Inter-Agency and Expert Group on SDG Indicators: Working Group on Measurement of Development Support

Background Paper on Measurement of Development Support[1, 2] (June 2020)

SUMMARY: The Working Group's key task is to develop and refine the measurement of development support under SDG target 17.3, "Mobilize additional financial resources for developing countries from multiple sources". A second indicator on the same target, 17.3.2, showing remittances as a share of GDP, is reported by the World Bank.

The United Nations started publishing data on private and official flows to developing countries in the 1950s, based largely on Balance of Payments (BoP) concepts. In 1961 it declared the first United Nations Development Decade, during which development financing should rise to 1 per cent of advanced countries' combined national income. This led to lengthy negotiations on what constituted development finance.

In 1968 UNCTAD II defined such financing as comprising net flows of long-term capital from both official and private institutional sources, excluding military grants and credits as well as return flows of income such as interest and dividends. UNCTAD later agreed that NGO grants could also be included. The OECD has been the main source of these standard data ever since. However, private flows were outside governments' control, and in 1970 the General Assembly agreed a more enforceable sub-target of 0.7 per cent of GNI for ODA. The focus of international attention then shifted to this ODA sub-target, and later sub-targets for ODA to least developed countries.

The Financing for Development (FfD) process, starting with the first international Conference on Financing for Development in Monterrey in 2002, represented a further development in the UN's approach. The Monterrey Consensus, and subsequent FfD outcomes (Doha Declaration of 2008, and the Addis Ababa Action Agenda of 2015) reaffirmed ODA commitments, and stressed the importance of other sources of finance, both domestic and international, as complements to ODA.

The SDG targets and indicators reflect this history by setting an economic growth target for least developed countries, measuring total net resource flows on the standard basis, measuring progress against the agreed ODA targets, and using ODA or total official flows to measure official international support to various SDG Goals.

The Working Group will explore options in recommending a new indicator as a "measure of development support that goes beyond official development assistance" for indicator 17.3.1.[3] This paper makes no suggestions or recommendations. However, it identifies eight questions to help guide the discussion of the group: (1) what is the indicator being used for; (2) what flows and other items to consider; (3) what

[1] This background paper has been drafted by Simon Scott, consultant to the Statistics Division of the Department of Social and Economic Affairs, according to the specification and with the input of the Statistics Division and in consultation with the Co-Chairs. Mr. Scott has previously worked for the OECD and the Government of Australia on the measurement of development support.
[2] The term "development support" as used in the name of the Working Group and its Terms of Reference is meant to refer to resource flows for developing countries from multiple sources in a broad sense. For example, the term is not limited to public finance or aid.
[3] See E/CN.3/2020/2*, para. 26, available at https://undocs.org/en/E/CN.3/2020/2.

basic concept of "development support" should determine which flows to include; (4) for which countries should the indicator be compiled; (5) which types of flows should be included; (6) whether a single indicator 17.3.1 will suffice; (7) whether it (or they) should be expressed as an amount or a ratio; (8) to what extent current data and metadata availability, quality, timeliness and considerations of the data flow should constrain the choice, bearing in mind the deadline for submission of a proposal to the UN Statistical Commission in 2022 and that the next comprehensive indicator review will be conducted by the UN Statistical Commission in 2025.

1. Purpose and scope of this paper

1. The Statistics Division of the United Nations Department of Economic and Social Affairs (UNDESA) has commissioned this paper to provide members of the Working Group on Measurement of Development Support with an introduction to issues they may face in fulfilling their Terms of Reference (TOR), which mandate them to:

(a) Further develop and refine the measurement of development support in line with the 2030 Agenda under target 17.3 "Mobilize additional financial resources for developing countries from multiple sources";
(b) Consider different components of development support, understanding development support in a broad sense of the term and including components other than ODA, such as other official flows, private finance, international public goods for sustainable development, and South-South and triangular cooperation; the working group will consider, but not be limited by, work already conducted to develop measures of these components;
(c) Provide some guidance for case studies and pilots to be conducted and assessed in an effort to test the validity and feasibility of the proposed methodology;
(d) Develop a final proposal including the various components considered in the methodological work, for which the group was able to define and test validity and feasibility based on the IAEG-SDG criteria for indicators, including for data reporting, for consideration by the UN Statistical Commission at its 53rd Session in 2022;
(e) Develop recommendations for the implementation of the measurement in line with the needs for global, regional and national monitoring;
(f) Make recommendations or suggestions on further work required at the end of its current two-year term.

2. The IAEG-SDG criteria for indicators mentioned in item (d) above are as follows:

(a) An indicator may be considered when a crucial aspect of a target is not being monitored by the current indicator(s) or to address a critical or emerging new issue that is not monitored by the existing indicators;
(b) The proposed indicator must have an agreed methodology and available data, and also be suitable for global monitoring;
(c) The development of the methodology of the proposed indicator should involve the national statistical system, in particular, national statistical offices;
(d) The methodology should be tested in a few representative pilot countries and the results emanating from the pilot studies should be presented to the IAEG-SDGs;
(e) The IAEG-SDGs will review the final stages of methodological development of the indicator. In advance of the meetings of the IAEG-SDGs, the working group is invited to provide supporting documents two weeks before the meeting, including a summary, a full methodology development narrative (including results from the pilot studies), and any other relevant materials.

3. The remaining sections of this paper are as follows. Section 2 uses the balance of payments to give a global view of potential items for inclusion in a measure of development support. Section 3 gives a short history of previous United Nations work to define developmental resource flows. Section 4 outlines the links between the UN's historical work on developmental flows and the SDG targets and indicators. Section 5 attempts to draw out from the analysis some key issues for the Group to consider. The paper aims to provide useful briefing to Working Group members as they plan and scope their tasks, without prejudging any issue which they are likely to encounter; accordingly, it makes no recommendations. ***Readers less interested in the historical and technical background may wish to skip Sections 2 and 3 and focus on Sections 4 and 5, which focus on the present situation and the Group's main task of finding a viable new indicator 17.3.1.***

2. Using the Balance of Payments to identify potentially relevant resource flows[4]

4. The traditional starting point for analysis of resource flows between countries is the balance of payments (BoP). The BoP provides globally accepted definitions of economic transactions for all purposes between residents of a country and the rest of the world. The classes of transactions mentioned in item (b) above of the Working Group's TOR largely derive from the BoP, or are related to BoP categories. But as the BoP serves a multitude of diverse purposes, analysis and judgment are required to determine which categories of the transactions it records should be regarded as relevant resource flows for the measurement of progress towards target 17.3.

