New York, several targets were poorly thought through (e.g. universal primary education without any measure of educational attainment), the targets for the environmental goal were particularly weak, key areas like infrastructure, governance or security were omitted altogether, most of the goals and targets applied only to developing countries, and the ones that would have some implications for richer countries (under Goal 8) had no hard dates for their achievement. However, they had one key strength: the structure, while incorporating over twenty targets and some sixty indicators, contained only eight actual goals, all of a nature that could be readily explained to the general public.

MOVING TOWARDS A NEW FRAMEWORK FOR SUSTAINABLE DEVELOPMENT AND THE ELIMINATION OF EXTREME POVERTY

The High Level Panel established by UN Secretary General Ban Ki-moon produced a report last year that produced a widely-praised vision, based on five 'transformative shifts': 'Leave no-one behind'; put sustainable development at the core; transform economies for jobs and inclusive growth; build peace, and effective, open and accountable institutions for all; and forge a new global partnership (HLP 2013). It argued for maintaining the Goal-Target-Indicator structure, applying the Goals to all countries but inviting countries to set their own targets against them, ensuring that indicators were relevant to areas for target-setting for each Goal, and incorporating missing dimensions such as good governance and peace and stable and peaceful societies while keeping the number of Goals to 12. The report also reached out to the parallel process put in place at the Rio+20 conference in 2012, which aims to develop goals which covered the economic, social and environmental dimensions of sustainable development. It is highly desirable to bring together the strategies for eliminating extreme poverty with those that address sustainability, rather than to have two competing international frameworks.

At this point, it is too early to be confident that the work in hand will succeed. The far more inclusive process adopted this time round contains its own challenges. The extension of goals and targets to developed countries such as Austria requires a different level of scrutiny by the authorities of such countries, whereas few official bodies in rich countries other than aid agencies and Foreign Ministries paid much attention to the development of the MDGs. The scope for stalemate on individual items is considerable. The danger of an excessive number of Goals and Targets is also obvious.

I admit however that I have gone from being quite sceptical of the value of an overarching international results framework (Manning 2009) to a belief that, properly designed, such a framework can modestly encourage outcomes around fairer and more sustainable development and the elimination of absolute poverty that are surely in the interests of all of us. Somehow or other, we need to find a way of enabling what will soon be 8-9 billion people with rising overall standards of living to thrive together on a planet with finite resources, and where national borders provide no defence against climate change, insecurity, or infectious diseases and little enough against the pressures of migration driven by the still vast disparities in incomes. Austria, at the heart of Europe, knows well the importance of effective collaboration to address the massive problems bequeathed by the Cold War, including the break-up of multi-ethnic states in Central and Eastern Europe and the Balkans. A more sustainable pattern of development and a gradual closing of gross inequalities in living standards are surely much in the interests of all of us. And a framework against which citizens can assess progress or lack of it against targets that our own states can set through a normal political process should be a very useful way of encouraging action to achieve such outcomes.

THE IMPORTANCE OF THE POLICY ENVIRONMENT

The most important contribution to achieving more sustainable and inequality-reducing outcomes will be the set of policies adopted by each country, and the international policy environment within which countries can work together. The conditions that encourage continued broadly-based and sustainable economic growth will need to be maintained and developed. This means everything from improving standards of education to good access for trade and improved international arrangements for the fair taxation of multinational enterprises. The EU, as the world's largest economic grouping, has a particularly important responsibility to play its part in securing such enabling conditions, and Austria can and should work with its EU partners to ensure that EU policies take full account of their wider impact on the world.

THE RESOURCE NEEDS

However, whatever framework may be agreed, and however good the set of international and national policies, it seems inevitable that a continued flow of concessional resources will be needed if it is to be achieved. This is for two reasons.

