Assessing the Implications of OECD DAC Proposals for Statistical Reform

Commonwealth Finance Ministers Meeting,
Washington D.C., 8 October 2014
Meeting of Commonwealth Senior Finance Officials
Washington D.C., 7 October 2014

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Contents

Abstract

This background paper has been prepared for discussion at the Commonwealth Finance Ministers Meetings (CFMM) to be held in Washington DC on October 7, 2014. The objectives of the research are:

- To update Finance Ministers and Senior Officials on OECD proposals for reforming their statistical framework used to measure and monitor flows for financing development;
- To assess the possible impact of these proposals on an emerging Post-2015 financing framework and the implications for developing countries;
- To stimulate debate within the Commonwealth and to feed Commonwealth perspectives into OECD DAC High Level deliberations;
- To prepare Commonwealth representatives for the UN Third International Conference on Financing for Development scheduled for July 2015 in Addis Ababa, Ethiopia.

The conclusions are based on Commonwealth Secretariat analysis.

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List of Abbreviations and Acronyms

BRICS	Russia, India, China and South Africa
CFMM	Commonwealth Finance Ministers Meetings
CIRR	Currency Interest Reference Rates
CPA	Country Programmable Aid
DAC	Development Assistance Committee
DDRs	Differentiated Discount Rates
DFIs	Development Finance Institutions
FV	Face Value
GNI	Gross National Income
GDP	Gross Domestic Product
HIPC	Highly Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development
ICESDF	Intergovernmental Committee of Experts on Sustainable Development Financing
IMF	International Monetary Fund
LDCs	Least Developed Countries
LICs	Low Income Countries
LLDCs	Land Locked Developing Countries
LMICs	Lower Middle-Income Countries
MDGs	Millennium Development Goals
MINT	Mexico, Indonesia, Nigeria and Turkey
NGOs	Non-Governmental Organisations
OECD	Organisation for Economic Cooperation and Development
ODA	Official Development Assistance
OIF	Organisation Internationale de La Francophonie
OOF	Other Official Loan
PPPs	Public Private Sector Partnerships
SIDS	Small Island Developing States
TOSD	Total Official Support for Development
UMICs	Upper Middle Income Countries
USD	United States Dollars
UNCTAD	UN Conference on Trade and Development
UN	United Nations
WB	World Bank
WTO	World Trade Organization

Executive Summary

Soon the Third UN International Conference on Financing for Development, which will set in motion the financing framework to underpin the Post-2015 Development Agenda, will be upon us. Indeed, International partners are already deeply engaged in internal consultations and preparation. For example, the UN Intergovernmental Committee of Experts on Sustainable Development Financing (ICESDF) recently released its draft report on financing for development, and the Organisation of Economic Cooperation and Development (OECD) is in advanced discussion on its proposal to introduce a modernised statistical framework, intended to align the current system with a more complex financing landscape and comprehensive Post-2015 development agenda.

This paper undertakes an assessment of the OECD and OECD DAC Ministers' plans for reform, particularly because of the potential implications for the mobilisation of official resource, as well as for the financing opportunities and risks to Commonwealth countries.

The OECD reports that in this more complex setting, new ways of measuring support for development are needed that are more relevant and inclusive of, different development actors, measures that aim to capture the total picture efforts to support development being made by donor countries, as well as measures that provide a way to better capture resources flowing to recipients. Further, the OECD suggests that other concepts that take a wider view of the types of financial instruments for development may well spur greater innovation, higher financial flows and an overall greater development effort in support of Post-2015 goals (OECD, 2014 (a).

The Commonwealth's assessment presented in this paper is geared towards preparing Finance Ministers and Senior Officials for the upcoming UN Financing for Development discussions, and towards helping to feed members' views into OECD high level deliberations.

The OECD and DAC Ministers outlined four main objectives of the proposed reform. Firstly, to introduce a measure of Total Official Support for Development (TOSD);to modernise the concept of Official Development Assistance (ODA) so as to better reflect donor effort and recipient benefit; to establish a clear definition of "concessional in character;" and to design an eligibility criterion that will ensure that ODA goes to where it is needed most.

To assess the implications of the OECD's intentions, the Commonwealth Secretariat undertook a review of emerging DAC proposals, focusing on those that are likely to be put forward for OECD Ministers discussion and endorsement. These are anticipated to be:

- The introduction of TOSD as an additional measure for capturing donor efforts towards development – particularly the provision of development enablers and global public goods;
- Modernisation of ODA through a grant equivalent conceptualization, for the main purpose of better representing donor and recipient benefits;
- Harmonisation of OECD and IMF/WB discount rates for assessing loan concessionality; and
- The introduction of a new ODA target aimed at delivering at least 50 percent of total ODA to LDCs.

Using this modus operandi, the Secretariat finds that there are a number of associated opportunities and risks, and that the OECD DAC will need to give consideration to several technical and political questions, as posed in this paper. Based on the Commonwealth's assessment, the main opportunities to be expected from a reform of the OECD DAC statistical framework are: an improved framework for monitoring financing for development; an ODA measure that overcomes some past criticisms by attempting to more accurately reflect donor effort vis-à-vis recipient benefit; a possible increase in the scale of development financing, albeit non-concessional; and gains in international coordination – i.e. with respect to harmonisation of OECD and IMF/WB discount rates for valuing loan concessionality.

Risks revealed, however, include: a possible increase in risks to debt sustainability from the introduction of a measure of TOSD and a possible proliferation of private financing through increased use of market-like instruments; a possible shift in incentives away from delivering the 0.7

percent ODA/GNI target, to one achieving a target on TOSD; possible further risks to debt sustainability if the impact of introducing a lower discount rate in combination with a grant equivalent calculation incentivises donors to increase non-concessional lending; and a possible allocation imbalance within a revised framework with respect to grant funding between those classified as LDCs and other grant-funded development priorities, such as public goods or among countries required to bear the costs associated with the focus of the new framework.

I. Introduction

1. As a follow-up to the Monterrey consensus and the Doha declaration on financing for development, the international community will meet again in Ethiopia between 13 and 16 July, 2015, to review the implementation of commitments made in Monterrey, reaffirm its commitments to development financing, assess new and emerging issues - including the evolving current development cooperation landscape - and to agree on the need to support the UN Post-2015 Development Agenda, which is scheduled to be adopted in September 2015.

2. The official UN preparatory process commenced in September this year and will run until next June. During this period, the President of the UN General Assembly, in consultation with member states, the private sector and civil society, will be engaged in informal consultations, the summaries of which will serve as inputs to the Financing for Development Conference. Drafting sessions on the outcome document will be held in January, April and in June 2015, respectively (UN 2014).

3. Apart from the inputs of member states, the UN outcome document is expected to be shaped primarily by contributions from the World Bank, the International Monetary Fund (IMF), the World Trade Organization (WTO), the UN Conference on Trade and Development (UNCTAD) and the Organisation for Economic Cooperation and Development (OECD) – upon whose contribution this paper is based. Another significant contribution, inter alia, will come from the Intergovernmental Committee of Experts on Sustainable Development Financing (ICESDF), whose draft report has been published and which Commonwealth Finance Ministers will also discuss at their meeting in October.

4. The OECD DAC contribution – a set of proposals for reforming the OECD statistical system – will be particularly important, as these proposals will help to shape OECD DAC donors' and possibly non-DAC donors' financing incentives. The DAC began this work in December 2012, on the basis of OECD DAC high level mandates.

5. Cognisant of the rapid change in global financing conditions as well as a more complex and shifting financing landscape, DAC and OECD members met at Ministerial level in December 2012,and invited key development partners. The purpose of the meeting was to reflect on the MDGs, to reaffirm aid effectiveness and other commitments, and to discuss ways of maximising development financing.[1] According to the OECD DAC High Level Meeting (HLM) Communique (OECD 2012 (a), Ministers recognised the progress that had been made on the MDGs and the role that investment in ODA has played in helping developing countries reach certain targets. High level members also drew attention to the mammoth emerging challenges, including growing world inequality, and the implications of such impediments for poverty reduction and global economic stability.

6. DAC and OECD Ministers also reconfirmed their commitments to ODA mobilisation (0.7 percent of ODA to developing countries) and highlighted the importance of maintaining a focus on poverty, whilst showing approval for the UN joined up approach Post-2015, to include a focus on sustainable development as well as climate change.

7. With respect to development financing, governments noted the fact that the development finance landscape had now changed. Specifically, they highlighted the fact that shifting global wealth has caused a breakdown of the division between North and South providers of development finance. And that cooperation among South-South partners, as well as triangular cooperation, are now playing important roles in complementing North-South cooperation, thereby increasing the potential scope and reach of the international development system.

- Given the recognition of these vast changes, participating governments agreed on the need to explore more deeply the potential of the financing for development landscape, so as to achieve an understanding of the relationship between different flows and types of finance,

[1] International partners including: the IMF, the World Bank, UNDP and other UN representatives, ADB, IADB, co-Chairs for the Global Partnership for Effective Development as well as with high level representatives from Brazil, China, India, Indonesia and South Africa.

and of the conditions, contexts and sequence of these flows that will maximise their impact. Emphasised the strategic role of ODA as an essential resource for development and recognised that it can be effectively combined with, and leverage, other flows.

- Recognised internationally agreed definitions and reporting as important elements of accountability.
- Emphasised that classifications and analysis of development finance should increasingly focus on the need to link inputs to results, while continuing to bear in mind the key development assistance objective of reducing poverty and maintaining or establishing basic social services and security.
- Agreed that the DAC was well-placed to make a contribution to modernising the measuring and monitoring of external development finance provided by its members and can also provide substantive input to the global discussions on the post-2015 development finance framework.

8. With a view to ensuring that ODA is directed to where it is most needed and where it can catalyse other flows and promote accountability, OECD and DAC Ministers instructed the DAC to:

- Elaborate on a proposal for a new measure of total official support for development.
- Explore ways of representing both donor effort and recipient benefit of development finance.
- Investigate whether any resulting new measures of external development finance (including any new approaches to measurement of donor effort) suggest the need to modernise the ODA concept.
- Undertake this work in close collaboration with other interested international agencies, in particular the United Nations, and also the IMF and World Bank.

9. The OECD HLM also discussed the reporting of ODA loans in light of multiple views on the interpretation of concessional in character. They agreed on a number of key principles that ODA measurement should meet, which are that ODA reporting should:

- Withstand a critical assessment from the public.
- Avoid creating major fluctuations in overall ODA levels.
- Be generally consistent with the way concessionality is defined in multilateral development finance.
- Maintain the definition of ODA, and only attempt to clarify the interpretation of loans that qualify as ODA.
- Prevent notions that ODA loan schemes follow a commercial logic: this includes the principle that financial reflows should be reinvested as development resources.

10. In this spirit, OECD DAC Ministers agreed to:

- Transparency regarding the terms of individual ODA loans.
- To ensure equal treatment of all DAC members.
- To establish, as soon as possible, and at the latest by 2015, a clear, quantitative definition of concessional in character, in line with prevailing financial market conditions.
- To recognise development loans extended at preferential rates, whether “concessional in character” under a future post-2015 definition or not, as making an important contribution to development.

11. This paper focuses on the emerging work stream from the OECD DAC, who has reached out to the Secretariat for a Commonwealth perspective. Discussions on this topic is expected to be to the benefit of Commonwealth Finance Ministers, who will be afforded the opportunity to influence OECD High Level deliberations, as well the opportunity to convene and to prepare well in advance for the penultimate UN Post-2015 Financing Conference.

