



## Total official support for sustainable development\*

The Committee acknowledges the need for new data on development financing, as recognized by the Organization for Economic Cooperation and Development (OECD) Development Assistance Committee (DAC) in its initiative to develop a new concept and methodology for the measurement of the total official support for sustainable development.

The Committee recommends that the Council reiterate the call for donors to meet their official development assistance (ODA) commitments and for ODA to be reported separately from other flows. The different components of any new development financing framework should be registered separately under appropriate categories, such as climate financing, market-like instruments and ODA.

States Members of the United Nations, particularly developing countries and new providers, must be involved in all deliberations on any new framework for financing for development under conditions of full transparency and inclusivity. The Council should facilitate this process through the Development Cooperation Forum.

### 1. Introduction

At its 2012 high-level meeting, the Organization for Economic Cooperation and Development (OECD) Development Assistance Committee (DAC) launched a process aimed at modernizing concepts and updating reporting criteria for development finance. The process has aimed at (a) restoring the credibility of official development assistance (ODA) measurement, (b) mobilizing more resources for implementation of the 2030 Agenda for Sustainable Development and (c) increasing the impact of development cooperation through better leveraging of both public and private resources for sustainable development. This process has entailed pursuit of the objective of establishing sound, transparent and accountable international standards for measuring and monitoring development finance for the 2030 Agenda.

The OECD/DAC process has led to an updating of ODA, with a review of some criteria and registration procedures. It has also

The Committee emphasizes that the following principles should underlie any new concept of financing for development:

(a) Funds should clearly support development objectives related to the 2030 Agenda for Sustainable Development<sup>1</sup> and should be aligned with country priorities;

(b) Development assistance is by its very nature a cross-border transaction and should therefore not include (although this is done, inappropriately, today) expenditure within the borders of donor countries, such as on refugee resettlement or the administrative costs of cooperation;

(c) Private financial flows should be counted separately from official development expenditure.

<sup>1</sup> General Assembly resolution 70/1.

resulted in the study of a new measure of financing for development, complementary to (and broader than) ODA, provisionally called total official support for sustainable development. It is expected that the process will be finalized in late 2016.

In the Addis Ababa Action Agenda of the Third International Conference on Financing for Development (Addis Ababa Action Agenda) (para. 55),<sup>2</sup> Heads of State and Government and High Representatives affirmed that they would “hold open, inclusive and transparent discussion on the modernization of the ODA measurement and on the proposed measure of ‘total official support for sustainable development’” and that “any such measure [would] not dilute commitments already made”. The United Nations, however, has not endorsed total official support for sustainable development as a metric for monitoring implementation of commitments under the 2030 Agenda.

<sup>2</sup> General Assembly resolution 69/313.

\* Excerpt from Committee for Development Policy, Report on the eighteenth session, See Official Records of the Economic and Social Council, 2016, Supplement No. 13 (E/2016/33)

## 2. Changes in official development assistance

Currently, OECD understands total official support for sustainable development as additional to, broader than and separate from ODA. However, as long as ODA is part of total official support for sustainable development, the new components of total official support will be conditioned by the updates made to ODA. Until now, three main changes to ODA have been adopted by the OECD/DAC:

- A new criterion was defined for measuring concessional loans as part of ODA,<sup>3</sup> taking into account the grant element only (and not the total face values of loans), demanding minimum thresholds of concessionality and assessing concessionality based on lower and differentiated discount rates. Both thresholds and discount rates are defined in accordance with a country's level of income.
- The ODA reporting directives on peace and security expenditures were updated, in order to clarify the eligibility of activities involving the military and the police as well as activities aimed at preventing violent extremism. These changes implied a slight enlargement of this component of ODA.
- The official provision of private sector instruments (equity, credit enhancements and guarantees) should be counted as ODA, while the flows generated by such effort should be counted as total official support for sustainable development.<sup>4</sup> To be counted as ODA, private sector instruments need to have the development and welfare of recipient countries as the primary objective and to provide finance that is additional. However, it is still not clear how both requirements can be assessed unambiguously.

OECD/DAC reiterated that the ODA system remains relevant and credible and argued that ODA should continue to be used to indicate donors' budgetary efforts and to monitor established commitments (0.7 per cent of donors' gross national income (GNI) for developing countries; and 0.15-0.20 per cent of donors' GNI for least developed countries).

## 3. The new measure of total official support for sustainable development

Total official support for sustainable development is intended to serve as a new and more comprehensive measure of development cooperation, taking into account the increasing importance of new donors, including South-South cooperation, private foundations and charities, and new financial instruments, such as market-like instruments and mechanisms for climate change financing. The new measure is also intended to reflect the broadening of the global development agenda, including mechanisms

of public financing in areas not covered by ODA and not yet reported on in a systematic manner.

