

DEVELOPMENT CO-OPERATION DIRECTORATE
DEVELOPMENT ASSISTANCE COMMITTEEA NEW MEASURE OF TOTAL OFFICIAL SUPPORT FOR DEVELOPMENT:
ISSUES AND OPTIONS

DAC Meeting, 3 December 2013

This document is submitted for DISCUSSION under Item 3 of the Draft Annotated DAC Agenda [DCD/DAC/A(2013)15].

The December 2012 High Level Meeting decided that the DAC would elaborate a proposal for a new measure of total official support for development. This note briefly recalls the rationale for such a measure and invites members to share preliminary views on what it should capture.

The note seeks to facilitate the sharing of perspectives. On the basis of the discussions, the Secretariat will develop a concrete proposal for consideration at the DAC Senior Level Meeting scheduled on 3-4 March 2014. Members are also welcome to send their written comments to the Secretariat by 24 January 2014.

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A NEW MEASURE OF TOTAL OFFICIAL SUPPORT FOR DEVELOPMENT: ISSUES AND OPTIONS

1. The December 2012 High Level Meeting decided that the DAC would elaborate a proposal for a new measure of total official support for development. This note briefly recalls the rationale for such a measure and invites members to share preliminary views on what it should capture.

2. The note is presented **for discussion at the meeting of the DAC scheduled on 3 December 2013**. It seeks to facilitate the sharing of perspectives. On the basis of the discussions, the Secretariat will develop a concrete proposal for consideration at the DAC Senior Level Meeting scheduled on 3-4 March 2014.¹ **Members are also welcome to send their written comments to the Secretariat by 24 January 2014.**

A. Why a new measure of official support for development?

3. Several analytical reports in the recent past have highlighted the need to supplement statistics on official development assistance (ODA) with broader data on official contributions that support developmental outcomes or leverage finance to developing countries. Indeed, the ODA concept is limited to transactions by the official sector (the “O” of the ODA definition), administered with the “economic development and welfare of developing countries” as their “main objective” (the “D”), with financing extended on concessional terms (the “A”).

4. The HLM mandate for a new measure of official effort was embedded in a broader blueprint for a new measurement system as follows:

With a view to ensuring that ODA is directed to where it is most needed and where it can catalyse other flows and promote accountability, the DAC will:

- *Elaborate a proposal for a new measure of total official support for development.*
- *Explore ways of representing both “donor effort” and “recipient benefit” of development finance.*
- *Investigate whether any resulting new measures of external development finance (including any new approaches to measurement of donor effort) suggest the need to modernise the ODA concept...²*

To address the HLM mandate, the question of how to **valorise members’ efforts to mobilise additional resources for development from the private sector and employ market-like financial instruments where appropriate** must be explored.

1. In parallel, and following the partnership approach outlined in the Secretariat work plan for DAC HLM mandate on development finance, the Secretariat will seek views from the Expert Reference Group and other stakeholders, including multilaterals, south-south providers, recipient countries and civil society.

2. Excerpted from paragraph 17 of the 2012 HLM communique, available at <http://www.oecd.org/dac/HLM%20Communique%202012%20final%20ENGLISH.pdf>.

5. Many market-like financial instruments are imperfectly reported in DAC statistics because of exclusive focus on monitoring net ODA. Giving such instruments visibility and acknowledgement in DAC statistics should create incentives for their expanded use by DAC members. While the amounts mobilised are not large today compared to, for example, total amount of grant ODA, they do play a role and could become quite considerable in future.

6. Since the December 2012 DAC HLM, international debate on post-2015 development finance has progressed. While it is still too early to link the DAC work on measurement and monitoring of post-2015 external development finance with the on-going UN processes on post-2015 development goals, it appears that discussions on the coverage of a possible new measure of official support for development also should consider reflecting the concept of **sustainable development**. This prompts questions about the inclusion or exclusion of financing for “enablers of development” or “global public goods” – in other words, expenditures that currently do not satisfy the “D” criterion of ODA.³

7. The new measure could permit a fuller picture of the range of efforts undertaken by the official sector that mobilise resources for development. A fundamental question, however, is whether the provider focus underpinning current statistics on development finance should remain or whether the primary aim of the post-2015 measurement system should be capturing all flows to developing countries (sic recipient receipts) in a comprehensive manner. In seeking members’ guidance below, no assumption has been made on the continued relevance of existing distinctions (e.g. developmental purpose vs. developmental impact, concessional vs. non-concessional finance).⁴ These questions need to be addressed, but may be better sequenced after a first exchange of views on the components of a total measure and once the Secretariat’s on-going work on recipient perspectives is further along.

