THE FUTURE OF DEVELOPMENT FINANCE: Modernising Measures and Instruments

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Outline


2. Modernisation package: the OECD DAC 2014 High Level Meeting agreement

3. OECD contribution to the third Conference on Financing for Development
The SDG era: The financial architecture of sources and instruments is more complex

Sustainable development as the main objective

- DAC donor agencies (concessional & concessional bilateral finance)
- Private philanthropy (foundations & NGOs)
- Multilateral agencies incl. regional & Arab organisations (concessional & non-concessional finance, & investments)
- Non-DAC sovereign providers (e.g. BRICS & MINT countries, other South-South cooperation providers)
- Export credit institutions
- DFIs (non-concessional loans & Investments)
- Private actors/investors (FDI & other private flows at market terms)

Other objectives

The blue area illustrates the cross-border transfers to developing countries.
Sources of external finance beyond ODA are becoming more prominent.
A Statistical Framework that is “Fit for Purpose” in the Post-2015 Development Finance Context

The OECD DAC statistical system should:

- Promote transparency and accountability of development finance – access to statistics is essential for an accountable post-2015 development framework.
- Carry the right incentive to maximise resources mobilisation, their smart allocation and catalytic use.
- Promote international standards for measuring & monitoring of development finance.
Historical decision to modernise the OECD DAC framework: Outcomes of the 2014 DAC HLM

- Modernise the ODA measure
- Increase targeting of resources to countries most in need (LICs, LDCs, LLDCs, SIDS, conflict afflicted and fragile states)
- Mobilise more private finance for development
- Develop a statistical measure tailored to the SDG framework: Total Official Support for Sustainable Development (TOSSD)
A. Modernising ODA

CONCESSIONALITY and REPORTING ON LOANS IN ODA

- New measurement system where only the grant equivalent of ODA loans (differentiation of discount rates and thresholds by income group):
  - Allows better comparison between loans and grants.
  - A clear, quantifiable measure of concessionality, that is tighter than what existed before.
  - Ensures access to ODA loans on better terms and conditions than ever before as it incentivises concessionality.
  - Safeguards established to ensure ODA debt sustainability.
## A. Before and after: ODA loans

<table>
<thead>
<tr>
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<th>BEFORE: FULL FACE VALUE</th>
<th>AFTER: ONLY THE GRANT EQUIVALENT OF A LOAN</th>
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<tbody>
<tr>
<td><strong>Grant Element Thresholds</strong></td>
<td>• 25%</td>
<td>• 45% for LDCs and other LICs</td>
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<td></td>
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<td>• 15% for LMICs</td>
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<td>• 10% for UMICs</td>
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<tr>
<td><strong>Discount Rates</strong></td>
<td>• 10%</td>
<td>• 5% base (current IMF discount rate) + adjustment factors of</td>
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<td>• Used for assessing the concessionality of a loan</td>
<td>○ 4% for LDCs and other LICs</td>
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<td>○ 2% for LMICs</td>
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<td>○ 1% for UMICs</td>
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<td>• Used for both assessing the concessionality of a loan (does it meet the threshold?) and for calculating its ODA grant equivalent or the concessional portion of the loan.</td>
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<tr>
<td><strong>Measurement System</strong></td>
<td>• Positive ODA when disbursed, negative ODA when repaid</td>
<td>• Grant equivalent of loan disbursements (grant element multiplied by amount disbursed).</td>
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<td></td>
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<td>• Repayment of past loans is not subtracted from ODA but will continue to be collected and published.</td>
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Reverse declining trends of ODA to LDCs and improve targeting to countries most in need (LDCs, LICs, SIDS, LLDCs and fragile states)

- Enhance monitoring of members’ performance – individually through DAC peer reviews and collectively at Senior Level Meetings (compendium of measures).
- Strengthen the empirical and analytical basis for better decision-making about smart ODA allocations.
C. Valorising the use of private sector instruments

Valorise and incentivise official sector use of instruments with a leveraging effect by:

• Capturing the budgetary effort associated with using market-like instruments (e.g. equity, risk mitigation instruments) in ODA.

