

DEVELOPMENT CO-OPERATION DIRECTORATE
DEVELOPMENT ASSISTANCE COMMITTEENEW DIRECTIONS IN DAC MEASUREMENT AND MONITORING OF EXTERNAL
DEVELOPMENT FINANCEDAC High Level Meeting, 4 (p.m.) and 5 (a.m.) December 2012
London, United Kingdom

The DAC discussed this paper on 30 October and 12 November. After further written comments, it is now presented for DISCUSSION under Item 6 of the Draft Annotated HLM Agenda [DCD/DAC/A(2012)15/REV2].

The paper explains that new measures and statistical categories are required to capture the full spectrum of financial instruments and facilitate the analysis of funding from all sources. The ODA concept may also need review in the light of opposing critiques: first, that it is too broad, allowing the inclusion of items that do not involve cross-border transfers of resources or budgetary effort; second, that it is not broad enough, omitting or undercounting some official and effective efforts in favour of development.

Recognising the importance of internationally agreed definitions and reporting, especially in discussions of the post-2015 development financing architecture, the paper suggests how the DAC can build on its strengths in measuring and monitoring external development finance. Paragraph 18 suggests specific exploratory work to revise methods of recording development co-operation and broader external development finance post 2015, to be conducted in collaboration with other interested international agencies. HLM Delegates are invited to provide strategic directions for this work. A first report on the results, including possible proposals, should be ready for consideration at a possible HLM at the end of 2013, or as soon as possible thereafter.

Contact: Julia Benn - Tel: +33 (0)1 45 24 90 39 - E-mail: julia.benn@oecd.org

JT03331203

Complete document available on OLIS in its original format

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

TABLE OF CONTENTS

A.	The evolving financing landscape and the DAC contribution.....	3
B.	Post-2015 goals and financing needs.....	4
C.	Measurement and monitoring of external development finance	6
	Is there a need to modernise the ODA concept?	6
	Need to complement the measure of donor effort with a measure of total external development finance.....	7
	New targets?	9
D.	How to ensure efficient use of financial resources?	9

NEW DIRECTIONS IN DAC MEASUREMENT AND MONITORING OF EXTERNAL DEVELOPMENT FINANCE

A. The evolving financing landscape and the DAC contribution

1. The development community is preparing for a major stocktaking in 2015 of progress made against the MDGs on the one hand, and support provided by the donor community in terms of financing (achievement of ODA targets) on the other.

2. At the same time, work has started to define the post-2015 development agenda. The first report by the UN System Task Team recommends maintaining a framework similar to the MDGs (concrete goals, targets and indicators) but calls for a more holistic approach. A new global partnership for development, comprising official and private actors, DAC members and other providers of development cooperation, is being put in place. With regard to financing, the Monterrey Consensus of 2002 established the primacy of domestic resources and the enabling environment in fostering growth and development, while emphasising the role of ODA as a complement and catalyst for other sources of financing for development. Since Monterrey, discussions on external resources for development have increasingly paid attention to broad development finance, rather than focusing on ODA.

