Expert Reference Group on Development Finance

Final Conclusions and Recommendations

In light of a changing and rapidly broadening development finance landscape, and as a contribution to the international community’s reflection on the post-2015 development framework, the Development Assistance Committee (DAC) High Level Meeting (HLM) held in London on 4-5 December 2012 decided to assess the need to modernise its measurement framework for development finance by:

a. Elaborating a proposal for a new measure of Total Official Support for Development (TOSD);
b. Exploring ways of representing both “donor effort” and “recipient benefit” of development finance; and

c. Investigating whether the above suggest the need to modernise the Official Development Assistance (ODA) concept.

To provide advice in implementing this HLM mandate, an independent Expert Reference Group (ERG) was constituted to help shape the analytical work done by the DAC Secretariat. The group, comprising 15 senior level experts (ref. Annex 1), met three times on 3-4 October 2013, 23-24 January 2014 and 26-27 June 2014.

The experts discussed strategic and crosscutting issues arising from the mandate and provided feedback on proposals and recommendations generated by the Secretariat. Expert opinions converged on many issues and differed on others. All views and arguments are summarised in reports of the meetings to inform DAC decision making. The ERG collectively endorses the following recommendations and conclusions, which include references to points on which there remained differences of view within the group.

The experts thank the OECD-DAC and its Secretariat for the opportunity to openly discuss and share their views. The group encourages DAC members and the wider development community to be innovative and continue their efforts to enhance the provision of external finance for the benefit of developing countries. Greater visibility on the full range of resources mobilised and a modernised measurement framework for development finance, based on an inclusive dialogue on its purpose, is considered an important component to help guide international efforts to fund the post-2015 sustainable development agenda as being defined by the UN, while strengthening the existing commitment to provide 0.7% of GNI as Official Development Assistance (ODA), in quantitative as well as qualitative terms.

General

1. **There is a need to modernise the DAC measurement framework to ensure its continued relevance in an evolving development landscape.** Experts acknowledge the critical role that the DAC’s compilation of statistics on the annual provision of ODA by its members has played to date in helping to mobilize official funding for development and promoting transparency and accountability in the provision of such assistance by DAC members, including in regard to their adherence to key
commitments such as those to provide 0.7% of GNI as ODA and 0.15% to 0.20% of GNI as ODA to Least Developed Countries (LDCs). At the same time, experts feel that the system needs to be modernised in order to reflect the changes in flows, actors and instruments on the development landscape and to remain fit for purpose in a post-2015 world.

2. **The overarching narrative for a new measurement framework should be aligned with and supportive of the attainment of the post-2015 sustainable development goals (SDGs),** the pursuit of which will require a huge mobilization of resources for all developing and emerging market economies (whether classified as low or middle income). Support for global public goods and development enablers, including climate change financing and peace and security expenditures, will have to be accounted for in accordance with the post-2015 sustainable development agenda. Retaining of a strong developmental focus for ODA was considered an essential core principle in order to ensure additionality and avoid any dilution of existing commitments.

3. **There is a need to expand the scope of measurement.** A new modernised measurement system should look beyond ODA, and include a more representative and comprehensive definition of financing for development. More visibility needs to be given to the catalytic role of ODA and instruments developed alongside ODA to better capture the role of innovative and risk-mitigating instruments with the potential to generate far higher volumes of finance from different sources than traditional aid, including from the private sector, which is the main provider of financial flows to emerging market economies and plays an increasing role in finance for developing countries.

4. **A modernised measurement system should seek to incentivise wider resource mobilisation and make development spending by provider countries more effective.** In particular, it should encourage effective financial management of scarce resources, spur greater innovation to generate higher and more effective financial flows to developing countries, and give substance to a dialogue on accountability, development effectiveness and results.