5. It should be noted that some items in existing or potential new measures, such as research on tropical diseases or other contributions towards achieving global public goods, may be financed by domestic as well as international expenditures. Domestic expenditures are not recorded in the balance of payments, although for government payments they will be included in government finance statistics. With that caveat, one can identify key BoP items potentially relevant to a measure of development support as follows:

(a) Compensation of employees (part of personal remittances, after taxes and other expenses incurred in the economy where the work is performed): the total remuneration, in cash or in kind, payable by resident enterprises to nonresident employees in return for work done by the latter during the accounting period. Compensation of employees refers to the income of border, seasonal, and other short-term workers who are employed in an economy where they are not resident and of residents employed by nonresident entities.[5]

(b) Current transfers[6] (in cash or in kind) that provide substantial additional financial resources for developing countries:

i. Personal transfers (part of personal remittances): Personal transfers consist of all current transfers in cash or in kind made or received by resident households to or from nonresident households.

[4] This section summarises parts of the Sixth Edition of the Balance of Payments Manual (BPM 6) with limited specific attribution.

[5] An indicator on remittances is already included in the SDG indicator framework and caution should be exercised in considering remittances as to avoid inconsistencies in different methods of estimation under different indicators.

[6] A transfer is an entry that corresponds to the provision of a good, service, financial asset, or other non-produced asset by an institutional unit to another institutional unit when there is no corresponding return of an item of economic value. Transfers can also arise where the value provided in return for an item is not economically significant or is much below its value. Current transfers consist of all transfers that are not capital transfers; they directly affect the level of disposable income and influence the consumption of goods or services.

ii. Social benefits (part of total remittances): Social benefits include benefits payable under social security and pension schemes.

iii. Current international cooperation: Current international cooperation consists of current transfers in cash or in kind between the governments of different countries or between governments and international organizations. This includes:

(a) transfers between governments that are used by the recipients to finance current expenditures, including emergency aid after natural disasters; they include transfers in kind in the form of food, clothing, blankets, medicines, etc.;

(b) annual or other regular contributions paid by member governments to international organizations (excluding taxes payable to supranational organizations) and regular transfers made as a matter of policy by the international organizations to governments; and

(c) payments by governments or international organizations to cover the salaries of those technical assistance staff who are deemed to be resident in the economy in which they are working and who are in an employer-employee relationship with the host government. Also included is technical assistance supplied in kind.

(c) Capital transfers[7] represent a core component of financial resources in support of developing countries. They may take the following forms:

i. Debt forgiveness is the voluntary cancellation of all or part of a debt obligation within a contractual agreement between a creditor and a debtor. With debt forgiveness, the contractual arrangement cancels or forgives all or part of the principal amount outstanding, including interest arrears (interest payments that fell due in the past) and any other interest costs that have accrued. Debt forgiveness in the balance of payments does not arise from the cancellation of future interest payments that have not yet fallen due and have not yet accrued.

ii. Investment grants consist of capital transfers in cash or in kind made by governments or international organizations to other institutional units to finance all or part of the costs of their acquiring fixed assets. Grants for investment made by organizations other than general government and international organizations are treated as “other capital transfers” (see below).

iii. One-off guarantees and other debt assumption: Capital transfers occur when a one-off guarantee is activated and the guarantor acquires no claim on the debtor or a claim worth less than the value of the guarantee. The BoP treatment is the same for other cases of debt assumption where the assumer is not a guarantor.

iv. Other capital transfers: Capital transfers include large gifts and inheritances (legacies), including those to nonprofit institutions. Capital transfers include exceptionally large donations by households or enterprises to nonprofit institutions to finance gross fixed capital formation, such as gifts to universities to cover the costs of building new residential colleges, libraries, and laboratories. Capital transfers also include cash grants from donor governments or multilateral financial institutions to the debtor economy to be used to repay debt.

[7] Capital transfers are transfers in which the ownership of an asset (other than cash or inventories) changes from one party to another; or that oblige one or both parties to acquire or dispose of an asset (other than cash or inventories); or where a liability is forgiven by the creditor. Cash transfers involving disposals of noncash assets (other than inventories) or acquisition of noncash assets (other than inventories) are also capital transfers. A capital transfer results in a commensurate change in the stocks of assets of one or both parties to the transaction without affecting the saving of either party.

(d) Direct investment is a category of cross-border investment associated with a resident in one economy obtaining control or a significant degree of influence on the management of an enterprise that is resident in another economy. So-called immediate direct investment relationships arise when a direct investor directly owns equity that entitles it to 10 per cent or more of the voting power in the direct investment enterprise; such ownership may also be indirect through a chain of direct investment relationships. Direct investment is frequently characterized by stable and long-lasting economic links, as well as the provision of technology and management.

(e) Portfolio investment: Portfolio investment is defined as cross-border transactions and positions involving debt or equity securities, other than those included in direct investment or reserve assets.

(f) Loans are financial assets that (a) are created when a creditor lends funds directly to a debtor, and (b) are evidenced by documents that are not negotiable (loans may be traded, but their legal form is not designed for negotiability in the same way as debt securities).

