Measuring and Monitoring External Development Finance

- As the international community develops a new framework to replace the Millennium Development Goals (MDGs) after 2015, a funding strategy will need to be put in place to support them. This will require a sustained global effort that maximises both public and private sources of finance.

- In addition to traditional aid from public sources, there are now many new sources of finance and financial instruments to choose from. Private capital in the form of equity, bonds, non-concessional loans, risk mitigation instruments (including guarantees) plus philanthropic funds from foundations and trusts are all now playing a greater role, and given the potential volumes, and could be a transformative source of development finance in the future.

- New financing needs are also emerging beyond the traditional scope of development to embrace climate change and the provision of global public goods. It will be important to build a global financing system to support the full scope of the post-2015 goals once they are agreed.

- Any post-2015 funding strategy will need to be supported by a robust statistical system to measure and monitor financial flows accurately. It should be structured in a way that encourages innovation, maximises effectiveness and value for money, and drives programme design for greatest effect in support of meeting post-2015 goals.

- For over 50 years, the OECD's Development Assistance Committee's (DAC) statistical system has been tracking financial flows for development including official development assistance (ODA). It has also been used to record official financial flows that support the Rio Conventions on climate change (adaptation and mitigation), biodiversity and desertification as well as other environment-related activities, plus spending targeting gender equality and women's empowerment.

- The DAC is already working to modernise its statistical system for monitoring and measuring external development finance and is working with the United Nations (UN) and the wider international community so that the revised system is well placed to support the attainment of post-2015 goals.

- Specifically, the DAC is looking to develop: a new measure of total official support for development to better capture donor effort; a new way of measuring recipient benefit; and a modernised ODA definition. The work will help maintain the role of DAC statistics in promoting accountability and transparency; including on key international commitments such as those to provide 0.7% of gross national income (GNI) as ODA and the goal to provide USD 100 billion in climate finance by 2020.

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The value of a statistical system

For more than 50 years, the DAC statistical system has provided high-quality, reliable and comparable data on concessional finance for development from public (official) sources. The system also covers a range of other, non-concessional, official flows provided by DAC member countries, several non-DAC countries, many multilateral agencies as well as private financial flows, both market-based and philanthropic.

Having such data is indispensable for ensuring accountability against pledges, international targets and agreed standards and disciplines. The DAC system has provided the international reference for monitoring providers' progress towards commitments to allocate 0.7% of gross national income (GNI) as ODA and has proven to be an indispensable tool for promoting constructive peer pressure among the providers of development finance.

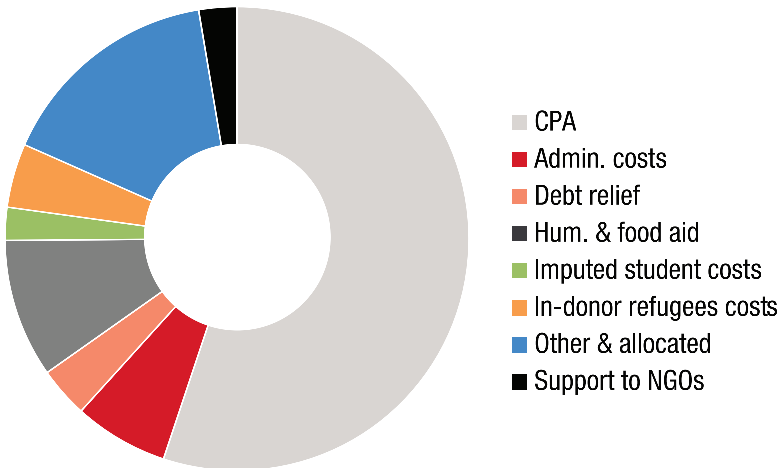
They are also a vital source of information for analytical work carried out by aid providers, international organisations, research institutions, and civil society aimed at improving transparency and effectiveness. In particular, the system allows for the tracking of flows by region, country and sector so that gaps can be identified and addressed. This is vital in terms of promoting relevant and effective development co-operation.