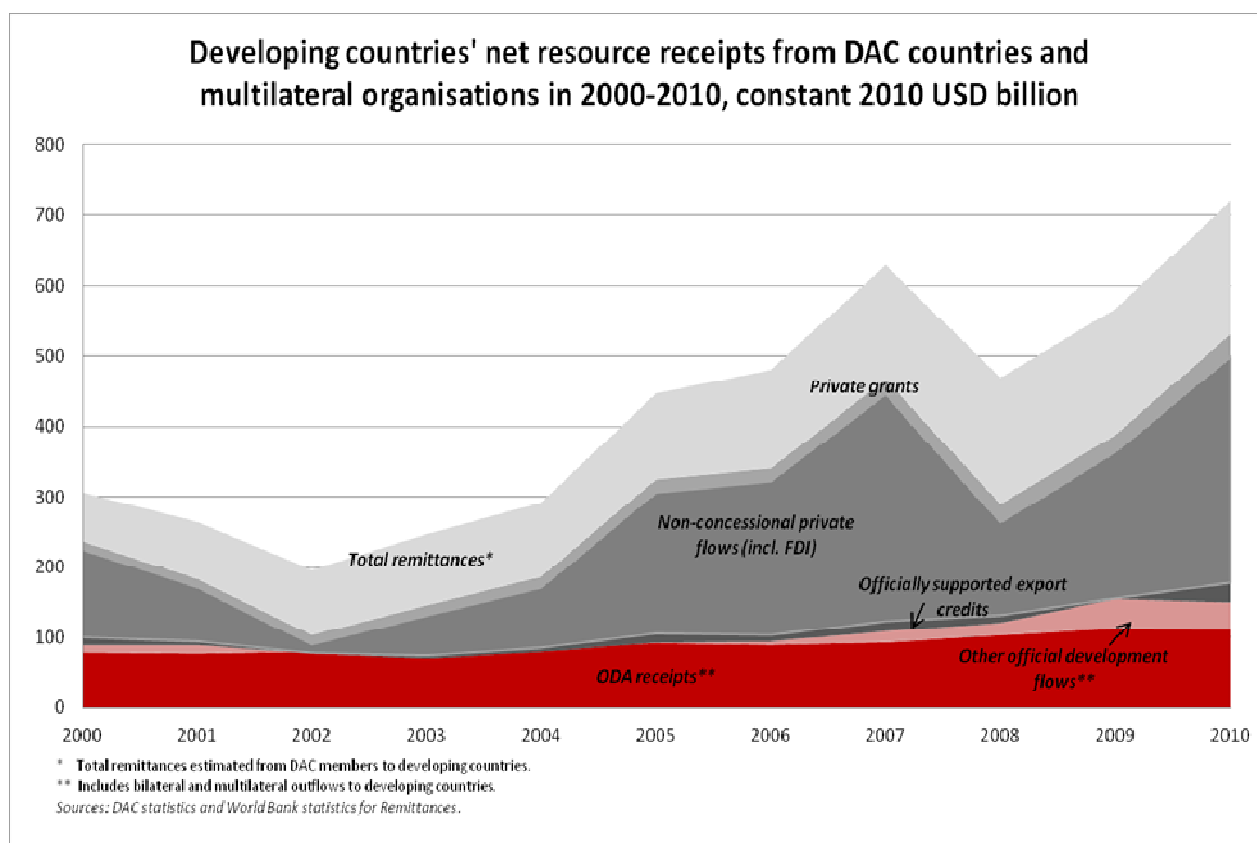
3. Significant changes in the financing landscape have already taken place. While ODA has steadily increased (by 63 percent in real terms over the last decade), its share has declined vis-à-vis other flows. The share of ODA in total net resource receipts by developing countries (excluding remittances) fell from around 50% in the 1960s to 20% in recent years. Figure 1 illustrates the trend over the last decade by comparing concessional and non-concessional external flows with export credits, foreign direct investment (FDI) and other private flows, including the estimated remittances. The economic crisis of the last few years had an impact, particularly on FDI, though the rising trend has since resumed. Yet many DAC countries still face an urgent need for fiscal consolidation that will place great pressure on their ODA budgets. Several members' ODA targets are unlikely to be met.

4. It is clear that addressing the challenges of the post-2015 development agenda requires a comprehensive approach to financing that emphasises the role of the private sector in economic growth, the use of market-based financial instruments, and the need to engage with non-DAC providers of development co-operation (e.g. Arab donors and South-South Co-operation providers, notably from major emerging economies) in discussions on development finance. Another equally important aim is to ensure an effective "division of labour" between different sources of financing, making sure that scarce development co-operation resources are channelled first to where they are most needed, but also to where they can make the most difference, e.g. in catalysing foreign or domestic private investment, or improving domestic revenue collection, or in financing public policies (security, education, health policies for instance) that others flows such as FDI or remittances will not finance

5. The changes in the financing landscape also suggest a need to modernise the system for measuring and reporting on external development finance. New measures and statistical categories are required to capture the full spectrum of financial instruments and facilitate the analysis of funding from all sources. At the same time, the ODA concept may need to be re-examined in the light of two somewhat opposing critiques: first, that it is too broad, allowing the inclusion of items that do not involve cross-border transfers of resources and budgetary effort; second, that it is not broad enough, omitting or undercounting some official and effective efforts in favour of development. **This paper makes suggestions for DAC work in this area in the next few years. The underlying rationale is that internationally agreed definitions and reporting are important elements of accountability, and that**

the DAC is well-placed to take a lead in modernising the measuring and monitoring of external development finance and make a useful contribution to the global discussions on the post-2015 development finance framework. HLM Delegates are invited to provide strategic directions for this work.

