Reporting on Development: ODA and Financing for Development

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Authors: Jan Vanheukelom, Stefano Migliorisi, Alisa Herrero Cangas, Niels Keijzer, Eunike Spierings

Table of contents

List of acronyms

BRICS	Brazil, Russia, India, China and South Africa
CDM	Clean Development Mechanism
CEPS	Center for European Policy studies
CER	Certified Emission Reduction
CRS	Creditor Reporting System
CSOs	Civil Society Organisations
DAC	Development Assistance Committee
DCF	Development Cooperation Forum
DEVCO	Directorate General for Development Cooperation
DFID	UK Department for International Development
DRS	Debtor Reporting System
EDF	European Development Fund
EFFD	External Financing for Development
EIB	European Investment Bank
EU	European Union
EUR	Euros
FFD	Financing for Development
FMO	Netherlands Finance Development Company
GNI	Gross National Income
GNP	Gross National Product
GPG	Global Public Good
IATI	International Aid Transparency Initiative
IFCA	Investment Facility for Central Asia
ITF	EU–Africa Infrastructure Trust Fund
LAIF	Latin America Investment Facility
LICs	Low-Income Countries
MDGs	Millennium Development Goals
MICs	Middle-Income Countries
NGOs	Non-Governmental Organisations
NIF	Neighbourhood Investment Facility
OCA	Official Climate Assistance
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
OOF	Other Official Flows
OPIC	Overseas Private Investment Corporation
OSA	Official Security Assistance
OSPF	Official Support for Private Flows
PCD	Policy Coherence for Development
PPIAF	Public-Private Infrastructure Advisory Facility
PDA	Private Development Assistance
USD	United States Dollars
UN	United Nations
WBI	World Bank Institute
WBIF	Western Balkans Investment Framework

Executive Summary

I: Objectives and methodology

1. In September 2011, The Netherlands Ministry of Foreign Affairs and the German Federal Ministry for Economic Cooperation and Development jointly commissioned two studies under the heading 'Modernising the Comparability of Donor Contributions Post-2015'. The studies respectively aim to (1) associate other development-related financial contributions to Official Development Assistance (ODA) reporting and (2) examine the feasibility and potential design of a 'development-friendliness' index to evaluate non-aid donor policies affecting developing countries.

2. This report presents the results of the first study. In relation to its overall focus, the report presents three principal outputs of the study: (1) a 'diagnosis' of the current ODA reporting system, covering a historical overview and analysis of key drivers, actors and fora; (2) a mapping of financial contributions that can be judged as contributing to development; and (3) an exploration of scenarios for associating relevant non-ODA expenditure to ODA reporting, or promote different degrees of integration towards and post-2015.

3. The study was conducted in the period from September 2011 to January 2012, with the data collection undertaken in the period November to December 2011. The methodology of this study consisted of two elements: a systematic review of literature consisting of official and non-government sources and 17 semi-structured interviews covering 29 respondents working for DAC member governments, the OECD and European Commission and international financing institutions. The literature review provided the key basis for study outputs (1) and (2), while the interviews provided the key basis for study output (3).

II: The evolution of ODA and key drivers influencing its continuing relevance

4. After adopting the overall concept in 1969, the DAC subsequently adopted its ODA definition in 1972 as comprising grants or loans provided by official agencies to developing countries and to multilateral institutions for flows to developing countries. In 1970 the UN General Assembly agreed that advanced countries would make 'efforts' to provide 0.7% of gross national income (GNI) as ODA. This target reflected what was considered an acceptable political compromise at the time of its adoption, as well as the relative size of official flows at that time.

5. In subsequent years the DAC made several changes to the operationalisation of ODA, ranging from minor to strong changes. Following these changes over time, the ODA definition as we know it today consists of five elements: (a) the type of flows (equity, grants, loans or technical cooperation); (b) the source (official sector of donor countries); (c) the recipients (they must be on the DAC list); (d) the development/welfare purpose of the related transactions; and (e) their concessional character. These and other standards are agreed at an international level, and are informed and operationalised at the national level. The current reporting process is the result of a governance system based on consensus.

6. Debates about the way ODA is defined and reported on primarily take place in donor arenas and are largely driven by stakeholders in donor countries. In recent years the influence of the G20 and non-state actors on these debates has increased, as for instance witnessed by their influence on the recent Busan Partnership for Effective Development Cooperation document.

7. While reaching an all-time high of $128.7 billion in 2010, ODA itself has in recent decades been ‘outgrown’ by other international financial flows: in 2010, remittance inflows to developing countries were $326 billion and net equity inflows stood at an estimated $571 billion. Another important driver concerns the increasing involvement of so-called ‘emerging donors’, who are of the opinion that what they do cannot be compared to the developed countries’ approach to development cooperation through ODA.

8. The year 2015 marks the deadline to achieve the 21 targets of the Millennium Development Goals (MDGs) as well as the target date for agreed efforts to reach the 0.7% of GNI target as ODA. It represents an opportunity to update and broaden the global development reporting framework to achieve a comprehensive measure of contributions to global development. The discussions on the post-MDG framework so far hint at a greater focus on the development dimension of relevant Global Public Goods (GPGs). Once adopted, this post-MDG framework will define what overall development outcome(s) should be attained, and should also inform the modernisation of Financing For Development (FFD) reporting.

III: Mapping financial contributions and their perceived development-relevance

9. As one of its principal outputs, this study conducted a mapping of those financial contributions that are deemed relevant to contributing to international development objectives. This mapping essentially consisted of two separate though related areas: (1) those contributions that are considered part of ODA and (2) those contributions considered to be outside of what is covered by the ODA definition. The ODA definition is tightly defined and is relatively ‘conservative’ as a result of the governance arrangement for making amendments to it. Still, one can consider the two areas to be intricately linked, as a number of OECD members would consider including additional FFD contributions in the ODA reporting. Others hesitate to consider some of the current ODA elements as development-relevant.

10. Development relevant contributions beyond ODA include Climate Assistance and Security Assistance spending, and a diverse range of **innovative financing mechanisms**. Innovative financing includes the non-ODA elements as considered in the Financing for Development agenda, adopted in the Monterrey Consensus of 2002 and they include both innovative fund-raising efforts and innovative financial solutions.

11. Many innovative mechanisms are difficult to include in the current ODA reporting system, due to criteria for concessionality (see paragraph 12), flow characteristics (see paragraph 13) and intermediaries. For example, donors use some financing mechanisms to cushion the risk for private investments, but these intermediaries are not always listed as ODA-eligible organisations in Annex 2 of the DAC Statistical Reporting Directives.

12. **Concessionality**, measuring the softness of a credit, is used by the DAC to reflect the benefit to the borrower in comparison to a loan at market rate. The DAC definition used is somewhat arbitrary: a loan counts as ODA if it has a grant element of more than 25%. When reporting against a broader aggregate, as explored in this report, one could potentially move away from this criterion and instead look into a reporting concept of ‘sliding concessionality’. If the focus is on the development-relevance of the total investment,then there would be no need for a particular threshold to determine in- or exclusion. This could make the reporting more representative by covering all that is considered as relevant to development.

13. Three **types of innovative financing mechanisms** are discussed, which are distinguished by their characteristics in terms of their public or private sources and their private or public uses.

a. **Public Private Partnership (PPP) mechanisms** use public funds to leverage or mobilise private finance to support public functions such as infrastructure provision or service delivery (such as *blending facilities*, pursuing the complementary use of grants and loans, *frontloading of ODA*, raising funds on international capital markets by issuing bonds that are backed by long-term (legally binding) ODA commitments, and *Official Support for Private Flows* used to raise new revenues or to scale up or develop activities for development purposes).
b. **Solidarity mechanisms** that support public-to-public or sovereign-to-sovereign transfers of funds.
c. Finally the **catalytic mechanisms** use public finance for market creation and promoting private sector development by reducing risks of private entry. These include financial *guarantees*, *equity investments* and *callable capital*.

14. In 2010 the ODA levels have reached records in dollar terms, but most donors fall short of their commitments to the **ODA target of 0.7% of GNI**. The current global economic and financial crises have also created political incentives for donor governments to stretch the ODA definition and concept in order to limit the increase of their development budgets. Since its inception, adaptations have been made to what can or cannot count as ODA: including adaptations to the list of beneficiaries, the sectors that are *ODAble*, the degree of concessionality that is required for inclusion as ODA and, finally, the inclusion of certain expenditures that do not reflect a "flow". The following contributions that are considered ODA are debated with respect to their development relevance.
    a. **Administrative costs**, initially included to improve the comparability of total ODA figures among donor countries but it turned out to be difficult to have comparable data.
    b. **Refugee costs,** spending on refugees in donor countries is part of European governments' human rights obligations, but the link to development is contested.
    c. **Scholarships and imputed student costs**, of which the development benefits and the effectiveness are difficult to measure.
    d. **Technical cooperation**, criticised for cost-inefficiency and lack of effective contribution to development/welfare, although in recent years this has improved.
    e. **Emergency aid**, of which the link to development is acknowledged as emergencies have huge effects on development, though its contribution to long-term development is questioned.
    f. **Debt relief**, considered essential for development, but measurement is difficult and some argue that it should be additional to ODA.

15. All these developments lend weight to the argument to consider ODA in the wider context of flows of development finance in which official development assistance is likely to become a much smaller share. The DAC responded to these developments by shifting its focus to a more inclusive orientation towards new forms of partnership that include new public and private donors, civil society, and private sector actors. Also, the DAC is exploring a shift away from a focus on ODA as the prime source of financing for development, instead looking into the relevance of a focus on the users of flows of ODA and other development finance. Improved or more comprehensive measuring of development finance gives greater prominence to these flows and a greater recognition of their development impact for an expanding group of users.

16. The ODA monitoring and measurement system also captures alternative aggregates in its statistics such as (a) Gross ODA: the sum of ODA grants and ODA loan disbursements; (b) *Total Official Flows*, the sum of total ODA (net or gross) and "other official flows"; and (c) *Official Development Finance*: measured at the level of recipients, comprising bilateral ODA, bilateral OOF and the total development spending of multilateral agencies.

IV: Two options for associating development-relevant finance to ODA reporting

17. Based on its analysis of the genesis of the ODA concept, the opportunities provided by the discussions on the post-2015 global development framework and its mapping of development-relevant financial contributions, this study explored two options for associating non-ODA development contributions to ODA reporting and sought inputs from a variety of stakeholders.

18. A **first option** was to **keep the current system of collecting data, without stretching the ODA definition. It also proposes to unbundle parts of the Other Official Flows**. This option would seek to **address the challenges posed by non-traditional donors and new sources of financing for development.** This broader aggregate – the External Financing for Development – presents a more inclusive picture on concessional and non-concessional as well as public and private flows from both OECD and non-OECD countries. In this context, ODA is a type of EFFD, which consists of three elements: (a) the type of flows (equity[1], grants, loans or technical cooperation); (b) the recipients (they must be on the DAC list); and (c) the development/welfare purpose of the related transactions.

19. A **second option** would propose **fundamental changes to the ODA definition and reporting system.** This scenario proposes to continue focusing on ODA alone but only after making substantial revisions to its definition. Rather than adding new aggregates outside ODA (i.e. Official Security Assistance, Official Climate Assistance and Official Support for Private Flows) or focusing on FFD, **the ODA concept should be broadened to incorporate all three**.

20. The further analysis of these two options based on the interviewees and additional literature reviews results in the following conclusions:
    a. Reporting against **a broader aggregate** with no fundamental enlargement of the ODA's scope is preferred due to (a) the link with recent discussions in Busan; and (b) sensitivities associated to direct exchanges on the ODA.
    b. A **lack of commonality in the interests of development partners** as far as modernising reporting on development is concerned complicates changes given the current consensus-based governance system.
    c. Associating new sources of development-relevant finance to the future reporting brings challenges when it comes to the strong differences in **availability, transparency and quality of data**, requiring substantial investment.
    d. Incrementally brokering for change requires **innovative ways of coalition building, networking, and governance** arrangements.

21. A **tentative exploration** of the possibilities for reporting against a broader aggregate confirms the relevance thereof, but also the significant data and research investments required to do so usefully.

V: Conclusions and recommendations

22. Comparative analysis of the findings from the three outputs of this study leads to an overall conclusion that **the current FFD reporting system, which mainly revolves around an input-based ODA target, is no longer fit for purpose**. The system requires an overhaul to report adequately on the financing for development under the post-MDG framework post-

[1] Equity here refers to investments that could also be above 10%. If they are below they are ODA, if not they belong to either OODF or OPDF.

2015. Key reasons underpinning this conclusion are that (a) a full picture of all FFD contributions should be provided, not only of the OECD members' ODA contributions, whose share of total FFD has declined even with increasing ODA volumes; (b) new instruments and tools need to be adequately reflected in the measurement of FFD; and (c) a desire to clarify the disputed development-relevance of some *ODAble* contributions.

23. As is reflected by the current FFD reporting process, any future system will be primarily built on informed political compromises rather than on purely technical solutions, which is why it is neither appropriate nor effective for this study to advance a particular FFD reporting solution. Based on its findings, this study instead puts forward four general recommendations that reflect an **overall need for more pro-active, explicit and inclusive policy discussions on the means to finance development objectives after 2015 and related reporting**.

24. These general recommendations could be pursued separately or simultaneously to prepare the ground for, and initiate the discussion on, reporting on development-relevant financial contributions after 2015:
    a. **Ensure that discussions on financing for development feature prominently in events that will shape the post-2015 global development framework**: the findings from the interviews confirm the relevance of many upcoming events (e.g. Rio+20, 2013 MDG review, a possible meeting on financing for development in 2013, continuing discussions on climate finance). This trend would justify a greater profile of development partner officials dealing with ODA reporting in such discussions.
    b. **Ensure sufficient focus on reporting on financial contributions in the discussions leading to the establishment of a Global Partnership for Effective Development Cooperation:** with some important ODA contributors not being part of G20, and the UN Development Cooperation Forum not deemed influential enough on its own, actors should engage more proactively with the future successor to the Working Party on Aid Effectiveness to make sure there is sufficient attention to financial dimensions.
    c. **Put transparency and results-oriented reporting on ODA and associated financial contributions at the top of the agenda:** findings from this study indicated that the disadvantages of opening up the ODA definition outweigh the advantages. Given the mapping's observations on the concerns on development-relevance of some ODA elements, as well as promising effects of innovative sources of finance, different partners providing these investments need to be urged to be both effective and open.
    d. **Join and gear up analytical efforts to learn from the effects that different approaches to finance have on development outcomes**, and make sure the outcomes of such a learning process are made available to all relevant actors. The general objective should be that all ODA components and associated expenditure are evaluated with appropriate intensity and rigour.

25. Based on these overall recommendations, section 5.3 of this report puts forward 19 operational recommendations in relation to specific actors that could inform further discussions and initiatives to help modernise reporting on development-relevant financial contributions.