The main objectives of the paper are to:

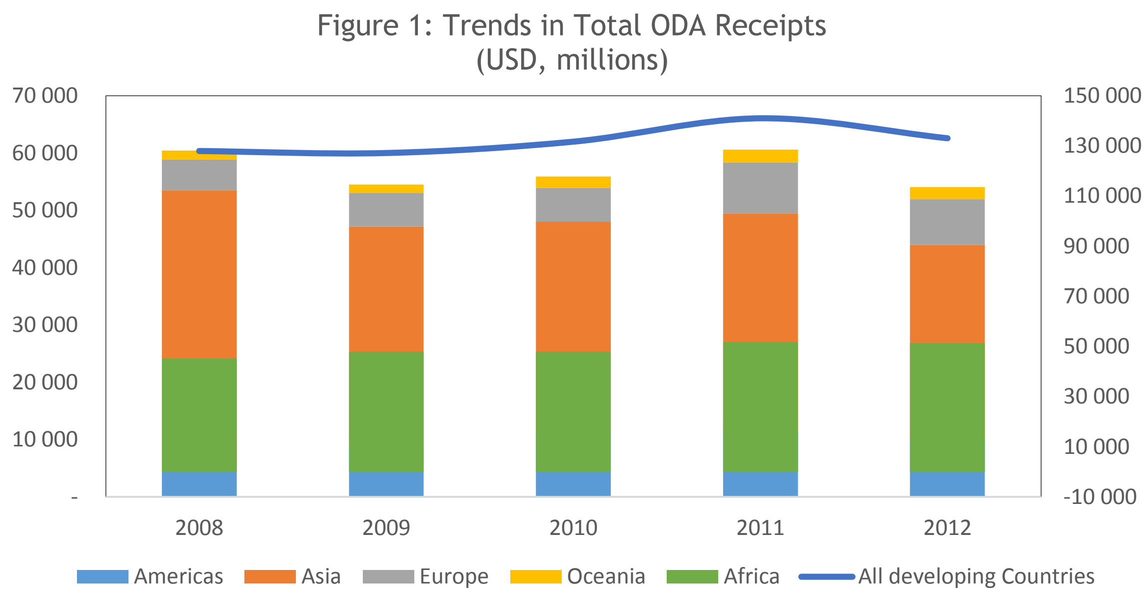
- Update Commonwealth Finance Ministers and Senior Officials on the current status of DAC work on the OECD and DAC Ministers' proposals.
- Assess the emerging DAC proposals and their anticipated impact on the financing for development architecture as well as on development flows to Commonwealth countries.
- Stimulate an inclusive dialogue within the Commonwealth and with OECD DAC members, so that the Association's perspectives are readily fed into OECD DAC High Level deliberations.
- Provide an early backdrop for preparations by Finance Ministers and Senior Officials for the upcoming UN Third International Financing for Development Conference.

12. The remainder of the paper will continue as follows: the next section will set the context with a brief discussion on the changes in the international financing landscape and the importance of these issues to the Commonwealth, particularly by analysing the role of ODA in these countries. Section III will briefly outline the role of the OECD in the UN led Post-2015 process. And Section IV provides a review of the DAC proposals, with a view to drawing attention to the possible opportunities and risks for developing countries. Conclusions, provided for the purpose of stimulating discussion, will be summarized in the final section.

13. Note, this paper is supported by technical analysis presented in the appendix.

II. The Financing for Development Landscape and the Importance of Development Finance to Commonwealth Countries

The Financing for Development Landscape



World Bank Database

14. OECD donors have been for a long time, the main providers of development finance to developing countries. However, data on South-South provisions, though sketchy, seems to suggest that this status quo is now rapidly changing. As mentioned, there is no longer a clear delineation between North and South providers, and South-South providers are more often involved in North-South and triangular development cooperation.

15. In contrast to the recent decline in official resource from OECD donor countries, anecdotal evidence suggests that contributions from South-South providers have been increasing. As Figure 1 indicates, developing country receipts of ODA have been fairly stagnant since 2008, apart from the small increase in ODA between 2010 and 2011, which was eclipsed by a contraction in 2012. This recent contraction appears to have been underpinned by a fall in ODA contributions to LDCs, who are only eligible to receive grant funding. Interestingly, during this same period, upper middle income countries (UMICs) were allocated a greater share of ODA financing, when compared to their receipts recorded pre-2011.

Figure 2: Trends in ODA Receipts by Income Classification
(USD, millions)

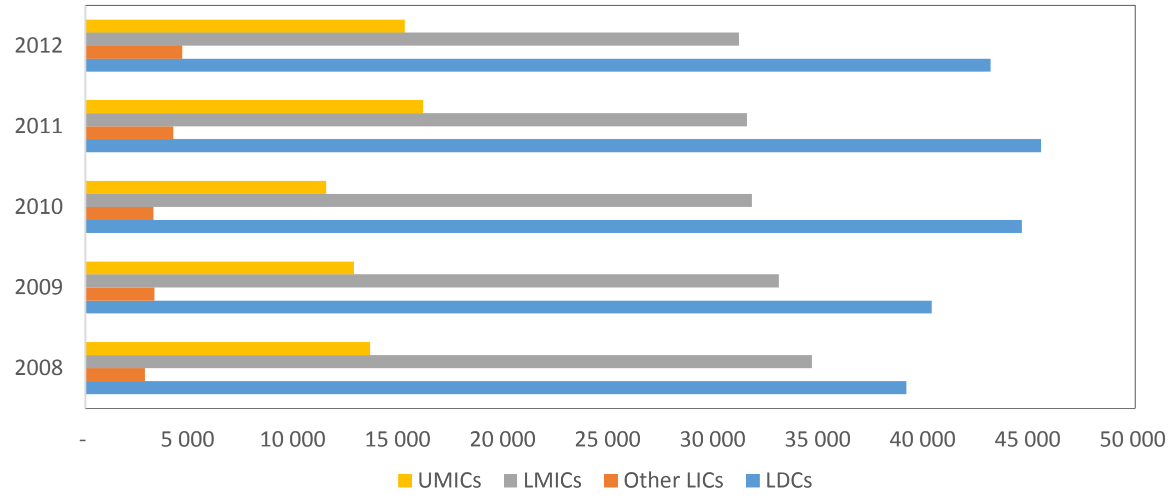


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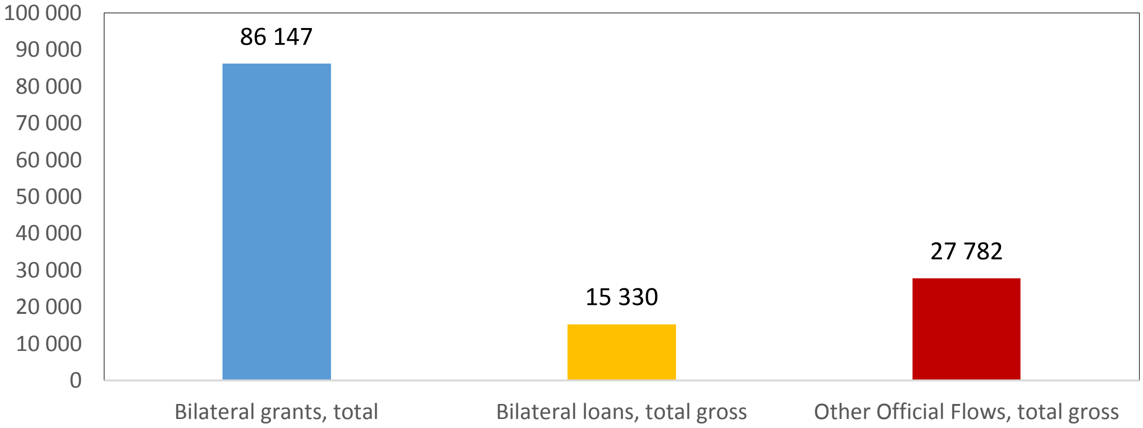
Figure 3: Composition of Developing Country Receipts
(USD, millions)



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16. Overall, according to 2012 data, the current composition of ODA flows is still heavily skewed towards grants, with OECD and DAC donors providing less of their assistance through other official flows and bilateral loans for development. It is important to point out, however, that the average assessment as depicted in Figure 3, masks considerable variation amongst OECD donor countries, some of whom, in contrast, provide a greater share of assistance through bilateral loans and other official flows for development.

17. A glance at the GDP Figures for OECD and BRICS countries clearly illustrates the shift in the development finance landscape and the declining trend observed in Figure 1. In particular, the contraction In OECD GDP observed in 2012 closely mimics the fall in developing country receipts of ODA. Also observed is that BRICS countries have been performing consistently better than OECD members over the past decade, which seems to support the preposition of a relative increase in aid from BRICS to developing countries. The vast shift in the financing landscape is also apparent in the trend in global savings, of which BRICS have now assumed a much larger share. The OECD reports that there has also been an increase in philanthropic aid to developing countries.

18. With this change in the financing for development landscape, OECD and DAC Ministers argue that it will be important to adjust the statistical system so as to capture the evolving and larger financing landscape, which now more than ever is influenced by an increased flow of financing from non-DAC countries, new and innovative collaborations, as well as innovative financing instruments – all of which current reporting is very opaque.

Figure 4: Trends in Global GDP
(USD, millions)

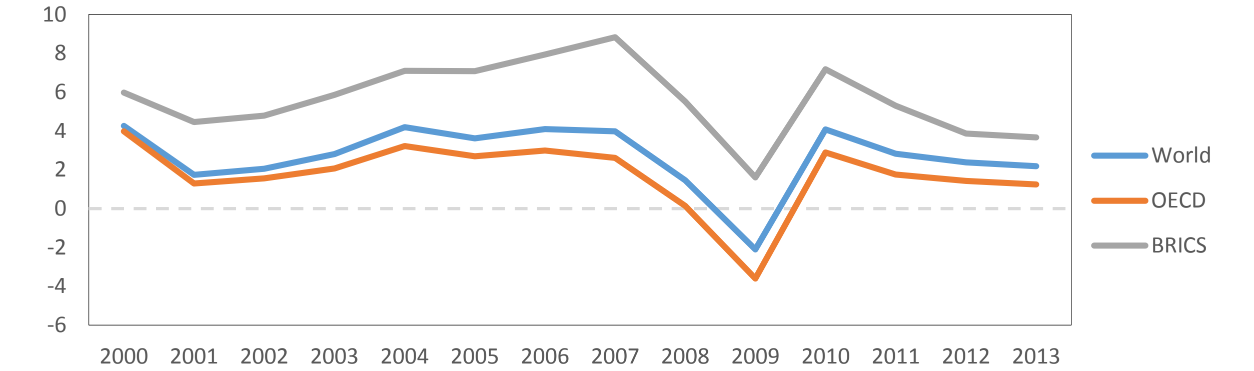

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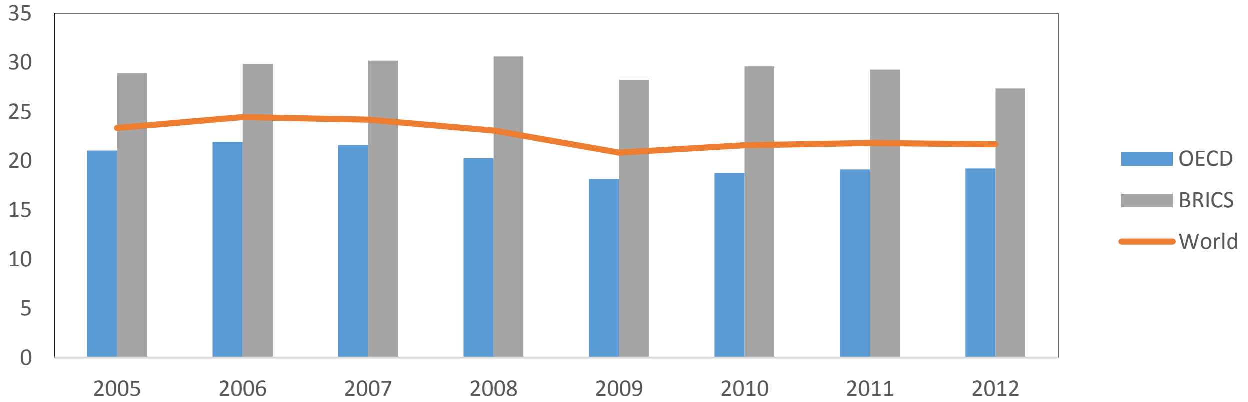
Figure 5: Trends in Global Savings



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Development Finance and the Commonwealth

19. With 46 of 53 members characterised as developing nations, 37 of which are on the OECD DAC list, it is not surprising that Commonwealth Finance Ministers spend considerable time discussing such financing for development issues (*See Table 1*).[2] Over the past decade, with the exception of discussions on HIPC debt relief, the impact of the economic crises and small states' debt challenges, the majority of CFMM meetings have been focused on reviewing MDG progress, as well as on discussing aid effectiveness and other issues concerning financing for development.

[2] Australia, Canada, Cyprus, Malta, New Zealand, Singapore and the United Kingdom are advanced economies.

