ASIA WORKSHOP ON THE GLOBAL PARTNERSHIP FOR EFFECTIVE DEVELOPMENT CO-OPERATION: LINKS TO THE POST-2015 DEVELOPMENT AGENDA, 25-27 August 2013

New ways to measure and monitor development finance – what the DAC has to offer

Patti O'Neill*, Global Partnerships and Policies Division, OECD Development Co-operation Directorate*

Distinguished delegates

Today I have unashamedly borrowed my theme and my introductory comments from an excellent speech which Mark Lowcock, Head of DFID, made last month to the IMF. His comprehensive presentation sets out the history of development finance, especially Official Development Assistance; why we need to modernise the international framework for development finance; and identifies the United Kingdom's priorities for modernisation.

Let me be clear at the outset. Financing is not my field of expertise – but I do know that we need to make the best use of all available resources if we are to address the daunting global challenges we all face. These require massive financial resources far beyond what aid alone can provide.

Over the last 3 to 4 years there have been several influential papers published by academics and think-tanks which have called for a rethink of the role of ODA. It is notable that former leaders of major aid agencies, including Minouche Shafik, Jean-Michel Severino and Richard Manning, have been prominent in initiating this debate.

Debates on development financing have been heightened and galvanised as we reflect on progress towards achieving the MDGs and on the development agenda which will follow.

One of the key messages from the UN Development Co-operation Forum's High Level Symposium in Addis Ababa in June was that:

- ***A renewed partnership must build on ODA as a vital source of development financing****. The commitment of realizing 0.7 per cent of GNI as ODA must be fulfilled. The modalities, principles and conditionalities of ODA need to be revisited. It should become more comprehensive and serve as a catalyst for promoting trade, investment and technology transfer for development.*

The High Level Panel of Eminent Persons on the post-2015 development agenda who reported to the UN Secretary General in late May suggested an illustrative goal – *Create a global enabling environent and catalyse long-term finance* - which covers ODA, complementary financial assistance, trade, private foreign investment, climate change, illicit flows, and collaboration and access to science, technology and innovation.

Mark Lowcock's presentation to the IMF called for a development finance system that:

- Builds on the success of the ODA system
- Motivates effort in terms of volume and quality
- Captures total support for development – not just ODA, and
- Encourages all actors to do the right thing, in the right places with the right instruments.

Last December the development ministers from OECD member countries requested the DAC Secretariat to propose a comprehensive framework for understanding, tracking and optimising external development finance. Ministers expect the Secretariat to work with a broad set of actors to:

- Develop an internationally acceptable definition of external development finance
- Define a new measure of total official support for development that reaches beyond the current ODA definition
- Come up with a proposal for capturing both "donor effort" and "recipient benefit", and
- Propose whether and how the existing ODA concept should be modernised.

We need you, the partner countries, to participate in this effort.

The context is well-known to you all. It is part of your daily working life.

The global development landscape is going through a major transformation.

- Today there are more sources of finance, different types of actors and new financial instruments to choose from -- and many developing countries are increasingly able to diversify their funding base. Private capital in the form of equity, bonds, debt and voluntary contributions, innovative debt and equity instruments, insurance schemes, guarantees, and other risk mitigation products are all playing a greater role – and could be a transformative source of finance for development in the future.

- Innovative international financing mechanisms have been devised and successfully implemented to address a wide range of development challenges from environmental degradation and disease control to boosting progress in agriculture and health to ramping up investment in national and regional infrastructure.

- Southern partners and countries beyond the DAC membership are playing a stronger and more visible role -- actively sharing their development experience and providing useful know-how, services and access to a wider range of technologies. They too are scaling up their provision of financing "packages" to provide cooperation.

- ODA remains an important source of development finance for many low-income countries and for tracking commitments made. At the same time, non-concessional flows – official and private -- are growing quickly but are not reaching the poorest developing countries.

New measures, statistical categories and indicators may be needed to capture a more complete picture of the actors, financial instruments, and development-relevant funding. Simply put, there is no international agreement on a shared concept and measure for development finance. The statistical measures tracking support and financing for development have not kept pace with these changes. What would be useful is a new concept agreed by a broad range of stakeholders that encompasses public development finance from all sources as well as cooperation which may not lend itself to being expressed in purely monetary terms, such as technical assistance.