More recent innovations in the DAC statistical system help to increase the predictability of flows to partner countries. Predictable flows help developing countries set their own priorities and put in place longer-term programmes with increased confidence that they can be funded. Two measures in particular help with this. The first is the concept of country programmable aid (CPA), introduced in 2007, which focuses on the assistance over which a country can have a significant say. For example, in 2012, CPA made up only 55% of all DAC ODA (see Figure 1 below). Secondly the annual *Survey on Donors' Forward Spending Plans* uses the CPA measure to provide information on the future spending plans of most bilateral and multilateral institutions. These forecasts help to improve predictability and identify potential assistance gaps (for example, see OECD, 2013a).

Figure 1: Bilateral ODA Composition: DAC countries, total, 2012

What is country programmable aid?

CPA, or core aid, is a measure that captures the flows of aid that go to the partner country. It has been proven to be a good proxy of aid recorded at country level, over which partner countries can have a significant influence.



The international community, led by the United Nations, is now working on a successor framework to the MDGs. A United Nations High Level Panel has recently issued a comprehensive report outlining a bold vision for ending extreme poverty and creating a new development paradigm based on inclusive and sustainable growth (HLP, 2013).

A new development finance framework is needed to fund the attainment of the goals. It will need to maximise the provision of all available resources, both public and private, and provide for an internationally recognised, open and transparent statistical system for reporting on development assistance to developing countries.

The DAC is working closely within the wider, UN-led, post-2015 programme to modernise its statistical system to reflect emerging global development priorities and the rapidly changing financial landscape. In short, the DAC wants to ensure that its statistical system is ready to serve the needs of the post-2015 era.

Box 1. DAC statistics

The richness, comprehensiveness and scope of coverage make the DAC's aid statistics unique. They cover ODA and other aid and development-related official and private flows from 29 DAC member countries, 37 international organisations, 17 non-DAC countries and from the Bill and Melinda Gates Foundation. The OECD estimates that it captures 95% of global ODA spending.

Specific data sets are also provided detailing allocations targeting global environmental objectives, under the Rio Conventions, as well as other environment-related activities, plus those targeting gender equality and women's empowerment.

The data can be accessed in a number of formats, free of charge. The aim is to promote transparency, and help improve the design and effectiveness of global aid programmes.

More information is available at *www.oecd.org/dac/stats/* or explore donor, recipient and sector data at *http://www.compareyourcountry.org/chart?project=aid-statistics*

Why modernise the statistical system?

With the convergence of the development, sustainability and climate change agendas, the post-2015 goals are shaping up to be more comprehensive in scope than prior development goals, including the MDGs they will replace.

All of this is taking place against the backdrop of a rapidly developing finance landscape, one that is unrecognisable compared to when the DAC statistical system was first developed more than 50 years ago. There are now many more actors, bilateral and multilateral, public and private, addressing an increasing range of development challenges, often using new and innovative financial methods. The traditional image of donor countries and aid recipients is now out of date. The picture is now much more dynamic and increasingly driven by new and emerging providers participating in South-South co-operation activities and engaging with traditional donors in trilateral co-operation, as well as private financial flows.

In this complex setting, new ways of measuring support for development are needed that are more relevant to, and inclusive of, different development actors. These measures or indicators need to remain simple, straightforward, politically palatable and easily understandable by policy makers and the public. They should aim to capture the total picture of efforts to support development being made by donor countries, as well as providing a way to better measure resources flowing to recipients.