5. **An easily communicated political narrative is needed for ODA at the centre of these larger, common efforts to mobilise sustainable development finance and global public goods provision.** The DAC should engage its partners, led by the United Nations, in a dialogue on the purpose of ODA and such broader efforts, respectively, within the post-2015 framework of SDGs. Some members of the ERG suggested a redefinition of the purpose of ODA, with a focus on the poorest 20% of the global population and/or a focus on the poorest and most vulnerable countries, while others preferred to keep a wider definition in order to reflect the broader scope of the post-2015 agenda and the increasing challenges of sustainable development which affects LDCs and Middle Income Countries (MICs) alike. Everyone argued for a more catalytic role for official resources in mobilizing other development actors for poverty reduction and sustainable development.

6. **Measuring and incentivising additional financial flows is a necessary but not sufficient prerequisite to achieve development results that ultimately translate into recipient benefits.** A modernised measurement system on amounts and types of development finance needs to be complemented by additional work on results measurement, with a view of maximising the impact of all resources mobilised. Existing internationally-agreed upon principles to ensure effectiveness of development co-operation, namely ownership, focus on results, partnerships and transparency and shared responsibility, should continue to guide new forms of development finance.
7. **A precondition for a transparent and representative measure of development finance is improved data on a wider range of resources.** Provider countries need to agree on a common standard for the publication of data on non-ODA official flows, recognising the need for both institutional coordination in data collection, the tools for improved measurement, and adequate transparency given the low level of accessibility and availability of some of the data. This does not only apply to the domestic level but also to regional and international levels.

8. **The new measurement framework should be inclusive** and designed in formal consultations with representative groupings of recipient countries, including MICs, non-DAC providers and civil society. Possibilities to move towards a shared reporting standard that can also be used by or aligned with the frameworks used by non-DAC providers and recipient countries are encouraged.

**Total Official Support for Development (TOSD)**

9. **Experts considered that the full range of other resources for development that are being provided and leveraged outside ODA should be fully accounted for in a transparent manner in order to recognise the scale of non-ODA contributions being made to development and global public goods, including those for peace and security.** Not all of those resources would necessarily count towards a new target or measure for TOSD.

10. **Experts saw significant merits in establishing a broader measure for TOSD to complement and include ODA by including various development-related official flows not captured in the ODA concept.** This broader measure will include gross flows of all measures which qualify as ODA. TOSD might usefully be further expanded to include official outlays in support of the post-2015 SDGs, once they have been formally specified. It would be important in developing such an expanded measure that agreement between provider and partner countries is reached on what kinds of outlays constitute support of the post-2015 SDGs.

11. **The new broader measure should be limited to measuring official flows/outlays in the provision of development finance.** While all official efforts to mobilise private flows should be captured in TOSD, inclusive of ODA, the actual mobilised private flows should be accounted for in a separate category. TOSD should be exclusively focused on official efforts in order to retain comparable intergovernmental accountability as ODA and, therefore, should not include flows of private origin, such as remittances or foreign direct investment. It should also not include tax concessions, whose purpose and impact are too mixed to be included in a development measure.

12. **The new broader measure needs to be given prominence but not to the detriment of ODA. Countries should still maintain the commitment to provide 0.7% of GNI as ODA.** It requires a clear narrative, distinct from but inclusive of ODA (DAC members that have done so should reaffirm their commitment to provide 0.7% of GNI as ODA), and a palatable name to gain traction, recognizing the need for a Global Resource Initiative for Development in support of the post-2015 agenda.

**Resource inflows in developing countries**

13. **There is a need to represent and quantify in a transparent manner the wide array of resource inflows to developing countries.** Such a measure needs to reflect the increased diversity...
of providers and instruments of development finance. It would complement ODA and TOSD which primarily reflect a provider’s perspective. Data on such resources, drawn from various international institutions, would also form the basis for assessing the effectiveness and quality of finance available at country level and the degree to which these respond to countries’ needs. It also provides a basis for assessing debt sustainability. While supportive of this approach, a number of experts noted the conceptual difficulties of adding different types of flows (e.g. FDI, grants and export credits) into a single aggregate, given the fundamental heterogeneity of these various flows.