• Setting an international standard to measure the mobilisation effect of official interventions and collecting data on amounts mobilised in DAC statistics.
D. Total Official support for Sustainable Development (TOSSD)

A new comprehensive statistical measure that captures the diversity of resource flows in support of sustainable development.

- Complements – **and does not replace** – ODA and will include concessional and non-concessional financing and capture all financial instruments
- Cover activities that promote sustainable development, including contributions to GPG
- Capture international public finance and public schemes for mobilising private investments
- Relevant for any provider of development finance, including private actors that take part in blended investment schemes

Ultimate features can only be determined once the post-2015 agenda has been agreed and ongoing consultation with stakeholders beyond the DAC.
D. Dakar-Diamniadio Toll Highway project (blended finance)

- **Concessional loan**
  - Agence Francaise pour le developpement (AFD)
  - African Development Fund

- **Grant**
  - World Bank (IDA)

- **Syndicated loan (non-concessional)**
  - World Bank (IFC)
  - African Development Bank
  - Commercial Bank

- Already captured in the current system
- To be captured in the new system
D. Solar panel (blended finance)

- Concessional loan
  - World Bank (IDA)

- Non-concessional loan
  - Private investor
  - Guarantee
  - Asian Development Bank

- Already captured in the current system
- To be captured in the new system
Conference on Financing for Development (13-16 July, Addis Ababa)

More and better aid, more and better investments and more and better tax (AIT)

ODA is core and should be better targeted and used more catalytically (quality of aid is essential)

Need for the right incentives to further unlock private investments (frameworks, private sector instruments, measurement – e.g. TOSSD)

Record statistics, enhance countries engagement in the international tax agenda (BEPS, AEOI, illicit financial flows) and respond to capacity needs
Thank you!

For more information please visit our website at:
http://www.oecd.org/dac/financing-development.htm
Additional slides (Recent trends and facts)
A better incentive system for lending to poor countries

Maximum interest rates for ODA loans

Under the new system: maximum interest rates for LDCs and other LICs
Spotlight on ODA to LDCs

**Distribution of Net ODA disbursements incl. imputed multilateral ODA to LDCs (2013)**

- Afghanistan, 11%
- Myanmar, 9%
- Ethiopia, 7%
- Tanzania, 7%
- Bangladesh, 6%
- Mali, 3%
- Democratic Republic of the Congo, 5%
- South Sudan, 3%
- Uganda, 3%
- Mozambique, 5%

**Number of priority partnerships in LDCs**

- Mozambique
- Ethiopia
- Afghanistan
- Uganda
- Mali
- Tanzania
- Burkina Faso
- Bangladesh
- South Sudan
- Niger
- Nepal
- Zambia
- Senegal
- Rwanda
- Myanmar
- Benin
- Cambodia
- Timor-Leste
- Somalia
- Malawi
- Laos
- Burundi
- Yemen
- Sudan
- Solomon Islands
- Mauritania
- Haiti
- Bhutan
- Vanuatu
- Tuvalu
- Togo
- Sao Tome & Principe
- Madagascar
- Lesotho
- Guinea-Bissau
- Guinea
- Equatorial Guinea
- Djibouti
- Comoros
- Angola
- Gambia
- Eritrea

OECD: Better Policies for Better Lives
Spotlight on ODA to LDCs: DAC Members’ Performance

DAC countries’ net ODA to LDCs as % of GNI (1960-2013)

DAC countries’ net ODA to LDCs as % of GNI (2013)

* Countries with stars have reached the UN ODA target of 0.7% of GNI.
Total gross concessional flows to ACP countries and other countries

Gross bilateral ODA and multilateral outflows from DAC members and multilaterals
Composition of total gross concessional flows to ACP countries

Gross bilateral ODA and multilateral outflows from DAC members and multilaterals

[Graph showing the composition of gross concessional flows from 2000 to 2013, with grants, loans, and grant share trends over time.]
Gross concessional flows to ACP countries: Top 20 donors

2013 Gross bilateral ODA and multilateral outflows from DAC members and multilaterals
Gross concessional flows to ACP countries: Top 20 ACP countries

2013 Gross bilateral ODA and multilateral outflows from DAC members and multilaterals