

Expert Reference Group Meeting – 3-4 October 2013

Session 1 – Measuring Development Finance: A Situation Report

Discussion Paper¹

Background

Over the past decade, new development challenges, new actors and innovative financial instruments and modalities have transformed the global development landscape. A more comprehensive approach is needed to understand what sources of development financing are available and to monitor how they might support post-2015 development goals. Identifying all resource flows, instruments and modalities will go a long way towards placing new actors and sources of finance within a more comprehensive picture of external development finance.

A straightforward and transparent framework for external development finance will allow for better monitoring of commitments. It will foster accountability to taxpayers in developed countries and beneficiaries in developing countries. Developing countries will be better able to plan and manage their economic and social development, and donors will have a more informed view on where resources are being allocated.

This note provides an overview of current international measurement of external development finance, including the DAC's flow measurements. It is designed to stimulate discussion of how best to conceive and monitor external development finance post-2015.

Resource Flows Covered by the DAC Statistical System

Under the leadership of its Working Party on Development Finance Statistics (WP-STAT), the DAC is continuing to modernise and expand its system for collecting information on ODA and other resource flows to developing countries. The system brings together 245 reporting entities (e.g. agencies, ministries, funds, etc.) from 75 donors, comprising DAC members, multilateral agencies, Arab donors, emerging providers of development co-operation and private foundations such as the Bill and Melinda Gates Foundation. The WP-STAT is continuing to update classifications and deepen the level of detail provided on resource flows to improve their quality and raise awareness of available information resources.

Transactions are measured both at commitment and disbursement stages. In addition, official multilateral flows are measured both as the amounts provided by donor countries to multilateral bodies, and as the amounts disbursed by multilateral bodies. While the level of detail of reporting has vastly increased over the past 50 years, the scope of data collected, however, has only been slightly expanded to include the outflows of NGOs.

¹ The ideas expressed in this working paper do not necessarily represent views of the OECD, the OECD's Development Assistance Committee (DAC), or their member countries, or the endorsement of any approach described therein

The financial data reported in DAC statistics should in general be reconcilable with balance of payments (BOP) data. In certain cases, however, certain development-related expenditures not resulting in cross-border flows (e.g. development awareness activities; first-year refugee costs and imputed student costs in donor countries) are included in ODA flows.

DAC disbursement statistics record flows on a cash basis, while BOP practice now recommends reporting on an accruals basis. For grants, the two methods generally lead to the same result. For other financial instruments such as loans and debt relief, there may well be differences in the timing and even valuation of flows, especially if net present value concepts are introduced.

Data are collected both in the form of key annual aggregates and their underlying item-level data through the expanded Creditor Reporting System (CRS++). Outputs include:

- Aggregates on aid, other official flows and private flows, including a breakdown on type of aid extended, geographical distribution, sectoral breakdown and tying status of aid;
- Underlying detailed quantitative and descriptive data on individual projects and programmes;
- Estimated total developing country receipts, including non-aid flows; and
- Receipts by developing countries on the basis of [Country Programmable Aid](#) (CPA) data series as well as data on estimated future CPA.

The DAC introduced the concept of Country Programmable Aid in 2007 to enable partner countries to identify just how much aid is directly usable by them. As mentioned above, ODA includes certain development-related expenditures in donor countries that represent a budgetary effort but do not generate cross-border flows. It also includes other finance that does not directly enter developing countries' budgets (e.g. most technical cooperation activities). Some [critics](#) have referred to these expenditures as "phantom aid", as they are seen as overrating the actual value of support received by recipient countries.