In 2014, OECD/DAC ministers agreed that the measure of total official support for sustainable development would:<sup>5</sup>

- Complement and not replace ODA.
- Potentially cover the totality of resource flows (both concessional and non-concessional) to developing countries and multilateral institutions in support of sustainable development and originating from official resources.
- Include core activities that promote and enable sustainable development (including global public goods) when they are deemed relevant for the 2030 Agenda and aligned with developing countries' priorities.
- Make a clear distinction between official support and flows mobilized through official interventions (and between flows and contingent liabilities).
- Capture and report resources on a gross cash-flow basis while also collecting and publishing net flows so as to ensure full transparency.

Total official support for sustainable development will involve a substantial broadening of the traditional concept of ODA, including areas and instruments that are now beyond the scope of ODA. The following are among the non-ODA components that will likely be part of total official support for sustainable development:

- Expenditures related to the economic development and welfare of developing countries funded with low or non-concessional flows.
- Enablers of development, particularly those expenditures related to security and peacebuilding beyond ODA, such as for United Nations-mandated peace missions or long-term refugee costs (costs in the first year can be registered as ODA).
- Expenditures related to fighting climate change, including non-concessional finance addressing mitigation or adaptation concerns, as well activities connected with those purposes, such as carbon market flows.
- Expenditures related to other global public goods when deemed relevant for development, which include contributions to several standard-setting multilateral organizations.
- Market-like instruments and resources leveraged from the private sector through official means and not computed as ODA. This could include equity and mezzanine finance, export credits and amounts mobilized by guarantees.

<sup>3</sup> DAC High-level Meeting Final Communique, 16 December 2014. Available at <http://www.oecd.org/dac/OECD%20DAC%20HLM%20Communique.pdf>.

<sup>4</sup> See DAC High-level Meeting communiqué, 19 February 2016.

<sup>5</sup> See DAC High-level Meeting communiqué, 16 December 2014.

#### 4. Challenges and uncertainties and moving forward

A more comprehensive measurement of official support for sustainable development is legitimate, but the initiative may also be motivated by (a) the declining importance of ODA in financing for development, particularly in middle-income countries, (b) the need to offset the increasing economic and political relevance of new donors in recipient countries and (c) the demand on the part of some DAC donors that their “effort” in terms of expenditures that are not duly reported in ODA statistics be recognized. Therefore, the Committee for Development Policy urges OECD/DAC to demonstrate unequivocally that the new concept represents a response to current complexity as regards all (new and old) providers and instruments in support of sustainable development and not a means through which to address the specific concerns of traditional donors.

The Committee emphasized that there needs to be an explanation of why a more comprehensive approach to development cooperation necessitates the introduction of a new measure rather than clarification and better measurement in the different areas of development finance that already exist. Creating a new measurement of official support is a complex exercise. Before the measure of total official support for sustainable development is adopted, there is a need to address issues of terminology, to establish the premises of cooperation, to define the perimeter around what can be counted and to identify registering and monitoring procedures. Until now, there have been visible shortcomings in most of these areas.

The Committee noted that it is not clear how the participation of non-DAC members and other stakeholders is being operationalized. Most of the technical discussions are occurring within OECD/DAC, with a few emerging donors being invited as observers and experts within the United Nations system being invited to participate in their own capacity.

If total official support for sustainable development is to serve as a comprehensive and inclusive measure of development cooperation, the process should guarantee that the perspectives of both providers and recipients are reflected in its definition and that developing countries (new providers and recipients) take part in the process. In this regard, discussions on total official support for sustainable development should also be conducted within the Development Cooperation Forum, where provider and recipient countries are represented within a context of greater inclusiveness.

Under total official support for sustainable development, the plan is to register those resources leveraged from the private sector through official means, an area regarded by OECD/DAC as a “growing priority”.<sup>6</sup> However, there is the risk that some official funds support private activities instead of catalysing resources in

favour of recipients’ development strategies. Therefore, the Committee urges caution in this area, and underlines the need to clarify terms such as “additionality” or “catalysing”, on which the registration of private flows associated with official interventions is based.

The Committee recommended that total official support for sustainable development be based on principles reflecting the understanding that:

- It offers a comprehensive vision of the official financing for development landscape, including the contribution of the new providers through South-South cooperation.
- It preserves the developmental purpose of its components and their clear alignment with the recipient country’s priorities, rejecting mechanisms (such as export credits) that support mainly donors’ interests.
- It accounts for cross-border flows only. Neither domestic costs associated with refugees nor administrative expenses or other in-donor-country expenditures should be part of total official support for sustainable development. The provision of sufficient funds for refugees should be encouraged separately.
- Expenditures on global public goods should be registered as total official support for sustainable development only if they involve cross-border transactions.
- It refers to official flows mobilized for developmental purposes. Private flows mobilized with official support should be reported separately.
- ODA should be maintained as a separate measure and should remain the basis for monitoring donors’ commitments.
- Different components (climate finance, peace and security expenditures) should be accounted for separately, as should financial mechanisms (such as grants, loans and equity investment) that are part of total official support for sustainable development.
- Total official support for sustainable development should provide a transparent and balanced measure of each mechanism, accounting for the costs and benefits for the recipient countries.

<sup>6</sup> DAC High-level Meeting final communiqué, 25 February 2016, para. 10.