Table 1: An OECD DAC Classification of Commonwealth Countries

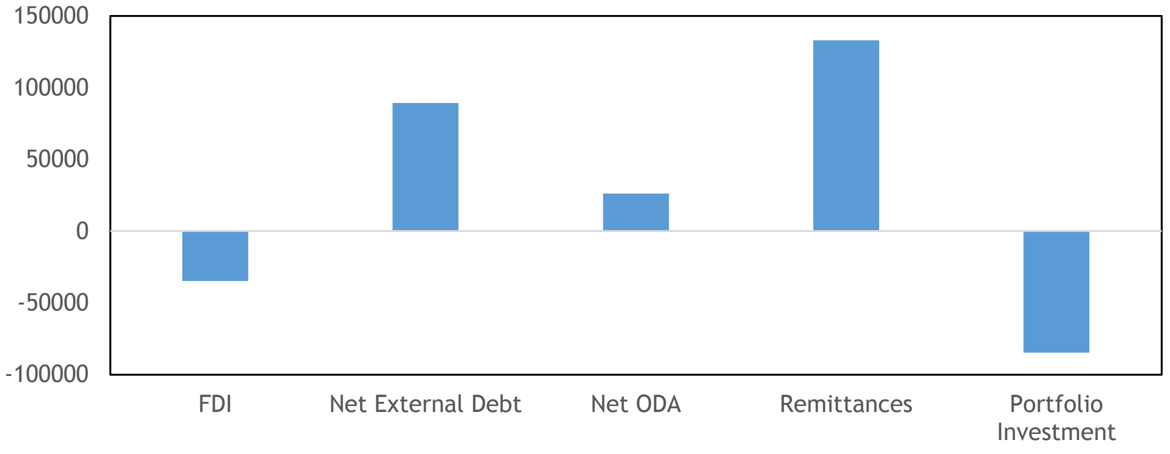
Country	Income Classification	OECD DAC Recipient	OECD DAC Provider	non-DAC Provider
Antigua and Barbuda	Upper Middle Income	Yes		
Australia	High Income		Yes	
Bahamas	High Income			
Bangladesh	Least Developed Country	Yes		
Barbados	High Income			
Belize	Lower Middle Income	Yes		
Botswana	Upper Middle Income	Yes		
Brunei Darrusalam	High Income			
Cameroon	Lower Middle Income	Yes		
Canada	High Income		Yes	
Cyprus	High Income			
Dominica	Upper Middle Income	Yes		
Fiji	Lower Middle Income	Yes		
Ghana	Lower Middle Income	Yes		
Grenada	Upper Middle Income	Yes		
Guyana	Lower Middle Income	Yes		
India	Lower Middle Income			Yes
Jamaica	Upper Middle Income	Yes		
Kenya	Low Income Country	Yes		
Kiribati	Least Developed Country	Yes		
Lesotho	Least Developed Country	Yes		
Maldives	Upper Middle Income	Yes		
Malaysia	Upper Middle Income	Yes		
Malawi	Least Developed Country	Yes		
Malta	High Income			
Mauritius	Upper Middle Income	Yes		
Mozambique	Least Developed Country	Yes		
Namibia	Upper Middle Income	Yes		
New Zealand	High Income		Yes	
Nauru	Upper Middle Income	Yes		
Nigeria	Lower Middle Income			Yes
Pakistan	Lower Middle Income	Yes		
Papua New Guinea	Lower Middle Income	Yes		
Rwanda	Least Developed Country	Yes		
Singapore	High Income			
St. Kitts-Nevis	Upper Middle Income	Yes		
St. Lucia	Upper Middle Income	Yes		
St. Vincent and Grenadines	Upper Middle Income	Yes		
Samoa	Least Developed Country	Yes		
Seychelles	Upper Middle Income	Yes		
Sierra Leone	Least Developed Country			
Solomon Islands	Least Developed Country	Yes		
South Africa	Upper Middle Income			Yes
Sri Lanka	Lower Middle Income	Yes		
Swaziland	Lower Middle Income	Yes		
Tanzania	Least Developed Country	Yes		
Tonga	Lower Middle Income	Yes		
Trinidad and Tobago	High Income			
Tuvalu	Least Developed Country	Yes		
Uganda	Least Developed Country	Yes		
United Kingdom	High Income		Yes	
Vanuatu	Least Developed Country	Yes		
Zambia	Least Developed Country			
		37	**4**	**3**

Source: The DAC List of ODA Recipients: Factsheet- January 2012 www.oecd.org/dac/stats/daclist

Commonwealth Recipients of Development Aid

20. Figure 6 below illustrates the importance of ODA investments in mobilising external financial resources within the Commonwealth. On average, contributions from this source across the association is superseded only by external finance gained through remittances as well as from external debt.

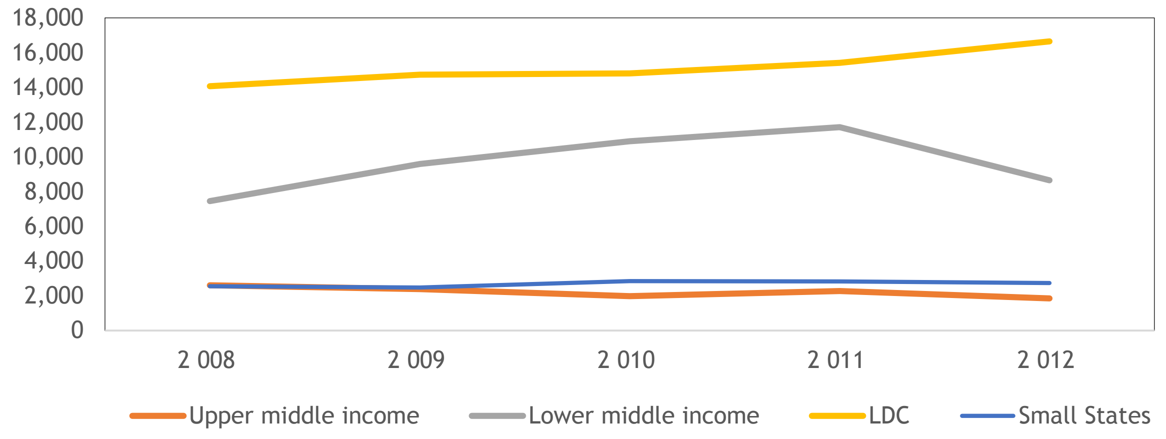
Figure 6: External Financing in Commonwealth Developing Countries (2012, USD millions)



World Bank Database

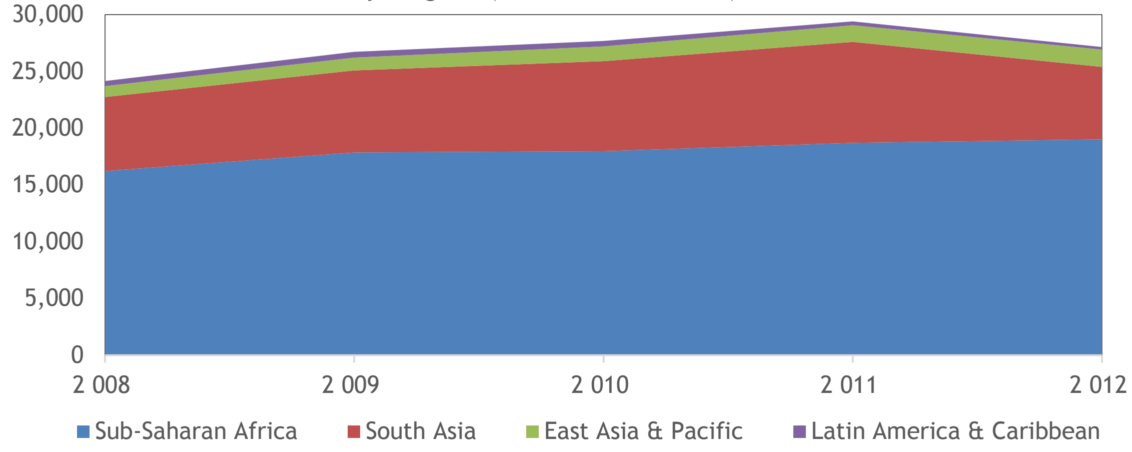
21. Specifically, with respect to ODA, Commonwealth recipients received around 15.9% in 2012. Further, in 2012, aid to the Commonwealth with respect to regions, was directed primarily to LDCs, with less of the receipts flowing to the Caribbean, where the majority of countries are classified as small and middle-income (See Figures 7 and 8).

Figure 7: Total Net ODA to Commonwealth Recipients by Income (2012, USD million)



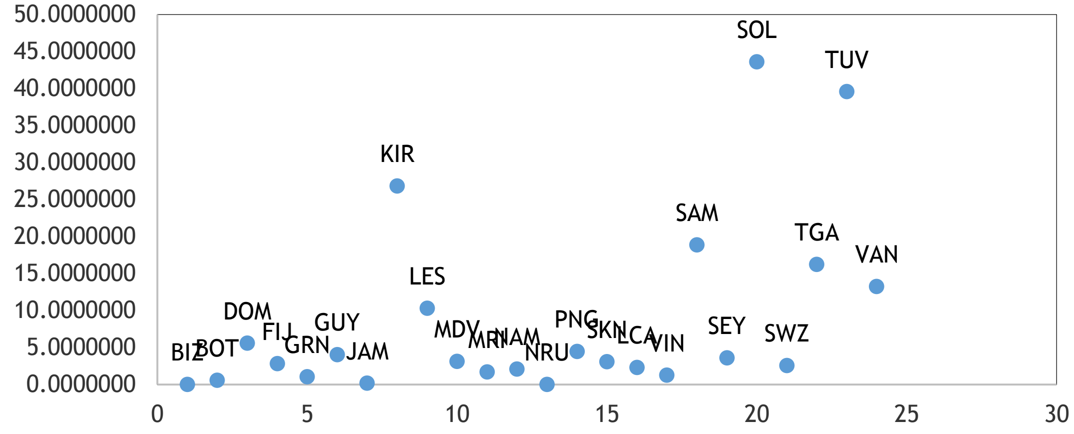
Source: OECD Database

Figure 8: Total Net ODA to Commonwealth Recipients by Region (2012, USD million)



Source: OECD Database

Figure 9: ODA/GNI by Commonwealth Country 2012 (percentages)



Source: OECD Database

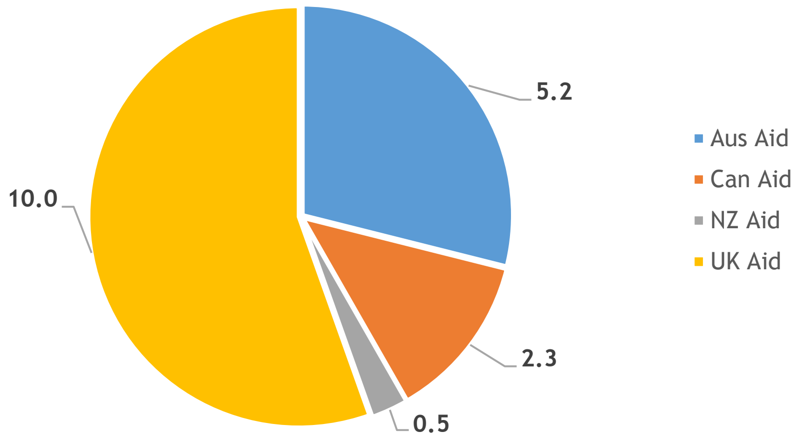
22. In terms of the Commonwealth's dependency on aid, there were six countries - Solomon Islands, Tuvalu, Kiribati, Samoa, Tonga, and Vanuatu -that in 2012 received a volume of ODA exceeding between 10% and 45% of their total Gross National Income (GNI). At the group level, including even those countries in the Caribbean, the Commonwealth received, on average, official assistance to the tune of 7.4% of GNI, quite a noticeable proportion of these countries gross income. Additionally and most importantly, Commonwealth developing countries accounted for 9 of the top 20 most aid dependent, with the majority of these countries originating in the Pacific region.

Commonwealth-OECD Providers of Development Aid

23. There are 7 donors in the Commonwealth membership- Australia, Canada, New Zealand and the United Kingdom - who are OECD donors, and India, South Africa and Nigeria - who are major BRICS and MINT donors, respectively.