**ODA modernisation**

14. **A post-2015 measurement system should include a modernised ODA concept that better promotes wider resource mobilisation.** ODA needs to capture the provider effort involved in all financial instruments. Most experts found it particularly important to include non-grant instruments in ODA while others conditioned their inclusion to the requirement that it can be done in a simple and easily justifiable manner. Ways for appropriately valuing and thus reflecting non-grant instruments in ODA need to be further explored.

15. **Sufficient financing needs to be secured for countries where ODA continues to be a major source of external financing.** Therefore, DAC members need to reverse the trend of declining ODA levels to LDCs. This should be encouraged at the very least by re-emphasising the existing UN commitment to allocate at least 0.15% to 0.20% of GNI as ODA to LDCs. Experts favoured a strengthened commitment by setting an additional target in relation to national ODA figures, e.g. by targeting at least 50% of a provider’s ODA to LDCs.

16. **Views differed among experts on the merits of modifying the eligibility requirements for DAC List of ODA Recipients.** Some experts favoured a shortening of the list, e.g. by aligning to graduation policies of international development institutions, as a means to securing more funds directed at LDCs and in recognition of the fact that some MICs have themselves access to international financial markets and domestic resources. But the majority of experts opted for largely maintaining the present list, as the access of MICs to international financial markets differs widely in this country group and often is limited in scope and volatile. Furthermore they hinted at the fact that the resources available to MICs are neither sufficient to address the poverty challenge (the majority of poor people live in MICs) nor to address the sustainability challenge (where MICs will play a decisive role).

17. **ODA reporting on concessional loans should move from a flow to a grant equivalent basis as this constitutes the best method for calculating provider effort in an instrument-neutral way (i.e. whether provided through loans or grants).**

18. **Experts consider it paramount to agree on a common definition of concessional loans as ODA.** Experts stressed the important role which concessional lending can play in responding to the financing needs of developing countries and in bridging the gap between pure grants and market funds. There needs to be a clear and credible measure of concessionality which allows determining the grant equivalent of a loan and thus the extent to which it can count as ODA. Incentives should be set in a manner that ensures resource flows to all countries, including LDCs and others in greatest need.
Most experts favour the adoption of a non-risk-differentiated discount rate for calculating the grant equivalent of a loan while, at the same time, recognising the need to factor in the risk of default in determining donor effort. Without jeopardizing the achieved level and required future increases of concessional lending, experts recommend to revise ODA's current discount rate of 10% in order to better reflect actual market conditions. Experts recognized that risk absorption can reflect an equally important donor effort as the provision of interest subsidies. A majority of experts nevertheless opted against a risk-differentiated discount rate, which would factor in the full risk of default ex-ante, and proposed to account for risk mainly ex-post, to the extent it actually materializes in the form of arrears or debt relief. Some experts expressed concern that an ex-post accounting for risk will negatively affect incentives to provide concessional loans and result in an overall reduced level of funding. Experts agreed that the provision of loans should be guided by the debt sustainability framework of the IMF/World Bank, with a view to ensuring that debt burdens in developing countries remain sustainable, thereby limiting the risk of possible future defaults.

The use by donors of non-loan financial instruments such as guarantees to catalyse private sector investment in developing countries that would otherwise have not occurred makes an important contribution to development. Calculating the donor burden associated with the use of these instruments requires trading-off the merits of conceptual rigor versus ease of use and public justifiability. Experts' views on how best to estimate the donor effort in the deployment of non-loan financial instruments were divided, with some noting that a standardised provisioning methodology was feasible and justifiable, and others favouring simpler approaches.