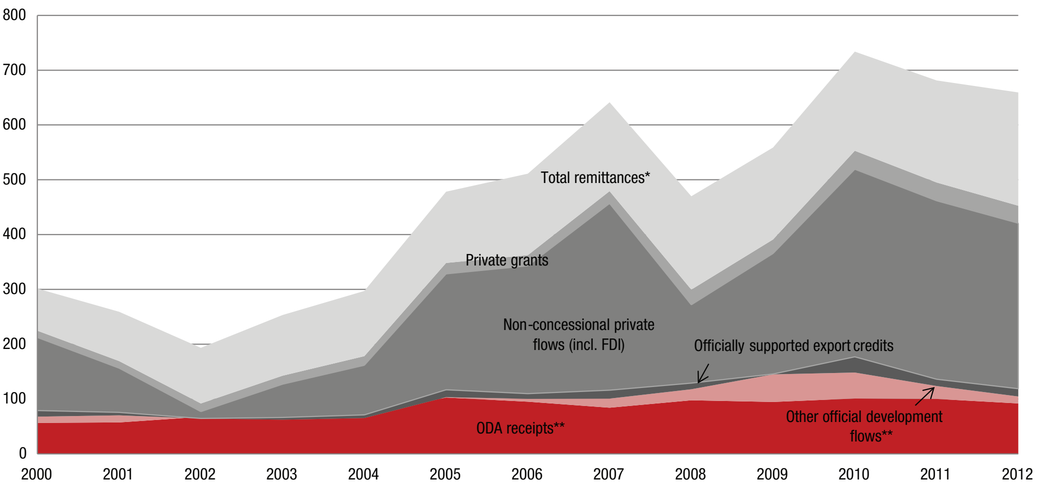
Central to this is an examination of the scope of the system to capture a wider range of flows and financial instruments from an ever-broadening range of providers beyond the elements that currently qualify as ODA (see Box 2) and other official flows (OOF)[1]. The existence and recognition of well-defined measures beyond the current statistics can provide a stimulus for innovation, spur new forms of cooperation, such as public-private partnerships, thereby setting a foundation for the future design of co-operation.

Often development programmes are designed around compliance with the definition of ODA so that such efforts can be recorded against related targets. This can lead to perverse outcomes in cases where a programme could perhaps be better supported, and larger overall resources generated, if other types of finance were provided; particularly those which could result in private funds being mobilised. Other concepts that take a wider view of the types of financial instruments for development may well spur greater innovation, higher financial flows and an overall greater development effort in support of the post-2015 goals.

As new ways to recognise and measure flows are developed, it is envisaged that this could lead to a refocusing of ODA to greater effect. For many least developed countries (LDCs), ODA typically makes up around 70% of total external finance, mainly in grants, making it an essential source of funding.

At the other end of the income scale, according to recent OECD analyses, ODA typically makes up around 6% of external flows to many upper middle income countries (UMICs) (OECD, 2014). For these, therefore, there are opportunities in terms of less concessional forms of finance and for the use of ODA to leverage additional, typically private, flows by using credit enhancement and risk management tools, such as guarantees, hybrid debt/equity instruments, insurance schemes and securitisation. Doing so could help scale up flows from the massive pools of global savings; such as the USD 70 trillion per year managed by institutional investors and USD 5 trillion per year invested by sovereign wealth funds.

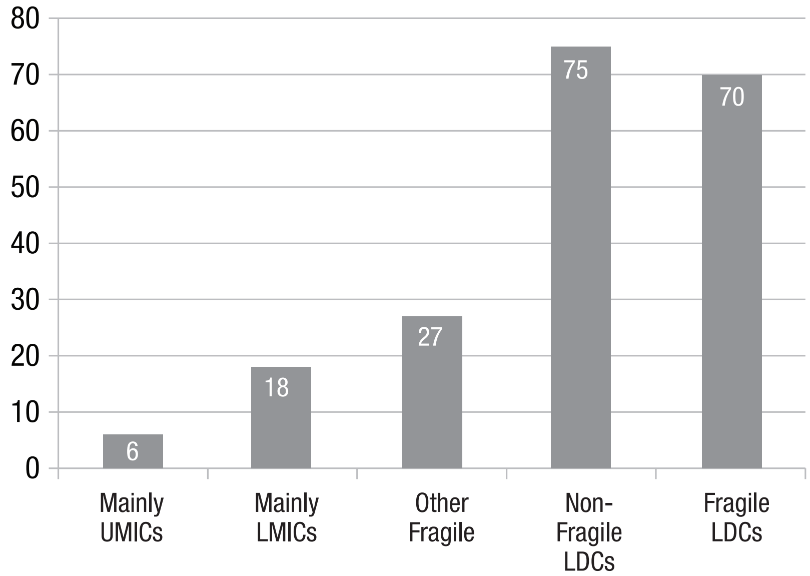
Figure 2: Developing countries' net resource receipts from DAC countries and multilateral organisations in 2000-2012, constant 2011 USD billion



* Total remittances estimated from DAC members to developing countries.
** Includes bilateral and multilateral outflows to developing countries.
Sources: DAC statistics and World Bank statistics for Remittances.

