Meeting of the Expert Reference Group
OECD Conference Centre, Paris

3-4 October 2014

MEETING REPORT

Introductory Session

Mr. Erik Solheim, Chair of the OECD Development Assistance Committee (DAC), welcomed participants to the meeting. He mentioned that he was particularly pleased to see such a distinguished group of development practitioners gathered to provide insights on the implementation of the DAC High-Level Meeting mandate on new ways to measure and monitor external financing for development.

Mr. Solheim underlined the absolute importance of Official Development Assistance (ODA) for Low Income Countries (LICs) and how it should be used catalytically; how the ODA definition and the underlying statistical system need to be modernised to reflect the increasing importance of new actors, instruments and global development challenges. In particular, he highlighted that ways should be found to adequately highlight the importance of South-South Co-operation (SSC) in a post-2015 measurement system for external financing for development. Mr. Solheim added that the results of the DAC's work should not be used, or perceived, as an excuse for DAC members to walk away from their existing aid commitments.

Mr. Solheim added that he was looking forward to open and free-flowing discussions. He signalled the absence of three experts who were unable to join the group because of previous commitments: Prof. Lin of China; Dr. Zarrouk, Chief Economist of the Islamic Development Bank; and Prof. Ncube, Chief Economist of the African Development Bank. The latter provided written input to the Group beforehand.

Session 1 – Measuring development finance: a situation report

Session 1 began with Mr. Jon Lomøy, Director of the OECD Development Co-operation Directorate (DCD), setting the scene for the discussion to follow. After outlining key aspects of the post-2015 debate, new challenges brought about by the rapidly changing development finance landscape, and the DAC mandate on development finance, Mr. Lomøy provided a description of the extent of the DAC statistical system's coverage. Experts had already been provided with Background Paper No. 1 and a Discussion Paper, which included the following issues for the Group to consider:

- Are all the major elements of development finance (actors, flows, modalities and instruments) adequately measured and covered? Where are the gaps?
- What might be the best avenues for improving data availability?
- How can the DAC statistical system be built upon to accommodate the ever-increasing number of development actors, instruments and modalities?

The ensuing discussion focussed on:

- The need to define external financing for development;
- The purpose of a measurement system for external financing for development post-2015 and whether it should account for private market flows; flows having a development impact, and whether it would be possible to account for the positive and negative impact of such flows (e.g. foreign direct investment).

Participants recognised several weaknesses in the current system for measuring development finance, including lack of data on new development actors and instruments. It was suggested that a good way to start would be to draw up an ideal concept of what a post-2015 international measurement system should look like, including who would benefit from using such a system. What is to be measured should be clearly defined, taking into account other stakeholders' needs (e.g. recipient countries and non-DAC members). It was also recognised that although it would not be possible or advisable to centralise the data, ways needed to be found to ensure comparability.

Experts referred to the need to be clear as to the purpose of a post-2015 measurement system. It should serve to allow for the comparison of provider effort but mostly to measure recipient benefit. As such, it should provide a well-defined picture of resources flowing into a given country, as in-donor country expenditures were generally thought to have little or no developmental impact. It was also thought that having such a system should also encourage more transparency around financial flows, including at the sub-national level.

It was also suggested that a post-2015 development finance measurement system pay special attention to flows addressing extreme poverty, with the club of providers needing to be widened.

The overall system should also be structured in a way that allows for analysis of flow patterns so that financing, governance and effectiveness gaps can be identified and changes made to the global allocation of resources for development for maximum impact.

Some experts suggested that a post-2015 measurement system should move beyond financial flows and aim to capture development results and outcomes, for example by taking into account the notion of mutual benefit considered essential by SSC providers. Other participants thought that integrating development results into a post-2015 measurement system for external development finance would be a difficult task.

Several experts believed that the current ODA definition is too restrictive and does not provide the appropriate incentives to mobilising more resources for development, including unleashing private flows. A post-2015 measurement system should include a revised ODA concept that better promotes wider resource mobilisation.

A new modernised measurement system should look beyond ODA, and include a better definition of financing for development. A good part of the discussion focused on whether a modernised measurement system should account for all flows, including those of purely private origin and not specifically aimed at the economic well-being and welfare of developing countries. It was thought that defining a private development assistance concept would be difficult; how wide to cast the net was the object of prolonged debate. It was believed that governments could not claim virtue from private investment from national companies, philanthropy or remittances. It was suggested that private flows for development should be more precisely defined, with a focus on the subset of private flows leveraged through official action. It was agreed, however, that private development assistance with a humanitarian and philanthropic motivation should be accounted for in a new measurement system.

