

**DEVELOPMENT CO-OPERATION DIRECTORATE  
DEVELOPMENT ASSISTANCE COMMITTEE**

**DEVELOPMENT FINANCE: TOTAL OFFICIAL SUPPORT FOR DEVELOPMENT - AN EMERGING  
CONCEPT IN SUPPORT OF THE POST-2015 SUSTAINABLE DEVELOPMENT GOALS**

**DAC Senior Level Meeting  
7-8 October 2014  
OECD Conference Centre, Paris**

*This document is submitted for DISCUSSION under item 2 of the Draft Annotated Agenda [DCD/DAC/A(2014)13].*

*SLM participants are invited to agree with the proposals and provide recommendations on issues listed in paragraph 26.*

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**JT03362374**

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## DEVELOPMENT FINANCE:

### TOTAL OFFICIAL SUPPORT FOR DEVELOPMENT - AN EMERGING CONCEPT IN SUPPORT OF THE POST-2015 SUSTAINABLE DEVELOPMENT GOALS

#### Introduction

1. The DAC High Level Meeting (HLM) of December 2012 provided a comprehensive mandate for exploring new ways to measure development finance, acknowledging the need to adapt statistical concepts in light of the profound changes in the global financial and economic landscape. This work should ensure the continued relevance and credibility of key measurements of development finance. As appropriate, new measures might be introduced, such as Total Official Support for Development (TOSD), and existing ones – notably Official Development Assistance (ODA) – modernised.

2. The UN’s Open Working Group for Sustainable Development Goals (OWGSDG) has now reached consensus on key features of the international development framework that will succeed the Millennium Development Goals. They propose a post-2015 Sustainable Development Agenda that is universal, leaves no one behind and is predicated on “*goals and targets [that] integrate economic, social and environmental aspects and recognise their interlinkages for achieving sustainable development in all its dimensions*”<sup>1</sup>. Sourcing and deploying adequate and sustainable resources to meet these goals will be critical for successfully implementing this ambitious agenda. International public finance – including ODA, but also official contributions beyond ODA – will be an important component of the resource mix. The proposed new TOSD measure, which is designed to better capture and recognise these resources, could play a vital role in helping developing countries and their development partners grasp the totality and nature of finance on offer – and enhance strategic planning, oversight, and international accountability in the post-2015 era.

3. The Report of the Intergovernmental Committee of Experts on Sustainable Development Financing emphasises the need for making use of “all financing flows in a holistic way”, which includes domestic public, domestic private, international public and international private financial resources. TOSD has the potential of enabling further resource mobilisation by tapping all these types of flows.

4. The March 2014 DAC Senior Level Meeting (SLM) acknowledged the utility of taking into account broader official contributions to development, including various financial instruments not yet reported on in a systematic and consistent way across members. In terms of overall guiding principles, the SLM agreed that the TOSD would provide a more comprehensive measure of donor contributions addressing global challenges and enablers of development (e.g. climate change, peace and security) and valorise market-like financial instruments in a broader sense (this is independent from the discussion on counting the donor/budgetary effort associated with these types of instruments<sup>2</sup>), essential for maximising resource mobilisation efforts in view of the post-2015 sustainable development agenda. With regard to the latter, it recommended paying particular attention to differentiating between official flows and finance mobilised from the private sector thanks to official actions. Subsequent discussions in the DAC (July 2014) have emphasised that only official flows should be included in the TOSD measure and that relevant private

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1. Introduction to the Proposal of the Open Working Group for Sustainable Development Goals, 19 July 2014.

2. See DCD/DAC(2014)49, on the treatment of market-like instruments in the post-2015 statistical framework.

flows could be reported as a separate aggregate for memorandum. The Expert Reference Group on Development Finance also recognised the importance of capturing all resources provided and leveraged outside of ODA in a transparent manner, but recommended limiting TOSD to measuring official flows/outlays in the provision of development finance.

5. The October 2014 SLM is a crucial milestone on the path to fully delivering on the DAC's 2012 development finance mandate. The SLM will assess how broader official contributions in support of development can be quantified, valorised and made publicly available to enhance international accountability. The December 2014 HLM will be invited to endorse the narrative and the main features of the TOSD concept – without prejudice to the UN process of final negotiations on the Sustainable Development Goals (SDGs) and the outcomes of the 21<sup>st</sup> Conference of Parties of the UN Framework Convention on Climate Change (UNFCCC) and the third Financing for Development Conference. This paper lays out the building blocks and definitional elements of the concept for DAC members' consideration.