About this report

In September 2011, the Netherlands Ministry of Foreign Affairs and the German Federal Ministry for Economic Cooperation and Development jointly commissioned two studies. The studies respectively aim to (1) look into scenarios of how development-related financial contributions can be associated to Official Development Assistance reporting and (2) examine the design and feasibility of a 'development-friendliness' index to evaluate donor policies beyond their quantitative ODA contributions.

This report presents the results of the first study, whose scope and methodology is described in detail in section 1. As is described in its Terms of Reference, the study aims to contribute to the design of *"a comprehensive system for capturing the sum of donors' development-related financial contributions based on the existing ODA definition, and putting forward recommendations for improvement."*

This report was prepared by a team led by Jan Vanheukelom (ECDPM), and comprised of Stefano Migliorisi (independent consultant), Alisa Herrero Cangas, Niels Keijzer, Eunike Spierings (ECDPM). Jorrit Oppewal, Stephanie Colin and Elena Fanetti (ECDPM) provided research assistance.

1. Scope and methodology

The Terms of Reference provide an analysis of the current ODA reporting process, and note that this process is the result of a system based on consensus. Given this approach to ODA 'governance', and the changes in past decades in terms of its conditions, instruments and possibilities, the ODA system does not always create incentives with the desired outcomes. An important window of opportunity to reform this system is represented by the year 2015, being the 'deadline' for the Millennium Development Goals as well as its associated ODA targets. This offers stakeholders an opportunity to retain the advantages of the current reporting system while identifying the disadvantages and examining them to see how the system can be adapted to present-day circumstances.

Based on the Terms of Reference, the following key parameters and tasks for this study are set out:

a. The study should gather and analyse the **current perceived shortcomings of the ODA reporting system** as well as present alternatives for modernising ODA reporting. It will do so against the background of the evolving technical and political debate on how to make development assistance more effective.
b. In addition, and as its principal output, the study is to produce a **typology of all development-related financial contributions** from donor countries that are not incorporated in the **current ODA reporting guidelines**.
c. This exercise will also take into account **development related financing of non-DAC members** in general and in relation to the reporting system.
d. Based on this typology, the team will explore **different scenarios** on how such contributions, which are currently not considered as part of ODA, can be integrated or otherwise associated on an equal footing in the DAC reporting process.

Following further discussion with the commissioning parties and the operationalisation of the study's approach and methodology, the Study Team identified the following three key outputs for the study that are presented in this report:

1. A **'diagnosis'** of the current ODA reporting system, covering a historical overview and analysis of key drivers, actors and fora *(section 2)*;
2. A **mapping** of financial contributions that can be judged as contributing to development *(section 3);*
3. An exploration of **scenarios** for associating relevant non-ODA expenditure to ODA reporting, or promote different degrees of integration towards and post-2015 *(sections 4 and 5)*.

The study was conducted in the period from September 2011 to January 2012, with the data collection undertaken in the period November to December 2011. The methodology of this study consisted of two elements: (i) a systematic review of literature and (ii) semi-structured interviews. The literature review provided the key basis for study outputs 1 and 2, while the interviews provided the key basis for study output 3.

Both approaches to data collection were used in parallel, while initial results from the document analysis in relation to study outputs 1 and 2 was used to prepare the interview questions. Although the review of the literature also covered several classified documents shared by the OECD/DAC, which clarify some of the ongoing debates within the Working Party on Statistics, the review remains non-exhaustive. The principal documents that were selected and reviewed are listed in the bibliography of this report, while supplementary information is included in footnotes.

The interviews were conducted on the basis of a consultation note presenting one option (option 2 in the study) to allow interviewees to react and suggest alternatives. The Annex to this report contains the consultation questions that were shared with interviewees. This approach was preferred over a classic questionnaire that could have constrained the input of interviewees. As agreed with interviewees, opinions are not attributed and were provided as personal views rather than official positions of their organisations. Several agencies did not participate in the study for the stated reason that an official position on the matters under discussion was not yet available. 17 interviews were conducted through which 29 respondents expressed their views and ideas in relation to the note as circulated:

a. Members of the DAC (Canada, Germany, Netherlands, Switzerland, United Kingdom, United States of America) (n=10);
b. OECD and European Commission (n=3);
c. International Financial Institutions (KfW and World Bank) (n=4).

2. The evolution of ODA and key drivers influencing its continuing relevance

2.1. Why the 0.7 target? A brief history of the ODA target

The idea that developed countries would adopt a common financial target to reflect their input-level commitment to provide support to developing countries was formed in international discussions during the 1950s and 1960s. During a meeting in Denmark in 1958, the Geneva-based World Council of Churches adopted a statement that far more loans and grants were necessary to help developing countries carry out their development plans and that *"(…) if at least one per cent of the national income of countries were devoted to these purposes, the picture would become much more hopeful"*. It can be added that this statement followed one year after Ghana began the independence process of Sub-Saharan Africa (Clemens & Todd 2005, Führer 1996).

Though the Council provided no explanation on how it arrived at the one percent figure, it seems likely that the main reason was that it was a round number that roughly represented a doubling of capital flows from the levels of the mid-1950s. The World Council's request was transmitted to several developed countries' missions to the UN. Throughout the late 1950s public and private capital flows to all developing countries increased, and by 1960 had reached 0.83% of rich countries' GNP. In that year, the United Nations General Assembly judged that level 'inadequate' and adopted without vote the resolution in which it expressed hope that the flow of international assistance and capital would increase to the 1% figure (Clemens & Todd 2005).

Later during the 1960s the implications and measurability of such a target were discussed further, including during two meetings of the United Nations Conference on Trade and Development (UNCTAD). During the second UNCTAD meeting, background studies were considered which suggested setting a separate target for the commitment of governments to international development. As per the ratio of official flows from government in total capital flows at the time, the background studies suggested figures of around 0.75% of their GNP (Clemens & Todd 2005, Führer 1996).

In 1969, the Pearson Commission's Report 'Partners in Development' was published. The main purpose of the Commission that prepared this report was to draw political attention to the UNCTAD target. The report thus included a recommendation for OECD members to dedicate 0.7% of their Gross National Income for Official Development Assistance. In that same year as the completion of the Pearson report, the first Official Development Assistance (ODA) statistics were compiled by the OECD's Development Assistance Committee, whose members agreed to separate that concept from "Other Official Flows" (OOF) and define as ODA those official transactions which aim to promote the economic and social development of developing countries and the financial terms of which are intended to be concessional in character (Führer 1996).

The 0.7 target was thus very much a child of its time, and considered an acceptable political compromise though not free from controversy. In 1970 the UN General Assembly adopted without vote its declaration on the Second Development Decade, which included an agreement that advanced countries would make 'efforts' to achieve the 0.7 target (Clemens & Todd 2005). When the standard was devised in the 1960s, it still reflected the estimated need for development assistance in developing countries. However, since the 1970s it has acquired the character of a politically based international standard, which is reconfirmed at international summits and conferences (WRR 2010). More than fifty years later the world has changed drastically, yet the 0.7 target still exists.

2.2. The ODA definition as we know it

After adopting the overall concept in 1969, the DAC subsequently adopted its ODA definition in 1972 as comprising grants or loans provided by official agencies (including state and local governments, or by their executive agencies) to developing countries (countries and territories on the DAC List of Aid Recipients) and to multilateral institutions for flows to developing countries, each transaction of which meets the following test: (a) it is administered with the promotion of the economic development and welfare of developing countries as its main objective; and (b) it is concessional in character and contains a grant element of at least 25 percent (calculated at a rate of discount of 10 percent) (Führer 1996).

In subsequent years the DAC made several changes to its operationalisation, ranging from minor to strong changes, e.g. by agreeing to increase the average grant element target for each Member's ODA programme from 84 to 86% in 1978, or by agreeing to include technical co-operation in development assistance. Following these changes over time, ODA as we know it today consists of five elements: (a) the type of flows (equity, grants, loans or technical cooperation); (b) the source (official sector of donor countries); (c) the recipients (they must be on the DAC list); (d) the development/welfare purpose of the related transactions; and (e) their concessional character.

The list of activities to be considered as promoting development and welfare (aspect d) has widened over time. *Inter alia*, administrative cost of donors, cost of refugees in donor countries, imputed costs of students from developing countries, internally paid interest subsidies, promotion of development awareness, and recording of debt forgiveness on non-ODA debt were all added to the list of activities. Another important evolution concerns the introduction of the DAC list of development assistance recipients in 1993, following an initial proposal to consider as ODA all development assistance for all countries that met the DAC norms of concessionality and development motivation.

As stated on its website, DAC collects and publishes data from over 40 OECD and non-OECD countries on ODA and non-ODA development finance to developing countries. It does so to help *"identify whether money is being allocated according to need"*. For a long time the main purpose of ODA monitoring has been to measure and monitor donor inputs or efforts and benchmark against the 0.7% GNI target. This target became internationally an *"indication of the preparedness of governments to comply with internationally agreed commitments relating to the social and economic development of developing countries"* (Stokke 2009: 512 in: Van Lieshout et al. 2010). ODA data gathering and reporting allowed for some sort of peer monitoring. Transparency on donor inputs and comparability can contribute to collective self-discipline, while NGOs, media and accountability institutions can use such statistics for benchmarking, information and advocacy activities.

2.3. Key actors and arenas driving FFD policy and practice

Since its inception in 1972, both the ODA definition and the ODA reporting system have gone through regular yet incremental changes. Debates about the way ODA is defined and reported on primarily take place in donor arenas (an important one being the DAC Working Party on Statistics) and are largely driven by stakeholders in development partner countries. Further to these discussions, the UN

(General Assembly meetings as well as the meetings on financing for development in resp. 2002 and 2008) plays a strong role in strengthening accountability on current targets and, including through its Development Cooperation Forum, on future targets. More thematic and non-development international policy discussions further inform the debate on FFD, notably those relating to Global Public Goods.[2] Finally, in addition to the data on ODA and FFD flows gathered by the OECD, the International Financial Institutions also contribute to informing discussions.[3]

As part of this study, a literature review was carried out to gain further insights on the role that is played by different influential actors and fora that contribute to international policy discussions on Financing for Development. The review points to an increasing differentiation and proliferation of regional and international players or forums, some of which, such as the G20, have generated more clout than originally imagined. The G20 also deals with development and development finance related matters. While on the one hand these so-called newer 'mini-lateral' fora gain in influence, there is an opposite trend of existing fora that gradually transform in terms of governance structure and inclusiveness – the best example concerns the evolution of the Working Party on Aid Effectiveness, for which it was agreed in December 2011 that this would be succeeded by the future Global Partnership for Effective Development Cooperation.[4]

One particular arena where multiple private and public actors seem to converge, relates to transparency of financial flows, including private and public development assistance flows. This discussion has emerged during more general policy discussions on aid effectiveness and gained further speed after the 3rd High Level Forum on Aid Effectiveness in Accra in 2008, after which they developed into a more self-standing international debate. Transparency may help create an enabling environment for more accountability through informed debates (domestically and internationally) on volumes, priorities, innovative ways of finance and partnerships, as well as the potential to mobilise domestic resources. During the recent High Level Forum in Busan (2011), the transparency issue rose to the top of the political agenda – pointing the way to a more demand-driven debate about development assistance information that is more inclusive, more purpose driven and more user-centric rather than provider focused (Aidinfo 2011).

There is also a trend for new non-state actors – such as the Bill and Melinda Gates Foundation, ONE, and others – to engage in these arenas and debates and putting forward ideas on the need and potential for new partnerships, priorities (including research and advocacy) and innovative financing modalities. Academia and think tanks, but also some of the major institutional players such as the World Bank and the specialised OECD structures provide additional inputs to these public debates through research or other diagnostics, for example on 'innovative financing for development', climate finance, or areas of contention such as which security-related expenditures to include as ODA. The table below lists some of the key stakeholders in these public debates, as well as a number of the issues and propositions that emerge.

It should be noted that although standards about financing for development and ODA are agreed at an international level, they are shaped by and also further operationalised at the national level. While important changes have for instance been made in relation to reporting on ODA during past decades, as discussed in more detail below, national-level debate and the general public's support to development cooperation incentivise governments' and other actors' actions in relation to overall FFD

[2] E.g. international finance relating to climate change (COP 15, 2009), biodiversity (Nagayo, 2010) and other GPGs (Rio+20, 2012).
[3] E.g. the World Bank's Global Monitoring Reports: http://go.worldbank.org/UVQMEYED00
[4] See paragraph 36 of the Busan Partnership for Effective Development Cooperation: http://www.aideffectiveness.org/busanhlf4/images/stories/hlf4/OUTCOME_DOCUMENT_-_FINAL_EN.pdf

levels and reporting. While the scope of this study did not allow for a systematic analysis of such national debates, it is important for understanding the process, focus and outcomes of the international debates. Three examples can illustrate this:

a. National debates on meeting the 0.7% can be highly politicised, captured in binding national legislation, or can be considered a non-issue or even irrelevant;[5]
b. Some countries fully use the options for reporting on ODA, while other countries do not want to report certain expenditure as ODA despite this having been agreed at the DAC;[6]
c. In the absence of an international decision made, some countries do not include climate change finance in their ODA budgets, others do include it entirely, while for instance DFID has set a ceiling for 10% of its ODA budget.[7]

2.4. Opportunities of the post-2015 discussions for reporting on Financing for Development

As per the brief historical context sketched above, refinements to the ODA definition and its operationalisation for reporting have been introduced throughout the past decades, yet neither the concept nor the 0.7% GNI target has been questioned by a critical mass of donors to date. In 2002 these targets were adopted at the UN level in Monterrey, and reconfirmed in its entirety in Doha in 2008, shortly after the emergence of the present global economic and financial crisis.

Whereas the OECD thus struggles to provide ODA in relation to the 0.7 target, with the EU remaining the largest contributor with a contribution of 53.5 billion euro 2010 (in 2008 prices), i.e. 57% of total net ODA to developing countries (EC 2011a), ODA itself has in recent decades been 'outgrown' by other international financial flows: in 2010, remittance inflows to developing countries were $326 billion and net equity inflows stood at an estimated $571 billion (of which two-thirds was foreign direct investment), with official development assistance (ODA) flows of $129 billion (Chandy 2011).[8]

Another important driver reducing the relative influence of ODA on developing countries concerns the increasing involvement of so-called 'emerging donors', who are of the opinion that what they do cannot be compared to the developed countries' approach to development cooperation. Their growing involvement is changing the relations between Europe and developing countries, as well as beyond. A related implication, and one which was implicitly confirmed during the fourth high-level forum on aid effectiveness in Busan in 2011, is that the idea of grouping countries under a 'developed' or 'developing' heading no longer makes sense, if it ever did.[9]

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[5] The Dutch Scientific Council for Government Policy (WRR) wrote in its report 'Less pretention, more ambition' for example about the "fixation with spending 0.7% of national income on aid" and suggests "It would be better to replace that percentage with a figure that also expresses what the Netherlands does in other fields relevant to development, such as care for global public goods" (WRR 2010b: 4).

[6] For example, although it is possible to report as ODA Assistance to refugees in developing countries as well as temporary assistance to refugees from developing countries arriving in donor countries and the costs associated with any eventual repatriation, not all DAC members do so.