First, while domestic taxation will continue to be the main source of revenue for all governments (and by far the dominant one in middle-income as in rich countries), and exports, foreign investment and remittances major sources of foreign exchange, these will be far from adequate for the progress needed in the poorer countries if extreme poverty and deprivation are to be tackled effectively. For low-income countries, domestic taxation at any reasonable level will continue for a generation or more to fall far short of what is required to enable these countries to deliver basic services such as education and health, let alone to invest adequately in their infrastructure needs, or play their part in reducing the risks to all of us of state failure or of uncontrolled risks of pandemics. In 2010, low income countries were able to raise on average only some 11.5 % of their GNI (gross national income) in tax, not surprising given their deep poverty. While there is scope to enhance investment from richer countries (about 3.5 % of GNI on average), and while income from remittances (about 7 %) is also very significant, international aid still accounted for over 9.5 % of GNI of these countries as a group and will continue to be essential to progress (Select Committee on International Development 2014).

Secondly, markets alone typically under-provide public goods, and many of the outcomes that will be crucial to a more sustainable future for us all – from bio-security to lower carbon power generation – will need continued and quite probably enhanced provision of concessional resources.

If the world's leaders do manage to endorse collectively a real vision for the progress of the planet for the next 15 years or so, this vision has therefore to be backed with resources, and some of these will still need to come from the world's richer taxpayers. And while rapidly-growing middle-income countries can and no doubt will make rising contributions, the richer countries, including Austria, will need to continue to make a serious investment if this progress is to happen.

INTERNATIONAL AID AFTER THE BANKING CRISIS

We are now five years or more into the huge shifts in economic growth and fiscal balances caused by the banking crisis of 2008-2009. While a certain measure of economic recovery is at last evident across most OECD countries, including the Eurozone, the debt profile of most EU and OECD governments remains considerably worse than before the crisis, implying that the pressures on public expenditure will continue to be felt for some years to come. In previous such episodes, one consequence has been a significant cut in international aid programmes – for example in Finland after the collapse of the Soviet Union, or in Japan during the late 1990s and early 2000s as its economy stagnated. Where are we this time round?

The OECD publishes each year an excellent survey of its members' intentions for the size and distribution of Country Programmable Aid (CPA), which, as its name suggests, covers those parts of official development assistance (ODA) – a little less than 60 % – that are programmed to be delivered to particular countries, and may be considered the core of these flows[5]. The latest report contains data running to 2016. It suggests that CPA will continue to run at around current levels of nearly USD 100 billion a year.

This is consistent with the fact that three large Replenishments of international funds were completed in late 2013 (the soft funds of the African Development Bank and the World Bank, and the Global Fund to AIDS, TB and Malaria), in none of which did aggregate donor funds decline, though growth in cash terms was in some cases very modest, and in the case of IDA a new approach to fund-raising was pioneered in the form of accepting some contributions in the form of loans rather than of grants. Also in 2013, the EU decided on what is in practice more or less level funding of its aid programmes (both from the Commission budget and from the European Development Fund) to 2020.

So we appear to have come to the end of the significant rise in aid over the first decade of this century. The EU, having missed its target of ODA reaching 0.56 % of the collective GNI of EU-15 members in 2010 and a minimum of 0.51 % from each individual member (actual EU-15 performance was 0.43 %), is nowhere near on track for the further target of reaching 0.7 % across the entire EU by 2015)[6]. On the other hand, despite significant cuts in some countries overall (within the EU the cuts in some 'Northern' members, such as the Netherlands and Denmark, being more surprising than those of the countries hardest hit by the Eurozone crisis) aid levels worldwide appear to be rather stable in aggregate. This would still mean that 'traditional' aid will decline in relation to the growing economies of developing countries, and may pose a challenge to financing major new initiatives, for example in the area of global public goods. It also means that the effective use of aid funds will be more than ever important. Meanwhile South-South cooperation, especially from China, is at record levels, even if still well below aid from 'Western' donors.

DEFINING 'AID'

Against this background an important debate is taking place on how to define international flows. The existing definition of ODA has been criticised both for covering too much and also too little. Too much, say some, because it includes many transactions that do not involve a flow across borders (from refugee costs in host countries to the administrative costs of managing aid), or transactions where measurements have not kept up to date with changes in the real world (so that loans can be scored as 'concessional' even if their rates of interest are not subsidised at all), to say nothing of the reporting conventions for debt relief, of which more below. Too little, say others, because they arguably give insufficient credit for risks assumed by the official sector (for example guarantees that are not called) or draw distinctions that seem arbitrary (e.g. some costs may be counted as ODA when involving local security forces in delivering assistance that cannot be counted when similar costs are incurred by the security forces of the donor country).