Finally, experts encourage the DAC to pursue its efforts to streamline the reporting of in-donor expenditures counted as ODA to improve accountability, transparency and comparability. This would help reinforce the credibility of the ODA measure.
## Annex 1

### MEMBERS OF THE EXPERT REFERENCE GROUP

*(in alphabetical order)*

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ANNEX 2

Terms of Reference for a DAC Expert Reference Group (ERG)

Background

In order to contribute to the international community’s reflection on the post-2015 development framework, the DAC High Level Meeting (HLM) held in London on 4-5 December 2012 mandated the DAC Secretariat to work on:

d. Elaborating a proposal for a new measure of total official support for development;

e. Explore ways of representing both “donor effort” and “recipient benefit” of development finance; and

f. Investigate whether any resulting new measures of external development finance suggest the need to modernise the ODA concept.

To implement this HLM mandate, among other initiatives, the DAC Secretariat decided to constitute an independent Expert Reference Group (ERG) comprising recognised developmental finance experts to provide advice in implementing the HLM mandate. The group, ideally comprising up to ten individuals with required expertise, will help shape the analytical work. It will provide a wider perspective and feedback on proposals and recommendations generated by the Secretariat and proposed consultancy work. The group will also consider and make recommendations on strategic and crosscutting issues arising from the mandate’s implementation, and advise the Secretariat in drawing up final recommendations to the DAC regarding the future form and design of a new measure of total official support for development.

A mid-term progress report is expected to be provided to the DAC at a High Level Meeting in December 2013. By the end of 2014, the DAC should have before it a proposal for a comprehensive framework for reporting on development finance, including an internationally-accepted definition of external development finance, a new statistical measure of total official support for development, representation of data on both “donor effort” and “recipient benefit” of development finance, and a revised ODA concept. The work should also include a landscape of the different sources and flows of development finance, mapping out the relationship of flows and types of finance to each other, and of the conditions, contexts and sequencing and leveraging of these flows, with a view of maximising their impact.

Scope

The ERG will advise and make recommendations on strategic issues arising from the implementation of the HLM mandate. These issues will include, among others:

1. What should a comprehensive framework for measuring and monitoring external development finance look like?

2. What should be included in a broader measure of external development finance?

3. What should a measure of total official support for development capture?

4. Should we only account for financial flows and budgetary expenditures with a development “motivation” as opposed to a development “impact”?


5. Should a measure of national support for development (i.e. covering public and private flows from a provider country to developing countries) be elaborated?

6. How should provider budgetary effort be better captured?

7. How should the ODA definition and its criteria (official origin, recipient eligibility, promotion of economic development/welfare, concessional in character) be revised?

8. What should a new definition of concessionality include, in view of the HLM’s request that DAC members “establish, as soon as possible, and at the latest by 2015, a clear, quantitative definition of “concessional in character”, in line with prevailing financial market conditions”.

9. How should new forms of development finance (e.g. non-concessional lending, loan and investment guarantees, equity and quasi-equity stakes) be captured in a comprehensive framework for measuring and monitoring external development finance post-2015?

10. Similarly, what additional measures would provide a more inclusive picture of the new development landscape – beyond the measures suggested above to better monitor “provider effort” and “recipient benefit”?

11. Could new measures aim to assess forms of South-South co-operation using different metrics, such as technical co-operation expressed in person-years? Could another measure aim to capture the extent of developing country domestic resources allocated to development?

12. What are the implications of accounting for support for global public goods and other development “enablers” (e.g. prevention of contagious diseases, biodiversity protection, peace and security, and open and fair global trade)?

13. What is the role of quantitative targets in mobilising resources for development? Do targets help mobilise resources for development? Does the setting of targets and monitoring progress against them help raise political interest for development?

14. Should the international community aim for development financing to be “specialised” according to country categories and their varying needs? Do certain countries need a specific type of financing as opposed to others? And would such a specialisation bring about a stronger focus on results and ultimately a greater development impact?

As the Secretariat’s analytical work progresses, new areas and questions will be integrated into the DAC's overall reflection and brought to the attention of the Group.