1. The OECD defines other official flows as transactions by the official sector which do not meet the conditions for eligibility as ODA, either because they are not primarily aimed at development, or because they are not sufficiently concessional" (OECD 2013. Converged Statistical Reporting Directives For The Creditor Reporting System (CRS) And The Annual DAC Questionnaire, DCD/DAC(2013)15/FINAL 11-JUN-2013).

Figure 3: ODA share of external flows by country type



Source: OECD, 2014

Box 2. What is Official Development Assistance (ODA)?

The DAC currently defines ODA as: those flows to countries and territories on the DAC List of ODA Recipients and to multilateral institutions which are:

i) provided by official agencies, including state and local governments, or by their executive agencies; and,

ii) each transaction of which: a) is administered with the promotion of the economic development and welfare of developing countries as its main objective; and b) is concessional in character and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent).

Read more here: *http://www.oecd.org/dac/stats/intro-to-oda.htm*

Potential issues

A number of definitional, structural and conceptual issues with DAC statistical categories and measurement systems have been raised in recent years:

1) The ODA definition: Is it too broad? Is it not broad enough?

Some argue that the definition of ODA is too broad because it includes money that is spent in the donor country on hosting refugees and student costs. Others consider it isn't broad enough, particularly around the issue of whether a particular loan should be counted as aid (ODA) or not. Others argue that the system for including recipients on the DAC List of ODA-eligible countries and territories is too permissive.[2]

2) Is the definition of concessional lending being consistently applied?

ODA has long been seen as measuring the (budgetary) effort made by a donor. But the recent very low borrowing rates available to donors has enabled them to borrow loan capital and lend it on at a higher rate, but one still cheaper than otherwise available to the recipient country. Views differ on whether these loans are concessional.

Continued on next page

2. The DAC list is revised every three years, and countries and territories are only removed from the list after they have exceeded the high-income country threshold for three consecutive years at the time of review.

Box 2. What is Official Development Assistance (ODA)? continued

3) Do current ODA accounting rules introduce perverse incentives and undermine the use of certain financial instruments (e.g. guarantees, equity)?

The emphasis in ODA on actual flows and budgetary effort currently excludes numerous instruments used by development finance institutions even though they are funded from official sources and are motivated by and support the delivery of development objectives.

Key statistics in the DAC reporting regime measure net financial flows. Loans and equity investments therefore have a zero, or in the case of equity investments, even a negative contribution to ODA in the long run. Guaruntees that are not called upon aren't included in ODA either. This may discourage their use. There is also the seemingly perverse situation that if an equity investment is unsuccessful and needs to be written off, or a guarantee needs to be called upon because a project has failed, then it may result in a positive ODA contribution being recorded.

Guarantees for development extended by DAC donors through their aid agencies, development banks such as Germany's KfW and bilateral development finance institutions (DFIs) and international financial institutions (IFIs) such as the World Bank, mobilised USD 15.3 billion from the private sector for development purposes from 2009 to 2011 (Mirabile et al., 2013).

What can the OECD offer?

At its December 2012 High Level Meeting, the DAC agreed on the following steps (OECD, 2012) to address the problems outlined in the previous section:

- 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; and,
- Undertake this work in close collaboration with other interested international agencies, in particular the United Nations, and also the IMF and World Bank, while engaging others in this exercise.