Main DAC Categories of Resource Flows

	Concessional	Non-concessional
Official	ODA <ul style="list-style-type: none"> • Financial Grants • Concessional loans • Debt relief • Technical assistance • First-year in-donor refugee costs • Imputed student costs • Donor administrative costs • Development awareness spending 	Other Official Flows <ul style="list-style-type: none"> • Export credits • Non-concessional developmental loans • Reorganisation of non-ODA debt
Private	Private Charitable Flows (Foundations, NGOs)	Private Flows at Market Terms (Investment and lending)

Development Finance-relevant Items Not Included in the DAC Statistical System

Over the years, a variety of data on external development finance has remained outside DAC statistics, as it was agreed they did not relate to "resource flows for development". The exclusions include both flow and non-flow items, as outlined below.

1. *Flows Not Included in DAC Statistics*

DAC statistics exclude the following flows between developed and developing countries:

- **Trade flows** – i.e. developing countries’ receipts for their exports, or payments for imports, which are recorded in the BOP current account and gathered by the WTO;
- All private payments defined as **personal transfers** in the BOP – including **remittances** (development-motivated grants by NGOs and other private sources are, however, included). Traditionally remittances have been considered as current, not capital, expenditure, and therefore as mainly financing consumption rather than development. However, they clearly do contribute to the welfare of people in developing countries, and may contribute to investments that advance development. The DAC Secretariat has identified areas of work to include information on remittances in DAC outputs, taking advantage of existing data collection efforts by the World Bank and IMF. Appropriate methodologies would need to be devised to compare remittances data with ODA and other resource flows and position them within the bigger picture of external development finance.
- **Official transfer payments to private individuals** – e.g. pensions, benefits and indemnities, recorded in the BOP current account, are also excluded unless they are part of technical cooperation or relief programmes.
- **Flows originating in developing countries** – i.e. investment or lending by (nationals of) developing countries, whether in developed or developing countries. Nevertheless, data on aid by South-south providers are collected, but are subject to limitations described in “Other Considerations” below.
- **Military aid and security expenditures** – DAC statistics exclude financing of military equipment and services. These exclusions cover, for example, training of military personnel, training of police in counter-subversion, suppression of political dissent or intelligence gathering, and activities to combat terrorism. Costs for military troops participating in UNDPKO peacekeeping operations are not reportable as ODA. Some specific activities within the framework of UN peacekeeping operations, such as human rights and elections monitoring, infrastructure rehabilitation, training in customs and border control, demobilisation of combatants and disposal of their weapons, and explosive mine removal are ODA-eligible.

2. **Stocks of Foreign Direct and Portfolio Investments and External Debt**

A stock position expresses the worth of an economic value at a specific point in time, while flows generate changes in economic values over time. Both stocks and flows are important to understand the situation, needs and future financial receipts or expenditures in a country.

With limited exceptions, stocks are not directly addressed in DAC statistics, as their primary focus is on flows. The exceptions relate to official loans, where outstanding amounts are collected annually.

Stocks	Instruments	Characteristics	Sources
Foreign Direct Investment and Portfolio investments	Equity and loans	Public/private and non-concessional	WB statistics; BIS statistics; IMF statistics; OECD statistics as reported by central banks of provider countries; Central banks of developing countries also collect statistics on FDI stocks.
External debt	Debt (loans)	Public/Private and non-concessional	The World Bank and the IMF collect statistics on external debt stocks. Data may differ from that of central banks of developing countries.

3. Contingent Liabilities

A contingent liability is a potential obligation that may be incurred depending on the outcome of a future event, and can be of a public or private nature. Examples include guarantees, catastrophe bonds, debt default mechanisms such as collective action clauses, insurance schemes, financial derivatives contracts and warrants. For developing countries, the amount of financial resources being leveraged through these contingent liabilities can be considerable. Data on contingent liabilities are kept by emitting official institutions, but there is no comprehensive international collection. Many of the data are confidential at the level of individual transactions and markets.