Figure 1. External resource flows to developing countries since 2000



B. Post-2015 goals and financing needs

6. Several processes to define new post-2015 development goals have been launched within the UN system.¹ While discussions are still at an early stage, they currently suggest a framework similar to the MDGs, with concrete goals, targets and indicators. Some goals will be **sector-specific** and call for specific actions for vulnerable population groups and countries (e.g. quality education for all, reduced mortality and morbidity, adequate nutrition for all, universal access to clean water and sanitation, gender equality, decent work and productive employment). Others are likely to address **global public goods or pre-conditions for development** (e.g. addressing climate concerns and building resilience to natural hazards; protecting biodiversity; and ensuring freedom from violence, conflict and abuse). **Eradicating poverty and hunger** is, however, bound to remain the overarching objective of this process. These three sets of goals are bound to overlap to a considerable extent, which may pose measurement challenges.

1. See DCD/DAC(2012)47/REV1

7. The establishment of new Development Goals can be expected to be followed by various costing exercises similar to those undertaken for the MDGs. Indeed, the UN has already agreed to “establish an intergovernmental process” that will “assess financing needs” and lead to a “development financing strategy to facilitate the mobilisation of resources and their effective use in achieving sustainable development objectives”.² This will entail work to estimate the share of the costs that would need to be met from external finance. Specific challenges in relation to development co-operation may include identifying the countries and sectors where it is most needed or where it could be used as a catalyst for other flows, or in support of domestic resource mobilisation (see Box 1), so as to increase total financing for development. It will be particularly important to assess the costs of poverty eradication and consider how to strike a balance between policies to promote growth and development financing strategies to ensure the pro-poor nature of that growth.

8. Significant work to estimate future financing needs to meet the new goals is likely to proceed in the UN, Bretton Woods institutions, civil society and academia. **The DAC could capture and synthesise the results of this work to inform its thinking on methodologies to monitor global, regional or sector/recipient-specific development finance and possible future pledges. It should also continue its work to analyse development assistance flows by sector, identifying trends and potential areas of unmet need, to help members set priorities. To the extent possible these analyses should be broadened to cover all providers of development co-operation and both concessional and non-concessional development finance.**

Box 1. Mobilising domestic financial resources for development: Tax and development

Raising tax revenue will also be vital to achieving new goals. Although some developing countries have made progress in improving tax collection in the past decade, half of sub-Saharan African countries mobilise less than 17% of their GDP in tax revenues, below the minimum level considered by the UN as necessary to achieve the MDGs*.

The focus on the catalytic role of development co-operation in directly and demonstrably mobilising and leveraging other domestic finances will intensify. Some evidence is already compelling. Donor support worth USD 5.3 million in 2004-10 to improve tax collection in El Salvador led to increased revenue of USD 350 million per year – an impressive rate of return. Similarly, OECD DAC donor experience suggests that for each 1 USD spent on investigating the proceeds of corruption originating from the developing world, and transferred to OECD countries, up to 20 USD has been tracked and frozen, with a significant proportion of that sum repatriated to the treasury of the developing country in question – again an impressive rate of return.

What Will It Take To Achieve the Millennium Development Goals? An International Assessment, UNDP, June 2010, page 26.

9. More comprehensive monitoring of external development finance is likely to prompt discussion on how to distinguish between developmental flows and support for global objectives (e.g. biodiversity protection, climate change mitigation, peace and security). At present, DAC statistics allow reporting on the extent to which ODA is used to support some of these global objectives, but do not address the additionality of this financing. Yet many developing countries insist that financing for global objectives should be additional to aid. **Monitoring resource flows in support of the eventual post-2015 development framework may necessitate a review of the statistical methods to track financing targeted to global objectives, such as climate change mitigation and adaptation, for which financial commitments have already been made.** (See Box 2.)