(g) Concessional loans: BPM6 reasons that loans with concessional interest rates could be seen as providing a current transfer equal to the difference between the actual interest and the market-equivalent interest. If such a transfer were recognized, it would usually be recorded as current international cooperation, and the interest recorded would be adjusted by the same amount. However, the means of incorporating the impact within the System of National Accounts (SNA) and international accounts have not fully evolved, although various alternatives have been advanced. Accordingly, until the appropriate treatment of concessional debt is agreed, BPM6 states that information on concessional debt could be provided through supplementary information. The supplementary information should show the benefits arising from concessional debt as one-off transfers at the point of loan origination equal to the difference between the nominal value of the debt and its present value using a relevant market discount rate (see paragraphs A2.67-A2.69 of BPM6 for a more detailed description of the calculation). BPM6 points out that this option has the advantage of considering all the possible sources of transfers in debt concessionality – maturity period, grace period, and frequency of payments, as well as the interest rate – and is consistent with nominal valuation of loans. Such an approach should be used in BoP reporting for official lending involving an intention to convey a benefit and occurrence in a noncommercial setting (usually government-to-government). Commercial situations are different in that concessional interest rates may be used to encourage the purchase of the goods and services, and so should not be treated in the same way (BPM6, paragraph 12.51).[8]

6. A threshold issue in considering BoP items for inclusion in a measure of development support is whether to include all flows, or only those originating in developed countries. The BoP is compiled for all countries, and flows between developing countries may also promote development. There is also the issue of how to treat flows originating with residents of developing countries but transacted with residents of developed countries, sometimes referred to as “reverse flows”.

[8] Debt concessionality has gained increasing importance in discussions relating to debt relief to the heavily indebted poor countries. However, there is no consistent definition or measure of debt concessionality in economic accounts. In debt reorganization through the Paris Club, such as the Heavily Indebted Poor Countries Initiative and similar arrangements, debt reduction in present value terms is calculated using a market-based discount rate, usually the OECD’s Commercial Interest Reference Rate (CIRR). The difference between the nominal value of the applicable debt and its present value is the amount of capital transfer derived from the debt reorganization arrangements.

7. A second key issue is whether to consider only capital movements, or also take account of income flows, including interest and dividends resulting from capital movements.

8. These two issues, and other important questions affecting the selection of BoP items appropriate for a measure of development support, have been the subject of extensive debate in UN fora in the past. The following section presents the main lines of these debates, and their outcomes.

3. Brief history of United Nations' work on measurement of development flows

1950s: First UN mandates to collect and analyse data on private and official capital flows to developing countries

9. The UN's initial focus on development finance was not so much on aid as on "such questions of international economic and commercial policy as may influence the process of development of the economies of under-developed countries".[9] In 1951 a group of experts appointed by the Secretary-General examined the reasons for unemployment in these countries, and, interpreting its mandate widely, made recommendations for increasing the flow of capital to these countries so as to achieve per capita annual growth of 2 per cent.[10] The group gave primacy in its report to the flow of private investment capital and in 1952 GA Resolution 622.C (VII) called for an analysis of the international flow of private capital and especially of "any reasons for the continuing inadequacy of such investment in under-developed countries". After consideration of this analysis and data by ECOSOC, GA Resolution 824 (IX) mandated the Secretary-General to prepare annual statistical and analytical reports on "The International Flow of Private Capital".[11]

10. However, the mid-1950s saw little progress in expanding the private capital flow to developing countries, which remained concentrated on extractive industries, especially oil. Meanwhile, other primary products which formed the basis of developing countries' export earnings capacity were suffering from price declines, constraining their ability to finance development-oriented imports. This led to expanded aid programmes and increased UN attention to official capital flows. In 1957, GA Resolution 1034 (XI) requested ECOSOC to consider "the collection of information concerning international economic

[9] A/RES/307 (IV), 16 November 1949.
[10] *Measures for the Economic Development of Under-developed Countries: Report by a group of experts appointed by the Secretary-General*, United Nations, New York, 1951, document E/1986, p. 75f. The five experts included W. Arthur Lewis, who later proposed the 1 per cent target discussed below, and there is an intimation on p. 85 that this was originally intended as an aid target: "We therefore urge most strongly that some mechanism be created for transferring from the developed to the under-developed countries, by way of grants-in-aid, a sum of money which should increase rapidly, reaching eventually a level of about $3 billion a year. This would be equivalent to rather less than 1 per cent of the national incomes of Western Europe, Australasia, the United States and Canada." The aid character of the 1 per cent target as promoted by Lewis persisted in its incarnations in documents of the British Labour Party and the World Council of Churches, cf. History of the 0.7% ODA target, OECD, 2016, p. 1. The Report's ambitious scope and emphasis on resource flows did not go uncontested. S. H. Frankel guyed it in a review as a "UN Primer for Development" (*Quarterly Journal of Economics*, LXVI.3, August 1952, pp. 301-326), and elsewhere tried "to show how facile is the assumption so common in much present-day literature that development necessarily follows automatically upon the investment of foreign capital" ("Some Conceptual Aspects of International Economic Development of Underdeveloped Territories", *Essays in International Finance*, no. 14, May 1952, p. 17). More recently, Jagdish Bhagwati, who knew Lewis well, has claimed that there was little science behind the 1 per cent target ("Banned Aid: Why International Assistance Does Not Alleviate Poverty", *Foreign Affairs*, January/February, 2010; cf. p. 5 of Bhagwati's original text here).
[11] For example, *The International Flow of Private Capital, 1953-1955*, Economic and Social Council, Official Records: Twenty-second Session, Annexes, agenda item 5, document E/2901.

assistance for the less developed countries on the basis of such information as the Secretary-General may provide." Thus, by the late 1950s the UN had a firmly established mandate to collect data on the flow of both private and official capital to developing countries. This mandate was fulfilled in a further series of annual publications, issued as reports of the Secretary-General, giving statistics and analysis on "The International Flow of Long-Term Capital and Official Donations".[12]

1960-63: First UN target for total resource flows to developing countries

11. Different types of flow, however, are subject to different conditions and constraints, and not all of them can be expected to have positive developmental effects. The UN first started to give sustained consideration to the question of which flows should count as development resources in 1960 after GA Resolution 1522 (XV) expressed the hope that "the flow of international assistance and capital should be increased substantially so as to reach as soon as possible approximately 1 per cent of the combined national incomes of the economically advanced countries". A year later GA Resolution 1710 (XVI) declared that the 1960s would be the first "United Nations Development Decade", the key goal of which was "to attain in each under-developed country a substantial increase in the rate of growth, with each country setting its own target, taking as the objective a minimum annual rate of growth of aggregate national income of 5 per cent at the end of the decade." This would be achieved in part by "an increase in the flow of development resources, public and private"; and the General Assembly's very next resolution reaffirmed the 1 per cent target.[13]