It was suggested that a new measurement system could be based on countries' balance of payments (BoP) data. It was noted though that BoP statistics may not allow for enough disaggregation of data. Efforts could concentrate on improving developing countries' BoP statistics on trade flows, remittances and other cross-border resource transfers.

This did raise another issue closely related to that of accounting for all financial flows, including those of purely private origin and that are not specifically aimed at the economic well-being of developing countries: should such flows be tagged as being beneficial or detrimental to development?

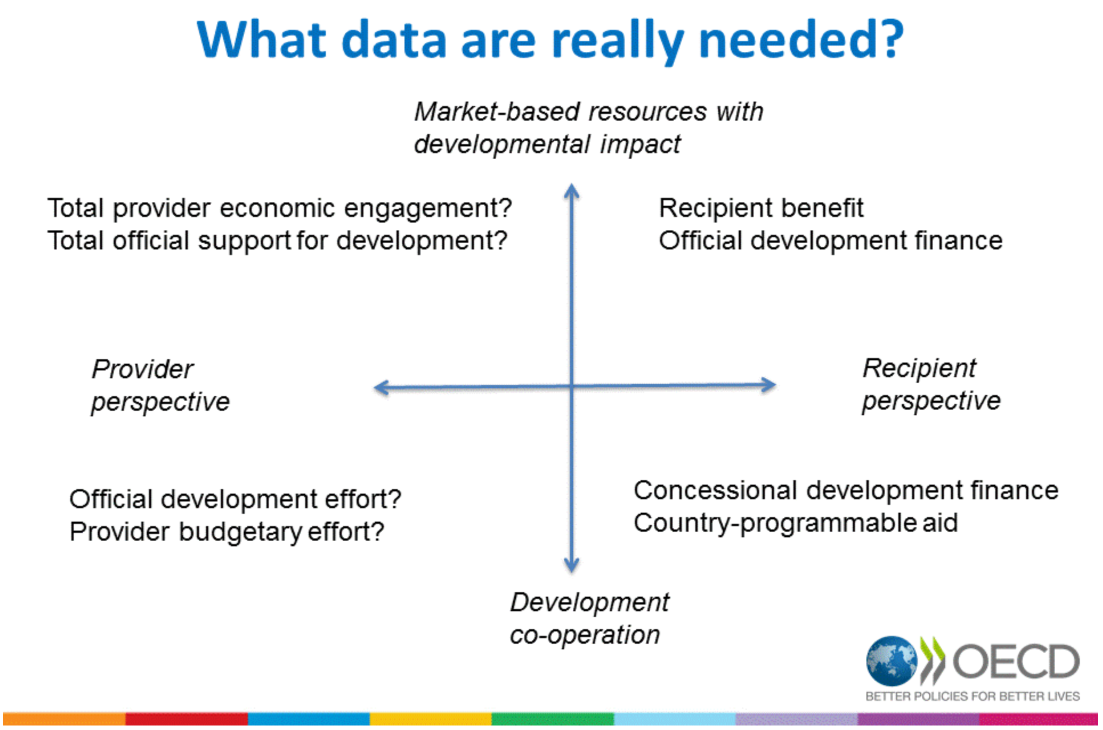
Some experts argued that flows and financial resources should be tagged as to their impact and incentives for development. It was suggested that modern technology could facilitate the assignment of tags, qualifiers or markers to all flows to developing countries. This raised the question of how to assign a value to flows that are considered to be affecting development in a negative way. Other experts countered that not only would it be very difficult to identify what is beneficial to development, but that doing so would not make any economic sense. As an example, Foreign Direct Investment (FDI) would be considered beneficial where there is a well-functioning regulatory environment, but detrimental where there is not.

Experts also addressed the issue of inflows and outflows: should a post-2015 measurement system for external development finance look at flows exiting developing countries, including illicit flows? Furthermore, how should a post-2015 measurement system account for policy incoherencies for development? Some participants argued for the need for a modernised measurement system to take into account the coherence of development policies towards Least Developed Countries (LDCs) in particular, to ensure that trade is meaningful and transfer pricing is not harming their development.