24. Commonwealth-OECD donors provide more than 10 percent of total ODA to developing countries and play a valuable role in mobilising other resources for development. Locally, 10

Figure 10: Composition of Commonwealth-OECD ODA to Commonwealth Developing Countries (Percentages)

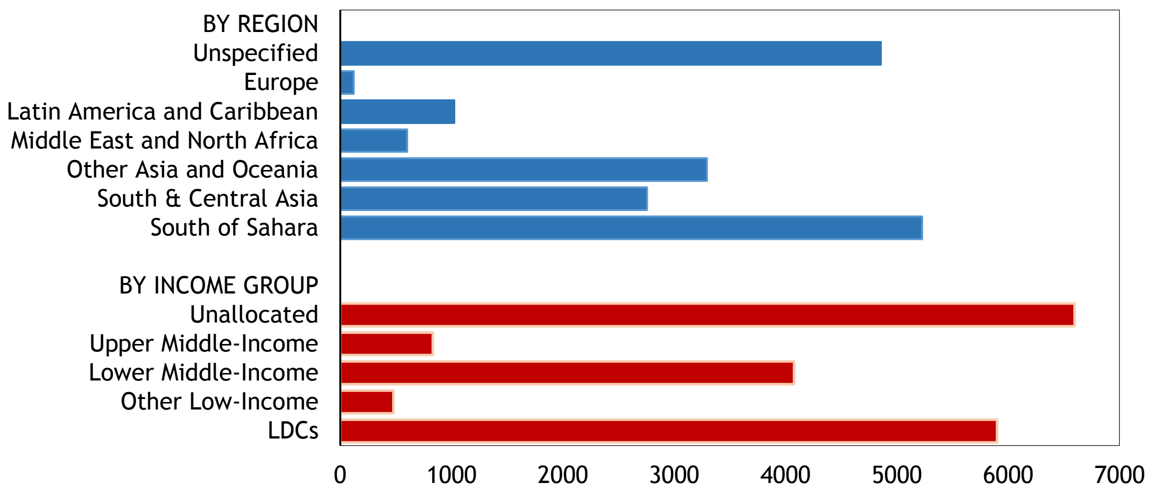


Source: OECD Database

percent of all net ODA flows to the Commonwealth are provided by the UK, 5.2 percent by Australia and 2.3 percent by Canada (See Figure 10).

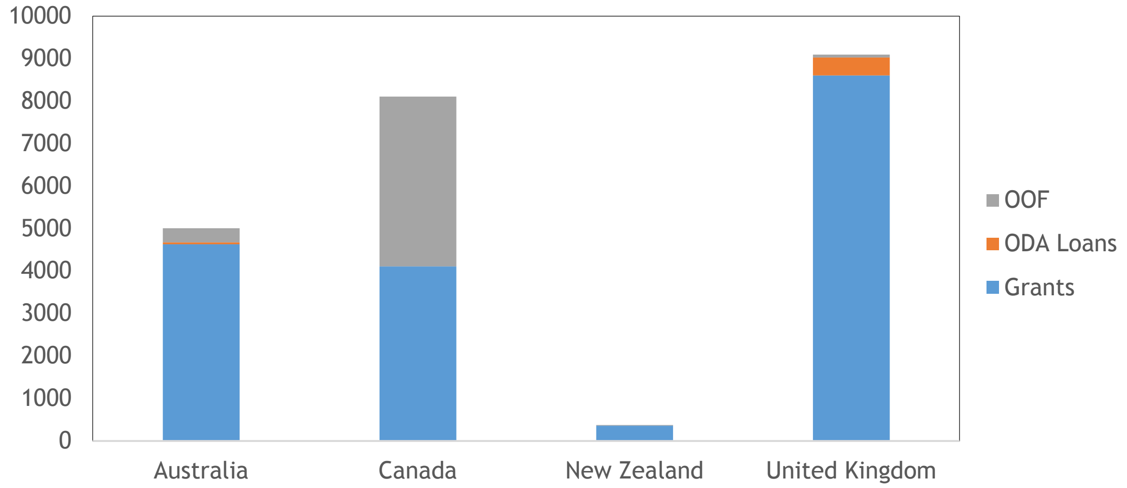
25. More generally, aid from these countries finance development in the South of Sahara, Asia and Oceania territories and are primarily in the form of grants (See Figures 11 and 12). These resources finance education, health and population development (27%); economic and other social infrastructure (28%); humanitarian assistance (9%) and production activities (8%) (See Figure 13).

Figure 11: Commonwealth-OECD ODA Delivery by Region and Income Classification (2012, USD millions)



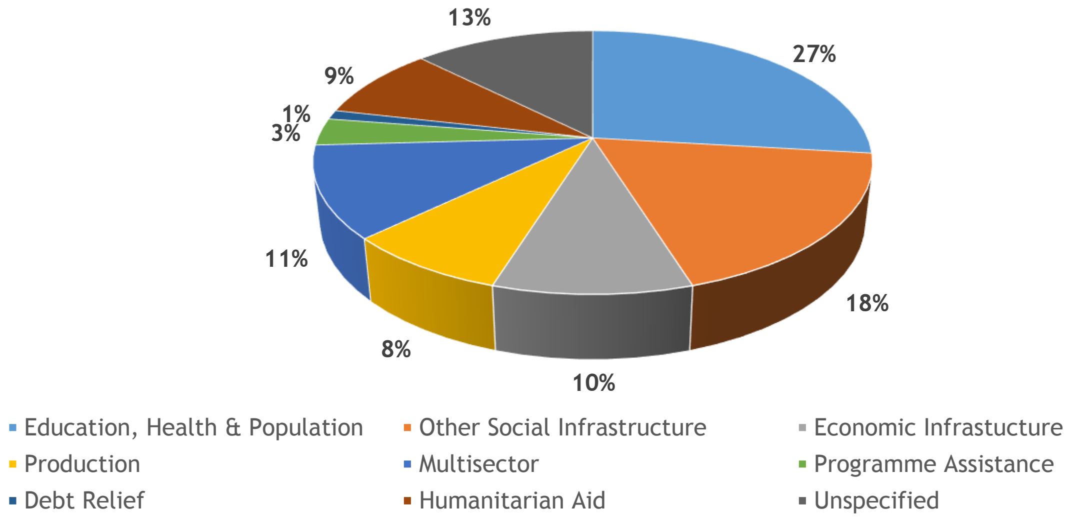
Source: OECD Database

Figure 12: Commonwealth-OECD Donor Flows by Type 2012 (Gross Disbursements, USD millions)



Source: OECD Database

Figure 13: Composition of Commonwealth-OECD ODA Contribution by Sector



Source: OECD Database

26. In 2012 Commonwealth-OECD donors, on average, were recorded as contributing approximately 0.38 percent of ODA/GNI to developing countries, just around 0.3 percentage points shy of the Monterrey commitment (See Table 1 in the appendix). Affecting these countries' efforts to achieve the 0.7% ODA/GNI target has been the dampening effects of the economic crisis, a consequent demand to show improved results, as well as to illustrate increased value-for-money.

III. OECD Reform and the Post-2015 Development Process

27. The OECD played a pivotal role in shaping the MDGs, especially through its 1996 publication entitled "Shaping the 21st century," and the organisation seeks to do the same with the development agenda for Post-2015. In its new flagship document "Beyond the Millennium Development Goals: Towards an OECD contribution to the Post-2015 Agenda," the OECD sets out its eleven point plan, intended to contribute to a global, holistic, measurable and more meaningful development framework (OECD, 2012 (b)). Of particular interest in this plan is element eleven – measuring and monitoring development finance – where the OECD outlines its broad objectives for influencing the Post-2015 financing framework.

28. That is:

- To capture the full spectrum of financial instruments and to facilitate the analysis of funding from all sources. This includes continued provision of statistics and comparative analysis of donor effort as well as global, regional or sector/recipient-specific development finance.
- To broaden analysis to cover the larger set of providers of development co-operation, including non-OECD countries, multilateral development agencies and private foundations, and both concessional and non-concessional development finance.
- In close collaboration with the UN, the IMF, World Bank and others – to propose a new measure of total official support for development and to continue to explore ways of presenting both donor efforts and recipient benefits of development finance.

29. The OECD reports that several key developments underpin the reform plans:

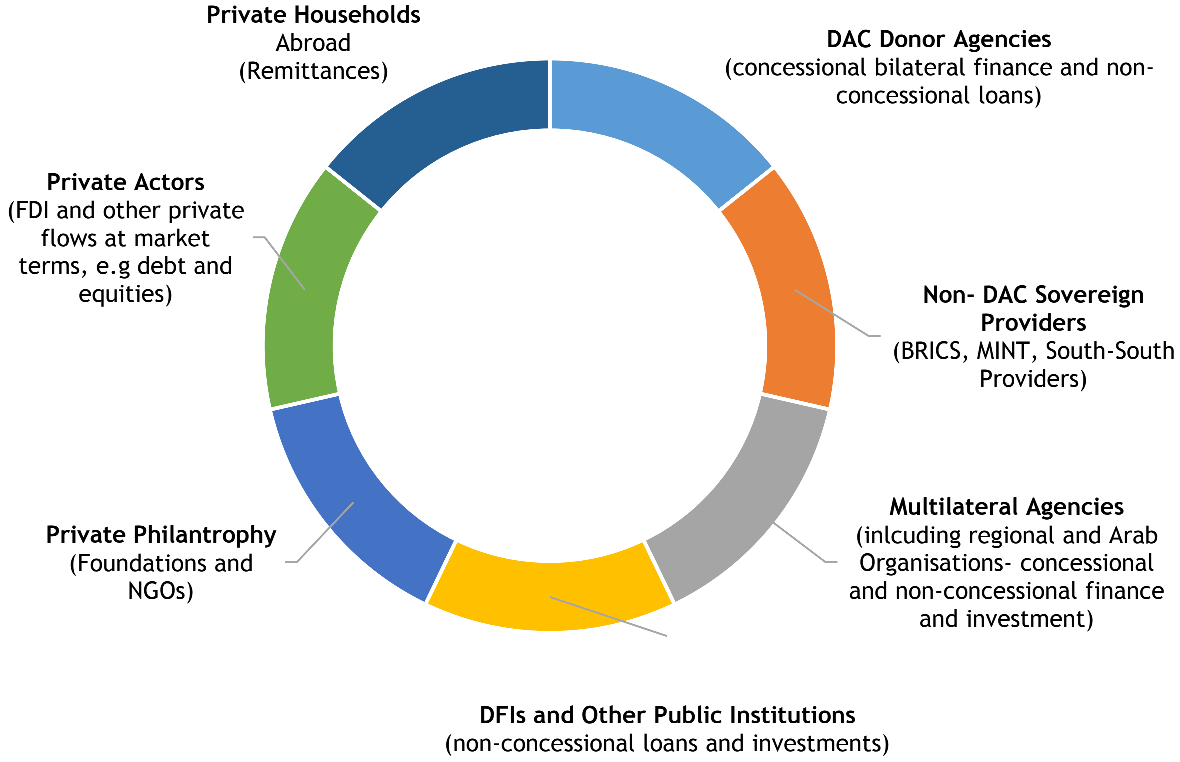
- Strong growth in the variety of financing channels for development, including: private philanthropy, Islamic finance, remittances, private flows (debt, equities, portfolio investment), official support (guarantees, PPPs, export credits), traditional sources (ODA-grants, soft and hard loans, investments) and multilateral loans (grants, soft and hard loans, investments).
- Increasing and diverse actors: bilateral, multilateral, private, south-south, private philanthropic etc.
- New opportunities and risks created by the new financing landscape which continues to evolve (See Figure 14).

30. OECD DAC internal consultations on the implementation of element eleven of the Post-2015 engagement plan began in December 2012, driven by specific mandates from OECD and DAC Ministerial representatives. The Ministers tasked the DAC with redesigning the statistical framework in a way that would synergise with the new and more diverse financing landscape, and that would incentivise an increase in development finance for developing countries. These consultations are currently ongoing and will conclude by June 2015, in time for the UN Financing for Development Conference.

31. To facilitate transparency and collaboration between OECD, international partners and developing countries, the OECD DAC has been working on the HLM mandates in consultation with various Low Income Countries (LICs), Civil Society, NGOs and various international partners- including the Commonwealth Secretariat and the Organisation Internationale de La Francophonie (OIF). The major consultation so far was by way of a workshop on *"The New Development Landscape – partner country perspectives and implications for the post-2015 debate,"* which took place in Paris on June 25, 2014. Both the Secretariat and OIF attended, accompanied by a selected group of developing country representatives.

32. The Secretariat's perspectives on these discussions, as well as on the emerging proposals, as covered in the series of OECD discussion documents, are utilised in undertaking the forthcoming assessment.

Figure 14: The External Financing Architechture



Source: OECD (2014 (c))

Box 1: What is ODA?