B. What directions to take for a new measure of official support for development?

8. The objective of this note is to move the discussion from the above general ideas to a more concrete level, and **collect members’ preliminary views and guidance on the directions this work should be taking**. This section therefore:

- i. presents examples of financing that is currently excluded from the ODA definition but could be included in a broader measure, and
- ii. highlights the implications that reporting on these items would have on the existing DAC statistical framework, including the ODA concept.

The list of examples is not exhaustive. **Members are welcome to make suggestions on other types of expenditures that should be examined in the context of elaborating a proposal for the broader measure.**

9. When considering the examples, it is important to bear in mind that this discussion is one of several on-going strands of work that will have implications for the broader measure, e.g., concessionality, new instrument-neutral measure of donor effort, possible changes to ODA eligibility. In a sense, “everything relates to everything”. Nevertheless, it is necessary to start clarifying what the broader

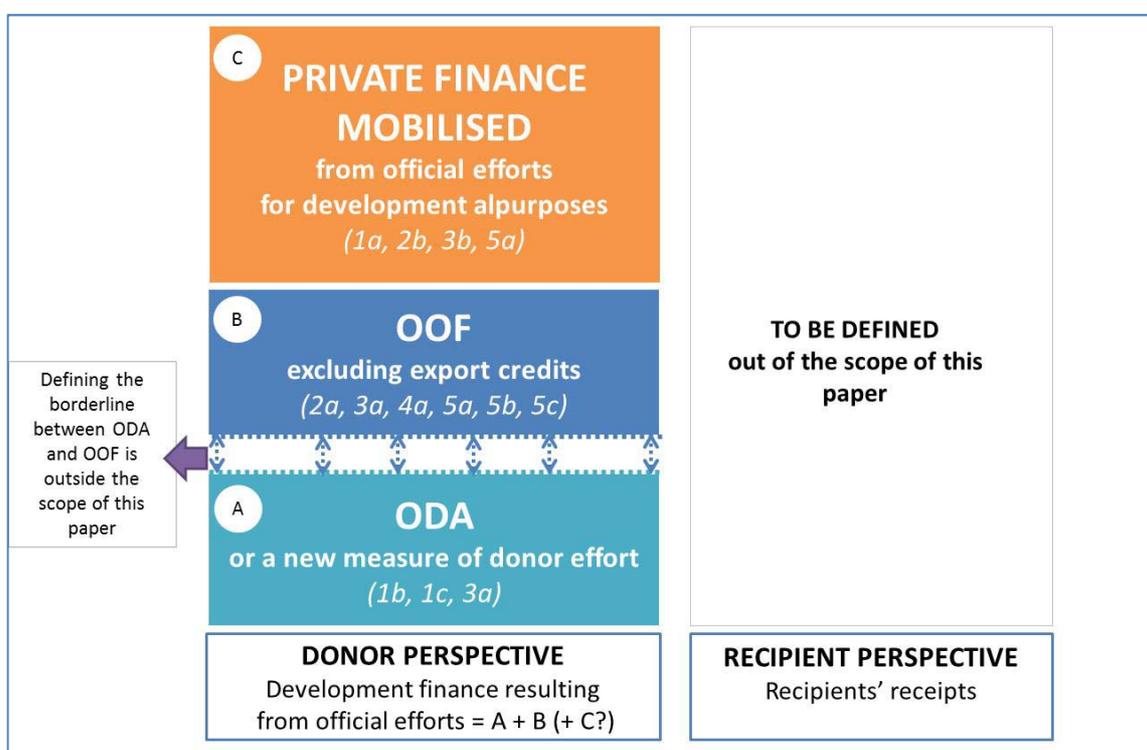
3. The need to monitor finance for global objectives or public goods was discussed to some extent at the April 2013 DAC Senior Level Meeting and is mentioned in the Secretariat work plan, objective 4G.