Finally, experts agreed that there is a need to better account for support for global public goods, including climate change financing and peace and security expenditures.

Session 2 – New measures of national and official development finance?

Session 2, for which a discussion paper was provided in advance, was chaired by Prof. Age Bakker. It began with a presentation by Ms. Julia Benn, Manager, Statistical Policy, Analysis and Engagement Unit, DCD, on new proposed measures of official development finance. After highlighting weaknesses with the current DAC statistical system, the presentation provided the following framework for discussion:



The ensuing discussion included an agreement that there should be more than one headline figure or measure for external financing for development. It was also thought appropriate to retain ODA alongside any new headline measures but participants agreed that ODA needed to be modernised.

Some experts argued that new headline measures should focus on poverty reduction. Others argued the need to harmonise the financial reporting system for the environment and climate change with that for development, in view of UN discussions on broader sustainable development objectives post-2015.

New headline measures should also be timely for developing countries, though one expert questioned the need to report annually, as year-end disbursement pressures were seen as an incentive to maximise the numbers.

New headline measures should capture the two dimensions of development co-operation: pure solidarity and market-oriented efforts where aid aims to correct market failures. As such, new headline measures should thus encourage good behaviour, including effective financial management of scarce resources to stimulate more investment in developing countries. There was also discussion around the need to eliminate what some viewed as a perverse incentive currently built into the system of loans summing to zero ODA once all repayments are received.

Being able to measure both the provider effort and recipient benefit perspectives were considered crucial. With ODA currently being defined strictly from a donor perspective, there is a need to devise a clear and timely indicator of resources provided to recipients, which would outline their quantity as well as their quality. It was thought, however, that it would be difficult to quantify overall benefit to recipients. To do so, there would be a need to start with a stronger accounting of resource receipts (the lower right side of the above graph). Some experts stated that thought should be given to an ODA+ concept which would include ODA receipts plus other development efforts including charitable grants, and that more visibility should be provided to Other Official Flows. An indicator of provider budgetary effort, providing a complete picture of a government's efforts for development, was also deemed essential. Such a measure could be based on calculating ring-fenced government expenditures for development.

With respect to SSC, the experts stated that the DAC Secretariat should intensify its discussions with SSC providers as to how their efforts could be measured. Such efforts should be provided with more visibility in a post-2015 measurement framework for external development finance. As SSC providers are often thought to mobilise mostly people as opposed to funds, it was suggested that using purchasing power parity or alternative metrics such as people-years would provide a more adequate basis for comparison.

One expert suggested that current methodologies may not capture the full impact of loans and lines of credit extended by SSC providers, and that ways would need to be found to reflect SSC providers' mutual benefit approach. It was suggested that the DAC Secretariat link up with UNDESA, which is coordinating work on SSC measurement issues, with a view to bringing out differences in concepts and definitions.

Experts agreed that the upper and lower portions of the above graph needed to be reconciled. ODA or an ODA successor or complementary measure should include market-based instruments. For example, the cost of provisioning for guarantees could count as a budgetary effort for development, perhaps even as ODA, and the amount of private money mobilised as a result of a guarantee being provided, could also be recorded.

Finally, it was also suggested that private sector investment should be encouraged by official actors helping to fill in the private sector's information gaps and understanding of market failures. It was also recognised that some donor agencies may not provide loans or other non-grant instruments for a lack of internal risk management capacity, an area which should be strengthened.

Session 3 – Revisiting the official development assistance concept

Session 3 was chaired by Prof. Pierre Jacquet, and began with a presentation by Mr. Simon Scott, Head of the Statistics and Development Finance Division, DCD. Participants also had before them a discussion paper – outlining key questions for discussion – as well as a background paper listing recent ODA reform proposals. Mr. Scott's presentation consisted of an overview of the current issues involved in revisiting the ODA concept. The discussion was enriched by brief presentations by Prof. Bakker, and Dr. Sean Nolan of the International Monetary Fund (IMF).

Prof. Bakker outlined the work of the commission he recently chaired that was mandated by the Dutch government to take a new look at the ODA measure. One of the drivers for the commission's work was the thought that while the ODA concept has been important in the past, a more convincing story was needed to maintain the Dutch public's support for development co-operation efforts. Five options were developed by Prof. Bakker's commission based on the understanding that a modernised development measure would need to align with the new sustainable development goals currently under discussion, including support for global public goods. The Dutch government is currently drafting a response to the commission's report, which is soon to be released publicly.