"We recommend that any new goals should be accompanied by an independent and rigorous monitoring system, with regular opportunities to report on progress and shortcomings at a high political level. We also call for a data revolution for sustainable development, with a new international initiative to improve the quality of statistics and information available to citizens. We should actively take advantage of new technology, crowd sourcing, and improved connectivity to empower people with information on the progress towards the targets."

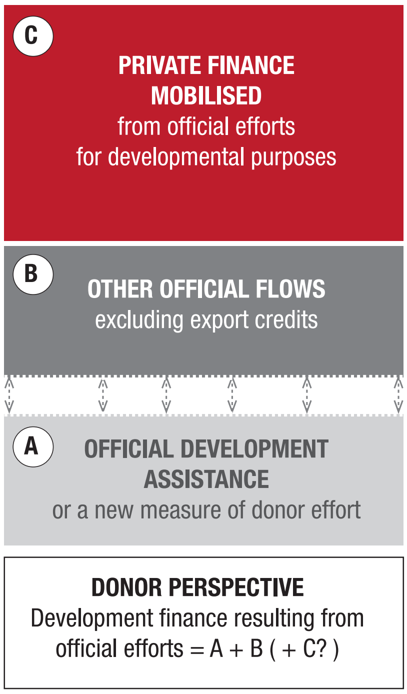
Source: The Report of the High-Level Panel of Eminent Persons on the Post-2015 Development Agenda.

Measuring total official support for development

ODA has played a critical role in mobilising official funds for development in the past. Having wider statistical measures can open the door for creating programmes that are more innovative and have the potential to generate far higher volumes of finance from different sources. The existence of such measures, with more inclusive rules, may also address a number of the criticisms of ODA without changing the fundamentals of the measure itself and its place in the international system.

Figures 4 *(below)* and 5 *(next page)* capture most of the elements that could be considered when building up a picture of development-related financial flows. Clearly, some of these are more obvious candidates for inclusion in a particular measure than others. For some, it is a matter of defining what portion of a particular type of flow should be included. In other cases, flows might need to be differentiated on the basis of the predominant motivation behind them, either for development or commercial outcomes, or around the source of funding be it official or private, institutional or personal.

Figure 4: The provider's perspective



A new measure of total official support for development would seek to encompass all development related spending, including those flows that qualify as ODA. It would complement, rather than replace, ODA which will remain a cornerstone for measuring the effort donors are making towards development, especially commitments to provide 0.7% of GNI as ODA.

Taking the providers' perspective, Figure 4 covers three main, sometimes overlapping, sources of finance:

- **Official Development Assistance:** (Bilateral ODA and ODA inflows to multilateral agencies) In addition to ODA, a new measure of official support for development might also encompass other mechanisms backed by official funds that are used to leverage private flows such as guarantees to support development objectives.

- **Other Official Flows:** The operations of development banks and bilateral development finance institutions could also be included here.