12. Making the target a cornerstone of the Development Decade inevitably raised the question of exactly which items the UN should include in its numerator and denominator when making its statistical reports. Accordingly, in 1963, GA Resolution 1938 (XVIII) requested the Secretary-General "To review, with the assistance of such experts as he may consider advisable and in consultation with the appropriate specialized agencies and other interested bodies…the conceptual and methodological problems posed in recent reports submitted by the Secretary-General, in accordance with the relevant General Assembly resolutions on the international flow of long-term capital and official donations [and to] submit proposals for making the annual presentation of data on capital flows and aid as meaningful and comprehensive as possible." The objective was "to contribute to the assessment of the adequacy of capital, in particular international capital, available to the developing countries, in the light of the objectives of the United Nations Development Decade." The work of this expert group[14] would play a crucial role in the definition of the numerator and denominator of the 1 per cent target by the first two UN Conferences on Trade and Development, whose decisions are described below.

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[12] For example, *The External Financing of Economic Development: International flow of long-term capital and official donations, 1964-1968*, United Nations, New York, 1970. The reports on private and official financing were issued separately from 1957 to 1960 inclusive, and then combined after ECOSOC Resolution 780 (XXX) requested the Secretary-General to present the information "in a form which will facilitate the study and analysis of total capital movements."

[13] A/RES/1711 (XVI), 19 December 1961.

[14] See the group's final report, *Measurement of the Flow of Resources to Developing Countries: A report on methodological problems by a group of experts appointed by the Secretary-General*, United Nations, New York, 1967.

1964-68: UN defines resource flows for development, and the denominator of the target

13. The UN took its first decisions on the contents of the numerator of the 1 per cent target – and thus, on its statistical concept of developmental flows – at the first UN Conference on Trade and Development, held at Geneva in 1964. In accordance with Recommendation A.IV.2 of the Conference, it would comprise the "net amount" of "financial resources" defined as:

Official cash grants and grants in kind (including grants for technical assistance); sales of commodities against local currencies; government lending for periods exceeding one year (net of repayments of principal); grants and capital subscriptions to multilateral aid agencies, and net purchases of bonds, loans and participations from those agencies. [and]
Private capital on the basis of net long-term movements, originating with residents of the capital-exporting countries. They are thus net of repatriation of principal, disinvestment, and retirement of long-term loans, portfolio assets and commercial debt. They are not net of reverse flows of capital originating with residents of the less-developed countries, nor of investment income.

14. This concept of "resource flows for development" bore the imprint of BoP concepts, but also reflected a careful selection among BoP items. In particular, and consistent with the UN's established approach, it focused on the flow of "long-term capital and official donations". This meant, among other things, that it counted only capital transactions on loans, not the flow of interest, dividends or other income; that it excluded personal remittances; and that it also excluded all flows originating with residents of developing countries, including their exports and the earnings they derived from these.

15. The UNCTAD coverage became the standard measure. It was scrupulously adhered to in UN publications on resource flows and influenced the OECD collection of data on flows from members of its Development Assistance Committee (DAC).[15] The UN came to rely on OECD-DAC figures for DAC countries, supplementing these with IMF and IBRD data. It also sought data from non-DAC countries on their developmental flows through a joint questionnaire with the IMF; however, this did not succeed in eliciting significant additional information.[16]

[15] For example, OECD-DAC data had originally placed emphasis on loans and credits with a minimum of 5 years' maturity, rather than the one year used in the BoP and in the 1964 UNCTAD Recommendation. But in its 1965 annual report the DAC included as a memo item the total flow including loans and credits of between 1 and 5 years maturity; in its 1966 report it made this wider coverage the standard, with the "over 5 years' maturity" becoming the memo item; and in its 1967 report it dropped the "over 5 years" flow entirely, thus conforming with the BoP and UNCTAD coverage. Remaining slight variations between DAC and UN coverage of resource flows tended to evaporate over subsequent decades. The main difference was that DAC originally included flows to several less advanced European countries, but the number of these diminished as their incomes rose and they left the DAC's recipient-country list. Another difference was that the UN, following BoP practice as described above, deducted net World Bank loan transactions with DAC members, which the DAC did not. These amounts, never large, declined into insignificance.

[16] *Measurement of the Flow of Resources to Developing Countries: A report on methodological problems by a group of experts appointed by the Secretary-General*, op. cit., p. 51. The UN publications provided full analysis and reconciliation of its figures with those of the DAC: see, e.g. *The External Financing of Economic Development: International flow of long-term capital and official donations, 1964-1968*, op. cit., pp. 6-7. They also continued to provide information in a separate section (ibid., pp. 77-102) on reverse flows, following a 1967 General Assembly directive [A/RES/2276.2.a (XXII)], as well as on "transfers among developing countries", i.e. South-South flows (ibid., pp. 70-73).

16. Remained the question of the denominator for the 1 per cent target. The OECD had been pushing for net national product as the denominator.[17] But the experts appointed by the Secretary-General following GA Resolution 1938, who were serving in a personal capacity, recommended by majority that "the best available denominator for the aid target is given by gross national product at market prices"[18], and Decision 27 (II) of the second UNCTAD conference, held at New Delhi in 1968, ratified this by reaffirming the target as follows:

each economically advanced country should endeavour to provide annually to developing countries financial resource transfers of a minimum net amount of 1 per cent of its gross national product (GNP) at market prices in terms of actual disbursements, having regard to the special position of those countries which are net importers of capital.