4. From a recipient perspective, the difference between a project financed through loans raised through a development guarantee scheme and through export credits arrangements may not be easy to detect.

measure could capture by setting out some ideas with examples to stimulate thinking and to help clarify concerns, challenges, opportunities and options for progressing the discourse.

10. Figure 1 provides a construct for relating the examples and the questions they raise to the current DAC statistical framework. For the purposes of this discussion, it sets out one way of relating the constituent parts of the possible new measure to existing measures. In brief, the new broader measure could cover expenditures currently recorded as ODA [the “A” in the Figure], non-export credit OOF⁵ [the “B”], and, possibly a new element, private finance mobilised for development by official efforts where causality can be demonstrated [the “C”]. For the time being, the borderline between ODA and OOF should be considered as blurred – if the ODA concept changes, for example to capture the grant element instead of the face value of loans, some expenditures could move from [A] to [B]. Similarly, if the definition of “development” is broadened to include global concerns (e.g., security, climate change), the coverage of [A], [B] and [C] could each expand. These will be considered later, as outlined in the calendar on when different development finance topics will be addressed.⁶

Figure 1. The broader measure from the donor perspective



5. Export credits are extended for commercial purposes and are therefore not considered as development finance. Note however that the concessional component of an Associated Financing package is included in ODA.

6. See calendar of DAC meetings on development finance in the “Work plan for DAC HLM mandate on development finance” which is updated and issued as a room document at each DAC meeting.

11. Figure 1 focuses on the perspective of the donor. How this could or should relate to the “recipient receipts” perspective is yet to be clarified (see also paragraph 7).⁷ Beyond a reflection on the suitability of selected financial instruments in the new measure, a number of technical issues are also flagged for now, e.g., how “donor effort” might be measured, whether the instrument is measured on a “gross” or “net” basis, etc. These issues will be taken up in an iterative way as the different pieces of the new DAC statistical system are clarified and vetted for inclusion over the coming months.

Capturing mechanisms mobilising private finance for development

12. The term “official” in ODA is defined as covering transactions “*provided by official agencies, including state and local governments, or by their executive agencies*”. The Reporting Directives further clarify that official transactions are those “*undertaken by central, state or local government agencies at their own risk and responsibility, regardless of whether these agencies have raised the funds through taxation or through borrowing from the private sector*”.⁸ Official sector schemes that aim to mobilise resources from the private sector for developmental activities, but for which the private sector retains the responsibility, are thus excluded from ODA.⁹ Examples of schemes that could be captured in a possible broader measure of **development finance resulting from official efforts**¹⁰ (hereafter referred to as “the broader measure”) include, on the one hand, official guarantee schemes for development and other risk mitigation instruments that have a potential to crowd in private lending and investment for development projects, and on the other hand, measures incentivising private charitable giving for development.

Example 1 – guarantees for development: According to the Survey carried out by the Working Party on Development Finance Statistics (WP-STAT) earlier this year, guarantees for development mobilised over USD 15 billion of private sector finance over 2009-11 and there is potential for scaling up their use.¹¹

Questions to members:

- 1.a) **Should amounts mobilised through guarantees** be captured in the possible broader measure, with the reasoning that the underlying financing from the private sector (which can be in form of loans or equity) would not have materialised without the official sector bearing risk?
- 1.b) If amounts mobilised are counted in the broader measure, **how should the “donor effort” of guarantees be quantified?** Options so far identified by the Secretariat include the concessionality of the guarantee (e.g. the difference between the premium the market would have charged and that of the public institution), or alternatively the government support to guarantee-extending institutions, such as funding from development co-operation budgets of DFIs’ capital, through equity or grants.¹²

7. The recipient perspective would not capture some expenditures (e.g. in-donor costs) covered on the left-hand side, but would include some others, e.g. IBRD lending and MIGA guarantees.