It is encouraging that the Development Assistance Committee of the OECD has grasped this nettle. It will be important that its work both ensures a tightly-defined and credible set of transactions that can reasonably be considered 'Official Development Assistance' and improves the reporting of development-oriented flows that fall outside this definition. Any outcome that is seen as 'moving the goalposts' with a view to enabling rich countries to present their international transactions in a more flattering light at zero cost will rightly be contested. The DAC needs to maintain the credibility of its core statistical work, not least since it is in the privileged but delicate position of being allowed de facto to define what should count towards a high-profile target set by another body – the United Nations.

In my view, the test to be applied to the DAC process at the end of the day is: will its outcome incentivise the kind of aid that will most benefit recipient countries? I have written elsewhere about the importance of a credible definition of concessionality, which is one essential building block (Financial Times, 10 April 2013).

One other area where there is a clear problem over incentives is debt relief. At present, the forgiveness of debt on official transactions (which do not need to be Official Development Assistance, but can include, for example export credits) often gives the country that provided such credits a large boost to its ODA numbers when debt is forgiven, even if (as is often the case) the debt had not been serviced for years. In addition, the rules enable the creditor country to report as ODA not just the principal and interest foregone, but also the penalty interest that accrues from failure to repay on time. [For example, according to the Center for Global Development, over 80 % of the extraordinary amount of USD 2.2 billion that Austria is potentially able to claim as debt relief to Sudan is accounted for by penalty interest. (Leo 2009)] This amount does not reflect either the value to the debtor country or the cost to the creditor country of cancelling the debt. Nor does it equate to a real flow of resources.

This becomes a problem in particular when it encourages creditors to use predicted debt cancellations to reduce other forms of aid, knowing that their overall ODA performance may still look reasonable, even if their own real effort may be declining. Even worse, one or two DAC members – including Austria, it seems, despite a clear recommendation to the contrary in the DAC Peer Review of 2009 – have gamed the Paris Club and DAC arrangements by stretching out the period over which debt forgiveness takes "budgetary effect" , apparently in order to enhance an otherwise declining aid performance. This is about as perverse an incentive as one could imagine, and the DAC needs to address this problem as a priority item in its discussions.

In the post-2015 world, two other things need to happen. First, a better framework is needed for assessing concessional official support for a wider variety of outcomes (especially of global public goods relevant to whatever new framework is put in place) than is provided by the ODA statistic. Second, we urgently need a common reporting frame for all official concessional transfers, whatever the country of origin. The UN needs to provide such a framework, drawing on best practice, including not least the work of the DAC, and ensure that all members report against it.

IMPLICATIONS FOR AUSTRIA'S CONTRIBUTION TO A FAIRER AND MORE SUSTAINABLE WORLD IN 2030

As a relatively small but well-off European country with a proud history and a strong sense of identity, what sort of strategy might Austria wish to pursue with a view to a fairer and more sustainable future?

First, of particular relevance if the concept of goals applying to all countries (perhaps for 2030) is accepted internationally, Austria is well-placed to demonstrate how the richer countries can re-shape their economies to improve sustainability and minimise negative effects on planetary boundaries of every kind.

Second, Austria can play a leading role within the EU in encouraging similar policies at EU level, both to ensure a level playing field for Austrian enterprises within the EU, and to encourage EU policies that provide an environment that will in particular encourage progress in the poorer and more vulnerable countries of Austria's neighbourhood and more globally.

Third, I suggest that Austria needs to reflect on its overall strategy as a contributor to international concessional flows. Here, Austria faces a number of important challenges that have been underlined in successive Peer Reviews by the OECD Development Assistance Committee, but have not as yet been addressed. It is interesting to compare Austria with Belgium and Denmark, EU members with similar levels of income per head and similar size of overall economy (Belgium a little larger than Austria, Denmark a little smaller).