4. Other Financial Instruments

A fourth category of items, not considered as flows, stocks or contingent liabilities in respect of developing countries, includes:

- International taxes, fees and charges, such as carbon, airline and currency taxes;
- International liquidities, such as Special Drawing Rights (IMF tranche drawings are also not considered as flows and therefore not collected in DAC statistics);
- Blended value instruments, such as socially responsible investment; charity through consumption [e.g. product (RED)], corporate social responsibility, global lotteries to finance public goods;
- Creation and support of markets, such as the Global Fund's Affordable Medicine Facility, and the Gates Foundation's efforts to promote innovative drug and vaccines options and uses;
- Tax breaks for contributions to NGOs; and
- Reduced tariffs on developing countries' imports.

To the extent that these mechanisms raise or forego revenue for the purpose of providing concessional assistance, they may give rise to entries in DAC statistics as disbursements at the point at which funds are made available to developing countries. There is, however, no global, official collection or statistical record of the amounts being raised through each of these instruments.

Other Considerations

There are also issues concerning the accuracy and level of detail available within DAC statistics on development resources provided by non-DAC actors.

Many non-DAC official providers of development co-operation do not consider their resources as "aid" but rather as offering mutual benefits. Moreover, their flows may or may not meet the ODA criterion of being "concessional in character". This highlights the desirability of a more widely accepted definition of what constitutes development assistance. Alternative measures for development-related flows and co-operation activities that do not fit the conventional DAC definition of ODA and other development assistance support may have to be sought.

Estimates vary of the amounts involved, but they are generally thought to be 5-10% of DAC ODA. In a few cases (e.g. United Arab Emirates, Gates Foundation), the DAC statistics do offer reporting down to individual activity level, but in others (including China and India) no reporting at all is made, and estimates need to be derived.

Recent years have also seen an impressive growth of regional and sub-regional institutions in financing for development – especially in Latin America – making them important actors in providing South-South co-operation. Estimating and aggregating their flows can be challenging and a considerable amount of research would be needed to provide a comprehensive picture of their activities.

Apart from the Gates Foundation, activity level data are not collected from private voluntary organisations. Yet there has been a dramatic increase in the number and diversity of private entities involved in development. Devdir.org lists over 66,000 organisations involved in development co-operation, 90% of which are classified as civil society organisations. A 2010 [study](#) identifies four broad types of private development assistance providers:

- **Foundations** – In 2008, funding for overseas recipients and US-based international programmes by US foundations was estimated at US\$ 6.2 billion (of which the Gates Foundation provided US\$ 2.75 billion); 40 per cent of European foundations are believed to be engaged in international development activities amounting to possibly US\$ 600 million annually.
- **Corporate foundations and philanthropy** (e.g. Alcoa Foundation, Bristol-Myers Squibb Foundation) engage in grant-giving, employee volunteer programs, corporate social responsibility activities, and in strategies to increase the availability and affordability of goods. Data on their activities has been described as fragmented.
- **Hybrid organisations** comprising market-oriented “social venture capital initiatives” (e.g. Acumen Fund, Développement International Desjardins, Starbucks Loan Fund for Small Coffee Farmers) employing a bottoms-up entrepreneurial approach. This category also includes socially responsible investment funds with assets valued in 2006 at US\$ 2.3 trillion in the US and nearly EUR 1 trillion in Europe.
- **Non-governmental organisations** (NGOs) that fund their activities with both public and private funds; estimates are that NGOs channelled US\$ 26.9 billion to developing countries in 2005, of which more than 60 per cent came from private sources. Official subsidies to NGOs, and earmarked funding to them, counts as ODA and is well-recorded; however, there is no international collection of data on NGO outflows.

In conclusion, a flexible framework will need to be agreed upon to account for the growth in numbers of development actors, instruments and modalities. Harmonising disparate statistical systems, agreeing on definitions, norms and standards for classification purposes will involve considerable effort.

Issues

- **Participants are invited to comment on the group of actors, flows, modalities and instruments mentioned above. Is the list complete? Are all the major elements of development finance being adequately measured? Where are the gaps?**
- **What might be the best avenues for improving data availability?**
- **Participants are invited to comment on the DAC statistical system and how it can be built upon to accommodate the ever-increasing number of development actors, instruments and modalities.**