[7] Source: http://www.publications.parliament.uk/pa/cm200910/cmselect/cmintdev/404/40406.htm

[8] It should be noted that that although ODA has become a relatively small inflow compared to remittances and broadly similar to foreign direct investment on a global scale, ODA continuous to be an important and influential inflow for Sub Saharan Africa and Least Developed Countries in general (UNECA/IOC 2011).

[9] For a detailed analysis, please refer to Bilal, S. and F. Rampa. 2011. Emerging economies in Africa and the development effectiveness debate. (ECDPM Discussion Paper 107). Maastricht: ECDPM. http://www.ecdpm.org/dp107

Box 1: Global trends and their implications for 'aid models'
The emergence of new national, regional and global players, shifts in the *distribution of poverty* and new sources of financing also impact on the debates about modernising ODA and financing for development. Between 2005 and 2008 eleven low-income countries graduated to middle income states. By now, three-quarters of the world's poorest people live in middle-income countries, some of which have since become sizeable donors themselves. Besides the 24 DAC members, DAC also registers development assistance flows from 23 non-DAC members. Not only do these new donors bring in new resources, they also affect the nature of partnerships and 'aid models'. Walz and Ramachandran[10] distinguish next to the ODA model, also the South-South partnership model ('mutually beneficial relationships') and the Arab Model.

The year 2015 marks the target date to achieve the 21 targets of the Millennium Development Goals (MDGs) as well as the agreed date for reaching the 0.7% of gross national income (GNI) target as Official Development Assistance (ODA), agreed at the UN's 2002 Monterrey summit on financing for development. As a result, 2015 represents an opportunity to update and broaden the global development reporting framework. As of January 2012, neither the UN member states nor the EU had agreed to levels of ODA after 2015.[11]

In October 2010 the UN was mandated to prepare the ground for a post-2015 agenda or programme during the MDG Review conference (UN 2010). The outcome document adopted at this meeting includes a request to the President of the sixty-eighth session of the General Assembly to organize a special event in 2013 to follow up on efforts made towards achieving the MDGs (paragraph 79), and a request to the UN Secretary General to make recommendations in his annual reports on further steps to advance the United Nations development agenda beyond 2015 (paragraph 81).[12] In the course of 2010 and 2011 a number of studies were published that look into scenarios as to what 'development cooperation' may look like after 2015 (e.g. Sumner and Tiwari 2010, Melamed and Scott 2011). The post-2015 development reporting framework has also been recently discussed as a possible topic for the next Human Development Report.[13]

Despite the increased level of activity, consensus on a post-2015 framework cannot be assumed given recent difficult international negotiations in other arenas. As argued by Sumner and Tiwari (2010): *"the MDGs emerged in a relatively benign/stable/fiscally buoyant period and any framework post-2015 might need to fit to the post-crisis context of periodic/multiple-source crises/instability, and a fiscally and carbon-constrained world."* 2015 nevertheless seems an important window of opportunity to review and possibly conclude a new policy consensus on global development, a consensus that can include the areas and goals to focus on as well as the financial means that can enable their achievement.

[10] Waltz and Ramchandran (2011). This study presents an overall yearly estimate for the non-DAC donors ranging from US $ 11 billion to US $ 41,7 billion. Since most of them don't present figures to the DAC and are not transparent about their "external assistance" there is a clear lack of data.

[11] Although the deadline for the 0.7% commitment was moved several times (the UN General Assembly initially agreed in a 1970 resolution that it could be attained by the middle of that decade), neither the ODA concept nor the 0.7 target have been altered in the intervening 40 years. In January 2005, the UN Millennium Project Report again recommended the funding target by 2015 specifically in relation to the MDGs, which was an important basis for the EU to recommend intermediate levels of ODA funding for the Member States that joined the European Union after 2004.

[12] It is noted that the 2011 Annual Report on the MDGs did not feature such forward-looking reflections.

[13] This is not to say that nothing was published on this subject before 2011, only that the frequency of publications on this overall topic has gone up in the past two years.

One important topic that has emerged in the current discussion on a post-2015 consensus on global development is a possible greater focus on the promotion of Global Public Goods (GPGs). GPGs are in principle available to everyone and each country has an interest in contributing to their promotion. Examples include a fair, robust and market-orientated trading system for goods and services or climate stability. Discussions within the OECD about the relationship between ODA, development and global public goods (including global warming, pollution, security) already go back to the end of the 1990s (Raffer 2009) but have gained prominence in recent years in policy debates.[14]

Linking GPGs to the role of ODA is at this stage judged sensitive by some stakeholders, mostly for fear of implications for the poverty reduction focus of development cooperation (as for instance required by the EU Treaty). At the same time different donors use different definitions of the terms poverty and development, with their policies (including the MDGs) already covering the development dimension of relevant GPGs[15], while however struggling with ensuring adequate technical capacity and resources for measuring their contributions.

As the most recent influential international political statement on development cooperation, it is noted that the Busan Partnership for Effective Development Cooperation does not explicitly refer to GPGs, but does prominently state in paragraph 4: *"Our success depends on the results and impact of our joint efforts and investments as we address challenges such as health pandemics, climate change, economic downturns, food and fuel price crisis, conflict, fragility and vulnerability to shocks and natural crises."*

While the concept of GPGs has featured in important international policy discussions for several decades, in particular the discussion around possible Sustainable Development Goals (SDGs) have more closely associated the discussion on the provision of GPGs to the achievement of the MDGs, and by extension to the possible roles of ODA and financing for development. The most recent note presents a strategy to adopt a number of headline SDGs (any number but not more than 10) at Rio+20 as the basis for further discussions after the summit.[16] At the time this report was finalised, a reference to SDGs was included in the zero draft outcome document of Rio+20.

These and other discussions on a post-2015 global development framework so far hint at a greater focus in a post-MDG framework on the development dimension of relevant Global Public Goods (GPGs). Once adopted, this post-MDG framework will define what overall development outcome(s) should be attained, and should also inform the modernisation of FFD reporting.

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[14] Some stakeholders argue that ODA should continue to be used specifically for traditional development activities and should not be revised fundamentally. These stakeholders argue for this position by expressing concerns on issues such as the additionality of funding for climate change and the possibility for some defense and diplomacy related expenditures to be reported as ODA. Their concerns support arguments in favour of reporting in two separate datasets: Official Climate Assistance (OCA) and Official Security Assistance (OSA).

[15] For example the 2005 European Consensus on Development argues that *"(…) combating poverty will only be successful if equal importance is given to investing in people (first and foremost in health and education and HIV/AIDS, the protection of natural resources (like forests, water, marine resources and soil) to secure rural livelihoods, and investing in wealth creation (with emphasis on issues such as entrepreneurship, job creation, access to credits, property rights and infrastructure)."*

[16] The proposal is available for download here: http://www.eclac.org/rio20/noticias/paginas/6/43906/2011-613-Rio+20-Note_by_the_secretariat_Colombia_note.pdf .

3. Mapping financial contributions and their perceived development-relevance

3.1. Introduction

Based on an analysis of documents, and with additional qualitative inputs from the interviews, this section of the report presents a mapping of financial contributions and their perceived relevance to international development. Gaining further insights on these flows from available studies as well as some of the political debates that position them in reporting processes is an important step towards envisaging future scenarios for reporting post-2015.

Two main types can be distinguished within the whole range of financial contributions that can be considered as contributing to international development. First, the more loosely defined and therefore more open types of contributions *beyond* ODA. For those kinds of financial flows there is no central monitoring actor, which means the different components are not (yet) defined exhaustively and the quality and availability of data on its sub-components varies. And secondly, the tightly defined and relatively 'conservative' ODA contributions, with one key institution, OECD/DAC, mandated to lead this reporting process. However, also with regard to financial flows considered as ODA, although the definition of ODA has been endorsed by all those actors who report against it, the consensus-based governance of the reporting makes that some DAC members feel that some ODA elements are not sufficiently development-relevant[17], while at the same time some are also pushing for the inclusion of new elements considered development-relevant.

3.2. Assessing the development-relevance of contributions beyond ODA

Innovative sources of development finance

Origins of innovative sources of development finance
Since the past decade, innovative financing has been regularly discussed at the global level and during G8 and European Union summits. During the International Conference on Financing for Development in Monterrey in March 2002 the international community agreed to explore the value of innovative sources of finance (DAC 2009). The Monterrey Consensus (UN 2003) points to the relative weight and contribution of ODA in financing the MDGs next to donors' commitments to policy coherence for development and development partners' responsibilities for their own development. As a Development Centre's Working Paper summarises it well: *"The Consensus underlines the importance for development of tax, international investment, financial markets and private sector development, aid, remittances, trade and debt. Crucially, the Monterrey consensus highlights mobilising domestic financial resources as a critical action supporting the achievement of the Millennium Development Goals"* (DAC 2011d).

In 2004 again attention was drawn to creating new sources of financing for development, both in the context of an initiative of the Presidents of Brazil, Chile and France, with the support of the United Nations Secretary General to fight hunger and poverty, and during a meeting of heads of state and

[17] A rather direct way of doing so is not reporting on those elements as part of their overall ODA contribution.

government at the United Nations, where options were presented for innovative financing mechanisms (DAC 2009). Then, during the World Summit of 2005 the heads of state and government welcomed the international efforts to identify innovative and additional sources of financing for development:

> "*We recognize the value of developing innovative sources of financing, provided those sources do not unduly burden developing countries. In that regard, we take note with interest of the international efforts, contributions and discussions, such as the Action against Hunger and Poverty, aimed at identifying innovative and additional sources of financing for development on a public, private, domestic or external basis to increase and supplement traditional sources of financing. (…) We acknowledge the vital role the private sector can play in generating new investments, employment and financing for development*" (UN 2005: 5).

In 2005, the Declaration on Innovative Sources of Financing for Development was endorsed, which also launched the Leading Group on Innovative Financing for Development to develop advocacy and technical work. In 2008 the Doha Declaration called for scaling up the use of innovative financing for development. It clearly demonstrated that these dimensions, processes and challenges were already part and parcel of the UN deliberations that inspired – and resulted in – the Doha Declaration.

In Europe, the European Commission has taken on an important role in promoting better financing for development. In 2009, it published an ambitious policy proposal titled 'Policy Coherence for Development – Establishing the policy framework for a whole of the Union approach' in which it suggested to *"(…) provide guidance for an ODA-plus concept and for the provision and tracking of financial sources that contribute to sustainable development and global public goods but are distinct from ODA"* (EC 2009). Politically however the time did not yet seem ripe for this proposal, and in November 2009 the EU ministers responsible for development cooperation did not invite the Commission to take this proposal further (Keijzer 2010).

The EU has been a leading force in considering how ODA can play a catalytic role in stimulating domestic and foreign private investment and external trade. These dimensions were also included in the EU's position for the high level forum on aid effectiveness in Busan, South Korea in November 2011, in which the EU agreed to *"(…) Engage the private sector in aid and development effectiveness in order to advance innovation, create income and jobs, mobilize domestic resources and further develop innovative financial mechanisms"* (EU Foreign Affairs Council 2011). This priority was taken up and included in the Busan outcome document (OECD 2011a).

Dimensions and limits of innovative financing for development

There is no international consensus on the exact dimensions and limits of innovative financing. They at least include those non-ODA elements considered part of the Financing For Development agenda adopted in the Monterrey Consensus of 2002 (and reconfirmed in Doha in 2008). Different organisations use other descriptions and emphasise diverse characteristics. Furthermore, they use different frameworks and dimensions to classify the innovative financing and instruments.

The World Bank sees innovative financing instruments as innovative if they *"depart from traditional approaches to mobilizing development finance"* and *"break from traditional approaches to delivering development finance"* (World Bank 2009). The World Bank describes innovative financing as follows:

> *"Innovative financing involves non-traditional applications of solidarity, PPPs, and catalytic mechanisms that (i) support fundraising by tapping new sources and engaging investors beyond the financial dimension of transactions, as partners and stakeholders in development; or (ii) deliver financial solutions to development problems on the ground"* (Ibid.).

Both the World Bank and UNDP (2012) make this distinction between innovative fund-raising efforts and innovative financial solutions on the ground, i.e.:

- Innovative fund-raising efforts actually generate additional concessional resources for development, and include the airline ticket tax, a possible financial transactions tax, as well as the capital raised through issuing new bonds.
- Innovative financial solutions on the ground include counter-cyclical lending, debt swaps for results (e.g. Debt2Health), sovereign insurance pools, and local currency lending.

However, the World Bank also includes elements that are not always regarded as innovative financing by other organisations, such as development assistance provided by emerging donors and local currency bonds issued by the multilateral development banks. The DAC (2009) has a more narrow conception of innovative financing:

> *"comprising mechanisms of raising funds or stimulating actions in support of international development that go beyond traditional spending approaches by either the official or private sectors, such as:*
>
> - *new approaches for pooling private and public revenue streams to scale up or develop activities for the benefit of partner countries;*
> - *new revenue streams (e.g. a new tax, charge, fee, bond raising, sale proceed or voluntary contribution scheme) earmarked to developmental activities on a multi-year basis;*
> - *new incentives (financial guarantees, corporate social responsibility or other rewards or recognition) to address market failures or scale up ongoing developmental activities*" (ibid.: 3).

Innovative financing for development and ODA

Many innovative financing instruments are difficult to include in the current ODA reporting system (Severino 2009, Severino & Ray 2009). This can have substantial influences on donor country policies. When certain innovative financing instruments are not eligible according to ODA reporting directives, this may reduce donors' incentives to further develop innovative financing mechanisms, despite their potentially large leveraging effects (Severino & Ray 2009, DAC 2012b).

ODA is guided by the principle that *"ODA arises at the time and in the amount of a government contribution to the scheme involved"* (DAC 2009: 3).[18] This means revenues spent on bilateral development assistance or disbursed to multilateral agencies and bonds and guarantees would all qualify as ODA, but with a time lag. Private contributions cannot be counted as ODA, though OECD/DAC still reports separately on them in the data on developing countries' resource receipts. Public Private Partnerships (PPPs) are reportable as ODA following the decision of the OECD Development Assistance Committee (DAC) to add PPPs to its list of ODA-eligible bodies.[19]

Whether innovative financing sources qualify as ODA is in most cases influenced by the criteria for concessionality (see box 3), their flow characteristics (see the typologies discussed in the next paragraphs), and the ODAbility of intermediaries. If financial flows for development are channelled through intermediaries acting as ODA-conduits that are not listed in Annex 2 of the DAC Statistical Reporting Directives, which lists ODA-eligible organisations, this has effects on the ODAbility of the financing. The rationale to use intermediaries is to cushion the risk for private investments.

[18] Official flows comprise transactions undertaken by central, state or local governments at their risk and responsibility, regardless of the source of funds (taxation or borrowing from the private sector) (DAC 2009: 5).

[19] Private flows comprise transactions undertaken by firms, non-governmental organisations and individuals residing in the reporting country from their own private funds (DAC 2009: 5).