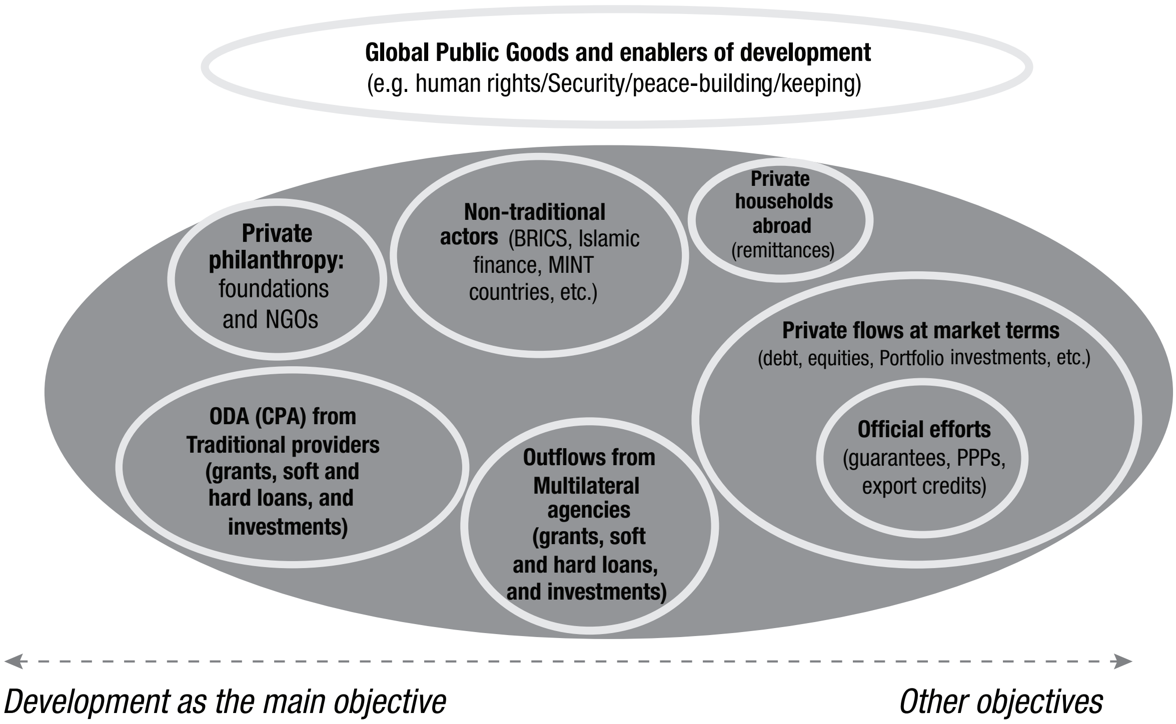
- **Private finance mobilised:** Whereas the official effort to leverage private funds was included earlier, this part of a measure would consider the private funds that flow as a result. In addition, foreign direct investment, loans and equity investments, etc. typically from private financial institutions including commercial banks, could be counted here.

Such an approach could also be applied to flows from non-DAC donors such as South-South and Arab providers.

So that a more complete picture of external flows available to developing countries can be established, other private efforts, such as flows from trusts and foundations, such as the Bill and Melinda Gates Foundation, and private donations to development charities should also be recognised. Remittances are also clearly an external source of finance that often has a positive development impact; yet they clearly can't be counted as official funds as they represent the efforts of private individuals.

ODA also includes some funds that never leave the provider country. These include first year in-donor refugee costs, imputed student costs and money spent on development awareness. From a recipient's point of view, however, it is those flows that enter the country that are most important (Figure 5). The same approach is taken in differentiating between ODA inflows to multilateral agencies and outflows to recipient countries. The DAC's CPA statistic provides an excellent starting point for measuring official flows from a recipient's perspective, but a new, broader recipient-focused measure could have significantly wider scope.

Figure 5: The recipients' perspective
Sources of external finance



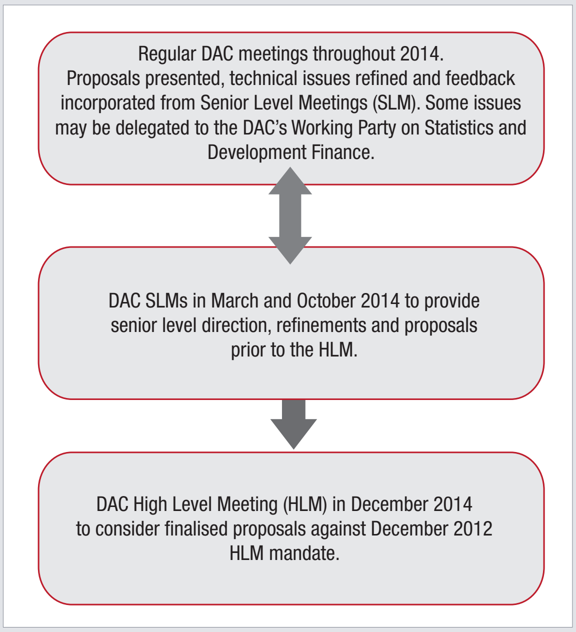
Consultation with partner countries and providers of finance is underway around how to define:

- What can be counted in terms of recipient benefit resulting from the official efforts of donor countries;
- How to treat official efforts that result in other financial flows to a recipient country such as an official guarantee being used to back a private loan; and,
- How to complete the picture of total flows to a recipient country, such as remittances, in a way that fairly reflects the source and intent of such flows.