We need to better identify the actual resource transfers to developing countries. ODA includes some expenditures within donor countries – such as student costs, refugee costs, technical assistance and development awareness programmes – that, while requiring budgetary effort by donors, never reach developing countries. It is important that developing countries readily "see" the amount of resources that actually crosses borders. The Country Programmable Aid statistical measure devised in 2007 to address this gap was a step in the right direction. But more work is needed to present data capturing "recipient resource receipts" – including better coverage of non-ODA flows.

So, at the moment, money spent on scholarships counts as aid; but a guarantee that enables an industry to develop in a post-conflict country does not. Similarly, tied aid counts for as much as untied. And despite the impact of the Paris Declaration monitoring in highlighting ineffective practices, when it comes to reaching 0.7%, inefficient aid to not very needy countries, is weighted as heavily as innovative efforts to reach the poorest.

This work needs to be about both aid and other sources of financing for development. It is **not – and cannot be – a question of either/or**. The other sources of financing need to be examined on the up-front understanding that the results are not going to be used – or perceived – as an excuse for OECD-DAC members to walk away from their existing aid commitments.

By defining, naming, monitoring and reporting development finance better, we can recognise good behaviour and get the right finance to the right use. Aid will continue to be part of this - and will continue to be over $100 billion for the foreseeable future – so it is predictable and significant. But aid is too precious to just give away - aid should be made to work. That means leveraging other finance into difficult environments so there is a long-term sustainable path to development; shaping markets for carbon-free energy or neglected disease vaccines so that private or social finance can take over - and creating jobs in the process. This will also help preserve aid for those crucial situations where it really is the best and only solution.

What do we hope to come out of this work?

The expected outcomes include:

- A comprehensive framework for reporting on external development finance, and
- A mapping of the different sources, types and flows of development finance, including their inter-relationships and the requisite conditions for maximising their impact

Any proposals on external development finance or ODA would need to be technically sound, straightforward, easily understandable and useful to a wide range of users.

The yet-to-be-agreed-upon concept and measure would capture the efforts of DAC donors, emerging economies and all other south-south providers, and would be one that all of us, including recipients, would find useful. This could be a significant contribution to monitoring commitments and support for the post-2015 development agenda. We all must heed the calls for **accountability** in delivering the new framework.

Whether it will be called a measure of development cooperation, a measure of a nation's support for development, or a measure of external official financial support for development is a topic to be discussed. While we may all agree on what is valued as development cooperation, we may not be able to agree on how to reduce all the components to a single financial measure.

Reaching out

To provide strategic advice on the work I have described, the Secretariat, has established an Expert Reference Group on **New Directions in Measurement and Monitoring of External Development Finance.** The 16 members are individual experts in their own right on development cooperation and finance representing all relevant stakeholder groups, including partner countries , emerging economies, foundations and civil society.

We have already started reaching out to regional research institutions that work closely with governments in Latin America, Asia and Africa.

The Secretariat wants to ensure that recipient country governments are included in these discussions. That is why we are using workshops like this – and the recent meeting of the Steering Group for the Global Partnership for Effective Development Co-operation in Addis Ababa – to inform you about the work. You are familiar with the full range of donor providers, and have experience of dealing with other external finance for development, such as FDI. Zambia has already expressed an interest in engaging with us. Several of you at this workshop have valuable experience and insights and have demonstrated active leadership in shaping international development cooperation.

Conclusion

In conclusion, OECD DAC members know that it is essential to fully engage and partner with all key stakeholders (recipient countries, emerging providers, international organisations, the private sector, civil society and academia) in devising a comprehensive financing framework for the post-2015 goals.

The OECD's Development Assistance Committee is not looking to impose solutions for a financing framework for post-2015. Rather, it is wanting to ask questions and engage the many different constituencies (including emerging providers and recipient countries) in this reflection exercise.

This is not merely a technical exercise. By defining development finance better, we can incentivise the type of support countries need for development, and that the world needs to address global challenges like climate change and conflict. **It is an essential element in a reinvigorated and transformational global agenda which does not only imagine – but delivers a better world for all.**

Thank you.