Box 2: Capturing innovative financing in reporting on development – exploring 'sliding concessionality'

Concessionality – defined by OECD as *"a measure of the "softness" of a credit reflecting the benefit to the borrower compared to a loan at market rate"* – is calculated as the difference between the nominal value of a credit and the present value of the debt service as of the date of disbursement, calculated at a discount rate applicable to the currency of the transaction and expressed as a percentage of the nominal value (OECD 2006).

ODA is based on the DAC's definition of concessional loans. According to this definition, a loan counts as aid if it has a 'grant element' of 25% or more, meaning that the present value of the loan must be at least 25% below the present value of a comparable loan at market interest rates (usually assumed by the DAC to be 10% with no grace period). Thus, the grant element is zero for a loan carrying a 10% interest rate, 100% for an outright grant, and something in between for other loans (Radelet 2006). The OECD's Development Assistance Committee's (DAC) definition of concessionality is commonly used by the OECD, and is also retained for some statistical purposes in some World Bank reports, including the Global Development Finance (GDF) publication (African Development Bank n.d). Grants and subsidized loans are referred to as concessional financing, whereas loans that carry market or near-market terms (and therefore are not development assistance) are considered non-concessional financing.

However, different studies have argued that the OECD threshold appears somewhat arbitrary. It includes as "aid" a range of financial transfers with quite diverse concessional compositions (from 25 to 100%). The value of concessionality depends on the commercial rate of interest (that is, how costly would other sources of finance be to a borrower). At the minimum grant element, ODA can still carry a significant loan obligation (IMF 2009). An observed difficulty with this definition is that at times of low interest rates, it is possible for a commercially priced loan in a low-interest rate currency to be concessional (Johnson & Bargawi 2004). There are differences of opinion between donors as to whether a degree of concessionality can positively or negatively affect development effectiveness, and if so under what conditions (e.g. in productive or social sectors). In order to understand the impact of aid more accurately, ODA needs to be fulfilled using a more fine-grained measure of concessionailty. The measure used for ODA usually results in an underestimate of the share of non-concessional debt in a portfolio of projects (Taylor 2007).

The IMF has argued that concessionality requirements would be more effective in achieving their intended objectives, and would be perceived as such by all stakeholders, if they were based on a clearer analytical foundation (IMF 2009). In contrast to the DAC's definition is the standard IMF definition of concessionality as agreed in 2009, which is generally adopted by the World Bank and major regional development banks (AfDB, AsDB and IaDB). An online calculation tool is provided by the IMF[20], which revolves around an understanding of concessionality based on: *"(…) four different types of concessionality requirements (…). Unless debt sustainability is a serious concern ("higher" value) and capacity is limited ("lower" value), the applicable concessionality requirements normally allow for nonconcessional borrowing and, hence, provide generally more flexibility than the previous design of concessionality requirements."* (IMF 2009).

While being technical in its implications, it can be argued that the discussion on concessionality

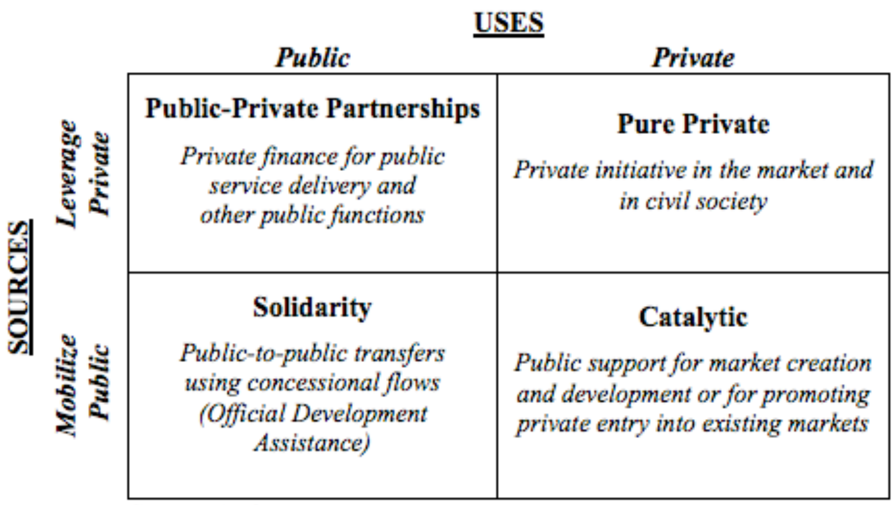
[20] See http://www.imf.org/external/np/pdr/conc/calculator/default.aspx.

relates to both whether loans can or should always be compared with market lending (which might not always be available), and if so, how close to market rates a loan should be in order to still be beneficial. Just like the ODA target itself, the concessionality criteria that are part of ODA reporting are somewhat arbitrary, and may therefore be reviewed as part of a broader discussion on post-2015 discussion.

When reporting against a broader aggregate, as explored in this report, one could potentially move away from more finite/set criteria on concessionality and instead look into a reporting concept of 'sliding concessionality'. If development-relevance of the total investment made into a particular intervention becomes the focus, then there would be no need for a particular threshold to determine in- or exclusion, given that the sum of the 'market based' and grant components (such as in the case of blending) are equally important. While this system would still allow for a clear separation of grants and non-grant elements, the reporting would become more representative by covering all that is considered as relevant to development.

The World Bank (2009) proposes a framework to differentiate development financing mechanisms based on sources of funding (mobilising public or leveraging private sources), and the use to which the funding is put (public or private) (World Bank 2009). This yields a two-by-two matrix through which four types of mechanisms of development finance can be distinguished, see figure 1. The remainder of this section will discuss several forms of innovative financing in more detail and assess their development relevance structured according to these categories. The evolving and open nature of innovative finance makes that the mapping as presented hereafter has to remain tentative, and as a result focuses on those elements that are either widely considered for their development relevance or most prominent in the debate for being contentious.

Figure 1 Innovative mechanisms of development finance



Source: World Bank 2009:3

The following paragraphs will look into some specific sources of funding in relation to three of these four quadrants (since 'pure' private mechanisms will not qualify for being *ODAble*).

Quadrant 1: Public Private Partnerships

Public Private Partnership (PPP) mechanisms use public funds to leverage or mobilise private finance to support public functions such as infrastructure provision or service delivery.

Blending Facilities pursue the complementary use of grants and loans.[21] By doing so, blending allows sub-investment grade projects to become bankable and can therefore attract financiers to projects that would otherwise not have been realised (i.e. it creates leverage) (CEPS 2011). The leveraging potential of blending facilities is substantial. According to CEPS (2011), *“the grants offered by the European Commission and the EU member states in the framework of the [blending] facilities – together with important loans grated by the participating accredited financiers and other financial institutions as well as recipients’ own contributions and private sector investments – have leveraged substantial volumes of additional development finance. For a grant element of €519 million, European donors together have provided additional development finance in the form of concessional loans of €9.56 billion for projects of a total value of over €19 billion” (2011: i).*

While innovative financing to a sector or a theme in the form of public-private partnerships is fully recorded as outflows of resources from donor countries, only official sector contributions can be separately identified (DAC 2009: 5). However, the European Think Tanks Group (2011) found that *“It is not clear whether the recording of funds provided via third parties to form parts of a blending package should count as ODA. Currently, loan funds provided as a single concessional loan can be recorded as ODA but not when those funds are supplied to a third party (e.g. the EU/EIB) and then re-combined as part of a blended package. Due to the value to donors of recording funds as ODA, this arrangement appears to be a disincentive to the use of blending facilities that might be avoided.”* (2011: 12).

The blending facilities are currently not included in annex 2 to the DAC Reporting Directives and are therefore not considered as multilateral recipients of ODA. In addition, donors can only report the part of their contribution that constitutes an actual flow. The leverage of their grants goes unrecorded, even though it can be significant. For example, flows generated by the five EU blending facilities[22]are often not considered as ODA, while in 2009, the EUR 99.7 million of grants provided through the Neighbourhood Investment Facility attracted a contribution from the European Finance Institutions of about EUR 2.5 billion (DAC 2012a, see box 3).

Box 3: Blending mechanisms by the European Commission
To prepare for increased use of blending mechanisms, DEVCO has set up a new unit on financial instruments. It tries to promote better linkages with the EIB and other European Finance Institutions (such as the European Bank for Reconstruction and Development), EU Member State agencies and international finance institutions. These facilities blend grants from EU financial instruments (e.g. the 10th EDF) with loans from multilateral and bilateral finance institutions. Strengthening the new blending instruments will help scale up support to private sector development, with potentially positive effects for developing countries. As for the EDF, the revised Cotonou Agreement specifically refers to blending mechanisms to support investment and private sector development. The use of these mechanisms to engage in developing

[21] Blending facilities do not fit perfectly in any of the four categories of the World Bank framework, for they can be used for investments with a public character as well as for purely private investments. However, they tend to specialise in large-scale infrastructure investments, and most projects are of a public sector nature (European Think Tanks Groups 2011), and therefore they can be deemed a PPP mechanism.

[22] The Neighbourhood Investment Facility (NIF); The Western Balkans Investment Framework (WBIF); The; EU–Africa Infrastructure Trust Fund (ITF); The Latin America Investment Facility (LAIF); The Investment Facility for Central Asia (IFCA).

countries (middle income countries in particular) and support private sector development is positive. This approach should be seen as a complementary tool for development, and should not replace grants with loans on a large scale, especially in low-income countries (DAC 2012a: 31).

Frontloading of ODA for urgent priorities is another PPP mechanism of innovative finance (World Bank 2009). The most widely cited example is the International Finance Facility for Immunization (IFFIm). IFFIm raises funds on international capital markets by issuing bonds that are backed by long-term (legally binding) ODA commitments (World Bank 2009, UNDP 2012, DAC 2009). The raised funds are channelled into the PPP Global Alliance for Vaccines and Immunisation (GAVI), which uses them to support immunizations. To date, $3.4 billion have been raised (UNDP 2012). Contributions only count as ODA when donors repay the bonds at a future date. In addition, accumulated interest payments to bondholders are also counted as ODA (UNDP 2012).

Innovative finance can also be used to raise new revenues to scale up or develop activities for the benefit of partner countries. These are called **Official Support for Private Flows (OSPF).** These could be counted as ODA since these development funds encourage and leverage private capital flows to developing countries. In that way, private sector investment in infrastructure or essential services off-loads expenditures from the public sector's balance sheets and therefore helps to decrease public debt. In addition, the private sector results-oriented culture would radically improve the effectiveness and efficiency of projects (Eurodad 2011). And the financial performance of companies is highly correlated with development outcomes, as well as with environmental and social performance, private sector development impact, and economic performance (International Finance Corporation, 2007). Detractors state however that there is no guarantee that public finance with a clear development mandate used to support private investments will indeed effectively contribute to development and poverty eradication (Eurodad 2011).

Quadrant 2: Solidarity Mechanisms

Solidarity mechanisms support public-to-public or sovereign-to-sovereign transfers of funds (World Bank 2009). Although ODA is a solidarity mechanism, there are also several innovative financing instruments that can be classified as such. One category of these concerns **global solidarity levies** (i.e. taxes). An international solidarity levy on air tickets was launched in 2006 and now relies on the participation of nine countries. The levy is obligatory in those countries, and the generated resources are channelled into UNITAID, which then channels them on to funds for treating diseases in developing countries worldwide. This mechanism generates new revenue streams for development from the private sector. However, they are counted as ODA and as such do not necessarily represent additional resources (UNDP 2012). UNITAID is already listed in Annex 2 and can thus already be reported as bilateral ODA, which means this mechanism is not additional to current ODA reporting. Other global solidarity levies that are being discussed but have not been implemented include the financial transactions tax and carbon taxes.

Debt conversions (or swaps) are also part of this category of solidarity mechanisms. Under such debt-swap agreements, creditors agree to cancel a part of their claims on a debtor country in exchange for guarantees that a certain amount is spent on approved social or environmental programmes (UNDP 2012). One such initiative is the 'Debt2Health' initiative, under which, for instance, Germany has agreed to forgo €50 million of debt service repayment by Indonesia provided that the country would invest €25 million in health via the Global Fund (World Bank 2009). These forgone debt service repayments are usually counted as ODA by the creditor nations.

Yet another solidarity mechanism of innovative financing comprises **counter-cyclical lending**, which is an innovative solution on the ground rather than an innovative fund-raising effort. With counter-cyclical loans, countries are provided with more flexibilities in terms of maturities in the face of external shocks such as natural catastrophes, economic downturns or sudden adverse changes to the terms of trade. As such, these loans can help countries to manage macroeconomic vulnerabilities (World Bank 2009, Severino & Ray 2009, UNDP 2012). Cohen et al. (2008) propose a lending facility whereby the grace period is divided into a fixed grace period and a floating grace period, which the country can draw upon when adverse shocks occur. As such, this facility does not compensate the country for the shock, but prevents the shock from resulting in a debt crisis.

Finally, the creation of additional **Special Drawing Rights (SDRs)** by the IMF and their allocation to developing countries could also be included in this category. SDRs are created by the Executive Board of the IMF at no material cost, and they are backed by the consensus of the world's governments. After no new SDRs had been created for over 20 years, the IMF decided in 2009 to expand the amount of SDRs almost tenfold, from 21.4 SDR billion to 204 SDR billion, in the wake of the global financial crisis. Although the World Bank does not include the creation of SDR's in its discussion of innovative financing, other organisations such as UNCTAD (2010) and UNDP (2012) do. UNCTAD (2010: 159) even labels it as "perhaps the most promising innovative source of financing". To developing countries SDRs can provide a low-cost alternative to other sources of international reserves, and since they can be exchanged for currencies, they also provide them with real resources that can be used for development. SDR allocations are currently fully additional to ODA (UNDP 2012).

Quadrant 3: Catalytic Mechanisms

Catalytic mechanisms use public finance for market creation and promoting private sector development, by reducing risks of private entry (World Bank 2009). UNCTAD (2010) emphasizes that these mechanisms could assist private investment in production of traded goods and services by offering domestic currency loans, quasi-equity investment capital and guarantees. One example of the use of guarantees to catalyse market creation is the Advance Market Commitment (AMC) for pneumococcal vaccines (UNDP 2012, DAC 2009). The AMC aims to accelerate the development and availability of new vaccines by creating new incentives to vaccine manufacturers (UNDP 2012). Donors commit money to guarantee the price of vaccines once they have been developed.

Financial guarantees for private sector investment and pledges and guarantees are not recorded as ODA, since they are currently not considered as constituting flows, see also box 6. Such flows or outlays are generated only if a guarantee is honoured. But guarantees themselves do not involve cross-border flows, unless the investment fails and the guarantee is called upon. Also they cannot be considered as an outlay of funds by the official sector.[23] Yet, it could be argued that guarantees should be eligible for ODA in some way or the other, since they can have a concessionary effect through a reduced interest rate comparable to the concessionary effect of direct interest rate subsidies (DAC 2012b). Statistical reporting directives state that while generally the statistics conform with balance-of-payments norms and definitions there may be a need to go beyond these norms in certain cases to allow for changing forms of assistance (DCD/DAC 2010).