ODA

- Nuclear Energy
- Research
- Peace Keeping
- Social & Cultural Programmes
- Assistance of Refugees
- Donor Contributions to Multilaterals
- Civil Police Work
- Donor Contributions to NGOs and INGOs
- Aid Flows/Subsidies to Official Agencies
- Official Subsidies to Private Firms
- In-donor refugee costs to raise awareness on development need
- Admin costs of ODA Programmes

Not-ODA

- Supply of Military Equipment and Services; debt forgiveness for military purposes
- Principal Loan Repayments
- Military Aid
- Military Applications of nuclear and nuclear non-proliferation activities
- Proceeds from Equity Investments
- Official Subsidies to Private Firms
- Market Based Transactions of Central Authorities
- Loans at Market Terms
- Subsidies that are internal to the official sector; subsidies to private firms; market transactions of
- Activities combatting terrorism
- Transfers (donor funding of education for example)
- Enforcement Aspects; activities for non-developmental reasons.
- Certain specific-purpose funds
- Certain contributions to NGOs and INGOs not on the DAC list
- Loans of a short-term duration
- Capital Investments
- One-off interventions in Social Programmes
- Supply of services to control disobediences

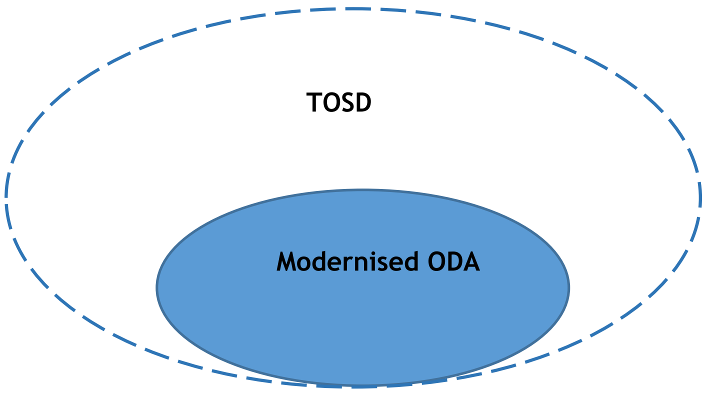
Source: OECD (2008)

IV. A Brief Review of OECD DAC Work on HLM Proposals

33. OECD DAC HLM mandates initiated four main strands of work at the OECD DAC aimed at reforming the organisation's statistical system. The HLM mandates called for a better representation of donor effort and recipient benefit; a modernisation of ODA, should the former mandate require it; the establishment of a clear and quantitative definition of concessional in character; and in light of further ensuring that ODA goes to where it is needed most – an improved targeting method for ODA.

34. This brief review takes readers through the course of work delivered by the OECD DAC on the OECD HLM mandates, and presents the institution's most current perspectives and proposals.

Figure 15: OECD Proposal for a New Statistical Framework



Source: OECD (2014 (b))

Introducing Total Official Support for Development (TOSD)

35. The DAC suggests that the introduction of a new measure, TOSD, would allow for a more comprehensive and inclusive statistical framework on external development finance. In their view, it could capture financing towards the promotion of economic development and the welfare of developing countries. It would also capture the provision of development enablers and global public goods. The DAC further asserts that TOSD would complement rather than replace ODA, which is to remain the cornerstone for measuring donor efforts (see Figure 15). In essence, TOSD would help to valorise donor efforts not counted in ODA.

36. Currently, ODA captures those flows to countries on the DAC List of ODA Recipients and to multilateral development institutions which are:

- Provided by official agencies, including state and local governments, or by their executive agencies; and

Each transaction of which:

- Is administered with the promotion of the economic development and welfare of developing countries as its main objective; and
- Is concessional in character and conveys a grant element of at least 25 percent (calculated at a discount rate of 10 percent).

37. Not counted in ODA are specific aspects of ODA transactions that do not pass the ODA test i.e. that are not judged to have economic development and welfare as their main objective (see Box 1). There are, however, some donor support efforts not counted in ODA but that do have countries well-being as the primary objective, albeit at a more global level. Support for certain

aspects of peace and security[3] and the adaptation to and mitigation of climate change are prime examples. Specifically, this is what TOSD is meant to capture.

38. Only around 7 percent of donor support for peace and security is captured in ODA. Hence the other 93 percent would now be captured in a measure of TOSD. This will be useful for reporting and monitoring developments on the new global framework that will amalgamate the MDG, sustainable development and climate change agendas. It will also be useful for incentivising donors. Incentivising donors to increase support for development enablers (specifically, peace and security) and global public goods, despite these transactions not being recorded in ODA.

39. Also to be recorded in a measure of TOSD is finance mobilised from the private sector, through market-like instruments. While the budgetary effort involved in these transactions will be recorded in ODA, the total amount mobilised will be recorded in TOSD. The OECD informs, however, that such instruments should only be recorded in TOSD if causality between the official effort and the total funds mobilised can be demonstrated. This may be the case for guarantees where a direct link between the instrument and the private capital mobilised exists, however, much less so for the leveraging effect of equity or mezzanine[4] finance that are more difficult to establish (OECD 2014 (c)).

40. Initially, TOSD was a "catch all concept" as depicted in Figure 15. In that it would cover all donor transactions which had the objective of economic development and improving the welfare of developing countries. However, the above conceptualisation has been evolving. This is because the DAC has recognised that there will be some expenditure that may not be eligible for inclusion in TOSD, an example being certain equity transactions as mentioned above, and that while TOSD would be based on capturing financing flows, it is possible that ODA could be modernised to capture grant equivalents. Therefore presenting issues for overall accounting. As such, the current proposal by the DAC is for TOSD to be introduced as an additional measure to ODA rather than a measure that encompasses it.

Modernising ODA: Exploring Ways of Better Representing Donor Effort and Recipient Benefit

41. Since the OECD HLM, the DAC put forward three options for better representing donor effort and recipient benefit. Driving this work is the notion that there needs to be better alignment of the two measures so as to improve reporting, and so that the DAC creates better donor incentives. The DAC list of options developed are the following:

- **Option 1:** Recognise as ODA only expenditure on development, which result in a flow of resources to developing countries.
- **Option 2:** Recognise as ODA only funding that reflects true donor effort. This would involve reporting on an accrual basis and recognising only the grant equivalent of loans (would crowd in market based instruments).
- **Option 3:** Recognise gross disbursements. An option similar to existing ODA measurement but with adjustments (recognising market based instruments) to ensure the catalysing of ODA.

42. Table 3 presents a summary view of the DAC's perspective on the mechanics of the three proposed options (See Benn & Gaveau 2014 and Table 2 of the Appendix). Under option 1, the DAC suggests that donor costs, loans, guarantees and multilateral contributions would not be recognised as ODA. This is largely because such financing activities do not originate from government's budget expenditure and would not be recognised as a flow of funds to developing countries. Further, with respect to multilateral contributions- donor deposits would not be counted, primarily because accounting would be purely on an encashment rather than on a deposit basis.

43. With respect to options 2 and 3, the main question that the DAC raises is whether to utilise a grant equivalent or a cash flow method of calculation. In option 2, only the grant equivalent of loans are captured, where the grant equivalent is calculated as the grant element of the loan

[3] 93 percent of Multilateral contributions to UN peace keeping expenditures are not ODA-eligible (OECD 2014)
[4] A hybrid of debt and equity financing that is typically used to finance the expansion of existing companies.

multiplied by its face value.[5] This essentially involves capturing only the grant component of a loan - whether concessional or non-concessional. Additionally, employing the grant equivalent concept would involve recording the value of the risk premia benefit in donor guarantees (market risk less risk on guaranteed loan); and omitting debt relief.[6]

Table 2: Proposals for better Representing Donor Effort and Recipient Benefit
A Simplified Illustration with Notional Figures

		Current ODA	**Option 1:** Recognising Budgetary Expenditure	**Option 2:** Recognising the Grant Equivalent	**Option 3:** Maintaining the cash flow method with few adjustments
1.	Grants				
	➢ In Donor Costs *(inputed student costs, refugee costs & Development awareness)*	200	-	200	200
	➢ Other Grants	100	100	100	100
2.	Debt/Loans *(representing FV of 500 loan issued in 2014 concessional at 10% discount rate and 0.1% interest rate per annum over 10 years, principal repayable in equal annual portions)*	500	-	193 *(calculation in Table 4)*	500
3.	Debt Relief *(based on debt with FV of 1000, 20% debt relief and purchase price of 600)*	200	600	-	200
4.	Equity *(Baring risk premia of 10% compared to average of 5% across equity classes in the investee)*	500	-	500	500
5.	Guarantees (representing claims against the donor not yet called - 500 and risk premia of 10% compared to 5% market)	-	-	50	-
6.	Capital Contributions				
	➢ Multilateral contributions *(Deposited 2014 but not encashed)*	2000	-	2000	-
	➢ Bilateral Aid to Agencies and DFIs (Deposited in 2013 and encashed in 2014)	-	1000	-	1000
7.	Cash Subsidies to Official Agencies	1000	1000	1000	1000
	Total ODA	**4300**	**2700**	**4043**	**3500**

Source: Commonwealth Secretariat Calculations

44. The principal argument supporting adoption of the grant equivalent conceptualisation is that it would be most helpful in capturing accurately donor effort, since unlike in the cash flow method, it would reflect only current donor commitments and in turn, help developing countries to match this with their ODA receipts/recipient benefit.

45. In the current system, once the grant element (as calculated by the discounting of reflows at a 10% discount rate to maturity) of a loan is at least 25 percent, development loans are judged to be ODA and the gross loan disbursement is recorded. Therefore, at present, OECD lenders are attributed significantly higher values of ODA than would be possible using a grant equivalent

[5] See OECD (2014) for an explanation of grant element calculation.

[6] Since the grant equivalent calculation would already credit donors for the risk undertaken in loaning funds to developing countries, OECD DAC suggests that debt relief would have to be omitted from ODA to avoid double counting.

calculation.[7] Additionally, since ODA flows are only reduced through repayments under the cash flow system, it is often the case that measures of ODA do not reflect current political commitments.

46. Initially, as opposed to the current 10 percent discount rate utilised by the OECD for assessing loan concessionality, the DAC suggested the introduction of risk-adjusted discount rates in order to capture the cost of development financing as well as to reflect the risk of lending to developing countries. This was a further attempt to better capture and align donor effort and recipient benefit. However, the latter proposal has been quite contentious, the reasons for which will be explained.

47. At the time of writing, the DAC reports that preference has been for the grant equivalent conceptualisation of ODA.

Establish a "clear" quantitative definition of Concessional in Character

48. Long has been the debate on which discount rate is appropriate for accurately capturing loan concessionality and by extension, how to value development loans in ODA. The OECD, the IMF and the World Bank currently use different discount rates for calculating loan concessionality, and to add to the confusion, some developing countries use a variety of different methods themselves. In particular, the OECD uses a 10 percent risk free discount rate[8], the IMF/World Bank employs a 5 percent fixed discount rate and some developing countries have other methods of interpreting loan concessionality.

49. In line with HLM mandates, the DAC outlined 3 options for a clearer and quantitative definition of concessional in character. Specifically, they suggested three options for revising the OECD discount rate for calculating the grant element of loans, and 2 options for measuring development loan contributions to ODA (See OECD 2014 (d)). The options are:

Discount Rates

- Move towards a more harmonised definition of concessionality. That is, align the OECD discount rate with the IMF/World Bank discount rate (currently fixed at 5%). The IMF/WB rate is set by reference to a 10-year average of monthly US dollar interest rate (CIRR) and includes a term premium, reflecting the generally long tenors of development loans to LICs.
- Apply currency-specific OECD differentiated discount rates (DDRs). DDRs represent lenders' funding costs, but more accurately as they are differentiated by currency and tenor, and updated annually.
- Introduce risk-adjusted discount rates. While both the IMF/World Bank and the DDRs are "risk-free discount rates", the risk-adjusted discount rate would take into account both the lender's cost of funds and the risk incurred in lending to a particular country (risk premium). They would capture the full costs associated with individual loans.

Measurement Method

50. As highlighted in the previous section, the options here are:

- Introduce a grant equivalent method of calculation. Rationale behind this option, according to the DAC is that it would measure concessionality as a continuum and therefore represent a more accurate measure of donor effort. For e.g. the more concessional a loan is, the more ODA credit would be attributed.
- Maintain a cash flow basis. This is used in the current system where the gross value of concessional loans are recorded.

51. Recalling the HLM requirements on establishing a clear and quantitative definition of concessional in character, which are:

[7] Nonetheless, in the current system, the loan reflows are negated over time, so that at maturity the level of ODA arising from a development loan eventually declines to zero.

[8] The OECD discount rate of 10% represents the opportunity costs incurred at diverting resources from domestic investment to aid.

a) The definition should withstand a critical assessment from the public;
b) Avoid creating major fluctuations in overall ODA levels;
c) Be generally consistent with the way concessionality is defined in multilateral development finance;
d) Maintain the definition of ODA, and only attempt to clarify the interpretation of loans that qualify as ODA;

- Prevent notions that ODA loan schemes follow a commercial logic: this includes the principle that financial reflows should be reinvested as development resources.