17. UNCTAD II also slightly revised the official part of the numerator as follows (the new items since UNCTAD I are underlined):

Net financial resource transfers are defined as follows:

(a) *Official cash grants and grants in kind including grants for technical assistance but excluding grants for defense purposes; sales of commodities against local currencies exclusive of utilization of such currencies by the donor country for its own purposes; government lending for periods exceeding one year net of repayments of principal; grants and capital subscriptions to multilateral aid agencies, and net purchases of bonds, loans and participation[s] from those agencies.*

(b) *Private capital on the basis of net long-term movements originating with residents of the capital-exporting countries; they are thus net of repatriation of principal, disinvestment and retirement of long-term loans, portfolio assets and commercial debt. They are not net of reverse flows of capital originating with residents of less-developed countries, nor of investment income.*

18. Thus, by 1968 the UN had specified (i) the scope of resource flows which it considered relevant as a measure of international flows for the development of developing countries, (ii) the ratio this should bear to the total economic capacity of developed countries, and (iii) the measure of this capacity that should be used.

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[17] *Development Assistance Efforts and Policies of the Members of the Development Assistance Committee: 1965 Review*, Paris, OECD, 1965, p. 53. The DAC's position can only be understood by reference to the System of National Accounts (SNA) concepts in force at the time. The 1964 revision of the SNA stated (p. 17) that "Net national product at factor cost is the value at factor cost of the product, after deduction of provisions for the consumption of fixed capital, attributable to the factors of production supplied by the normal residents of the given country. It is identically equal to the national income." The "combined national incomes of the economically advanced countries" had been the original wording of the denominator in GA Resolutions 1522 and 1711, linked above.

[18] *Measurement of the Flow of Resources to Developing Countries: A report on methodological problems by a group of experts appointed by the Secretary-General*, op. cit., p. 24. Mr C. H. Harvie of the United Kingdom, who had been chief statistician of both Sudan and Malaya, dissented, arguing for net national product at market prices, rather than at factor cost, a middle position which would have deducted capital consumption (depreciation) but not the effects of indirect taxes and subsidies (ibid.). The General Assembly effectively kicked the issue to UNCTAD II by only requesting that the Secretary-General's annual statistical reports take account of the *unanimously adopted* recommendations of the group [A/RES/2276.2.b (XXII)].

1969-2015: ODA targets take over from the resource flow target

19. OECD-DAC statistics, which since the early 1960s had become the major source of data for UN reports on the developmental flows covered by the 1 per cent target, fell into line with the UNCTAD decisions after only a slight hesitation. The DAC's annual report for 1969 presented total flows, closely following the UNCTAD coverage, both as a percentage of gross national product at market prices, and as a share of its own preferred denominator of "national income",[19] but it dropped the latter presentation in its 1970 report. Also in 1970, it reported grants by NGOs as a memorandum item, and included them in the total from 1971. A 1975 UNCTAD review accepted this as within the spirit of the UNCTAD II definition.[20]

20. Meanwhile, however, it had come to be recognized that the 1 per cent target was difficult to enforce. In its original form, in 1960/61, it was an aspirational goal framed at the level of the developed countries as a whole. But in 1964 UNCTAD I had transformed it into a target for each developed country individually, and this presented a problem for those developed countries accustomed to running balance-of-payments deficits. The target's wording recognized this issue with its caveat about "having regard to the special position of those countries which are net importers of capital". It also made clear that the target was not intended as "a suitable method for comparing the appropriate quantitative or qualitative development assistance efforts" of the developed countries.

21. These limitations led the UN to turn its attention to developing a specific target for development assistance spending within the 1 per cent target for total developmental flows. The G-77 had formed at UNCTAD I, and its first ministerial-level meeting, held at Algiers in 1967, called for "a separate minimum target...for the official component of aid flows, net of amortisation and interest payments".[21] At UNCTAD II in 1968, some developed countries declared their willingness, within the framework of the 1 per cent target for total flows, to provide 0.75 per cent of GNP in total net flows of official resources.

22. The pressure for a more binding target related purely to aid intensified in 1969, when the Committee of Development Planning agreed after three weeks of meetings that "Balance of payments considerations should not figure in decisions concerning the volume and terms of aid to be provided."[22] Also in 1969, the Pearson Commission, appointed by the World Bank, proposed that official development assistance (ODA) be raised to 0.70% of donor GNP by 1975 or shortly thereafter, "but in no case later than 1980",[23] while the OECD-DAC devised the first definition of ODA, requiring that it comprise only flows that had the "economic development and welfare of developing countries as their main objective".[24]

[19] *Development Assistance Efforts and Policies of the Members of the Development Assistance Committee: 1969 Review*, Paris, OECD, 1969, pp. 306-7.
[20] *The concepts of the present aid and flow targets: Report by the Secretary-General of UNCTAD*, Document TD/B/493/Rev.1, United Nations, New York, 1975, p. 8, footnote 31 stated that: "The DAC Secretariat has compiled statistics relating to grants by private 'voluntary agencies' and has included them in data on performance under the 1 per cent target. Although the above definition does not refer specifically to these flows, it would be in the spirit of that definition to include a category called 'grants by private voluntary organizations' in the 1 per cent target, provided that the funds shown under this heading are made available for development purposes" – which is indeed a condition of their inclusion. The DAC later renamed the item "Net grants by NGOs", the "net" signifying the deduction of ODA subsidies to avoid double-counting.
[21] Charter of Algiers, 10-25 October 1967, section C.1(a).
[22] Committee for Development Planning, Report on the Fourth and Fifth Sessions, Economic and Social Council, Official Records: Forty-seventh session, New York, United Nations, 1969 (document E/4682, paragraph 50).
[23] *Partners in Development: Report of the Commission on International Development*, New York, Washington and London, 1969, pp. 148-9.
[24] *Development Assistance Efforts and Policies of the Members of the Development Assistance Committee: 1969 Review*, op. cit., pp. 241-2.

23. The Pearson Commission's recommendation was taken up in October 1970 in GA Resolution 2626 (XXV) on the International Development Strategy for the Second United Nations Development Decade. This Strategy first set a higher growth target for the 1970s than the 5 per cent targeted for the 1960s:

The average annual rate of growth in the gross product of the developing countries as a whole during the Second United Nations Development Decade should be at least 6 per cent, with the possibility of attaining a higher rate in the second half of the Decade to be specified on the basis of a comprehensive mid-term review (ibid., paragraph 13).