[23] One interviewee pointed to a reject proposal made by France in 2003, which suggested to consider as ODA at least a forfeitary percentage of the face value of bilateral guarantees for developmental purposes at the time these are extended (i.e., the amount of budgetary resources that have to be set aside to fund at least a share of the contingent liabilities that guarantees are generating) was rejected.

Box 4: ODA's focus on net flows
The following remarks are made regarding the focus on net flows by the DAC when calculating ODA: • If the objective is to calculate the macroeconomic effect of development assistance flows, net figures are more appropriate. By excluding loan repayments gross flows present a distorted picture of the actual resources a country receives in a given year (Congressional Budget Office, 1997). • The current net ODA figure provides a distorted measure of true development assistance flows. The aggregate has a weak methodological foundation as it lumps together the net increase in loans, which entail future interest and repayment obligations, with grants that do not. Further it includes certain loans at full face value and totally excludes others. Finally, the selection of which loans to include is based on a calculation of their grant elements that, among other simplifications, makes use of an arbitrary discount rate set at 10% (Chang, Fernandez Arias & Serven 1998). • Regarding the instruments used by Development Finance Institutions, the focus on net flows has the effect of giving more credit to investment projects that failed than to those that succeeded. Successful project can have an effect of 'burning ODA' as profits on equity sales are reportable as negative flows, while the provided guarantees were not counted at all due to the flow principle of ODA measurement (DAC 2012b). • Gross development assistance flows capture all the resources a developing country receives in loans and grants from donor organisations and countries providing a more accurate representation of foreign presence in a particular county. Gross development assistance flows may be more useful in understanding how development assistance can contribute to policy dialogue and reform in a developing country, because gross development assistance flows do a better job of illustrating the leverage a donor may have than do net flows (Congressional Bank Office, 1997).

As ODA levels are mostly measured on a net disbursement basis, reflows generated by **equity investments** reduce the total amount of ODA. In addition, not all equity investments qualify as ODA. These investments must in fact not imply a lasting interest in the enterprise, unlike direct investment, which is not considered ODA. "Lasting interest" implies a long-term relationship where the direct investor has a significant influence on the management of the enterprise, reflected by ownership of at least 10% of the shares of the enterprise, or the equivalent in voting power or other means of control. Equity investments therefore have to be small in order to be ODA and unsuccessful in order to keep a positive flow, since investments generating dividends in excess of the original investment would count as negative ODA. Most official sector's equity investments are therefore considered as **Other Official Flows (OOF)**.

Subscription of development banks' **callable capital** can also not be recorded as ODA. Callable capital is similar to guarantees, and counted as ODA only if called. In addition, lending by regional banks is not ODA and therefore the increase in their lending as a result of the availability of additional resources is also not captured in ODA statistics. However, the important shift from private to official lending has been one of the safety nets for many middle-income countries in the current crisis and, as such, could be included in a revised data collection framework.

While not directly related to the use of public funding to reduce 'risks' of private entry, in this context reference can be made to an on-going discussion on whether or not foregone tax revenue should be *ODAble*. Box 5 briefly presents some key arguments put forward in that discussion.

Box 5: Foregone tax revenue

DAC members currently may not report the tax revenue foregone as ODA to the DAC. These foregone revenues are due to the deducting of private donations for development purposes from taxable income. Some DAC members argue that it should count as ODA, since the deduction and the exemptions as tax expenditure are government subsidies that enable intermediaries to spend public funds on international development. The tax expenditure portion of these private grants to developing countries should therefore count as official development assistance (Severino & Ray 2009). If donors can count the cost to revenue of deductions as ODA, they will be encouraged to introduce, promote or extend such schemes. This will in its turn stimulate private contributions to development (Pozen 2007). These members see the inclusion of tax concessions as an update of the ODA concept consistent with its current interpretation. Other tax policies aiming to promote private flows are already counted for ODA by other member states just because they are based on disbursements, although they imply a comparatively higher administrative effort. They argue that the definition of ODA has always included operations that are not strict flows at all (DAC 2002).

Most DAC members argue that it should not count as ODA, since ODA is basically a flow variable, and recording tax concessions would thus create distortions in the aggregate ODA account (DAC 2002). Tax effects are on the revenue side of national accounts; flows traditionally measure expenditures only (Pozen, 2007). Forgone revenue is only a notional quantity, which means there would be practical problems, also in the methodology used, to collect data. NGO communities could also resent governments reducing the reported value of NGO development assistance by claiming as ODA the share of it that would have been collected as tax if deductions had not been allowed (DAC 2002).

To finalise this overview of development-relevance of contributions beyond ODA, the remainder of the section will look into two particular categories of finance that have been frequently discussed in recent years in relation to their development-relevance: Official Climate Assistance and Official Security Assistance.

Official climate assistance (OCA)

Development cooperation is increasingly affected by global challenges, including climate change. This has fuelled calls for shifting the focus of ODA from poverty reduction to the provision of Global Public Goods. It is widely agreed that climate change threatens the achievement of the MDGs, for example through hunger caused by droughts and floods; providing access to water and sanitation; and preventing and treating malaria, and the sustainability of development investments. The World Bank estimates that up to 40% of development financed by overseas assistance and concessional loans is sensitive to climate risk (Ayers & Huq 2008). However, whether or not climate change related expenditures should count as ODA is under debate.

Some argue that it should count as ODA since climate change will compound the existing vulnerabilities of developing countries, which is an incentive for the development assistance community to take up this role. An analysis of the categories of ODA activities reported by the OECD DAC countries demonstrated that more than 60% of all ODA could be relevant to building adaptive capacity and facilitating adaptation. See box 6 for possible options how OCA could be included in ODA.

Box 6: Possible options to include OCA in ODA
A first option would be to classify climate finance as additional to the 0.7% GNI target: this option is easy to implement technically, and is supported by the international development community. However, the option raises questions about the validity of the ODA tracking system and what gets counted as climate financing. Most countries have difficulties in reaching the 0,7% target, so it might be politically challenging. A second option is to increase on ODA 2009 levels directed at climate change: this would be easy to track given that it measures increases at disbursement level and would therefore be technically feasible. Also, it means there is no diversion from development objectives for donors who have already met their 0.7% GNI target. However, it has different implications for donors who have met the 0.7% GNI target and those who have not. Donors who have not given to ODA related climate finance before 2009, will have a lower baseline, implying equity issues. A third option is to raise ODA which includes climate change but is limited to a percentage. This means the development assistance diverted to climate finance causes changes in the composition of finance if overall levels of ODA are not raised sufficiently. The appropriate percentage would need to be set and this option should only apply to those who have already met their 0.7% GNI target. Based on: Heinrich Böll Stiftung & ODI 2010.

An opposite view argues that it should not count as ODA, since adaptation funding is not a question of development assistance, but of restitution for damages caused, and prevention through adaptation of worse future impacts. It is an international obligation, whereas ODA is at the discretion of governments, and varies with the economic health of the donor's economy. It is to be expected that future strains on national economies caused by climate change will also challenge the consistent transfer of ODA. Adapting to climate change is an ongoing and long-term process for developing countries and, therefore, unreliable and unsustainable funding levels will jeopardise adaptation work. For these reasons, the international negotiations must agree on alternative and innovative funding mechanisms, largely independent from conventional government funds (Practical action, n.d). ODA should continue to be used specifically for traditional development activities, finance for climate change should come from other sources not categorized as ODA. These concerns support arguments in favour of reporting in a separate dataset the Official Climate Assistance. But it will be a challenge to ensure that these new sources of financing are mainstreamed with existing ODA flows, including tracking issues like who is in charge (Heinrich Böll Stiftung & ODI, 2010).

Official security assistance (OSA)

Security is recognised to affect the results of development cooperation since lack of security threatens the achievement of the MDGs. However, whether security related expenditures should count as ODA or whether ODA should continue to be used specifically for traditional development activities is debated (Brzoska 2007).

Proponents argue that a limited expansion of ODA for expenditures relating to civil crisis prevention is in line with basic ODA rules, including control and destruction of small arms, and the use of armed forces in implementation of civil measures of crisis prevention. Development and security are interdependent, and the parallel use of instruments is needed for economic development and welfare in a country. The impact on integrity of ODA figures is deemed to be low because cost of small arms control and civil measures where armed forces are only used as instruments for implementation is low. While the fight against terrorism serves the interests of economic development and welfare – these include aspects such as security sector reform.

Therefore some countries have argued that the ODA definition should be broadened to include for example all costs related to stabilising weak states, UN peace operations, civil and military cooperation (since military forces are sometimes the best implementing partner for development operations), and the training of police and other non-military security organs, as long as this primarily serves economic development and welfare. Criteria suggested for ODAbility of OSA include that armed forces should only act as executing institution of decisions on design, control and responsibilities taken by development actors, and oversight and control of the security sector should be included while the reconstruction, transformation and expansion of armed forces are to be excluded.

However, according to the opponents, this would mean a softening of the ODA definition, which could lead to calls for ODAbility of further expenses that lie in the responsibility of defence and diplomacy. Also, the goal of ODA is development, while UN peace operations aim to preserve human rights, and in the case of civil and military cooperation the main focus is security. UN operations may serve development objectives but this is not necessarily the case, just like assisting in the formation, reconstruction and consolidation of armed forces may, but does not necessarily lead to development. The preparation, implementation and duration of UN operations are not determined by development considerations but by military and political considerations, with high costs, possibly distorting ODA measures. Furthermore, it would be difficult to separate those missions with a UN mandate and those without one. The suggested criteria are considered as difficult to implement and the inclusion of arms deliveries (to strengthen capacity) would harm ODA credibility. These concerns support arguments in favour of reporting the Official Security Assistance (OSA) in a separate dataset.

3.3. Assessing the development-relevance of ODA-able financial contributions

The quantitative ODA targets

Although ODA has reached record levels in dollar terms in 2010 (USD 129 billion), it still falls short of the agreed targets and commitments. The targets and objectives were reconfirmed and sharpened during a series of high profile global conferences. In 2000, the UN adopted the Millennium Development Declaration and the Millennium Development Goals (MDGs) as overarching objectives for development. The UN conferences in 2002 (International Conference on Financing for Development, Monterrey) and 2008 (Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus, Doha) have reconfirmed the importance of the 0.7% GNI target. Moreover, the Doha outcome document clearly reaffirmed *"the essential role that ODA plays, as a complement to other sources of financing for development"* to contribute to the achievement of the MDGs. The outcome document also sets a target of 0.15 to 0.20% of GNI for ODA to least developed countries.

Linked to Monterrey, a series of commitments was made as of 2005 by the EU, the G8 and the UN. The G8 Gleneagles summit in 2005 delivered a commitment to increase aid by 60% (a rise of $50 billion per annum) between 2004 and 2010. Annual aid for Africa would double from its 2004 level of $25 billion. The 0.7% GNI target was a driver for peer pressure among donors, national parliaments, and civil society to comply with the target set.

According to the latest DAC peer review of the EU this commitment has encouraged substantial efforts by Member States: *"Between 2004 and 2010, they accounted for 62% of the global USD 34.4 billion ODA increase in real terms. In 2010, despite the financial crisis, their ODA rose by 6.0% to reach USD 69.7 billion. However, collectively, the Member States face a challenge in meeting their commitment. In 2010 the EU reached a collective ODA/GNI ratio of 0.44% which, while above the DAC average of 0.32%, was below the EU intermediate target of 0.56%"* (OECD DAC EC peer review 2012: 34). But as the peer review report states, there is also a high risk that the 0.7% GNI target by 2015 set for the EU Member States will be missed, since several Member States are postponing their commitments or scaling down their plans as a result of current fiscal pressures. The global economic and financial crisis has created political incentives for donor governments to stretch the ODA definition and concept rather than to increase their development assistance budgets

While the previous section has presented a detailed analysis of development-relevant contributions that currently cannot be reported as ODA, this sub-section will present a less exhaustive analysis of the development relevance of elements that are part of ODA, based on the literature review and interview comments. The sources referred to are meant to illustrate some of the arguments that have been put forward by different actors. Yet it is emphasised that these do not present a truly balanced and complete picture, which would go beyond the scope of this report.

Adapting the ODA definition

Since its inception, adaptations have been introduced to one or more of the five components that determine what can or cannot count as ODA. There have been adaptations to the list of beneficiaries, to the sectors that are *ODAble*, to the degree of concessionality that is required for inclusion as ODA (see box 3), and to inclusion criteria of certain expenditures that do not reflect a "flow".

Positions about the definition of ODA among donor agencies differ. But sometimes interpretations also differ *within* development assistance administrations, as some of the interviewees clarified. The debates within DAC typically converge on what can and what cannot count as ODA, whereby the predominant logic is tied up to measuring and counting donor inputs and trying to answer the question whether ODA is measuring too much, or too little. We briefly present the key contentious issues and the prevailing logic.

Administrative costs
Administrative costs were initially included to improve the comparability of total ODA figures among donor countries but it turned out to be difficult to have comparable data.

Some governments feel it should count as ODA since administrative costs incurred by providing ODA are part and parcel of total costs and some administrative spending is important to ensure effective development assistance programmes (Action Aid 2006). Furthermore, the inclusion of administrative cost data was intended to improve the comparability of total ODA figures among donor countries.

Others have argued that it should not be part of ODA since estimates of administrative costs are open to a wide variety of definitions and there is no oversight from the DAC on how countries determine administrative costs, leading to discrepancies between DAC members, nor is there consensus on what constitutes overhead and what administrative costs (Carlsson, et al. 2009, Severino & Ray 2009). For example, the inclusion of salaries of diplomatic staff working full or part time on development, including retired staff, often represents a problem, as it allows wide discretion to the reporting donor, and staff housing and transport also may score as ODA (Action Aid International, 2006). Most donors report administrative costs as part of their programme activities, and whatever is not attributable is reported as "administrative costs" separately. Finally, the proliferation of agencies has contributed to increased administrative costs (Sunderberg & Gelb, 2006).

Refugee costs

Although spending on refugees in donor countries is part of European governments' human rights obligations to shelter and feed refugees upon arrival in their territories, many – including several DAC members who do not report these costs as ODA – contest the link to development.

At the moment, the temporary assistance to refugees from developing countries arriving in donor countries is reportable as ODA during the first 12 months of stay and all costs associated with eventual repatriation to a developing country are also reportable as ODA. The spending on refugees in donor countries is part of European governments' human rights obligations to shelter and feed refugees upon arrival in their territories (Concord, 2008).

However, the link between development and the inclusion of refugee costs as ODA is not straightforward. Luxembourg and the United Kingdom still decline to report this item on these same grounds. Also, the one-year cut-off rule can also be seen as arbitrary. Finally, comparable reporting is difficult given different legal systems across donors resulting in different reporting norms (DAC 2006).