52. It is not surprising that current sentiments are heavily skewed towards OECD and IMF/WB discount rate harmonisation. Implementation of DDRs or adjusted DDRs would violate HLM requirements a, b, c and e. Firstly, as indicated in the June 25 workshop, developing countries are very critical of risk adjusted rates, primarily because of their complexity and potential effect on ODA volatility. DDRs and adjusted DDRs would have to be updated annually and the latter would vary widely depending on countries' debt sustainability, thus limiting comparability across countries. Lastly, adjusted DDRs would be comparable to market rates and thus could lend to the view that ODA follows a commercial logic.

53. As mentioned earlier, with respect to ODA measurement, favour for the grant equivalent option is gaining the most momentum. Hence, the emerging strategy from the OECD DAC for assessing future loan concessionality seems to be by way of a grant equivalent calculation, derived on the basis of IMF/World Bank risk free discount rates.

Ensuring that Funds Go to Countries Who Need Them Most

54. At the 2012 OECD HLM, OECD and DAC Ministers emphasized a need to maintain a focus on poverty. This essentially translates to ensuring an adequate flow of funds to LDCs, who are the poorest and who only have access to grant funding. Tasked with answering the question of how to safeguard ODA to LDCs, against a backdrop of a decline in OECD DAC aid resources, the DAC put forward the following options for consideration which are discussed below: (i) revise the OECD DCAC list; (ii) maintain the status quo; and (iii) introduce a possible new target.

Revise the OECD DAC List

55. The DAC suggested revising the list of ODA eligible countries by lowering the current income threshold to USD$7,115, the income level at which countries start the graduation process from non-concessional lending provided by the World Bank International Bank for Reconstruction and Development (IBRD). The DAC argues that this could enhance the consistency between bilateral and multilateral development agencies and remove the paradox that a country continues to be eligible for ODA at income levels that would trigger consideration of its graduating from non-concessional IBRD lending.

Maintaining the Status Quo

56. Alternatively, the DAC suggests maintaining the current system. The OECD DAC estimates that at the current income thresholds, a number of countries will graduate from the list in due course as their per capita incomes continue to rise. This they argue is due to their relatively high per capita growth rates. Under the status quo, ODA would naturally overtime be focused on those most needy as reflected in their low per capita incomes.

Introducing a Possible New Target

57. The third option proposed by the DAC is to choose new targets for focusing ODA. One suggestion is for OECD DAC members to give greater priority to achieving the existing UN target of 0.15% - 0.2% of ODA to GNI for LDCs. DAC donors have currently only achieved 0.09% of GNI for LDCs. Other ideas discussed include an ODA target based on ODA volume rather than on a ratio to GNI. For example, 50% of ODA could be targeted towards LDCs, which could shift a proportion of ODA away from non-LDCs and reflect a re-focusing of ODA to the neediest. The DAC also considered targeting countries in "special situations" for example, as defined by the UN General Assembly (LDCs, land locked developing countries or Small Island Developing States), with no

particular regard to income classifications. Lastly, targeting countries labelled as fragile and conflict affected.

58. On this front, the current train of thought is towards introducing a new target based on ODA volume rather than on a ratio to GNI, with the objective of directing aid to LDCs. Specifically, the DAC proposal is for donors to safeguard at least 50 percent of ODA for LDCs.

V. Assessment of OECD Proposals and the Implications for Commonwealth and Other Developing Countries

59. The Secretariat's assessment of OECD DAC proposals are based on the above review. It examines the possible implications for Commonwealth donor and developing countries, drawing specifically on the DAC proposals likely to be advanced for OECD HLM and UN endorsement. These are anticipated to be:

- The introduction of TOSD as an additional measure for capturing donor efforts towards development – particularly the provision of development enablers, global public goods and ODA leverage private financing;
- Modernisation of ODA through a grant equivalent conceptualization, for the main purpose of better representing donor and recipient benefits;
- Harmonisation of OECD and IMF/WB discount rates for assessing loan concessionality; and
- The introduction of a new ODA target aimed at delivering at least 50 percent of total ODA to LDCs.

TOSD, Proliferation of Private Finance and Debt Sustainability in non-LDC Countries

60. Introducing a measure of TOSD may be useful for complimenting the move to ODA modernisation, through incentivising support for enablers of development and global public goods. While not recorded as ODA, spending on these activities would be valorised under a measure of TOSD, and should therefore help to incentivise the provision of such resources. Development of such support will become more important as sustainable development as well as climate change moves into more central focus. TOSD may also be useful in raising the total quantum of development financing, albeit less concessional, by way of also incentivising the use of more market-like instruments that could be used to crowd in private sector investment.

61. Specifically, TOSD could help to incentivise the development of new financing instruments that would assist in meeting the growing sustainable development needs of developing countries. In essence, it could encourage the use of non-traditional financial instruments (e.g. guarantees and equity) that could possibly leverage more public and private investment, particularly in better-off developing countries. Additionally, the OECD argues that introducing TOSD could limit the practice by donors of creating programmes around ODA, rather than making use of more advantageous combinations of financial instruments and collaborative opportunities.

However, introducing TOSD would raise two interesting questions:

- **Firstly, what will be the impact of introducing TOSD on debt sustainability in non-LDC countries?**

62. Together with the proposal of safeguarding 50 percent of grant funding for LDCs, one has to question how the possible proliferation of private financing, through introducing TOSD, will affect debt sustainability in non-LDC recipients. As illustrated in Table 3, just under 70 percent of total ODA receipts comprises grant funding. Since LDCs are only eligible to receive such finance, this suggests that only 20 percent of grant funding will be available to fund development in non-LDCs as well as for providing for other needs including, support for development enablers and global public goods(which typically are not privately funded). It also implies that development in non-LDCs will be financed primarily through non-concessional resources.

63. Whereas the potential for access to a larger scale of financing would be welcomed by most developing countries, particularly those who are middle-income, there would be credible risks to these countries' debt sustainability, especially given their already low debt carrying capacity. According to the recent Draft Report of the UN Intergovernmental Committee of Experts on Sustainable Development Financing, "two low income countries are currently considered to be in debt distress, with 14 at high risk and 28 at moderate risk of distress. (Further), debt sustainability is particularly problematic in some small states. In 2013, the average ratio of public debt to GDP of small state developing countries amounted to 107.7 per cent, vs. 26.4 per cent for developing countries as a whole."

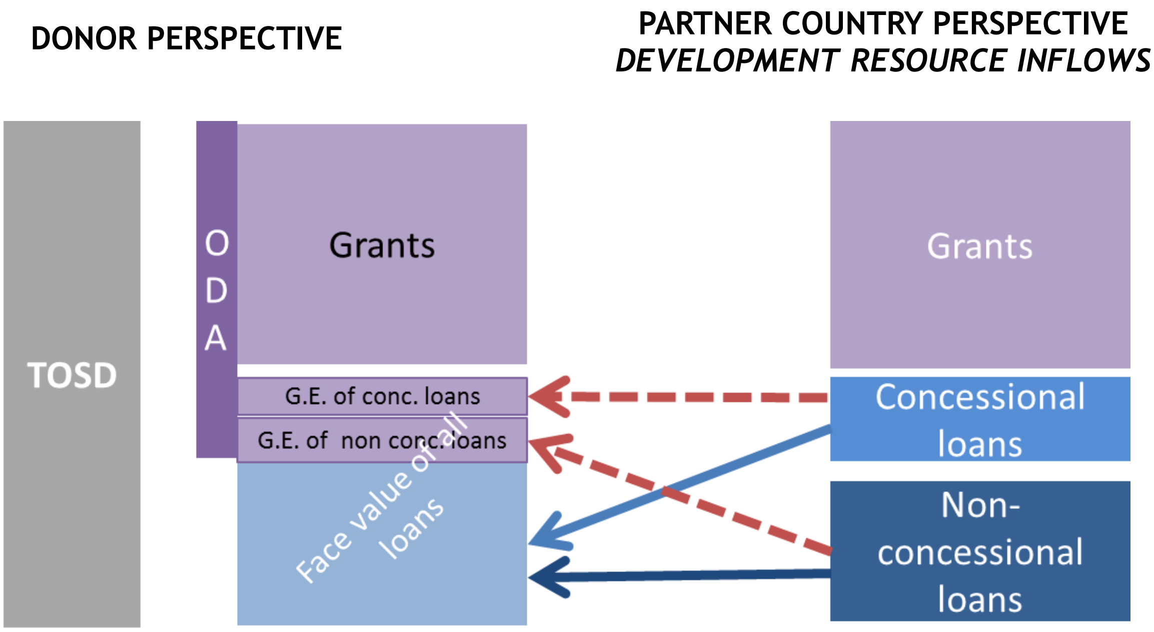
64. The second question a TOSD introduction raises is:

- **What will be the impact of introducing a TOSD target on ODA, will it create a shift in donor incentives?**

65. The above seems fairly likely especially in the context of the new development agenda, which will also have to establish targets for tackling sustainable development and climate change, that is, by introducing a target on TOSD.

66. TOSD will capture the total amount of flows in support of development, particularly support for development enablers, global public goods and development finance generated through donor use of market instruments. On the other hand, the direction of travel is for ODA, particularly in the assessment of loans, to be modernised to capture only grant components, rather than the gross value of loans provided. Here lies the potential shift in incentives. In effect then, donors will not be attributed as much ODA from loans in a new system, whilst they will be recognised for the total gross value of development support through the introduction of TOSD. Hence, should the international community also establish a target on the new measure, in view of motivating support for sustainable development and climate change, there is the real possibility that donors could be incentivised to focus on TOSD rather than on the old target. After all, donor efforts even if not recognised as ODA, would be valorised under a measure of TOSD.

Figure 16: Comparing Cash Flows and Grant Equivalents



Harmonised Discount Rates and Grant Equivalents: Effect on Donor Effort and Loan Financing

67. Supporters for an alignment of the OECD and the IMF/World Bank discount rates argue that countries will benefit from improved donor and IFI coordination; improved clarity and cross country comparison, in terms of loan concessionality. On the other hand, Differentiated Discount Rates (DDRs) or risk adjusted differentiated discount rate proponents claim that the introduction of these will add value through a better reflection of the cost of donor financing, and a more accurate valuation of the risks involved in extending loans to developing countries. In essence, rather than comparing against a notional fixed discount rate, the DAC informs that implementing DDRs and adjusted DDRs, would compare loan rates with individual country currency interest rates and/or prevailing lending risks.

68. However, support for DDRs and adjusted DDRs has received much less traction. The main hesitance on their acceptance surrounds the discount rates' potential complexity and volatility. For instance, both rates would have to be updated annually, and would vary widely by country as well as by debt carrying capacity. Hence, the preference among the DAC for the OECD to align with the IMF/WB discount rate, that is: reflective of current market conditions (based on 10-year U.S currency interest reference rates), is fixed hence simple, and that also takes into account developing country debt sustainability.

Table 3: Grant Element and Grant Equivalent Calculations at Selected Discount Rates (USD, millions)

Year	Principal Outstanding	Principal Repayment	Interest (@0.1%)	Debt Service	Discount (@10%)	Present Value of Debt	Discount (@ IMF 5%)	Present Value of Debt	Discount (@ DDR. 4%)	Present Value of Debt
1	500	50	0.05	50.05	1.10	45.50	1.05	47.66667	1.04	48.125
2	450	50	0.05	50.05	1.21	41.36	1.10	45.39683	1.08	46.274
3	400	50	0.05	50.05	1.33	37.60	1.16	43.23507	1.12	44.4943
4	350	50	0.05	50.05	1.46	34.18	1.22	41.17626	1.17	42.7829
5	300	50	0.05	50.05	1.61	31.08	1.28	39.21548	1.22	41.1375
6	250	50	0.05	50.05	1.77	28.25	1.34	37.34808	1.27	39.5552
7	200	50	0.05	50.05	1.95	25.68	1.41	35.5696	1.32	38.0339
8	150	50	0.05	50.05	2.14	23.35	1.48	33.87581	1.37	36.571
9	100	50	0.05	50.05	2.36	21.23	1.55	32.26268	1.42	35.1645
10	50	50	0.05	50.05	2.59	19.30	1.63	30.72636	1.48	33.812
		500	0.5	500.5	17.53	307.54	13.21	386.47	12.49	405.95

** 10% discount rate, grant element = 38.5% and grant equivalent is $193
5% discount rate (IMF), grant element = 22.7% and grant equivalent is $113.53
4% discount rate (DDR), grant element/concessionality = 18.81%, and grant equivalent =$94.05

Source: Commonwealth Secretariat Calculations

69. Table 2 provides a simple illustration of the implications of implementing different discount rates and of employing the grant equivalent versus the cash flow method of calculation to assess loan concessionality. The example is of a USD $500 million loan spread over 10 years with equal principal repayments at a simple interest rate of 0.1%, discounted at 10% (current OECD discount rate), 5% (IMF/World Bank discount rate) and 4% (hypothetical DDRs- assumed to be low because of the prevailing low interest rates). Demonstrated clearly in the above illustration is that aligning the OECD discount rate with the IMF/World Bank discount rate, or any rate lower (for example current DDRs and adjusted DDRs) than the current OECD discount rate, would result in a lesser estimation of grant elements.