### **Developing the TOSD concept**

#### *Scope and narrative*

**The core TOSD narrative starts from the proposition that achieving the ambitious forthcoming Sustainable Development Agenda will call for mobilising finance on an unprecedented scale to tackle challenges – such as climate change, peace and security, contagious diseases and inequality — that transcend borders, threaten development progress and human well-being everywhere, and call for collective action by the global community.**

**A defining feature of TOSD is that – while it would ensure that relevant flows are supporting the economic development and welfare of developing countries – it would also acknowledge benefits for the providing country. The notion of “mutual benefit” would therefore be an acceptable feature of the measure. Accordingly, TOSD would mirror in important ways the features of globalisation, including technology, trade and investment flows, which have characterised growth and development worldwide over the past two decades and continue to do so in the future. At the same time, the measure would need to withstand critical public scrutiny: steps would be required to ensure that TOSD statistics are carefully validated as legitimate expenditures within the definition of the measure.**

**The universality of the measure would ensure its relevance for providers beyond the DAC.**

6. The TOSD measure should be considered as a measure in its own right with its own narrative and definition. It should be conceived and presented as a complementary measure to ODA (rather than encompassing ODA). **TOSD is not an excuse to back away from existing ODA commitments.** The 0.7% ODA to GNI target will remain the cornerstone of international accountability.

7. The exact coverage of TOSD may need to be adjusted once the final SDGs have been established. In the meantime, the DAC can offer the international community a credible narrative of measuring and monitoring total official support for sustainable development to inform the upcoming policy discussions and recommendations focusing on the financing for development agenda.

8. With ODA measuring the donor effort, TOSD would cover the totality of official resources in support of sustainable development, regardless of the terms under which they have been granted.

9. TOSD should be a universal measure that could be useful to development finance extended by sovereign providers beyond the DAC. Its focus on sustainable development, with the underlying rationale of mutual benefit, could create incentives for other providers to subscribe or align to TOSD. This could facilitate forging innovative alliances and co-financing arrangements in the post-2015 era, in line with the spirit of international partnership as prefigured by the OWGSDG in the proposed goal 17. Indeed, development co-operation has evolved significantly from a north–south relation towards an international partnership for sustainable development, which brings together all actors, including DAC members, developing countries, south–south providers, multilateral institutions and other international partnerships.

### *Building blocks – elements of definition*

10. TOSD would have a “purpose-based” definition. **While promoting the ultimate objective of “economic development and welfare of developing countries”, TOSD may have other equally important objectives and the providers may themselves benefit from the activities.** This is different from ODA, which is administered with the promotion of the economic development and welfare of developing countries as the **main** objective.

11. In practice, a purpose test that is softer than ODA would entail inclusion in TOSD of contributions to Global Public Goods (*e.g.* research and development of technologies to combat climate change) and Enablers of Development (*e.g.* peace and security expenditures). Moreover, the fact that some degree of self-interest would be permissible under the measure would also allow for a broader coverage of activities promoting trade and exports. As a consequence, **TOSD could potentially also include official export credits if it can be demonstrated that the funding addresses the objective of sustainable development.**<sup>3</sup>

12. In addition to the purpose test – “promoting the economic development and welfare of developing countries as an important objective” – and to avoid all international co-operation qualifying as TOSD, it will be necessary to accompany the general definition with more operational criteria. It is proposed that, for activities carried out in developing countries, TOSD eligibility would require **alignment with the development priorities of the recipient country**. Unlike ODA, the TOSD definition would not include a required level of concessionality – all official resources for sustainable development will be considered irrespectively of their terms and conditions.

13. Finally, TOSD would need to withstand critical scrutiny by the public – and therefore statistical reporting on the measure would need to be transparent, implying activity-level reporting on commitments and disbursements. With regard to market-like instruments, in particular when finance is extended to non-sovereign entities, it will be necessary to respect commercial confidentiality of information on terms and conditions of finance as well as profits and defaults which could however be reported at aggregate level.

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3. Note however that 85% of officially supported export credits reported to the OECD represent private export credits guaranteed or insured by official export credit agencies.

### *Main features of the measure*

14. **All financial instruments, including those generating reflows to provider countries, would qualify as TOSD.** As a first step toward a more comprehensive statistical framework, the WP-STAT, at its September 2014 meeting, agreed in principle to update the DAC classification by type of finance<sup>4</sup>. New statistical categories will be created in particular for mezzanine finance instruments, shares in collective investment vehicles and guarantees, all of which are expected to feature in TOSD. (See Table 1.)

15. The DAC's recommendation to **distinguish between official and private resources** (see paragraph 4) calls for greater clarity regarding which flows would be included in TOSD in practice when it comes to market-like instruments that aim to leverage additional private finance. While not pre-empting forthcoming decisions on how donor effort can be measured<sup>5</sup> for example in the case of guarantees, it could be conceived that the amounts mobilised by the guarantees – typically investments by the private sector – would be reported in a separate memo item to TOSD and that the relevant official sector contribution be valorised in TOSD, thus maintaining a clear **distinction between flows and contingent liabilities**. More generally, a modernised DAC statistical framework should provide better information on the blending of different sources of finance and how governments leverage official resources with private capital through risk-sharing schemes.