Scholarships and imputed student costs

Allowing students from developing countries to benefit from better higher education opportunities in donor countries may have an impact on development through remittances and brain gain upon return. But besides of a lack of transparency of results and limited accountability, the development benefits and the effectiveness are difficult to measure, depending, for example, on return rates, remittances, and risks of strengthening elites (Legault 2011). Severino & Ray (2009), for instance, argue that scholarships should probably not be included as ODA when students do not return to their home countries after graduating. Also, scholarships do not meet aid effectiveness criteria: it is tied development assistance, and there is hardly any country ownership in selection of beneficiaries. Some argue that they should count as OOF and not as ODA, given that the Ministry of Education often manages them (Legault 2011).

Technical cooperation

Although donor spending on outside expertise of consultants, research and training could be seen as supplementing skills and capacity, it is also criticized. Technical cooperation tends to be largely donor driven, relying on western consultants favouring donor country companies. Also technical cooperation is criticised for its low accountability, its tendency to be over-priced and ineffective, for example not responding to development country needs (Action Aid International 2006, DAC 2006). Technical cooperation costs may include non-salary costs like housing and travel, which is then counted as ODA and finally, technical cooperation may never actually cross the borders of the donor country (Sunderberg & Gelb, 2006).

Technical cooperation, and technical assistance in particular, should however not be viewed as 'static' in terms of its development-relevance, and has gone through important revolutions in recent years that some evaluations and studies have found as having improved this development-relevance (E.g. Land 2007).

Emergency aid

Over the past years, development policy has evolved and recognised the importance of linking development, relief and rehabilitation. Emergencies hamper long-term development efforts: disaster prevention and preparedness, reconstruction relief, relief coordination, protection and support services, emergency food aid and other emergency/distress relief can therefore count as ODA (Global Humanitarian Assistance n.d.).

However, some argue that emergency aid does not generally contribute to long-term development. Short-term, incidental emergency aid is helpful in a crisis but does not generally contribute to financing long-term development (Sunderberg & Gelb, 2006).

Debt relief

There is a general consensus that debt relief is essential to fostering development as it can free much needed resources in developing countries and debt relief is recorded as a special-purpose grant in the OECD/DAC system. This reflects the intention to make most debt relief *additional* to new ODA commitments. Valuing debt relief is quite difficult and warrants further work to improve measurement. But relief on liabilities that are not being (and often cannot be) serviced does not provide a new flow of resources for development, although it does reduce debt overhang. That said, relief for debt that is being serviced and clearly constitutes a claim on future resources may provide a future dollar-for-dollar cash-flow equivalent (Sunderberg & Gelb 2006).

Debt cancellation should be additional to development assistance resources, according to the Monterrey Consensus: "resources provided for debt relief should not detract from ODA resources intended to be available for developing countries" (in: IOB 2010: 244). NGOs have thus argued that debt relief should not be counted as a part of donors' development assistance claims. When debt relief is counted as ODA it is substituting for genuine new development assistance resources to be channelled to developing countries (Concord 2008). In this context, a recent joint evaluation to assess the impact of the debt relief agreement between the Paris Club and Nigeria on growth and poverty reduction in Nigeria concluded that the debt relief as provided had also contributed modestly to income poverty reduction in Nigeria and overall was judged development-relevant (Dijkstra et al. 2011).

Export credit-related debt

Export credit agencies have become the largest source of official financing for developing countries. Hence, export credit-related debt constitutes the largest component of developing country official debt. The vast majority of the debts currently counted as ODA are export credit debts. Export credits are primarily a means of subsidising donor country companies operating in developing countries. They provide a government guarantee to cover all costs in case of default by the developing country. This way, companies are insured from the risks of entering developing country markets with projects that may be highly lucrative but with no guaranteed positive impact for development (Joint EU NGO briefing 2006). In case of default, the Export Credit Agency from the donor country pays the costs to the investing company but often tries to recover the payment form developing country governments, transferring the risk of domestic private companies to developing country governments.

The current reporting rules allow export credit debts to be recorded at full face value, irrespective of the actual cost to public funds. Much of this debt is insured and yet not even the premiums are deducted from the amounts recorded, let alone the compensation paid out by such schemes, which according to WTO rules should be self-funding and therefore not a drain on official resources. And the private sector is usually left to meet part of the costs when such debts are cancelled. Once again, increased transparency and credibility provide strong arguments for accounting for these operations in a way that reflects the true effort by the official sector for the benefit of developing countries (DAC 2006).

These debates and discussions about key features of the ODA measure and concept principally take place within donor countries and among DAC donors, and are often driven by incentives to increase or reduce the volume of ODA. The Dutch Scientific Council for Government Policy however stated that a suitable ambition would be to question the importance of the 0.7% GNI norm. As such a standard is losing relevance when development is not isolated but becomes increasingly interdependent on other issues (WRR 2010a, Van Lieshout et al. 2010). The progressive stretching of the ODA definition has among other things shed some doubt with certain constituencies on the credibility of ODA as a “truly developmental” source of development finance. But there are of course also other processes ongoing to make better use of ODA statistics (see also next the section), to extend their purposefulness, and to combine these data with other relevant data systems. DAC work has drawn the attention to development assistance allocation imbalances at a time of continued development assistance fragmentation. It surveys countries’ development assistance allocations and has also drawn attention to the slowing in the growth of country programmable aid (CPA) in the last couple of years (DAC 2010b). This measure of CPA is especially important for development assistance dependent countries’ programming and financial planning purposes.

3.4. Responses from OECD DAC – moving beyond ODA

The OECD DAC contributes to shaping the debate about how donors can collectively contribute to principally three shifts. First, in response to global developments there is the shift from a focus on DAC donors to a more inclusive orientation to new forms of partnership that include new public and private donors, civil society, and private sector actors. Secondly, there is the shift away from ODA as the prime source of financing for development. And thirdly, as Busan emphasised, there ought to be a shift in focus to users of flows of ODA and other development finance. As there is a growing interest among donors in domestic mobilisation of resources for development, so should there be a stronger interest in country owned data monitoring, responsive national statistical systems and capacity.

All these developments lend weight to the argument to consider ODA “not in isolation, but rather in its relation to the wider context of international flows of finance and its interface with them” (Manning 2011). As development assistance is likely to become a much smaller share of external financing for development, it matters to monitor and analyse the volume and nature of the various flows. Already, OECD DAC has responded in a number of ways to these developments and influences. These responses build on the “recognition that the long-standing focus on net ODA/GNI needs to be augmented by a broader measure of effort or contribution, while preserving the integrity of the ODA concept” (DAC 2011: 43).

There are multiple reasons or uses for improved or more comprehensive measuring of development finance, both from a provider and from a recipient position. One overarching purpose to provide a means of valorising flows and instruments that currently do not count as ODA, but which are developmentally driven or likely to contribute to development outcomes, is to "help give greater prominence to these flows and a greater recognition of their development impact in future DAC statistical presentations and analysis of flows" (ibid.), and this for an expanding group of users. Currently, such broader measure cannot replace the ODA concept as donors have agreed not to revise it until after 2015.

Before moving into a discussion on a new measure for all "development-related finance" it is useful to remind that already the ODA monitoring and measurement system serves other purposes than monitoring net ODA against the of 0.7% GNI target. DAC also captures the following alternative aggregates in its statistics:

- *Gross ODA*: the sum of ODA grants and ODA loan disbursements. No deduction is made for repayments on earlier ODA loans or dividend paid on past equity investments. It is a better measure for new development financing entering a developing country than net ODA. But it does not measure well a donor's budgetary efforts since it does not omit revenue received on previous loans or investments.
- *Total Official Flows*: is the sum of total ODA (net or gross) and "other official flows". OOF consists mainly of official export credits and official development loans that are not concessional.
- *Official development finance*: measured at the level of recipients, this aggregate comprises bilateral ODA, bilateral OOF and the total development spending of multilateral agencies. It reflects the official resource inflows for development – but cannot be used as a measure of donors contributions.
- *Total net resource flows for development*: this measure consists of ODA, OOF, private flows at market terms, and private charitable flows for development – excluding remittances (which finance primarily consumption rather than investment).

The OECD has also contributed to efforts to monitor and assess Innovative Financing for Development (IFD), and to study the relationship between IFD, ODA and aid effectiveness. The purpose of this mapping is largely to clarify to policymakers in donor countries whether, how and when ODA is used or can be used optimally in constructs of IFD. For that purpose, DAC distinguishes three basic categories of IFD:

(i) New Public Revenue Streams (mechanisms such as taxes, obligatory charges that generate concessional funds for development),
(ii) Debt-based instruments and frontloading, and
(iii) Public-Private Incentives, Guarantees and Insurance (DAC 2011a).

Each and every category engages different actors, and can contribute in different ways to development outcomes, but also may bring particular challenges that require monitoring and follow-through.

3.5. Conclusion

Despite these and other efforts at measuring, monitoring and analysing flows there are still demands to complete the picture of financing for development. Surely, as a Working Party on Statistics discussion document states, existing measures go beyond ODA and give a higher profile to different financial efforts in favour of development. But it also admits that a new measure of 'development-related finance' would *"need to command greater attention and prominence in its reflection of the present-day development finance picture"*. [24]

The trends have sharpened and global pressures have hardened. Moreover, the debates in the run-up to new international conferences, and within new multilateral bodies such as the G20, generate renewed interest, focus and research findings. The next couple of months will see further opportunities on the international scene to discuss global challenges such as the environment (Rio + 20), Financing for Development (2013), with also preparations getting under way for the Review of the MDGs in 2015 (with for example the EC and participating member states dedicating the 2013 *European Report on Development* to post-2015 development challenges), the ultimate date by which donors had pledged to reach the 0.7% GNI target.

The next two chapters present options that seek to respond to the different needs and different developments, and that serve different purposes. The first option departs from the current ODA definition, measure and reporting system, while proposing a broader aggregated of External Financing for Development, of which ODA is but one component.

[24] An earlier DAC note (DAC, 2011b) had mapped and presented various sources of innovative financing for development with the purpose to clarify whether, how and when ODA is used in innovative constructs for financing development and with what other flows it is associated.

4. Exploring two options to associate development-related financial contributions to Official Development Assistance reporting

4.1. Introduction: What scenarios would be possible?

Although this study also consulted key stakeholders on their views in terms of the challenges of the current ODA reporting system (see chapter 2), the interviews first and foremost focused on seeking their views on possible scenarios and practical steps towards reforming ODA reporting. As elaborated in the study's proposal and discussed in advance with the commissioning parties for this study, the study did not explore a 'no change' scenario as part of these consultations.

Towards the end of this study's data collection process, the outcome of the Busan High Level Forum on Aid Effectiveness confirmed that such a no-change scenario would be neither feasible nor desirable. In paragraph 23 of its outcome document, under the heading 'transparency and responsible cooperation', the following commitment is stated which implicitly[25] takes the partners beyond reporting on ODA: *"Implement a common, open standard for electronic publication of timely, comprehensive and forward-looking information on resources provided through development co-operation, taking into account the statistical reporting of the OECD/DAC and the complementary efforts of the International Aid Transparency Initiative and others. This standard must meet the information needs of developing countries and non-state actors, consistent with national requirements. We will agree on this standard and publish our respective schedules to implement it by December 2012, with the aim of implementing it fully by December 2015."*[26]

The basis for the interviews concerned a consultation note, which is found in the Annex to this report. The interviews primarily sought to solicit stakeholders' views on the two possible 'extreme' scenarios, which were based on an initial analysis of the literature: (1) broadening the definition of ODA or (2) integrating ODA within a broader aggregate of Financing For Development. As per the study's objectives, the purpose of this study was not to provide definite answers or ready-made solutions. Instead the scenarios were considered as means to help identify key challenges and opportunities in order to formulate recommendations on how to facilitate informed multi-actor debates on the comparison of countries' contributions to global development after 2015.

This section of the report presents the key points from the interviews as well as additional literature analysis that sought to explore key dimensions, parameters and challenges in relation to the two options. It is structured as follows:

- Section 4.2 to 4.5 looks into scenario 1: keep the current definition of ODA but start collecting data on a broader aggregate, External Financing for Development (EFFD)
- Section 4.5 to 4.9 looks into scenario 2: Revise both the ODA definition and the reporting system.

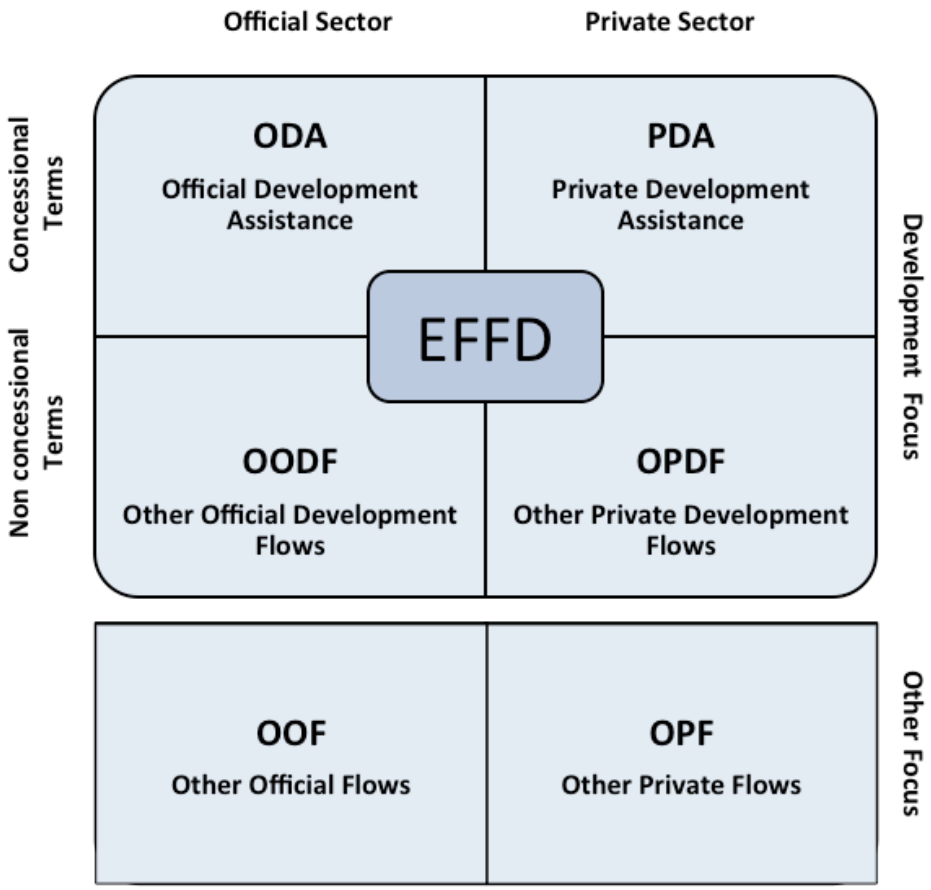
[25] ODA does not appear once in the 12 page outcome document
[26] The outcome document can be downloaded at:
http://www.aideffectiveness.org/busanhlf4/images/stories/hlf4/OUTCOME_DOCUMENT_-_FINAL_EN.pdf

4.2. Option 1: Keep the current definition of ODA but start collecting data on a broader aggregate, External Financing for Development

This option leaves the current ODA definition intact, but broadens out to an aggregate that responds in a more comprehensive way to combined and overlapping development and GPG challenges. It also takes into account new donors, new financing instruments, and new global processes. In this regard, it is also compatible with the recent shift in Busan towards a stronger emphasis on development effectiveness and what this means for developing partners.