70. When combined with a grant equivalent method of calculating concessionality, harmonising the OECD and IMF/World Bank discount rates, the latter of which is expected to be fixed for another 10 odd years, would have a reducing effect on loan concessionality and would thereby require a stronger donor effort, i.e in view of donor countries' commitments to meet current ODA targets. Simply, donors would have to either increase total grant resources; and/or significantly ramp up their supply of concessional development loans; and/or significantly increase the number of, what would traditionally be considered non-concessional loans on a cash flow basis. As explained before, only that which reflects the grant component of these loans, whether concessional or non-concessional (as pertaining to loans less than 25% grant element), would be ODA recorded. This then begs the question:

- Could the combination of harmonising the OECD and IMF/WB discount rates and employing a grant equivalent method of calculating concessionality cause an increase in loan financing?

71. In the context of the present discussion and made assumptions, the most plausible response seems to be yes. Recalling again the request by OECD and DAC Ministers to consider the contribution from all loans; the focus on poverty reduction and the consequent drive to safeguard grant funding for LDCs; as well as the current decline in overall OECD spending, it is unlikely that donors would respond to the need for an increased donor effort through an expansion of grant funding. Donors are more likely to do one or both of two things: either increase the concessionality of development loans, and/or, increase the scale of less concessional financing so as to record more ODA. The former alternative is more desirable but if not managed properly, both could create problems for debt sustainability. This presents another interesting question:

- Could the call for an increase in donor effort cause an increase in loan financing?

72. In the context of the preceding discussions, the likely answer would be yes. Recalling the request by OECD and DAC Ministers to consider the contribution from all loans; the focus on poverty reduction and the consequent drive to safeguard grant funding for LDCs; as well as the current decline in overall OECD spending, it is very unlikely that donors would respond to the need for an increased donor effort through an expansion of grant financing. Donors are more likely to do one or both of two things: (1) either increase the concessionality of development loans, and/or, (2) increase the scale of less concessional financing so as to record more ODA. The latter would include increasing the use of market instruments, where the grant components would be recognised as ODA under the grant equivalent system. The former alternative (1) is obviously more desirable for developing countries, while the second alternative, if not managed properly, could create problems for non-LDC debt sustainability.

Assessing the Relative Value-Added of a New LDC-ODA Target

73. To assess the relative value-added of introducing a 50 percent LDC-ODA target, the Secretariat undertook a scenario analysis to compare the benefits of all of the OECD DAC options suggested.

74. With respect to option one, Tables 2 and 3 of the appendix illustrate the implications of lowering the DAC income threshold for Commonwealth countries and non-Commonwealth developing countries, based on 2012 data and various growth forecasts. According to the data available, six Commonwealth countries would be immediately eliminated from the DAC list, if the threshold were lowered in 2012. Further, under varying growth forecasts of an average 2%, 4.5% and 7.5% up to 2024, four countries would graduate, compared to eight and thirteen countries under the remaining two growth trajectories, respectively.

75. If the current income threshold is maintained, however, there is an evidently smoother graduation process, and a natural shift of ODA from Upper Middle Income Countries (UMICs) to Lower Middle Income Countries (LMICs), LICs and LDCs. At the lower growth forecast of 2 percent, Seychelles would have graduated in 2013 while Malaysia would graduate in 2024. These same countries with the addition of Botswana, Mauritius and South Africa would graduate at the next higher growth forecast of 4.5% but more into the distant horizon. Moreover, under the most optimistic growth projection and the current income threshold, eleven countries would graduate from the DAC list.

76. The impact on non-Commonwealth developing countries mirrors that observed, with almost all developing countries graduating under the high growth scenario and a more gradual and distant graduation observed through maintenance of the status quo. The impact of a lower threshold is especially acute for UMICS in all three scenarios (see Appendix, Table 3).

77. With respect to the introduction of new measures, Table 4 of the appendix explores the implications, particularly of focusing on ODA volume rather than on ODA as a ratio to GNI target. According to the 2012 data, if donors allocated 50% of their ODA to LDCs this would call for a shift of around US$8.4 billion from non-LDC to LDC ODA recipients.[9] Allocating the increase equally across LDCs, this is estimated to create an additional US$176 million per LDC.[10] Similarly, the cost to each non-LDC would be approximately US$81.6 million,[11] a reduction that would eliminate aid to some Commonwealth recipients,[12] particularly the Small Island Developing States (SIDS). This latter observation is of great concern given the debt problems in many of these economies. In real terms, this means that without an overall increase in ODA, some non-LDC countries would have to be

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[9]Calculated by halving total 2012 ODA receipts and subtracting that number 2012 total non-LDC receipts.
[10]Calculated by subtracting total ODA receipts for LDCs from an estimate of 50 percent of total ODA, and apportioning the difference equally across LDCs.
[11]Calculated by subtracting the remaining 50 percent that would be allocated to all non-LDCs from non-LDCs total receipts in 2012 and apportioning the costs equally across non-LDCs.
[12] Belize, Kiribati, Maldives, Nauru, Tonga, Tuvalu, Botswana, Dominica, Grenada, Jamaica, Malaysia, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines and The Seychelles.

eliminated from the DAC list and the costs of the shift of ODA to LDCs would have to be borne disproportionately by some non-LDC recipients. For the Commonwealth membership, the major implication would be a drastic reduction in ODA receipts to this grouping, as only 14 of 53 member countries are LDCs (See Appendix, Table 5).

78. Targeting countries in “special situations” doesn’t seem to be any more beneficial to ODA recipients. Using the World Bank classification of this grouping, which include: LDCs, Land Locked Developing Countries (LLDCs) and Small States, the data shows that countries in “special situations” already receives around US$68.27 billion, that is, 73% of total ODA. Hence, with no increase in the overall quantum of ODA and assuming an equal reallocation of funds to such a group of countries, it is estimated that the quantitative benefit would be minimal. On the contrary, targeting only fragile states is likely to have significant quantitative benefits but would obviously be to the detriment of poverty reduction and for providing for other crucial development needs.

79. This assessment suggests that an ODA target based on volume and LDCs has limited relative value-added when compared to the current status quo and other proposed measures.

80. The final question to be asked then is, given this assessment, how then should ODA be allocated? If it is allocated with 50 percent of ODA to LDCs, how should it then be allocated between LDCs? Figures on ODA receipts to LDCs show large disparities. So even if the OECD does decide to move on with the LDC-ODA target, a huge question will be how to allocate the gains among LDCs.

VI. Conclusions

81. The Commonwealth’s assessment of DAC proposals that will be discussed at upcoming OECD HLMs and at the UN Third International Conference on Financing for Development, raises a number of important questions and points to several potential opportunities and risks.

82. For instance, the revision of the statistical system to include a measure of TOSD that captures donor support for development enablers as well as global public goods, should help to improve OECD statistical reporting, and assist with aligning the current framework with the more complex landscape and broader Post-2015 development agenda. TOSD could also be useful in complimenting a modernised ODA framework if adopted. Moreover, should the grant equivalent concept of ODA be implemented, it is expected that this may serve well for better capturing and equating donor effort with recipient benefit, and for drawing the ODA measure closer to country programmable aid. In addition, it is possible that aligning the OECD and IMF/WB discount rates for assessing loan concessionality, could bring about desired international financial coordination, cross country comparison, and be a positive contribution to developing country debt management.

83. On the risks associated with introducing a statistical framework, such as that which is emerging – the Secretariat’s assessment brings to bare a number of things. It highlights that there are possible risks to debt sustainability in developing countries arising from the introduction of TOSD and a possible proliferation of private financing through increased donor use of market-like instruments. Similarly risks exist when considering the impact of combining the grant equivalent method of ODA calculation with a lower IMF/WB discount rate. In essence, because the combination is likely to have a reducing effect on the estimation of loan concessionality, it is possible that donors could respond to this by scaling up substantially non-concessional loans, of which the grant components will be counted as ODA. Thus again, although the increased quantum of finance would present several opportunities, it is clear that if not managed well, there could be negative implications for debt sustainability in developing countries.

84. With respect to allocation of ODA Post-2015, one cannot disagree with why it is important to ensure that sufficient funding is delivered to LDCs vis-à-vis other countries, who actually have access to other sources of financing. Nonetheless, considering that the benefits of implementing a 50 percent LDC-ODA target seems minimal, it seems highly likely that without a substantial increase

in ODA financing that introducing such a target will put at risks development in other countries and could lead to an imbalance in the financing of the new global agenda.

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Appendix

Table 4: Trends in DAC Donors ODA Performance (2011-2012)

OECD Donors	**2012** ODA USD million current	**2012** ODA/GNI %	**2011** ODA USD million current	**2011** ODA/GNI %	**Percent change 2011 to 2012 in real terms[a]**
Australia	5 440	0.36	4 924	0.34	10.4
Austria	1 112	0.28	1 111	0.27	6.1
Belgium	2 303	0.47	2 807	0.54	-13.0
Canada	5 678	0.32	5 459	0.32	4.1
Czech Republic	219	0.12	250	0.12	-4.2
Denmark	2 718	0.84	2 931	0.85	-1.8
Finland	1 320	0.53	1 406	0.53	-0.4
France	12 106	0.46	12 997	0.46	-0.8
Germany	13 108	0.38	14 093	0.39	-0.7
Greece	324	0.13	425	0.15	-17.0
Iceland	26	0.22	26	0.21	5.7
Ireland	809	0.48	914	0.51	-5.8
Italy	2 639	0.13	4 326	0.20	-34.7
Japan	10 494	0.17	10 831	0.18	-2.1
Korea	1 551	0.14	1 325	0.12	17.6
Luxembourg	432	1.00	409	0.97	9.8
Netherlands	5 524	0.71	6 344	0.75	-6.6
New Zealand	455	0.28	424	0.28	3.0
Norway	4 754	0.93	4 756	0.96	0.4
Portugal	567	0.27	708	0.31	-13.1
Spain	1 948	0.15	4 173	0.29	-49.7
Sweden	5 242	0.99	5 603	1.02	-3.4
Switzerland	3 022	0.45	3 051	0.45	4.5
United Kingdom	13 659	0.56	13 832	0.56	-2.2
United States	30 460	0.19	30 783	0.20	-2.8
TOTAL DAC	**125 912**	**0.29**	**133 908**	**0.31**	**-3.9**
Average Country Effort		0.42		0.44	
Memo Items:					
EU Institutions	17 570	-	17 391	-	8.0
DAC-EU countries	64 032	0.41	72 331	0.44	-7.2
G7 countries	88 145	0.26	92 321	0.27	-3.1
Non-G7 countries	37 768	0.42	41 587	0.45	-5.6

Source: Development Co-operation Report 2013 - © OECD 2013

Table 5: Options for Reconceptualising ODA and the Implied Statistical Adjustments

Options for Reconceptualising ODA	*Implied Statistical Adjustments*
Option 1: *Recognise Budgetary Expenditure on Development*	Would include removing from ODA the following types of aid: inputed student costs, in-donor refugee costs and development awareness.
	Excluding the capital of loans and equities, but counting budgetary expenditures on capital subscriptions, grants and subsidies to national development finance institutions, development banks and other loan/equity/guarantee extending agencies.
	Counting capital subscriptions to multilateral development banks and agencies on an encashment basis.
	For debt relief operations, counting the actual expenditure by the government to purchase the debt from the private sector or compensate loan extending agencies (but not the losses covered by these agencies through insurance or through revenue such as fees charged for guarantees).
Option 2: *Recognise the Grant Equivalent*	Would include, for loans, counting as ODA the “grant equivalent” calculated taking into account both the cost of borrowing and risk of default (recipient benefit approach).
	Removing from ODA all bilateral debt relief (given the risk of having to provide relief will be valorised ex-ante), except for relief of uninsured or unguaranteed export credits or other private debt.
	For equity investment, including in ODA all forms of equity bearing a comparatively higher risk than other equity classes in the same investee.
	For guarantees, counting the difference between the premia actually charged and those the market would charge.
	Capital subscriptions to multilateral development banks would be reportable on a deposit basis (as at present)
	Concept of budgetary effort could include certain in-donor costs, such as those for subsidised students and newly arrived refugees as well as for raising development awareness in the donor country
Option 3: *Recognise Gross Disbursements*	Would include, for loans, reporting gross disbursements of those loans assessed as concessional when using a risk-adjusted discount rate. Could possibly crowd into ODA some OOF loans.
	For debt, some adjustments in order not to valorise risk twice.
	For equity, given that the grant element cannot be estimated, counting face value of acquisitions based on the reasoning that one core function of equity is crowding in private investment.
	Guarantees would not fit in the cash-based system, but the amounts mobilised would be captured in TOSD if defined as development finance resulting from official efforts.
	Cash-basis would mean reporting capital subscriptions on an encashment basis. In addition, other financing to multilateral agencies leveraging finance, such as reimbursable grants would be included at face value (similar to equity investment).