8. For definition of official vs. private transactions, see Converged Statistical Reporting Directives, paragraphs 13-14.

9. Loans and grants to the donor’s private sector in support of that sector’s developmental activities in developing countries are reportable as OOF; see [DCD/DAC\(2013\)15](#), paragraph 236.

10. As and when the discussions on the new measure advance, its name may need to be adjusted to reflect its contents. The Secretariat will for the time being use the working title “development finance resulting from official efforts”.

11. The results of the Survey have been published as an OECD Working Paper at http://www.oecd-ilibrary.org/development/guarantees-for-development_5k4071x5b8f8-en.

12. Cf. [DCD/DAC/STAT\(2013\)17](#), paragraphs 16-30.

- 1.c) Valorising risk-taking up front, as suggested by questions 1.a and 1.b. can have bearing on calculating the value of debt relief.¹³ **Should the Secretariat develop options on revising the reporting on debt relief as part of its work on the new measure?**

Example 2 – mezzanine finance: The statistical review of DFIs’ operations and reporting in DAC statistics indicated that thirteen DAC members’ DFIs offer mezzanine finance (subordinated debt or preferred equity) to developing countries.

Questions to members:

- 2.a) From the development finance provider perspective, provision of mezzanine finance implies an additional risk as in the event of default mezzanine capital will only be repaid after senior obligations have been met. Remunerating this additional risk-taking through higher returns disqualifies the instrument from ODA. **Would mezzanine finance fit in the broader measure?**
- 2.b) Mezzanine finance by DFIs increases the creditworthiness of the investee companies in developing countries and creates incentives for other actors (e.g. private banks) to invest in them. While assessing which private resources would not have been available without the mezzanine capital is not straightforward, further work could be carried out to examine the scope for collecting data on the “**amounts of private finance mobilised**” within structured financial packages offered by DFIs.¹⁴ **Would members see value in such an analysis to inform the discussion on the broader measure?**

Example 3 – equity: Over 2010-12, the WP-STAT examined the ODA eligibility of five special investment funds.¹⁵ Their average projected volume (all tranches combined) was USD 440 million.

Questions to members:

- 3.a) The current reporting system discourages reporting on official equity investment (whether direct equity or shares in investment funds) because successful operations generate returns that exceed outlays and thus result in negative net flows. To valorise equity as an instrument of development finance, data would need to be presented on gross disbursement basis. **Should equity be measured gross or net?**
- 3.b) A key function of equity is resource mobilisation, because it serves as a risk buffer for more senior investments. Equity investment thus mobilises additional funding (crowding in private finance) which would not be available otherwise. **Should these additional amounts mobilised be included in the broader measure?**

13. Official guarantees extended to private lenders or investors in developmental activities do not constitute a flow to developing countries, and are therefore excluded from DAC statistics entirely; however, if a guarantee is called and a loan is taken over by the official sector, then subsequent forgiveness of the full amount of the debt is reportable as ODA [[DCD/DAC\(2000\)16](#), Annex 1, Principles 1, 6 and 9].

14. Similarly, data could be collected on amounts mobilised from the private sector through IFIs’ syndicated loans programmes, as an input to discussion on improved data on developing countries’ resource receipts.

15. Donor government or DFI investment in first-loss shares of structured investment funds is currently considered as ODA-eligible and B-shares are reportable as OOF. Cf. DCD/DAC/STAT/M(2012)/2, paragraph 7.

Example 4 – other official flows excluding export credits: total gross and net disbursements of other official flows reported by DAC members in 2011, excluding export credits and debt relief, amounted to USD 21 billion and USD 9 billion respectively. The volume of DFIs’ new activities (commitments basis) exceeded USD 40 billion that year.¹⁶

Questions to members:

- 4.a) Should any development (i.e., non-export credit) finance currently reportable as other official flows in DAC statistics be included in the broader measure? They are currently not well or consistently captured in the DAC statistics.
- 4.b) What should be the basis of measurement? If the headline figures on the new measure are published on gross disbursements basis, then the data reflect the amounts extended. Should data on flows returning to donor countries be collected nevertheless, so as to construct accurate statistical series on development finance reflecting the recipient perspective, i.e. the amounts they receive but also those they pay back?