Timetable

OECD-DAC Ministers have agreed not to make any adjustments to ODA before 2015 in order to ensure accountability for outstanding commitments. This also allows more time to consider the impact of any new measures that are developed to monitor and measure development finance flows from a donor and recipient perspective as set out above.

Box 3. Work plan



For more information, see
http://www.oecd.org/dac/financing-development.htm

Co-operating more widely

The DAC HLM mandate calls for any new measures to be developed in collaboration with other interested international agencies, in particular the UN, International Monetary Fund (IMF) and World Bank.

The DAC Secretariat has convened an Expert Reference Group composed of leading financial and development policy experts from academia, think tanks, civil society, international organisations, financial service providers and developing countries. This group provides insight on strategic issues linked to the development of new measures which are then reflected in the proposals put forward to DAC meetings for decision.

The DAC is also consulting with non-DAC donors, providers of South-South co-operation, the Arab donor community, developing countries, the Global Partnership for Effective Development Co-operation, NGOs and others from civil society. Discussions include the design of new measures, as well as current work to enable the DAC statistical system to record a wider range of resources from a broader community of finance providers.

Crucially, this DAC work programme is taking place in consultation with the UN-led post 2015 process to establish new goals and their supporting financing and monitoring frameworks. As such, it is taking on wider dimensions beyond development to include mechanisms for tracking both local and global environmental sustainability and climate change goals.

With a view to best serving the post-2015 goals, the OECD is building on its work to date in providing statistical systems. Although it is not yet known which system will be used to track specific elements of the post-2015 goals, the OECD has a strong track record in tracking development commitments, such as the 0.7% of GNI as ODA goal, and monitoring finance targeting elements of the Rio Conventions and other environment-related development finance.

The OECD stands ready to support the monitoring of international goals beyond the post-2015 agenda, and will work to ensure compatibility between new and existing tracking systems and processes where appropriate, such as the UNFCCC's USD 100 billion climate finance commitment and possible future outcomes anticipated in a 2015 Global Climate Deal.

Whatever goals are set by the internationally community through the UN's post-2015 process, the OECD is already working hard to make them a success by making their financing measurable and holding the international community accountable to their commitments.

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The United Nations (UN) Millennium Development Goals (MDGs) were established in 2000/1 and consist of eight development objectives to be achieved by 2015. It is widely agreed that the MDGs have been effective in mobilising worldwide awareness, leveraging resources, guiding global development efforts and increasing accountability. It is also impressive how close the world will get to most of the MDGs by 2015. There is need, however, for a successor framework once the MDGs expire in 2015 to keep the momentum built to date. The OECD played a pivotal role in defining the MDGs. With two years to go, the OECD is increasing its efforts to support the achievement of the MDGs, and at the same time thinking about how it can help the UN in developing a new agenda and framework post-2015. The OECD has a number of areas of expertise which could play an important role in shaping this post-2015 agenda and framework. In the overview brochure for this series, the OECD proposes eleven areas which would be of particular relevance (Beyond the MDGs: Towards an OECD contribution to the post-2015 agenda). This brochure focuses on one of these – measuring and monitoring external development finance.

Element 1:	Measuring what you treasure and keeping poverty at the heart of development
Element 2:	Developing a universal measure of educational success
Element 3:	Achieving gender equality and women's rights
Element 4:	Integrating sustainability into development
Element 5:	Strengthening national statistical systems
Element 6:	Building effective institutions and accountability mechanisms
Element 7:	Developing and promoting peacebuilding and statebuilding goals
Element 8:	Ensuring policy coherence for development
Element 9:	Sharing knowledge and engaging in policy dialogue and mutual learning
Element 10:	Promoting the Global Partnership for Effective Development Co-operation
Element 11:	**Measuring and monitoring development finance**

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