Source: OECD (2014)

Table 6: Revising the List of ODA Recipients
(Implications for Commonwealth Developing Countries)[13]

Country	Income Classification	Eligible under current threshold (per capita GNI <=USD 12,275 , in 2012)	Eligible under new threshold (per capita GNI <=USD 7,115 in 2012)	Graduation year (before 2024) based on 2% growth forecast		Graduation year (before 2024) based on 4.5% growth forecast		Graduation year (before 2024) based on 7.5% growth forecast	
				Current threshold (per capita GNI >USD 12,275)	New threshold (per capita GNI >USD 7,115)	Current threshold (per capita GNI >USD 12,275)	New threshold (per capita GNI >USD 7,115)	Current threshold (per capita GNI >USD 12,275)	New threshold (per capita GNI >USD 7,115)
Belize	LMIC	□	□				2023		2019
Botswana	UMIC	□	□		2012	2023	2012	2019	2012
Cameroon	LMIC	□	□						2021
Dominica	UMIC	□	□		2018		2015	2021	2014
Fiji	UMIC	□	□						2020
Grenada	UMIC	□	□		2012		2012	2020	2012
Guyana	LMIC	□	□						2023
Jamaica	UMIC	□	□				2020		2017
Malaysia	UMIC	□	□	2024	2012	2018	2012	2016	2012
Maldives	LMIC	□	□		2023		2017	2023	2015
Mauritius	UMIC	□	□		2012	2021	2012	2017	2012
Namibia	UMIC	□	□				2018	2023	2016
Saint Lucia	UMIC	□	□		2014			2020	
St Vincent & Grenadines	UMIC	□	□		2018		2015	2022	2014
Samoa	LMIC	□	□						2023
Seychelles	UMIC	□	□	2013	2012	2013	2012		2012
South Africa	UMIC	□	□		2012	2024	2012	2019	2012
Tonga	LMIC	□	□				2024		2020
Tuvalu	LMIC	□	□		2024		2018	2023	2016
Vanuatu	LMIC	□	□						2024

Data for DAC-eligible Commonwealth countries based on 2012 GNI and current threshold of per capita GNI <=USD 12,275, where income data available
Income data based on World Bank data (GNI per capita, Atlas method (current US$))

Source: Data from World Bank. Information from UNCTAD (2013) and World Bank (2014)

[13]Data for DAC-eligible non-Commonwealth countries based on 2012 GNI and current threshold of per capita GNI <=USD 12, 275, where income data available. Income data based on World Bank data (GNI per capita, Atlas method).

Table 7: Revising the List of ODA Recipients (Implications for Non-Commonwealth Developing Countries)[14]

Country	Eligible under current threshold (per capita GNI <=USD 12,275, in 2012)	Eligible under new threshold (per capita GNI <=USD 7,115 in 2012)	Graduation year (before 2024) based on 2% growth forecast		Graduation year (before 2024) based on 4.5% growth forecast		Graduation year (before 2024) based on 7.5% growth forecast	
			Current threshold (per capita GNI >USD 12,275)	New threshold (per capita GNI >USD 7,115)	Current threshold (per capita GNI >USD 12,275)	New threshold (per capita GNI >USD 7,115)	Current threshold (per capita GNI >USD 12,275)	New threshold (per capita GNI >USD 7,115)
Albania	□	□						2020
Algeria	□	□				2020		2017
Angola	□	□				2023		2019
Armenia	□	□						2021
Azerbaijan	□	□		2019		2016	2022	2014
Belarus	□	□		2018		2015	2022	2014
Bosnia and Herzegovina	□	□				2022		2018
Brazil	□	□	2015	2012	2014	2012	2013	2012
Bulgaria	□	□		2024		2013	2021	2013
Cabo Verde	□	□						2021
China	□	□		2024		2017	2023	2016
Colombia	□	□		2013		2013	2020	2013
Costa Rica	□	□		2012	2020	2012	2017	2012
Dominican Republic	□	□				2018	2024	2016
Ecuador	□	□				2020	2024	2017
El Salvador	□	□						2022
Gabon	□	□	2023	2012	2017	2012	2015	2012
Georgia	□	□						2023
Guatemala	□	□						2024
Indonesia	□	□						2023
Iraq	□	□		2020		2016	2022	2015
Jordan	□	□				2022		2018
Kazakhstan	□	□	2024	2012	2018	2012	2016	2012
Kosovo	□	□						2022
Lebanon	□	□		2012	2019	2012	2017	2012
Macedonia, FYR	□	□				2022		2018
Marshall Islands	□	□						2020
Mexico	□	□		2012	2018	2012	2016	2012
Micronesia, Fed. Sts.	□	□						2023
Mongolia	□	□						2024
Montenegro	□	□		2012		2012	2020	2012
Palau	□	□	2024	2012	2017	2012	2016	2012
Panama	□	□		2012	2021	2012	2018	2012
Paraguay	□	□						2023
Peru	□	□		2021		2016	2022	2015
Philippines	□	□						
Romania	□	□		2012	2021	2012	2017	2012
Serbia	□	□				2019	2024	2017
Suriname	□	□		2012	2020	2012	2017	2012
Thailand	□	□				2020	2024	2017
Timor-Leste	□	□						2022
Tunisia	□	□						2020
Turkey	□	□	2019	2012	2015	2012	2014	2012
Turkmenistan	□	□				2019	2024	2016
Ukraine	□	□						2022
	□	□						

Source: Data from World Bank. Commonwealth Secretariat calculations.

[14] Data for DAC-eligible non-Commonwealth countries based on 2012 GNI and current threshold of per capita GNI <=USD 12, 275, where income data available. Income data based on World Bank data (GNI per capita, Atlas method).

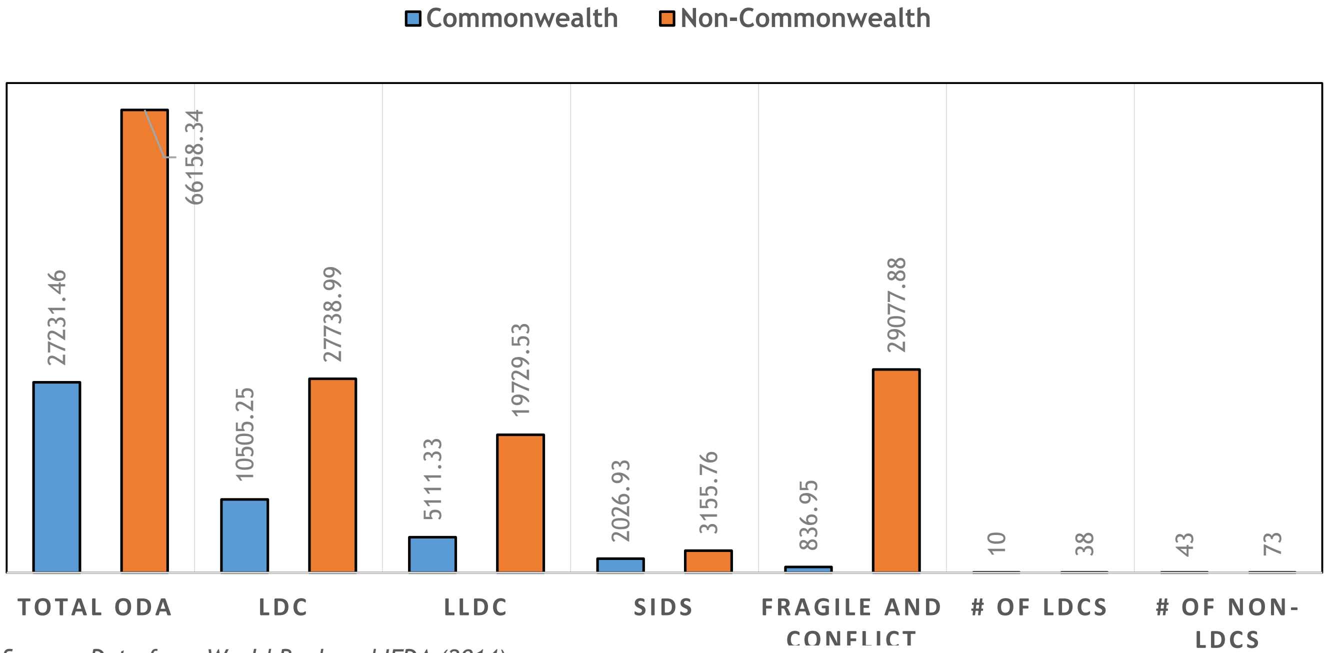
Table 8: New Targets
(Implications for Commonwealth Developing Countries)[15]

Country	Region	"Special Situations" LDCs	LLDCs	SIDS	Fragile and Conflict	2012 Net ODA Receipts (USD Millions)	50% of ODA to LDCs
Bangladesh	South Asia	□				2152.09	2328.17
Ghana	Sub-Saharan Africa	□				1807.91	1983.99
Kenya	Sub-Saharan Africa	□				2654.08	2830.16
Malawi	Sub-Saharan Africa	□	□			1174.60	1350.68
Mozambique	Sub-Saharan Africa	□				2096.92	2273.00
Rwanda	Sub-Saharan Africa	□	□			878.99	1055.07
Sierra Leone	Sub-Saharan Africa	□			□	442.82	618.90
Uganda	Sub-Saharan Africa	□	□			1655.19	1831.27
Tanzania	Sub-Saharan Africa	□				2831.89	3007.97
Zambia	Sub-Saharan Africa	□	□			957.72	1133.80
Antigua and Barbuda	Latin America & Caribbean			□		2.00	
Belize	Latin America & Caribbean			□		25.18	-56.08
Botswana	Sub-Saharan Africa		□			74.00	250.08
Cameroon	Sub-Saharan Africa					596.24	514.98
Guyana	Latin America & Caribbean			□		114.45	33.19
India	South Asia					1667.63	1586.37
Kiribati	East Asia & Pacific			□	□	64.66	-16.60
Lesotho	Sub-Saharan Africa		□			282.68	201.42
Maldives	South Asia			□		58.01	-23.25
Nauru	East Asia & Pacific			□		35.73	-45.53
Nigeria	Sub-Saharan Africa					1915.82	1834.56
Pakistan	South Asia					2019.06	1937.80
Papua New Guinea	East Asia & Pacific			□		664.84	583.58
Samoa	East Asia & Pacific			□		120.67	39.41
Solomon Islands	East Asia & Pacific			□	□	304.98	223.72
Sri Lanka	South Asia					487.50	406.24
Swaziland	Sub-Saharan Africa		□			88.15	6.89
Tonga	East Asia & Pacific			□		78.26	-3.00
Tuvalu	East Asia & Pacific			□	□	24.49	-56.77
Vanuatu	East Asia & Pacific			□		101.42	20.16
Botswana	Sub-Saharan Africa					73.86	-7.40
Dominica	Latin America & Caribbean			□		25.66	-55.60
Fiji	East Asia & Pacific			□		107.34	26.08
Grenada	Latin America & Caribbean			□		7.65	-73.61
Jamaica	Latin America & Caribbean			□		21.05	-60.21
Malaysia	East Asia & Pacific					15.37	-65.89
Mauritius	Sub-Saharan Africa			□		177.89	96.63
Namibia	Sub-Saharan Africa					264.86	183.60
St. Kitts-Nevis	Latin America & Caribbean			□		21.91	-59.35
St. Lucia	Latin America & Caribbean			□		26.84	-54.42
St. Vincent and Grenadines	Latin America & Caribbean			□		8.56	-72.70
Seychelles	Sub-Saharan Africa			□		35.33	-45.93
South Africa	Sub-Saharan Africa					1067.15	985.89

Source: Data from World Bank. Commonwealth Secretariat calculations. Only CW countries in “special stituations reflected in the above table.

[15]Data for DAC-eligible non-Commonwealth countries based on 2012 GNI and current threshold of per capita GNI <=USD 12, 275, where income data available. Income data based on World Bank data (GNI per capita, Atlas method).

Table 9: Receipts of ODA and Composition of LDCs



Source: Data from World Bank and IFDA (2014).

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