2. Cf. “*The future we want*” adopted by the UNGA through Resolution 66/288 in July 2012, paragraph 255.

Box 2. The DAC contribution to monitoring the implementation of donor pledges of climate finance

Developed countries have committed to a goal of providing developing countries with USD 100 billion of climate finance per year, from public and private sources, by 2020. The DAC policy marker data can be used to estimate ODA in support of climate change mitigation and adaptation (USD 22.7 billion in 2010) and work is underway to expand data collection to other official (bilateral and multilateral) flows. Moreover, the DAC is collaborating with the UNFCCC Expert Group on Climate Change (CCXG) to i) improve the sectoral data on export credits to help identify those which could potentially mitigate climate change; ii) clarify definitions of various categories of private flows; and iii) introduce possible new statistical categories for official sector interventions that leverage private finance. However, monitoring the USD 100 billion pledge would necessitate an internationally-agreed method of identifying “new and additional” resources.

C. Measurement and monitoring of external development finance

10. This more holistic approach to development goals will require a comprehensive financial strategy and monitoring system which covers both public and private financing, provides a framework for efficient allocation of resources, and ensures accountability. Reporting systems and methodologies will need to be adapted accordingly. The Working Party on Development Finance Statistics (WP-STAT) has already started work to improve the coverage and categorisation of non-ODA flows in DAC statistics. However, more fundamental changes may be required for the reporting system to capture all relevant financing, facilitate the monitoring of external development finance at the global level, and ensure fair comparability of members’ efforts to support developing countries (and global public goods if these will be covered in the post-2015 framework). The role of resource flow targets in providing incentives for resource mobilisation may also need to be considered.

Is there a need to modernise the ODA concept?

11. The DAC adopted the present ODA definition in 1972, but the concept is under strain. In particular, focusing only on ODA-eligible flows under its current definition can be a disincentive to donor agencies to develop new innovative financial mechanisms that could mobilise significant amounts of private investment through risk mitigation instruments. This is of concern today when an increasing number of developing countries need loans, guarantees and equity – rather than grant finance – to boost infrastructure financing and economic growth. Particular concern has been expressed that:

- The current focus on net ODA tends to give more credit to investment projects that fail, since loan repayments and the proceeds of equity sales are reportable as negative flows.
- Mechanisms that do not immediately generate a flow (e.g. guarantees, callable capital) are not covered at all due to the flow principle of ODA measurement.

12. These problems are inherent in the cash-based flow measurement system now used in DAC statistics. This system cannot be fundamentally altered if it is intended to continue to measure the existing development assistance and flow targets, which are couched “in terms of actual disbursements”³. **However, the DAC could investigate the feasibility of alternative/complementary accounting methods that would better reflect contemporary budget and balance-of-payments accounting standards⁴ and/or place greater emphasis on gross instead of net transfers.**

3. UN Resolution 2626 (XXV), 24 October 1970, paragraph 42.

4. The IMF recommends accruals-based accounting.

13. The ODA concept was developed within a measurement system based on actual cross-border transfers of resources. The definition has remained unchanged throughout the years, but in practice ODA reporting has been broadened to cover certain development-related expenditures in donor countries which indeed represent a budgetary effort but do not generate cross-border flows, leading some critics to refer them to as “phantom aid”. The introduction of the concept of country-programmable aid (CPA) five years ago aimed to improve the estimates and predictability of ODA actually transferred to recipients.

14. DAC members have agreed not to revise the ODA definition before 2015. This is well justified from the point of view of accountability (no moving goalposts before full analysis of whether donors delivered on their commitments). However, members have expressed the need to modernise the concept to ensure that future government action is guided first and foremost by the aim of mobilising sufficient resources for development and achieving development results.