24. Then, among the numerous policy measures to achieve this goal, the Strategy reaffirmed the 1 per cent target, still recognizing the "special position of those countries which are net importers of capital", though adding that "developed countries which are unable to achieve this target by 1972 will endeavour to attain it not later than 1975". But the Resolution also added a sub-target for ODA, not subject to any balance-of-payments caveat. Recognizing that "a major part of the financial resource transfers to developing countries" should be provided as ODA, "each economically advanced country" was to increase its ODA and "exert its best efforts to reach a minimum net amount of 0.7 per cent of its gross national product at market prices by the middle of the Decade". The Resolution dropped the Pearson Commission's final deadline of 1980.

25. The 0.7 per cent ODA sub-target, as it related only to official flows, was under the direct control of developed country governments. It lacked the wriggle-room of balance-of-payments deficits and the escape-hatch of not being intended as a suitable method of comparing development assistance efforts. It soon took over from the 1 per cent target as the main focus of UN attention, and also become the model for further sub-targets for ODA to least developed countries.[25] While UNCTAD III in 1972 still emphasised the 1 per cent target[26], the 1975 Mid-term review of progress in implementing the Strategy no longer explicitly mentioned it, although it noted (paragraph 25) that the "flow of total net financial resources from developed countries to developing countries and multilateral institutions" had fallen from 0.76 per cent in the early 1960s to 0.70 per cent.

26. In 1976, UNCTAD IV Draft Resolution TD/L.133 formally proposed that the ODA target "should be treated as the actual financial flow target, and the 1 per cent target (in the measurement of which official and private capital flows are included) should be considered primarily as a broad indicator of financial co-operation" – a position ratified by Resolution 150 (XVI) of the Trade and Development Board, itself noted in GA Resolution 31/159. Accordingly, the International Development Strategy for the Third United Nations Development Decade, while raising the annual growth target for developing countries to 7 per cent over the 1980s, omitted mention of the 1 per cent target, stating only that "External financial resources, particularly official development assistance, constitute an indispensable element of support for the developing countries' own efforts" (paragraphs 20 and 96). Nor did the 1 per cent target re-surface in the 1990 Strategy for the Fourth UN Development Decade. The outcome documents of the International Conferences on Financing for Development held at Monterrey, Doha and Addis Ababa in 2002, 2008 and 2015 respectively – all of which, however, reaffirmed the 0.7 per cent ODA sub-target, and stressed the importance of other sources of finance, both domestic and international, as complementary.

[25] These were last revised in the Programme of Action for the Least Developed Countries for 2011-20, agreed at Istanbul in 2011, and aim essentially (paragraph 116 of the Programme) at an ODA flow to the LDCs of 0.15-0.20 per cent of donors' GNP.
[26] UNCTAD Resolution 61.1 (III).

27. The Financing for Development outcomes contain commitments to increase all financing flows, including private international capital flows, particularly foreign direct investment, as vital complements to national development efforts.[27] In also contains commitments on development cooperation, non-concessional official development finance, and South-South cooperation as a complement, not a substitute, to North-South cooperation. The FfD outcomes also stress the importance of the quality of financing flows, including the different roles of public and private finance in sustainable development. In assessing progress in implementation of the FfD outcomes, the Inter-agency Task Force on Financing for Development, in its annual Financing for Sustainable Development reports, monitors trends for these cross-border financial flows based on all available data.[28] The Task Force has stressed their different mandates and characteristics, and thus suggested that they should not be aggregated into one statistical measure.

4. Relation of UN development flow concepts to the SDGs

Overview of links between the UN's earlier work to define and measure development flows and SDG targets and indicators[29]

28. While the 1 per cent target for total resource flows to developing countries is now largely forgotten, other features and results of the UN's work to define and measure resource flows for development have endured. These include the setting of targets for average economic growth rates, the agreed concept of total net resource flows for development, and performance monitoring against ODA targets, which derive historically from the total flows target. The SDGs reflect these three inheritances in the following ways:

(a) SDG target 8.1 is to "Sustain per capita economic growth in accordance with national circumstances and, in particular, at least 7 per cent gross domestic product growth per annum in the least developed countries". This growth target can be traced directly to the Istanbul Programme of Action, mentioned above, which aimed to "Achieve sustained, equitable and inclusive economic growth in least developed countries, to at least the level of 7 per cent per annum". As noted earlier, a 7 per cent annual growth target had first been adopted for developing countries as a whole in the 1980 Strategy for the Third United Nations Development Decade, following targets of 6 per cent for the 1970s and 5 per cent for the 1960s which had been explicitly or implicitly linked to achievement of aid and resource flow targets.

(b) SDG target 10.b is to "Encourage official development assistance and financial flows, including foreign direct investment, to States where the need is greatest, in particular least developed countries, African countries, small island developing States and landlocked developing countries, in accordance with their national plans and programmes". The indicator for measuring progress against this target is "Total resource flows for development, by recipient and donor countries and type of flow (e.g. official development assistance, foreign direct investment and other flows)". Data on this "Tier I" indicator are reported to the UN global SDG indicator database by the OECD on the traditional UN basis of total net resource flows for development.

[27] In doing so, Member States recognized the importance of addressing the diverse needs and challenges faced by countries in special situations, in particular African countries, least developed countries, landlocked developing countries and small island developing States, as well as the specific challenges facing middle-income countries. Countries in conflict and post-conflict situations also need special attention.
[28] Available from: https://developmentfinance.un.org/report.
[29] This section draws on IAEG webpages on the Tier Classification, Metadata and Database of SDG indicators.

(c) SDG target 17.2 covers the 0.7 per cent target for total net ODA and the 0.15-0.20 per cent targets for ODA to least-developed countries. Developed country support towards achieving sector-specific SDGs is generally measured as gross disbursements[30] either of ODA (cf. indicators 1.a.1, 3.b.2, 4.b.1, 6.a.1) or of total official flows (2.a.2, 7.a.1, 9.a.1). Indicators 8.a.1, 17.9.1 and 17.19.1 are also based on or draw on ODA. Data on all these indicators are supplied to the global database by the OECD (except 17.19.1 supplied by PARIS21 and 7.a.1 where some data are supplied by IRENA).