- First, Austria's overall aid effort is modest. In 2010, the year when every EU 15 country was supposed to reach at least 0.51 % of GNI, a goal to which Austria had agreed in 2005, Austria's own performance was just 0.32 %: Belgium recorded 0.64 % and Denmark 0.9 %. Of course, the banking crisis had exploded in 2008, but the shortfall says something about Austria's priorities.

- Second, Austria's ODA is to quite an unusual extent dominated by the write-off of debt. Over the period 2003-2012, debt relief accounted for an astonishing 31.5 % of all Austria's ODA, compared to a DAC average of 8.5 %. Austrian taxpayers can reasonably ask why Austria should have lent proportionately so much more than its peers to countries whose creditworthiness was then shown to be extremely limited.

- Third, as noted above, Austria schedules the recorded write off of some large debt cancellations over a period of years, and forecasts its ODA accordingly in its commendably clear Three Year Development Policy Programmes. For example, the Programme for 2009-2011 assumed that €266 million would be written off in 2011, and that Austria's ODA would be 0.37 % in that year. The actual amount written off was in fact €22 million and Austria's ODA was only 0.27 % of GNI. The current (2013-2015) Programme forecasts much larger debt cancellation numbers going forward: well over €500 million in each year, presumably anticipating an early Paris Club decision on forgiveness of debt to Sudan and some other HIPC latecomers, but with Austria spreading its own debt forgiveness over several years. No doubt, such forecasts are a convenient point of reference in setting budgets for aid operations in a tough fiscal climate, though this does suggest that Austria's aid recipients in effect pay the price of over-optimistic forecasts using an inappropriate methodology. The 2013 outcome reinforces the point: instead of the huge jump to 0.43 % predicted in the Programme, the outcome was in fact a mere 0.28 % (include actual figure when published), as no major debt cancellations were in fact agreed for that year.

- Fourth, while Austria continues to play a constructive role in the Replenishments of the Multilateral Development Banks (where Austria typically provides contributions that fully reflect its economic weight, thus contributing just a little less than Belgium and more than Denmark), this is not matched by an adequate cooperation budget in the Ministry of Foreign Affairs. As a result, Austria's Country Programmable Aid (the most visible part of a donor's programmes) is amazingly small. In 2011, it amounted to a mere USD 84 million, compared to USD 405 million for Belgium and USD 1143 million for Denmark. Indeed, Austria's CPA is far below that of Luxembourg (USD 127 million in 2011). A budget of this size severely limits what Austria can aspire to as a bilateral donor.

- Finally, within whatever resources are available, there seems a case for a more strategic approach in at least two areas. First, multilateral contributions outside the MDBs (what priorities among the UN agencies; why is Austria the only EU-15 donor to have provided no support the Global Fund for AIDS, TB and Malaria?). Second, bilateral cooperation, where despite an increased focus forced by straitened means there still appears to be some uncertainty over where Austria wishes to build productive relationships with individual countries or regions over the longer term.

Metternich's vision, though extremely influential, is widely considered to have been too defensive and conservative, and to have paid too little attention to the major forces that would explode to Austria's detriment in 1848. Two hundred years later, Austria can surely aspire to a broader and more forward-looking vision to how it can play a role in securing a sustainable and fairer future for all in a way that better represents its place in the world and the creative skills of its people. The '2015 moment' could be a real opportunity for a political debate on what this should be.

1 The target for improving the lives of slum dwellers has a date of 2020, exceptionally. The gender target was to eliminate disparity "in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015".

2 For example, Japan's ODA Charter of 2003, which sets the framework for Japanese aid, does not mention the MDGs at all, whereas its 2012 White Paper gives them prominence.

3 The percentage of countries and territories for which most (16 to 22) of the MDGs indicators series are present at least two points in time rose from 2 to 83 percent in a decade (Giovannini 2013).

4 Accessed at http://www.stiglitz-sen-fitoussi.fr/en/index.htm

5 This is not to deny the importance of some flows excluded from this statistic such as humanitarian aid or research on development issues, tropical diseases etc.

6 This is despite the creditable efforts of a few members, including Sweden, which has consistently maintained its ODA at over 0.9 % of GNI with a firm target of 1.0 %, Luxembourg, which has maintained its 0.7 % performance, and the UK, which reached it last year for the first time in its history.

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