Need to better measure the donor effort and to facilitate international comparisons

15. Recent discussions on the concessionality criterion for ODA loans have highlighted other questions, such as whether and how risk should be taken into account in concessionality assessments and how to deal with loans that are preferential to the borrower while being extended at terms that are near to or above commercial interest reference rates for the donor. Moreover, it has been noted that no guidance exists on how to determine the concessionality of equity investment in PPPs or investment funds, or of reimbursable grants to international financial institutions. **The DAC should elaborate further guidance on concessionality in relation to these instruments to ensure uniform application of the criterion. But it could also investigate other ways to facilitate analysis and improve comparisons of donor effort. For example, comparisons of budgetary effort could be based on grants and the grant element (instead of the face value) of loans. There could be scope for developing a methodology to estimate the budgetary effort for the full range of instruments of external development finance with an “instrument-neutral” measure of donor effort.**

Need to complement the measure of donor effort with a measure of total external development finance

16. Work carried out so far in the WP-STAT workstream to improve statistics on non-ODA development finance, and the ECPDM diagnosis⁵ of the major problems related to ODA reporting, suggest discussions on measuring the totality of external development finance should address developmental motivation, the distinction between public and private financing, and public sector schemes that catalyse private flows.⁶ **The DAC should pursue its work to develop the statistical categories and methods to capture all relevant finance and facilitate reporting by all providers of development co-operation, public and private. Enhanced statistical collaboration with major non-DAC providers is key to comprehensive accounting of external development finance.**

5. See [http://www.ecdpm.org/Web_ECDPM/Web/Content/Download.nsf/0/C3FF9A6B12CEDEF1C1257A09006081E3/\\$FILE/Reporting_on_Development_2012_0107452_final.pdf](http://www.ecdpm.org/Web_ECDPM/Web/Content/Download.nsf/0/C3FF9A6B12CEDEF1C1257A09006081E3/$FILE/Reporting_on_Development_2012_0107452_final.pdf)

6. The current ODA definition articulates developmental transactions as those made “*with the economic development and welfare of developing countries as its main objective*”. Aid grants whether provided by governments or NGOs/foundations satisfy this criterion; so does any lending – concessional or non-concessional – by development finance institutions (DFIs). Examples of financing that is not extended with a primarily developmental motivation are export credits, foreign direct investment and portfolio investment. While these may have positive developmental effects (e.g. job creation, improvements in infrastructure or quality of services in developing countries), they are commercially motivated and cannot be considered as having developmental objectives.

17. Discussions on a more comprehensive measurement system again raise the issue of the desirable scope of reporting on external development finance from the point of view of benefit to recipients. As already noted, some critics in recent years have urged excluding from ODA “phantom aid” that does not involve cross-border transfers (e.g. in-donor student and refugee costs) or ODA that does not directly enter developing countries’ budgets (including most technical co-operation activities). On the other hand, some development finance institutions have been urging more generous coverage of programmes that have minimal immediate costs to donors but large potential benefits to recipients (non-concessional lending, loan and investment guarantees etc.). **The DAC could investigate the feasibility of reporting on all relevant financial instruments and of assessing their leveraging impact. At the same time work could be undertaken to elaborate the statistical classification to better identify actual transfers to developing countries.**

18. **To sum up this section, it is suggested that the DAC and its WP-STAT should undertake exploratory work to revise methods of monitoring and measuring development co-operation and broader external development finance post-2015, taking as a starting point the suggestions in paragraphs 12 and 15-17 above. Based on recent discussions, it would appear that priority may need to be given to the following tasks:**

- i) **Elaborating a proposal for a new measure of total official support for development.** This would need to give greater emphasis to gross figures, and to non-concessional flows, than the current system. An important issue would be how to treat official schemes that stimulated private flows and contingent liabilities.
- ii) **Exploring ways of nuancing the presentation of data on external development finance so that both “donor effort” and “recipient benefit” perspectives can be shown.**
- iii) **Investigating whether any resulting new measures of external development finance (including any new approaches to measurement of donor effort) suggest the need to revise the ODA concept.** This includes examining the implications of new or revised measures to the continuity of existing DAC statistical series.

The exploratory phase of work should be undertaken in close collaboration with other interested international agencies, especially the IMF and the UN system. It should be completed in 2013 with a view to presenting its results, and possible proposals, for consideration at a possible HLM at the end of 2013, or as soon as possible thereafter. However, the timing of individual elements must also be adapted to take account of any measurement issues raised by the ongoing process of establishing the post-2015 development and development finance agenda.