**Table 1. Landscape of instruments of development finance**

Broad category	Description and subcategories
<b>GRANTS</b>	<b>Grants</b> are transfers in cash or in kind for which no legal debt is incurred by the recipient. <b>Capital subscriptions</b> to multilateral agencies are for most purposes assimilated to grants in DAC statistics.
<b>DEBT INSTRUMENTS</b>	Debt instruments require the payment of principal and/or interest at some point(s) in the future. Debt instruments can take the form of <b>loans</b> and <b>debt securities</b> (e.g. bills, bonds, notes, negotiable certificates of deposit, commercial paper, debentures, asset-backed securities, money market instruments, and similar instruments normally traded in the financial markets).
<b>MEZZANINE FINANCE INSTRUMENTS</b>	Mezzanine finance, also called hybrid finance, refers to instruments relating to the layer of financing between a company's senior debt and equity, with features of both debt and equity. Mezzanine finance includes <b>subordinated loans, preferred equity and other hybrid instruments</b> .
<b>EQUITY AND SHARES IN COLLECTIVE INVESTMENT VEHICLES</b>	Equity and shares are particularly relevant for supporting private sector development. It provides recipient institutions (private companies or collective investment vehicles) with the capacity of increasing their assets. Investing in developing economies is often deemed too risky by the private sector unless public sector institutions invest risk capital. This category includes <b>common equity, shares in collective investment vehicles and reinvested earnings</b> .
<b>DEBT RELIEF</b>	Debt cancellations, debt conversions, debt rescheduling within or outside the framework of the Paris Club.
<b>GUARANTEES AND OTHER UNFUNDED CONTINGENT LIABILITIES</b>	Guarantees or insurance, by reducing the risk, facilitate borrowers' access to the financial market and/or enable them to borrow at more favourable terms.

4. Cf. DCD/DAC/STAT(2014)13 for the detailed proposal to modernise and update the DAC classification by type of finance, approved in principle by the WP-STAT at its meeting on 16-17 September 2014.

5. There is an increasing consensus among members to modernise ODA to also include donors' budgetary effort involved in the use of market-like financial instruments. See DCD/DAC(2014)49.

16. TOSD would be measured on a **gross** basis to capture the total monetary value of finance made available in any given year (for example, loans would be recorded at face value). Data on a **net** basis would also be collected to present a comprehensive picture of development finance from the recipients' perspective. Thus TOSD would feed into data series on developing countries' resource receipts – Resource Inflows for Development – in the same way that country programmable aid would be included.

17. Under TOSD **all purposes/sectors or thematic areas** are equally valid and should be aligned with the framework that will be provided by the final SDGs and developing countries' individual development strategies.

18. In comparison with the current measurement framework, TOSD would, in the case of DAC members, include all ODA, elements of other official flows – OOF (a share of investment-related and possibly export-related expenditures) and additional flows beyond, *i.e.* financing for sustainable development not covered in DAC statistics at present. The relation between TOSD and modernised ODA depends on the decisions that the DAC will take with regard to assessing concessionality and reporting on loans. If modernised ODA measures loans in terms of grant equivalents, TOSD and ODA will be two distinct statistical quantities. If reporting on loans continues on a cash-flow basis, modernised ODA will rather be a sub-set of TOSD. For interested providers beyond the DAC, TOSD would comprise concessional and non-concessional financial instruments provided for development.

### ***Implications for key thematic areas and channels of delivery***

#### *Climate change*

19. TOSD can be an enabler for promoting development that is environmentally sustainable, climate-resilient and based on low-carbon emissions. Better tracking can help to shift both public and private, domestic and international finance away from “brown” and into “green” investments; it can in this way help to scale-up “green” finance and integrate environmental considerations into all relevant investment decisions and government activities. The SDGs reaffirm the role of the UNFCCC leadership on climate change, and include recognition of the commitment under UNFCCC by developed country parties to jointly mobilise USD 100 billion per year by 2020 from a variety of sources. The form and scope of TOSD, as proposed here, could contribute to UNFCCC monitoring and measurement of climate finance. Climate change is a cross-cutting policy theme and the DAC statistical system for tracking policy objectives such climate change (adaptation and mitigation) is geared to support this. Many climate mitigation and adaptation projects funded by DAC members are already included in DAC statistics and work is underway to further improve the quality and coverage of this reporting. Going forward, the extension of the coverage of DAC statistics to capture financial instruments such as guarantees and insurance schemes would greatly facilitate the measurement and monitoring of broader provider support for climate change mitigation and adaptation in developing countries.