Dr. Nolan gave a brief update on the concessionality debate within the IMF and the World Bank, pointing out that the two organisations look at concessionality from the perspective of preventing LICs from over-indebtedness. The recent unification of the Fund's and the Bank's discount rates is only seen as an interim solution to address urgent operational issues while the main discussion on the appropriate level of concessionality and total borrowings by LICs is ongoing.

The consensus emerging from the session's discussion was that the ODA definition is outdated and leads to suboptimal behaviour in that it does not allow for financial innovation and encourage use of the appropriate instruments. In terms of how these issues could be addressed, it was thought that adopting separate statistical measures for donor effort and recipient benefit would be of considerable help. However, there was also support to retain ODA as a simplified target among other official efforts for which new measures should be considered.

With regard to any modernisation of ODA, the debate revolved around the following points.

O for official

A revised ODA concept should be simple and focus on provider budgetary effort. The official part of the definition should focus on what a provider government has control over. Trying to capture other private, commercially motivated flows, as opposed to development motivated, would be going down a slippery slope. However, there is a need to include guarantees and contingent liabilities in accounting for ODA.

The issue of whether to include tax concessions for development and trade preferences into ODA was also discussed. It was determined that doing so would not be good policy decisions. Incorporating these aspects into ODA or into another measure would be confusing and technically challenging. Trade preferences also benefits consumers in developed countries and there were questions as to how this should be accounted for.

D for developmental

There was considerable debate around ODA eligibility and the criteria for being included on the DAC list of ODA-eligible recipients. While there was some agreement that the list, currently including 150 countries and territories, should be rationalised or shortened, differences arose as to exactly how.

A first bloc of experts argued for focussing ODA on LICs and Fragile and Conflict-Affected States (FCAS), with a view to ensuring best use and impact of limited resources. A stronger focus on the poorest of the poor was advocated, as it was argued that public support is for reducing poverty rather than economic development. LICs have very low capacity for domestic resource mobilisation and accessing other flows remains a challenge. It was also argued that ODA may not be the best tool to address poverty in Middle Income Countries (MICs) and that the use of alternative instruments should be explored. Suggestions were for the DAC List of ODA Recipients to be aligned with that of the 82 countries on the World Bank's International Development Association (IDA) and Blend lists, which were considered an adequate group on which to focus poverty reduction efforts.

Another group of experts argued that development encompasses more than poverty reduction and that it would be a poor policy choice to restrict the list of ODA-eligible countries, which could result in large pockets of poverty in MICs being ignored. It was also noted that MICs are far from being homogeneous. Some have access to a wider variety of external flows while others have limited or no access. It is also the case that there is wide variation in the ability of MICs to mobilise domestic resources.

It was agreed that there is a need to better define poverty. Defining it by income level was considered too restrictive. Other indexes, independent of income or GNI level, such as fragility and vulnerability indexes, could be used to determine countries' eligibility to ODA.

Experts felt that the 0.7% of GNI target may have had a strong mobilising effect in the past, but it has outlived its impact. Few DAC donors are reaching it, and a fresh look needs to be taken at appropriate targets with a view to holding governments to account. A solution would be to agree on more ambitious targets for LDCs and FCAS. It was also thought that a target based on each country's share of the global economy, similar to the UN scale of assessments, would hopefully incentivise global collective action.

Some experts felt that ODA should be used to finance global public goods as well as reduce poverty, by better integrating support for peace and security and climate change. On the one hand, it was argued that discussions on climate change financing could not be separate from those on development financing. On the other, it was said that developing countries would not receive such a proposition very well, as many would argue that they are on the receiving end of climate change. Yet another expert argued that it would be hazardous to mix in support for global public goods with ODA, as it was thought that developed countries were also largely responsible for global public bads. Given DAC members' difficulties in meeting the 0.7% target, it was suggested it would be best not to mix in support for climate change and peace and security with ODA.

A for assistance

Unfortunately, lack of time prevented experts from fully discussing the concessional in character criterion. Participants agreed, however, that it was imperative for DAC members to harmonise their practices with respect to the concessionality of loans. There was a view that the definition of concessional in character should not mix recipient and donor perspectives. It was also suggested that the possibility of the OECD-DAC aligning its concessionality practices with those of the IMF and World Bank should be investigated.