19. In addition to revisiting the measurement of outflows, further work may be needed to better cover the emerging panoply of **new sources of finance**. Several countries have already introduced airline taxes with a view to using the proceeds for development. New financial transactions taxes may also be devoted to development. Many other instruments are either already operational, in a pilot phase, or under active consideration. **The DAC should pursue its work on these instruments⁷, collecting relevant data within its systems, clarifying their operation, reporting on their financial impact, and explaining how and at which points their operations appear in resource flow statistics.**

7. See “Mapping of Some Important Innovative Financing for Development Mechanisms”, [DCD/DAC/STAT/RD\(2011\)1/RD1](#).

New targets?

20. Many members have explained that the ODA target has assisted them in mobilising support for development and that significant increases in ODA volume in the past decade would not have been possible to achieve without a target. At the same time, it has been claimed that the ODA target has also provided disincentives for mobilising resources for development from the private sector. Exploring new directions in DAC measurement and monitoring of external development finance may for some members raise questions about the usefulness or necessity of existing or new targets for ODA and other flows.

21. A target makes sense only if those signing up have sufficient control over the flows counting towards the target. Consequently, a target for donor governments could cover both financing directly provided by the official sector and private flows mobilised through official sector interventions/schemes, but not “pure private flows” where governments can promote the financing and enhance the developmental impacts (facilitate transfers, work on the enabling environment, improve corporate social responsibility), but have no direct influence on the magnitude of the flows. Giving by NGOs⁸ and foundations is purely private too, and, following this reasoning, would be outside the target.

22. **While the discussions on the post-2015 goals have just started and the global work on establishing baselines for the whole development agenda is in its early stages, DAC members will not yet be giving any consideration to any specific future targets. However, the HLM may already have views on whether measurement work should be oriented towards the possibility of monitoring progress against new quantitative targets for development co-operation or broader external development finance.** The establishment of any such targets would, of course, involve actors both within and outside the DAC.

D. How to ensure efficient use of financial resources?

23. The efficient use of external resources must proceed from a recognition of the changing global development picture. Rapid growth in many parts of the developing world, including in some of the largest countries, has lifted many new countries to the middle-income bracket. This means that most of the world’s poor now live in middle-income countries. At the same time, rapid industrialisation in these countries means that they have become key players on global issues such as trade and migration policies, climate change, and regional and global security. Future external finance for these countries will come largely from the private sector. The World Bank estimates that private flows already accounted for 66% of their total net flows in 2010, compared to 18% for low-income countries.

24. By contrast, concessional resources remain important to low-income countries in helping them to safeguard social progress and social investments and build stronger foundations for sustainable growth. When budgets are under pressure and fiscal space is limited, it is even more important to create the conditions and incentives for sustainable growth, including the establishment of security in fragile states. Yet DAC Forward Spending Surveys suggest that development co-operation will be increasingly concentrated on a shrinking group of priority countries in the years ahead. This may reduce assistance to partner countries where results are less easily demonstrated, but where ODA is indispensable. Concessional resources remain critical to financing government health and education programmes in countries with low institutional capacity and important remaining MDG gaps. **DAC analysis should**

8. This refers to resources raised from private donors. It excludes public resources/ODA that are channelled through NGOs.

continue to bear in mind the key development assistance objective of reducing poverty and maintaining or establishing basic social services and security.

25. The share of concessional resources allocated to productive sectors, economic infrastructure and agriculture has been declining for 20 years. In part this is a result of efforts to avoid displacing commercial investment in productive sectors. Yet these sectors are likely to be key engines of growth, together with context-specific structural and economic reform policies. Development co-operation thus needs help to catalyse private sector-led investment by making the investment outlook attractive for private investment. **Work on sectoral classifications and innovative financing should assist analysis of this catalytic role.**

26. The overarching challenge is to ensure the effective use of scarce concessional resources. How are concessional resources best spent when they represent a reduced share of overall resources for development? Lessons can be learned from the role concessional financing plays in countries less dependent on ODA in maximising the marginal return of development assistance among other sources of external financing. **Classifications and analysis should increasingly focus on the need to link inputs to results. They should capture policy objectives of development assistance, enable its conditions to be assessed in the light of recipients' access to other finance, and assist in the identification of relevant impact indicators for each activity.**