20. A new TOSD measure could include climate-related activities that, under current definitions, do not count as ODA as their main objectives may not be developmental but rather in line with the provision of global public goods. This includes activities beyond ODA and OOF such as support to innovative technologies such as Carbon Capture and Storage and supporting early-stage technological research and development (to catalyse future cost-reductions and enhance commercial viability). These activities are crucial for promoting efficient action on climate change in developing countries. Projects funded through export credits, for example in the area of renewable energy, could be equally beneficial for sustainable development. In this respect, a key question in discussing the outer boundary of TOSD relates to the treatment of export credits.

*Peace and Security*

21. Conflict, violence and political instability are holding back global development, including progress on the MDGs. The proposed 16<sup>th</sup> SDG strives to “*Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels*” and will help ensure that the post-2015 framework will channel investment in the right places and help address drivers of conflict, violence, and instability effectively. The DAC is currently looking into the need for updating the ODA-eligibility criteria in this area to reflect the current scope of peace and security assistance. The principles guiding this update are expected to be endorsed at the forthcoming HLM. Under a TOSD measure a broader range of expenditures related to peace and security would be permissible, including those relating to the provision of military equipment and services. In practice this would entail the inclusion of activities ranging from ODA-supported programmes to broader security sector reform and counter-terrorism activities in developing countries. In previous discussions on TOSD it has also been suggested that the totality of assessed contributions to UN peacekeeping operations should be included. In setting the outer boundary of TOSD in the field of peace and security, the provision of lethal equipment and training for security forces would need to be clarified, taking into account the reputational risks involved.

*Trade and exports*

22. An elaborate set of international rules governs concessional financing provided by governments. The rules have evolved through co-operation among industrial countries, which are major creditors as well as major exporters of capital goods. The rules set boundaries on the terms and conditions on which these countries can offer official financing. The primary purpose of the rules is to ensure that governments provide financing in ways that minimise trade distortions and safeguard the quality of aid allocations, including value for money. The application of the existing OECD rules or not to TOSD would need a separate discussion once the outer boundary of TOSD has been set. With regard to the WTO Agreement on Subsidies and Countervailing Measures, there should be no particular issues concerning grants and loans. However, for other financial instruments an assessment of compliance would also require a separate discussion.

*Multilateral channels of delivery*

23. TOSD will valorise bilateral support for sustainable development but also resources channelled through the multilateral institutions. TOSD would capture providers’ full contributions to norm-setting by multilateral agencies with the reasoning that their activities, while benefiting developed and developing countries alike, are essential for enabling sustainable development. In addition TOSD should also capture full contribution to multilateral agencies that undertake activities/programmes in the area of human rights and justice. Multilateral peacekeeping missions authorised by the UN Security Council have a clear developmental and humanitarian intent, have proven to enable development and should thus be included. More generally, the entire UN budget (of which currently only 18% is ODA-eligible) could be considered TOSD-eligible.

24. The general inclusion in TOSD of market-like finance – often raised from the capital markets under a guarantee from the provider government – raises the question of whether similar operations by the multilateral development banks and international financial institutions, guaranteed by the shareholders, should be attributed to the providers. Callable capital to these institutions could be treated in a similar way as other contingent liabilities.

## **Ways forward and request for guidance**

25. The international community, including developing countries, recognises the importance of securing sustained financing levels for the ambitious post-2015 development agenda. DAC members have an important contribution to make by offering a transparent and comprehensive measure of resources and efforts being undertaken by the development co-operation community to finance sustainable development, a measure that is sufficiently concrete to help guide allocation decisions towards the SDGs, and sufficiently flexible to allow for its further tailoring in accordance with evolving requirements from the broader international community. A final decision on TOSD may need to be adjusted following the agreement of the SDGs, but the building blocks of the new measure as described above could already be agreed upon at the HLM at the end of the year.

26. **Taking account of the proposed narrative, the SLM is invited to provide recommendations on the scope and definitional elements of the measure which will allow it to be fine-tuned in time for HLM endorsement. SLM participants are invited to:**

- **agree on the proposed scope and narrative of TOSD, that:**
  - reflects a broader, more universal development agenda;
  - has the economic development and welfare of developing countries as a key objective;
  - includes contributions to global public goods when these are deemed relevant for development;
  - may include mutual benefits to the provider and the recipient of the funding;
  - originates from official sources;
  - includes both concessional and non-concessional financing; and
  - is calculated on gross terms.
- **suggest any additional elements that could potentially be considered in TOSD.**
- **provide clear recommendation as regards the outer boundaries of TOSD in particular in the areas of climate finance, peace and security, and trade and exports.**
- **consider renaming the concept to align it with the terminology used in the context of the financing for development narrative: e.g. *International Public Finance for Development*.**