Comparison of resource flow coverage of present SDG indicators 10.b.1 and 17.3.1

29. As already noted, the OECD still publishes annual figures on Total Net Resource Flows to developing countries on the traditional UN coverage finalised by 1975, and also shows these as a share of source countries' GNI at market prices (Statistics on resource flows to developing countries, Tables 2 and 3). These figures are based on donor reporting of actual flows, and are collected from all member countries of the OECD's Development Assistance Committee, as well as several other significant donors. The same reporting, combined with reporting to OECD-DAC from multilateral agencies, enables limited identification of corresponding total inflows by developing country. The DAC reports all the resulting data, on a net capital flows basis by source and destination country, to the UN SDG database under indicator 10.b.1. The UN no longer makes any separate data collection of its own.

30. At present there is no reporting on indicator 17.3.1 as there was no consensus by the IAEG-SDGs on what indicator to propose. On an indicator previously proposed on "Foreign direct investment, official development assistance and South-South cooperation as a proportion of gross national income", the main data gap is in respect of South-South cooperation.

31. To further clarify the differences between the intended coverage of these two indicators, the table below shows the OECD-DAC coverage of flows for indicator 10.b.1. It is an abridged version of Table 2 of OECD-DAC's Statistics on resource flows to developing countries, referenced above.

[30] Gross disbursements (or sometimes, commitments) are typically preferred as measures of inflows to specific sectors, as they best reflect development impacts at sectoral level, and as the burden of repayments may not fall on the benefiting sector. That burden does, however, reduce the resources available to finance a country's overall development.

Total Net Flows from DAC Countries by Type of Flow, 2018		
	Net disbursements in USDm. at current prices and exchange rates	Per cent of total flow
I. Official Development Assistance	149 852	51
1. Bilateral ODA	105 168	36
of which: General budget support	654	0
Core support to national NGOs	2 141	1
Investment projects	9 551	3
Debt relief grants	122	0
Administrative costs	7 914	3
Other in-donor expenditures (a)	11 148	4
2. Contributions to multilateral institutions	44 685	15
of which: UN	6 634	2
EU	15 230	5
IDA	11 048	4
Regional development banks	4 215	1
II. Other Official Flows	52	0
1. Bilateral	- 160	-0
2. Multilateral	212	0
III. Export credits	3 576	1
IV. Private Flows at market terms	96 250	33
1. Direct investment	105 538	36
2. Bilateral portfolio investment	-12 740	-4
3. Multilateral portfolio investment	3 452	1
V. Net grants by NGOs	42 070	14
TOTAL NET FLOWS	**291 800**	**100**

32. On its face, the previously proposed formulation of indicator 17.3.1 would include item I in the DAC table in its totality, as well as item IV.1, and whatever was agreed to comprise "South-South cooperation". It would exclude DAC items II, III, IV.2, IV.3 and V. Note, however, that although it would leave out the majority of the DAC items, it would still have captured 87 per cent of the DAC's reported flow in 2018 – without counting South-South cooperation. This result may also be fairly typical of other years, since except for NGO grants (14 per cent of the total), the DAC items omitted by the older 17.3.1 indicator are commercial in character and, being reported net, may as easily be positive or negative in a given year.

5. Conclusion: Eight issues for consideration by the Working Group

33. Based on the foregoing discussion, the Working Group will need to explore options in recommending a new indicator as a "measure of development support that goes beyond official development assistance" for indicator 17.3.1. This paper makes no suggestions or recommendations. Whichever path the Group chooses to follow, the history of previous UN work in this area, as well as the existing linkages between the previously suggested indicator 17.3.1 and other SDG indicators, provide a context for approaching the task, and may eventually suggest necessary consequential steps.

34. The historical and contextual background is also important because it brings into focus fundamental questions of indicator selection and design which the Working Group is likely to confront. This paper will now conclude by pointing up these issues, with brief explanations. The intention is to help the Group to plan and organise the work it judges necessary to resolve these questions, not to guide it towards any particular conclusions; so again, no recommendations are made.

What is the indicator being used for?

35. SDG target 17.3, "Mobilize additional financial resources for developing countries from multiple sources" refers to "financial resources from multiple sources", "resources for developing countries" and the mobilization of "additional financial resources". The term "multiple sources" could be taken to include public as well as private sources while "additional financial resources" could be interpreted as additional resources mobilized by government, excluding private flows not mobilized by government. The mobilization of "additional financial resources" could also refer to resources mobilized after the adoption of the 2030 agenda in 2015.

What flows and other items to consider?

36. The BoP provides a list of public and private flows that may be considered for inclusion as resources for developing countries. However, some of these flows are already included in indicator 17.3.2 on remittances and should not be double counted. Also, the nature and uses of different types of resources can be very different, as can their potential impact on development, – and some impacts may even be negative. The Working Group may also consider whether the framework of collaboration (bilateral, multilateral, South-South cooperation, triangular cooperation) plays a role in what flows to consider and whether certain government expenditures such as regional expenditures for development enablers and responding to global challenges should be considered, while acknowledging that not all modes of development cooperation have universally agreed definitions.

What concept of "development support" should apply?

37. From its first data collection mandates in the early 1950s, the UN aimed to compile statistics on financial flows that would contribute to the "economic and social development"[31] of developing countries. In the 1960s this formulation became the touchstone of its multi-year effort to select, which private and official flows to include in the numerator of the 1 per cent target. As shown above, it led to the focus on net flows of capital; the rejection of short-term loans and credits; the exclusion of all military aid and credits; the specification that ODA flows must have the promotion of developing countries' economic development and welfare as their main objective; and, in the 1970s, to the inclusion in the 1 per cent target of grants from NGOs, net of official subsidies.