Schemes encouraging private charitable giving for development

13. Following the logic of official effort to mobilise private finance for development, the broader measure could also capture schemes that aim to encourage private charitable giving for development. However the reflection here should recall past DAC discussions on tax concessions.¹⁷

Example 5 – tax concessions: A common method in OECD countries is to allow private taxpayers to deduct the value of their donations to developmental NGOs from their taxable income.

Questions to members:

- 5.a) Tax concessions aim to stimulate private contributions to development and promote the engagement of civil society in development efforts. Recognition of the value of tax governments forgo by allowing such deductions could encourage governments to introduce, promote or extend such schemes. **Should the inclusion of tax concessions in the broader measure be considered? Do members have data available on tax concessions and amounts mobilised through them?**¹⁸
- 5.b) The forgone revenue is a notional quantity and any budgetary effort can only be demonstrated *ex post*. For consistency in treatment, if tax concessions are included in the broader measure should **other expenditures which can only be assessed *ex post* (e.g. in-donor refugee costs, imputed student costs) be moved from ODA to the broader measure?**

16. The reporting on DFIs’ operations in DAC statistics is incomplete. The total new commitments figure is an estimate based on DFIs’ annual reports.

17. The ODA eligibility of tax concessions was discussed in the WP-STAT in 2002 and 2003. See [DCD/DAC/STAT\(2002\)9](#); [DCD/DAC/STAT/M\(2002\)1](#), paragraphs 49-58; and [DCD/DAC/STAT/M\(2003\)1](#), paragraphs 50-54.

18. In current DAC statistics the full net outflow from the NGO sector, including that part of it that may be attributable to tax concessions, is recorded as “private grants”.

- 5.c) **Should other tax concessions benefiting development be examined, such as preferential tariffs on imports from ODA recipients?** What further analysis, if any, would members wish to see in this area?

Capturing development finance for global programmes and enablers of development

14. The HLM mandate on development finance has not drawn into question the ODA definition of what constitutes development. However, in elaborating proposals for what could be included in a new measure, the question of having a broader range of development-related activities being included arises, as well as whether they – or some part thereof – also should be part of a modernised measure of ODA. In particular, the boundaries of ODA in the field of peace and security were set through an HLM decision in 2005 and reconfirmed in 2007, and those for climate finance in 2004.¹⁹ There have been, however, regular requests from members to clarify the eligibility of activities that establish the preconditions for development in fragile post-conflict societies, such as peace and security and human rights, and the reporting on contributions to international organisations that work in these areas. Also, the post-2015 development goals are likely to relate to the broader concept of sustainable development. While raised here, this will be addressed later in the DAC calendar. At that time, their discussion will benefit from having a better sense of what members prefer to include in a broader measure as well as having a subsequent discussion on what a modernised ODA measure should comprise (27 January 2014). Similarly, separate papers on security and climate finance will be prepared for members' consideration.

15. As noted in paragraph 8, the above examples are presented to solicit members' preliminary views on the coverage of the possible new measure of development finance from official efforts. In their feedback, **members are invited to also share their views on the pros and cons of the broader measure.** While it can respond to what members have called for in presenting a more comprehensive picture of provider country efforts in support of recipient countries' development, the concept of what is "development" should be clear. Otherwise all international co-operation provided by governments could result in being included in the broader measure. Finally, to make a new measure of total support useful for recipient countries it would need to be accompanied with a narrower measure of donor budgetary effort for development (to be discussed 13 May 2014 DAC meeting). As member and Secretariat work progresses, including the sharing of insights from the Expert Reference Group and others, greater specificity on what is feasible and useful are anticipated to become more apparent. A key step will have been this exchange of views on what specifically could be considered in a broader measure of total support for development resulting from official efforts.

19. Cf. [DCD/DAC\(2007\)23/REV2](#) and [DAC/CHAIR\(2004\)4/FINAL](#).