Some participants drew attention to the difficult situation being faced by providers whose portfolio includes a large number of low concessionality loans (i.e. extended at little or no budgetary effort). France's *Agence française de développement* has an explicit policy to extend loans at market terms (with very little or no budgetary effort) to MICs such as India. By not being able to count these loans as ODA, France and other countries offering a large number of loans are having difficulty making progress towards the 0.7% of GNI target. In addition, extending more of these types of loans risks placing them in a position of non-compliance with the 86% minimum overall grant element of ODA commitments agreed in the DAC's 1978 Recommendation on Terms and Conditions of Aid.

DAC Delegates' debriefing

The session chairs debriefed DAC Delegates on the Group's deliberations. Listed below are some of the conclusions drawn.

While experts all feel that ODA remains a useful concept and retains its mobilising force, it needs to be updated to allow for innovative financial instruments and modalities. Care, however, should be taken to not tinker too much with it and weaken the political support it currently enjoys.

Opinions, however, differ on the extent to which ODA should be revised. Some experts argued for a simple and direct concept, others for an expanded concept reflecting new financing instruments. All agreed perverse incentives brought about by the ODA definition need to be addressed. The reason for this being that there may be no incentive to use new financial instruments if the resources they mobilise cannot be recognised as efforts towards development under the current measurement system.

There was agreement among experts to focus efforts on the official side of external development finance and that private finance with a humanitarian and philanthropic goal should also be accounted for in a post-2015 measurement system.

Experts agreed on the need for headline measures additional to ODA, to better reflect provider/donor budgetary effort for development as well as recipient benefit.

Experts agreed that the bulk of ODA resources should be focused on poverty reduction but that poverty needs to be defined by other means than just income level. They also thought that the current DAC list of ODA Recipients needs to be sharpened, perhaps by using alternative measures, such as vulnerability indexes, to complement the income level indicator presently used.

There is unanimous support to engaging South-South and other providers on measurement issues.

In terms of follow-up work, the DAC Secretariat will:

- Provide a summary paper on the evolving state of DAC discussions on ODA; including on concessionality;
- Outline the donor/provider and recipient perspectives with respect to new measures;
- Present preliminary findings on the mapping of sources and users of development finance; and
- Explore links between the measurement of financial resources and how development results and coherence of policies for development could be accounted for.

Annex 1 – Expert Reference Group Meeting Participants

03 – 04 October 3013

***EXPERTS** (in alphabetical order)*

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Dr. Abdalla HAMDOK	*Deputy Executive Secretary* *United Nations Economic Commission for Africa (UNECA)*
Mr. Joachim HEIDEBRECHT	*Division Chief* *Department of Development Research* *KfW*
Prof. Pierre JACQUET	*President* *Global Development Network*
Mr. Sony KAPOOR	*Managing Director* *Re-Define*
Mr. Geoffrey LAMB	*President, Global Policy and Advocacy* *Bill and Melinda Gates Foundation*
Dr. Sean NOLAN	*Deputy Director* *Strategy Policy and Review Department* *International Monetary Fund (IMF)*
Mr. Anthony PIPA	*Deputy Assistant Administrator* *Bureau of Policy, Planning and Learning* *U.S. Agency for International Development (USAID)*

Ms. Judith RANDEL	*Co-founder and Executive Director* *Development Initiatives*
Mr. Daniel TITELMAN	*Director* *Financing for Development Division* *United Nations Economic Commission for Latin America and the Caribbean (ECLAC)*

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Mr. Jean-Christophe DONNELLIER	*Minister-Counsellor for Economic Affairs* *DAC Vice-Chair and DAC Permanent Delegate* *Permanent Delegation of France to the OECD*
Ms. Ana Paula FERNANDES	*Counsellor* *DAC Vice-Chair and DAC Permanent Delegate* *Permanent Delegation of Portugal to the OECD*
Ms. Yukiko OKANO	*Counsellor* *DAC Vice-Chair and DAC Permanent Delegate* *Permanent Delegation of Japan to the OECD*

OTHER

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Ms. Hedwig RIEGLER	*Chair* *OECD/DAC Working Party on Development Finance Statistics*
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