This option would allow for the possibility to start measuring a broader aggregate, External Financing for Development (EFFD), which has only three elements of ODA out of five. In this context, ODA is a type of EFFD. EFFD therefore has three elements: (a) the type of flows (equity[27], grants, loans or technical cooperation); (b) the recipients (they must be on the DAC list); and (c) the development/welfare purpose of the related transactions. The other two elements (source and concessionality) generate the typology of External FFD shown in Figure 2 below.

Figure 2 – Types of External Financing for Development (EFFD)



EFFD would matter equally for all types of developing countries, low-income and middle-income, while ODA would matter much more for the former. EFFD allows for a better comparison of OECD and non-OECD donors as the latter tend to offer broader packages beyond ODA or in which ODA is minor element. Measuring ***external financing for development*** means measuring all four elements of development financing, on concessional and non-concessional terms, from the official sector (OECD

[27] Equity here refers to investments that could also be above 10%. If they are below they are ODA, if not they belong to either OODF or OPDF.

and non-OECD) and from the private sector. Measuring EFFD or even the overall external financing of developing countries allows to take into consideration the impact of instruments like guarantees and to better incorporate innovative financing.

When combined with ***domestic financing for development***, the use of the EFFD concept would allow to link resources to outcomes including the Millennium Development Goals. A more comprehensive picture on the mobilisation of domestic resources for development (the domestic FFD, so to speak) combined with the external FFD may come in support of stakeholders in developing countries who chose to engage with the public authorities on development challenges.

OECD DAC already collects comparable aggregate information on all flows included in **Figure 2**. The quality of information is however not uniform as estimates of private grants for example are not always reliable. Moreover, non-ODA flows are not disaggregated and there is no distinction between development and non-development related flows outside ODA.

As indicated in World Bank (2009), disaggregated data on private commercial flows are collected by private entities and sold on a subscription basis. As information on EFFD would be provided without all the details available to subscribers, it is certainly possible to discuss a mutually beneficial arrangement with data providers.

Data on private grants (e.g., financial flows from civil society organisations) are not readily available and there is a need to define an acceptable system for data collection from CSOs. IATI or regional or international CSO platforms could be the right fora to do so.

Finally, it would be important for DAC to collect information from donors on support provided to leverage private sector flows, in the form of guarantees, loans or grants. This 'innovative finance', as also discussed in chapter 3, is an important element to measure, as it would allow determining the share of EFFD that comes from or is made possible by the official sector. This would help to capture financial elements that are currently not considered as ODA and therefore not measured at all.

As in the case of callable capital, donors can enable greater OOF flows from multilateral organisations that are funded through bonds issues on international markets. This contribution (i.e., leveraging official multilateral flows) could also be easily measured and reported in this context.

4.3. Supporting arguments

Although the findings of this study confirm that the current ODA definition has stifled innovation in FFD reporting, political pressure to focus on reaching the MDGs and ODA targets by 2015 remains strong. Several interviewees felt that radical changes to the ODA definition should be avoided, as this could allow for donors to reach the commitments made merely by using a more *generous* numerator (ODA) in a context where the denominator (GNI) is either growing very slowly or declining in some donor countries. A radical change would also compromise data comparability over time, although some interviewees argued that strict statistical comparability of two systems is not required, especially when combined with new relevant target(s). The first option explored here is only one of the possible approaches to do so that would guarantee both retrospective and future comparability, in case the ODA definition itself is not changed fundamentally.

The complexity of the issues at hand underline the need to start preparatory discussions in advance of 2015, such as discussing the level of official concessional flows (for delivering on a post-2015 framework), the contributions from the various categories of donors, the question about additionality but also more broadly about the commitments to finance global public goods, which will not be solved over night.

A broader aggregate (such as EFFD) seems to better reflect this new reality. According to some interviewees, it would overcome an implicit presumption in the current system, that concessionality is better than non-concessionality, even if ownership is often greater in the case of unsubsidised loans as governments have to pay interest and repay them.

Some interviewees argued that lower tax countries naturally give more through private channels and tax incentives. The latter should be assessed as they are often the way governments encourage private giving through foregone revenue. A comparison based on EFFD could therefore provide a better basis even for comparing donor efforts.

Some interviewees argued that political pressure to continue inflating ODA would be reduced if EFFD were established not merely as a conceptual idea, but also as an operational alternative.

4.4. Options for implementation

An alternative raised by a few interviewees, is that the introduction of a new concept like EFFD should include a narrowing of the ODA definition to go back to basics and remove all the contributions of which there is doubt or lack of consensus on their development relevance (e.g. administrative costs, refugees, student bursaries), thus ensuring a stronger development focus.[28] A broader aggregate, such as EFFD would allow parties to capture other finances for development.

Respondents identified several possible intermediate steps, which could be considered under this scenario:

- Revising the concessionality of contributions
- Revising annex 2 of the DAC Statistical Reporting Directives to increase the list of international organisations

The OECD DAC seems the logical implementer as it involves broadening what the Secretariat already does. Information on all the above items is already being collected by most donor countries, while information on leveraging of private flows is usually easily available through the specialised institutions present in donor countries like OPIC in the USA or FMO in the Netherlands.

Although most respondents were interested in EFFD as a concept, its operationalisation raised many questions; particularly the tracking of non-official flows may be problematic. Several concerns were raised:

- Access to quality data, confidentiality of private data, reliability of data and accountability issues for public sector.
- The DAC's mandate, capacities and systems may need to be revised to adapt.

[28] A more narrow definition of ODA is also advocated by several CSOs (e.g., Concord, Aid Watch) that at the same time criticise blending and any effort to leverage private flows whose focus in their opinion is never developmental. The latter point has also been raised by some interviewees.

- Current DAC accounting/reporting systems may not be sufficiently adapted to ever increasing demands as they were not created to track complex flows such as those of innovative financing mechanisms.
- Depending on the purpose of the EFFD component (accountability, transparency, planning, etc.) and of the overall EFFD aggregate other institutions may be more appropriate and/or legitimate to design the measure/aggregate, the data management system, and to track such flows (IATI, UN DCF).

Some interviewees observed that several of the proposed new aggregates (OODF and OPDF) are interesting in theory but challenging to operationalise. Concerning OODF, it should be easy as data are already collected on Official Development Finance and OODF would therefore be the residual left when ODA is subtracted from ODF. It is however more difficult to systematically report on the development focus in private flows. An alternative that was suggested by some interviewees would be to focus initially on OPDF that is guaranteed or otherwise leveraged by the official sector. The advantage of such an approach is that information on official support through guarantees or blending is readily available and can be reported by most donor countries without much effort. Once a process for reporting the development focus of private flows would be devised, the coverage could be extended beyond OPDF supported by the official sector. Till then, non-publicly guaranteed OPDFs could be considered as part of OPF.

4.5. Issues/Remarks/Questions

Although most interviewees voiced their inputs in a rather tentative way, emphasising that the conditions to allow for a shift towards reporting against a broader EFFD-like framework will only gradually be met, they saw much benefit in doing so. Key reasons stated by the interviewees to support such a shift included the disincentives created by the current system to report some contributions, the fact that some FFD data is currently collected but not published due to lack of complete data, and the possibility of a broader framework to more structurally report on financial Policy Coherence for Development issues. OECD members' interests in contributing to international debates on financing for development vary depending on (a) the nature of the public and political debate on development, (b) the financial constraints to reach ODA commitments and (c) on the extent to which they use new financial instruments that currently do not qualify as ODA. According to several interviewees, the current definition of ODA is already overstretched. There are concerns about the "truly developmental effect" of items such as administrative costs of donors, support for refugees in donor countries, and student scholarships (for a full account on the rationale of including/excluding these items from ODA definition/reporting see section 3.3).

Another concern is the investments required to collect the data, with several interviewees expressing that in their view the DAC already requires a substantial level of detail today. Only a few DAC Member States have started tracking non-ODA flows; and data is therefore still very incomplete.

An additional concern is that the current OECD/DAC statistical system may not be sophisticated enough as it was not created for an ODA purpose and would run the risk of losing historic comparability. For OCA and OSA there are concerns regarding who takes the lead in and manages collecting and tracking security and climate-related finance.

Two additional concerns were put forward by interviewees. First, some interviewees felt that EFFD is too restrictive, as it only covers 'external FFD', while also noting that trade-offs should be made between coverage and quality/availability (e.g. the difficulty of including domestic resources). Linked to that, some argued generally that EFFD, like ODA reporting, focuses on the flow of funding and not on the results. As a second concern, some argued that the EFFD categories may in fact not be appealing to non-DAC donors, while others thought otherwise.

Discussions about a broader reporting aggregate, such as the one explored here, can inform discussions on how to associate new actors, and focus on pitfalls and potential of new sources of financing for development in the light of the post-2015 agenda. Some of the interviewees also referred to the experiences on innovative networking or global governance arrangements that emanate from initiatives to tackle priority global public goods challenges or the recent experience of forming a more inclusive global coalition on making development assistance more effective.

Finally, interviewees emphasised that a comprehensive option would require a solid mix of technical capacity, facilitation and brokering skills, credibility and legitimacy. In other words, incrementally brokering the design and components of such an aggregate will require innovative ways of coalition building, networking, and governance arrangements.

4.6. Option 2: Revise both the ODA definition and its reporting system

This option proposes to continue focusing on ODA alone but only after substantial revisions to its definition. Rather than adding three new aggregates outside ODA (i.e., Official Security, Peace and Stability Assistance, Official Climate Assistance and Official Support for Private Flows) or focusing on FFD, the ODA concept could also be broadened to incorporate all three.

The Dutch Scientific Council for Government Policy also suggested that it is more appropriate to this new reality to attempt to formulate a new measure that includes not only development assistance but also Western efforts with regard to international regulations and global public goods relevant to development policy. This would lead not only to a much more fruitful debate than the eternal question of whether the budget for development assistance should be more or less than 0.7 percent of GDP; it would also provide good input for the debate that will undoubtedly emerge about what should be used as an international framework of reference after 2015, when the MDGs expire (Van Lieshout et al. 2010: 271).

4.7. Supporting arguments

The key supporting argument is that there is a need to define a single aggregate that measures official assistance for development. Multiple aggregates would seem to blur the message and complicate implementation. Several interviewees agreed that the focus on flows of the current ODA definition is too narrow, and misses several important elements of Official Development Finance. A few also argued that the definition of development is too narrow as, for example, security is a pre-requisite for development and any expenditure that strengthens security promotes development too. ODA's focus on net flows was also judged problematic as it excludes guarantees and underestimates the contribution of equity and loans.

4.8. Options for implementation

In the elaboration and discussion of this option, key is that a revised definition of ODA could include any of the changes to the following elements contained in the current concept:

1. The **type of flows** could be expanded to cover guarantees and foregone tax revenues. Guarantees could be included by considering the private flows generated by the official guarantee up to the total amount of budgetary resources that were set aside to fund at least a share of the contingent liabilities that guarantees are generating. This approach would allow to keep the focus on flows and include as 'official' those flows made possible by a public guarantee.
2. The **list of multilateral recipients** could be abolished and any international organisation that would provide the resources to a country in the DAC list of beneficiaries should be acceptable.
3. The **classification of countries** by income group should be replaced by one based on the number of poor living in each country. A donor focusing on the poor wherever they are could be misrepresented as focusing on richer countries by using the income group classification. This revised classification would shift the focus from poor countries to poor people**.**
4. An alternative would be to abolish also the list of recipient countries and territories and consider as **ODA all development assistance for all countries that meets the DAC norms of concessionality and development motivation**. The current international crisis could lead to a broadening of development assistance recipients and make a fixed list, revised only periodically, a needless burden. Even more so considering that some of the current recipients have become significant donors and a potential source of liquidity not only for other development assistance recipients but also for some donors.
5. The **development/welfare purpose** of transactions could be understood in a broader sense. OSA, OCA and OSPF could be included directly in the definition of ODA rather than in additional aggregates
6. The current definition of **concessionality** could be replaced by the tighter IMF concessionality formula (35% or more at variable market discount rates based on loan maturity).
7. The new definition of ODA could also be combined with a **new focus on gross rather than net disbursements** when setting post-2015 ODA targets, if any, to avoid underestimating the importance of key components of ODA like equity investments.

4.9. Issues/Remarks/Questions

Many interviewees noted that such a radical overhaul of the system would have serious implications in terms of the credibility of the overall efforts towards the 0.7 target, the focus and coverage of ODA, the ability to analyse and compare data over time, and the ability to broaden the data collection efforts and ensuing potential coordination of initiatives with CSOs and non DAC donors.

However, as the overhaul would be carried out in the context of a global revision of ODA targets post 2015, the impact of the change in definition on current levels and future targets could be measured and taken into consideration when proposing a new set of goals. Credibility would therefore not be affected as strongly as in the case of a similar change carried out today, given that the goals and the approach to measurement are related. The extent to which the comparability of trends in development assistance flows over the years is important will depend on the extent of change in the overall post-2015 framework compared to the current one, and of course under the assumption that there will be sufficient consensus to agree to such a new set of goals four years from now.

4.10. Conclusions and exploring reporting against a broader aggregate

The following main conclusions emerge from the consultation of interviewees on the two 'extreme' scenarios for reforming reporting on development-relevant financial contributions:

1. First and foremost, interviewees were generally **more inclined towards the first than to the second option**, based on two main concerns: (a) the second option would go against recent trends in policy discussions such as Busan, which revolve around the idea of 'enlarging the tent' and come to a more inclusive conception of development; and (b) sensitivities related to discussing the scope of the ODA definition before 2015, even if such changes would only enter into effect after that date.
2. Secondly, the interviews point to a **lack of commonality in the interests** of development partners as far as modernising reporting on development is concerned, given strong variations on aspects such as whether meeting the ODA target is an important matter in the public debate (e.g. linked to discussions on austerity measures), whether the development partners and/or their national development banks strongly invest in the use of innovative financing, etcetera. This situation has not been different in past decades, which is why ODA reporting looks the way it does today, it being the result of a governance system based on consensus. Therefore, associating and/or introducing new items would be easier than revising or removing aspects in the current reporting.
3. Thirdly, the interviewees underlined that if there would be consensus on associating new sources of development-relevant finance to the future reporting, then this would only be the start of facing **new technical challenges** when it comes to the strong difference in availability, transparency and quality of data on the different development-relevant financial contributions that may be considered. Following these data implications, the challenge of modernising reporting should by no means be seen as a 'budget-neutral' one.
4. Finally, and linked to the observations made in chapter 2, incrementally brokering the design and components of changes to the reporting requires **innovative ways of coalition building, networking, and governance arrangements**. Similar to the experiences gained in the process towards the preparation of the Busan outcome document, which started with fundamental changes in the mandate and composition of the Working Party on Aid Effectiveness, this would imply further opening up the debates (and their outcomes) on the more technical, financial matters discussed here. More pro-actively engaging on this matter with emerging economies as well as key private actors would be important in this regard.