[31] A/RES/622.C.2 (VII), 21 December 1952. The preamble to this resolution recalls, in turn, "the obligations assumed by the governments of Member States under Articles 55 and 56 of the Charter of the United which among

38. But the world has changed, and so have models of development. The four United Nations Development Decades have been superseded by the Millennium Development Goals, and now the Sustainable Development Goals, each with their own rationales, targets, and suites of other indicators. In the light of these developments, should the decisive test of whether to include a flow in a measure of development support still be whether it is likely to promote the economic and social development of developing countries – and if not, then what alternative test should now be used?

For which countries should the indicator be compiled?

39. The original 1 per cent target was defined for capital exports from "economically advanced countries", so data on it were only collected for developed countries. However, this does not necessarily imply that developing countries' inflows should not also be measured, and in fact the OECD already supplies inflow data as far as they are known in its reporting on SDG indicator 10.b.1.[32] Data on most sectoral indicators in the SDG framework are *only* reported for developing country inflows (an exception is 8.a.1 on Aid for Trade). Should the new indicator 17.3.1 be compiled for source countries' outflows, destination countries' inflows, or both?

40. Subsidiary questions include which countries should be on the roster of source countries, which countries should be on the roster of receiving countries, and whether a country can be on both rosters, or neither.

Which types of flows should be included?

41. The classic UN coverage of resource flows for development, as presented in the OECD table above, only counted net capital outflows from "economically advanced countries". It deducted returns of capital such as loan amortisation, equity sales and disinvestment, but not investment income, such as interest and dividends. In the new indicator 17.3.1, should the focus remain on net capital outflows, or shift to either gross outflows or net transfers (i.e. net flows minus interest and dividends)?

42. The traditional measure also excluded all flows of capital originating with entities in developing countries, whether these were destined for other developing countries (South-South flows) or for developed countries ("reverse flows"). The previously proposed indicator 17.3.1 includes South-South cooperation, but not reverse flows.[33] Against this background, does the Working Group believe that the coverage of the new 17.3.1 should be restricted to flows originating with entities in developed countries, or also include flows originating from developing countries?

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other things pledge members to take joint and separate actions with the UN to promote "conditions of economic and social progress and development".

[31] For this purpose the OECD uses the [DAC List of ODA Recipients].

[31] This conclusion can only be tentative as no [metadata] are available on this part of the indicator.

[31] According to the 17 April 2020 edition of the [IAEG's Tier Classification] document, there are currently 231 unique indicators covering the 169 SDG targets. However, a few indicators pertain to more than one target, and some single indicators require more than one number (e.g. 1.4.2, 4.a.1, 5.5.1), or even a matrix of indicators (e.g. 4.1.1, 4.7.1, 13.3.1).Nations", which among other things pledge members to take joint and separate actions with the UN to promote "conditions of economic and social progress and development".

[32] For this purpose the OECD uses the [DAC List of ODA Recipients].

[33] This conclusion can only be tentative as no [metadata] are available on this part of the indicator.

One indicator, or more?

43. A large majority of SDG targets have only one indicator[34], and target 17.3 already has two, since indicator 17.3.2 asks for the "Volume of remittances (in United States dollars) as a proportion of total GDP". The 2030 Agenda (paragraph 75) requires that the global indicator framework be "simple yet robust", but also that it "preserve the political balance, integration and ambition" of the SDGs. The Working Group will therefore need to decide whether a single indicator 17.3.1 (or data series) will suffice to meet these requirements, or whether multiple indicators (or data series) are required. (For linguistic simplicity, the discussion is couched in the singular, but the same points could apply to multiple indicators.) Related to this question, the Working Group will need to decide whether to allow adding up any components (resource flows) while they may be of very different type and impact on development.

An amount or a ratio?

44. The UN's main work to define total resource flows for development arose from the need to specify the contents of the numerator of the 1 per cent target. That target was effectively dropped from the time of the Third United Nations Development Decade, i.e. the 1980s, though its sub-targets, the 0.7 per cent and 0.15-0.20 per cent targets for total ODA and ODA to LDCs, remain in force and are measured under SDG target 17.2. SDG indicator 10.b.1 follows the coverage in the numerator for the 1 per cent target, but is in dollars and does not have a denominator. The present indicators 17.3.1 and 17.3.2 both do have a denominator (GNI for the former, GDP for the latter). A denominator makes it easier to compare the relative importance of flows by country, though it downplays the absolute volume of flows. Taking these facts into account, the Working Group will need to reach a decision on whether to couch the new indicator it recommends as a monetary amount, or as a percentage of GNI, GDP or some other aggregate.

To what extent should data and metadata availability, quality, timeliness and considerations of the data flow constrain the choice of indicator?

45. The Working Group's Terms of Reference effectively require that its "proposed indicator must have an agreed methodology and available data, and also be suitable for global monitoring" and that appropriate metadata must be available and be provided. However, the TOR also task the Working Group to "Develop recommendations for the implementation of the measurement in line with the needs for global, regional and national monitoring" and to "Make recommendations or suggestions on further work required at the end of its current two-year term." Bearing these and any other relevant considerations in mind, the Group will presumably need to make judgments about the relative weight it gives to factors such as data availability, comprehensiveness, robustness, and timeliness in making its proposals. It may or may not wish to prefer datasets that have been assessed and certified as satisfactory under national or international quality assurance procedures.

46. The Working Group will need to give strong consideration to the practical aspects of national and global data compilation and data flow, following the guidance on the criteria for the implementation of the guidelines on data flows and the global reporting for the Sustainable Development Goals.[35]

[34] According to the 17 April 2020 edition of the IAEG's Tier Classification document, there are currently 231 unique indicators covering the 169 SDG targets. However, a few indicators pertain to more than one target, and some single indicators require more than one number (e.g. 1.4.2, 4.a.1, 5.5.1), or even a matrix of indicators (e.g. 4.1.1, 4.7.1, 13.3.1).

[35] E/CN.3/2019/2, annex I, available at https://undocs.org/E/CN.3/2019/2.

47. Another issue that may be considered relevant is that target 17.3 is to mobilise additional financial resources, which could be taken to imply that reliable comparative data should be available from the 2015 baseline date for the SDGs. In considering the readiness for use of potential indicators, the Group may also wish to bear in mind that a further comprehensive SDG indicator review is scheduled for completion by 2025.

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