Given these conclusions, the study subsequently made a tentative exploration of the possibilities for reporting against a broader aggregate, similar to option 2, based on the current reporting to the DAC by its members. Taking the commissioning governments of this study as the basis for this comparison was deemed useful in the sense that while they both belong to the group of DAC members that is relatively interested in experimenting with innovative sources of finance, they are rather different in terms of their respective performance to the 0.7% GNI target and their public and political debate.

Table 1: Exploring reporting on financial contributions to development in 2010: examples of two DAC members (in million USD, 2010)

Germany					Netherlands			
ODA:	12,985.36	PDA:	1,463.89		ODA:	6,357.31	PDA:	656.59
OOF/OODF:	- 407.69 [29]	OPDF:	17,155.56		OODF:	0[30]	OPDF[31]:	5,999.15
Total:			**31,197.11**		**Total:**			**13,013.05**

When comparing these two countries, it is interesting to see that proportionally the Netherlands' ODA contribution is bigger than that of Germany, while this is inversely (though not strongly) the case for OPDF. When accompanied with clearer data and research on the development-relevance of the latter category, this first exploration seems to confirm the usefulness of associating these other categories to ODA reporting.

In addition to the difficulty of appropriately measuring the development-contribution of OOF/OODF under the current definitions and reporting directives, as noted in the table, it should also be emphasised that net private grants and private flows are not yet fully tracked and therefore the values as presented here are by no means complete. Both emphasise the need to further invest in data quality and availability, yet also show that the present reporting practices do provide a workable basis to start from.

[29] The negative number here is explained by the current reporting directives which, due to being limited to flows only, take guarantees into account when these fail, and register return flows on equity investments as negative ODA.

[30] The zero score is due to the fact that the Netherlands Ministry of Foreign Affairs is presently still in the process of analysing how to define and capture these figures.

[31] More precisely defined as private flows at market terms.

5. Conclusions and recommendations

5.1. Analysis of key findings from sections 2, 3 and 4

This study was commissioned to explore key issues and parameters of a comprehensive system for capturing the sum of donors' development-related financial contributions based on the existing ODA definition, and putting forward recommendations for improvement. The study produced the following three outputs that have respectively been presented in sections 2, 3 and 4:

a) A **'diagnosis'** of the current ODA reporting system, covering a historical overview and analysis of key drivers, actors and fora;
b) A **mapping** of financial contributions that can be judged as contributing to development;
c) An exploration of **scenarios** for associating relevant non-ODA expenditure to ODA reporting, or promoting different degrees of integration towards and post-2015.

The following table summarises the key findings emerging from these three outputs of the study, as a basis for identifying key conclusions and recommendations.

Table 2: Key findings from the studies key outputs

(a) Diagnosing the past and present of ODA reporting	(b) Mapping development-relevant contributions	for a Exploring two scenarios for future change
1) The 0.7% target is a reflection of a political compromise at the time of its adoption in 1972, as well as the relative size of official flows at that time. 2) Subsequent years brought changes to ODA operationalisation, some minor and others more fundamental. Debates about the way ODA is defined and reported on primarily take place in donor arenas and are largely driven by stakeholders in development partner countries. In recent years the influence of the G20 and key non-state actors on these debates have increased. 3) ODA has in recent decades been 'outgrown' by other international financial flows (e.g. remittances, equity inflows). Another important driver	1) Two separate, though related, areas: (i) contributions that are considered part of ODA and (ii) contributions considered to be outside of the ODA definition. 2) Development relevant contributions beyond ODA include Climate Assistance and Security Assistance spending, and a diverse range of innovative financing mechanisms. Different organisations define 'innovative finance' differently. 3) Innovative mechanisms are difficult to include in the current ODA reporting system, due to criteria for concessionality flow characteristics and intermediaries. 4) Three types of innovative financing mechanisms are discussed for their characteristics	1) Reporting against a broader aggregate with no fundamental enlargement of the ODA's scope is preferred due to (a) the link with recent discussions in Busan; and (b) a debate on changing the ODA definition during the next few years appears not to be politically desirable. 2) A lack of commonality in the interests of development partners as far as modernising reporting on development is concerned, complicates changes given the current consensus-based governance system. 3) Associating new sources of development-relevant finance to the future reporting brings challenges

concerns the increasing involvement of so-called 'emerging donors', who do not consider their south-south cooperation as comparable to ODA. 4) The year 2015 represents an opportunity to update and broaden the global development reporting framework. The discussions on the post-MDG framework so far hint at a greater focus on the development dimension of relevant Global Public Goods (GPGs). Once adopted, this post-MDG framework will define what overall development outcome(s) should be attained, and should also inform the modernisation of FFD reporting.	in terms of their public or private sources and their private or public uses: (1) Public Private Partnership (PPP), (2) solidarity mechanisms and (3) catalytic mechanisms. 5) Due to adaptations made over time, ODA reporting today covers some elements that are debated with respect to their development relevance. 6) The ODA monitoring and measurement system also captures alternative aggregates in its statistics like the Gross ODA, i.e. the Total Official Flows and Official Development Finance.	when it comes to the strong difference in availability, transparency and quality on data, requiring substantial investment. 4) Incrementally brokering for change requires innovative ways of coalition building, networking, and governance arrangements. 5) A tentative exploration of the possibilities for reporting against a broader aggregate would confirm the relevance thereof, but also the significant data and research investments required to do so usefully.

Comparative analysis of the findings from the three outputs of this study leads to an overall conclusion that the current FFD reporting system, which mainly revolves around an input based ODA target, is no longer fit for purpose. This system requires an overhaul to report adequately on the financing for development under the Post-MDG framework post-2015. Key reasons underpinning this conclusion are that (a) a full picture of all FFD contributions should be provided, not only of the OECD members' ODA contributions, whose share of total FFD has declined even with increasing ODA volumes; (b) new instruments and tools need to be adequately reflected in the measurement of FFD; and (c) a desire to clarify the disputed development-relevance of some *ODAble* contributions.[32]

As is reflected by the current FFD reporting process, any future system will be primarily built on informed political compromises rather than on purely technical solutions, which is why it is neither appropriate nor effective for this study to advance a particular FFD reporting solution. Based on its findings, this study instead puts forward four overall recommendations that reflect an overall felt need for more pro-active, explicit and inclusive policy discussions on the means to finance development objectives after 2015 and related reporting.[33]

[32] Along the same lines, Severino and Ray (2009) talk of a *"triple revolution in goals, actors and tools"* that has led to a situation where ODA measures *"at the same time too much, too little and the wrong types of things"*.

[33] While the UN Secretary General was mandated in December 2011 to organize a special event in 2013 to follow up on efforts made towards achieving the MDGs and make recommendations for further steps to advance the United Nations development agenda beyond 2015, the discussion on financing seems to be too implicit at this stage in these discussions and need to be engaged more proactively by all key stakeholders.

5.2. General recommendations

On the basis of the main findings and how they relate to direct suggestions put forward by interviewees, the study team has identified four general recommendations that could be pursued separately or simultaneously in order to prepare the ground for and initiate the discussion on reporting on development-relevant financial contributions after 2015:

1. **Ensure that discussions on financing for development feature prominently in events that will shape the post-2015 global development framework**: the findings from the interviews confirm the relevance of many upcoming events (e.g. Rio+20, 2013 MDG review, a possible meeting on financing for development in 2013[34], continuing discussions on climate finance). This trend would justify a greater profile of development partner officials dealing with ODA reporting in such discussions.

2. **Ensure sufficient focus on reporting on financial contributions in the discussions leading to the establishment of a Global Partnership for Effective Development Cooperation:** with some important ODA contributors not being part of G20, and the UN Development Cooperation Forum not deemed influential enough on its own, actors should engage more proactively with the future successor to the Working Party on Aid Effectiveness to make sure there is sufficient attention to financial dimensions.

3. **Put transparency and results-oriented reporting on ODA and associated financial contributions at the top of the agenda:** findings from this study indicated that the disadvantages of opening up the ODA definition outweigh the advantages. Given the mapping's observations on the concerns on development-relevance of some ODA elements, as well as promising effects of innovative sources of finance, different partners providing these investments need to be urged to be both effective and open.

4. **Join and gear up analytical efforts to learn from the effects of different approaches to finance on development outcomes**, and make sure the outcomes of such a learning process are made available to all relevant actors. The general objective should be that all ODA components and associated expenditure are evaluated with appropriate intensity and rigour.

5.3. Operational recommendations

Table 3 outlines 19 operational recommendations relevant to a variety of actors: governments, multilateral organisations, research organisations and NGOs and developing country governments. To make progress with advancing reporting on development-relevant financial contributions in the future, these operational recommendations are clustered by actor and associated to the general recommendations (referred to as 'Rec' in the table) to which they relate. Successful implementation of the proposed recommendations depends on national governments, supported by their parliaments, to take proactive action in order to mandate and/or give further impetus to debates advancing the modernisation of reporting on development-relevant financial contributions.

[34] This has not yet been decided on, the need to do so was recalled by the UN Economic and Social Council in July 2011: http://www.un.org/en/ecosoc/docs/2011/res%202011.38.pdf

Table 3: Specific recommendations				
	Rec. 1	**Rec. 2**	**Rec. 3**	**Rec. 4**
1: Governments				
1.1 Invest in open and forward-looking debates at the national level, including with parliaments, to create sufficient basis for discussion at the supra-national, European, international and/or multilateral level (as applicable)			X	X
1.2 Systematically push for explicit attention to financial dimensions of international agreements and the measuring of results, including in international policy discussions on the provision of Global Public Goods (e.g. Rio+20)	X	X	X	
1.3 Support proposals to have high-level debates to prepare for and agree on the future of reporting for development, including to hold a new conference on financing for development in 2013 as suggested in Doha in 2008	X			
1.4 Support proposals for a concrete mandate of the future Global Partnership for Effective Development in relation to seeking to promote the greater transparency of and availability of data on development-relevant financial contributions and report on this in a systematic manner		X		X
1.5 Governments should seek to establish policies and/or regulations that encourage companies to pursue shared value in third countries, while in return requiring greater transparency and better quality of information on the investments made and results achieved.			X	
1.6 Governments that report on ODA should continue the process started towards Busan in terms of seeking gradual 'integration' of their approaches and those of emerging countries.	X			
1.7 Encourage partner countries to lead dialogue on FFD at country level, with both DAC and non-DAC donors.		X		
2: European Union, OECD and United Nations				
2.1 Once mandated take efforts to upgrade reporting on non-ODA financial contributions to a similar level of detail compared to ODA contributions			X	X
2.2 The OECD/DAC should increase efforts to making their 'savoir faire' and expertise available for improving the monitoring of innovative sources of finance.			X	X
2.3 In Communications accompanying the EU's annual accountability report on financing for development, gradually increase attention to and profile of non-ODA financing for development, while taking the challenges of accessing non-official data into account		X	X	
2.4 At different levels, the OECD, EU and UN should seek to devise strategies and engage more efficiently with the private sector		X		
2.5 Either in the G20 or in the future Global Partnership for	X	X		

Effective Development Cooperation, the OECD and EU should seek to engage in structured dialogue with BRICS countries on FFD categories.				
3: International Financial Institutions				
3.1 Share lessons learned and relevant information to all relevant stakeholders (Cat 1, 2, 4 and 5) in order to better inform the debate on finance for developing, using accessible means such as blogs, policy briefs or discussion papers			X	X
3.2 On issues of common interest, as a related recommendation to 3.1, national (e.g. KFW), regional (e.g. EIB) and international development banks (e.g. World Bank) should increase networking and explore possible joint publications. Such publications could be aimed at higher-level/political audiences.		X		
3.3 At high-level meetings (e.g. IMF Board meetings), push members to take more proactive action in relation to recommendations 1 and 2	X	X		
4: Research organisations and NGOs				
4.1 Advocate for specific studies and attention to non-ODA financial contributions and their impact on development				X
4.2 Improve networking and seek collaboration between research organisations that are predominantly active in 'aid' and 'non-aid' domains, in order to ensure 'cross-pollination' of analysis between different knowledge communities			X	X
5: Developing countries				
5.1 Publicly state confirmation of non-ODA financial contributions as being relevant to pursuing development objectives, as an important basis to help countries advance further	X	X	X	
5.2 Make available information on results achieved through funds and other resources invested under the heading of 'south-south cooperation' to allow for better comparison made with other contributions				X
5.3 Advocate in relevant UN fora and in the G20 (when invited to represent other countries) for emerging countries to consider whether they could cooperate in reporting on development-relevant finance when part of a broader aggregate.	X		X	
5.4 In reference to paragraph 35(a) of the Busan outcome document, developing countries could lead on frameworks based on national needs and priorities for monitoring progress, which could include several key dimensions of Financing for Development beyond ODA.		X	X	

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Annex: Consultation note for the interviews

Questions
The core issues that the study-team wants to discuss with you relate to Financing For Development, to the questions related to *modernising* ODA, and the overarching question whether ODA should be broadened or whether efforts should concentrate on integrating ODA within a broader aggregate of Financing For Development.

Modernising ODA: the agenda for measuring development/aid finance
Substantial efforts have gone into modernising ODA, or into changing and expanding the reporting categories and guidelines. This part of the questionnaire tries to better assess where your organisation stands on modernising ODA. What is your organisation's view on the following issues:

Q1.1: What are the constraints and pressures on current ODA definition and reporting guidelines?

Q1.2: What are the areas that should/could be made ODA eligible within the existing basic definition?

Q1.3: What are the pressures and incentives in and outside your organisation to modernise ODA (definition, reporting guidelines, etc.)?

Q1.4: What are the constraints – and what is the scope – for modernising ODA and/or changing/expanding the existing ODA reporting categories and guidelines?

Q1.5: What are the merits (if any) of modernising ODA in a context of pressures and what are the possibilities for ODA to become part of a broader aggregate?

Financing For Development: a broader aggregate for measuring development finance
While the concept of ODA has changed little over time, the goals, actors and instruments of international development have altered drastically. Therefore, a broader aggregate – External Financing For Development – is proposed. ODA is one of the four sub-categories of FFD (see also figure 1). We seek your views as to whether such alternative is suited to reflect the development finance of all relevant private and public actors, to measure all development instruments, and to include new development objectives. We also try to assess whether ODA should be broadened or whether efforts should rather concentrate on integrating ODA within a broader aggregate such as Financing For Development. Finally, we seek to appreciate better what appropriate forums exist to develop the FFD architecture. What is your organisation's view on the following issues:

Q2.1: Do the three additional categories of Financing for Development present a sufficient basis for measuring and including the "triple revolution" in development goals, actors and instruments?

Q2.2: Is your organisation already involved in efforts to track and report on these non-ODA categories of Financing For Development?

Q2.3: What is the feasibility of collecting data on incentives, guarantees and insurance?

Q2.4: Does your organisation engage in discussing FFD with non-DAC donors?

Q2.5: What are appropriate forums for taking the FFD agenda forward?