Inter-Agency and Expert Group on the Sustainable Development Goal Indicators

WORKING GROUP ON MEASUREMENT OF DEVELOPMENT SUPPORT

Towards a core proposal
(draft by UNSD, 19 January 2021)

Key results of the Group's discussions so far

The Working Group has discussed various components that could form part of a proposal for an indicator under SDG Target 17.3*"Mobilize additional financial resources for developing countries from multiple sources"*. The Co-Chairs and Secretariat draw the following conclusions from the discussions and research done so far:

- Official grants, loans and technical cooperation enjoy broad support for inclusion in the proposed measure, including South-South *flows*. On South-South *cooperation*, a sub-group has recently been established to explore its inclusion in a possible proposal; since there is agreement for its inclusion, it will depend on progress by the subgroup on SSC.
- There was wide support for applying the concept of sustainable development, though there were definitional concerns and a variety of suggestions about how the concept could or should be operationalized.
- On international public goods (IPGs), several members see a benefit of further discussion, yet given some fundamental objections and difficult practical issues, it seems unlikely that IPGs could be included in the indicator proposal to go to the 2022 Statistical Commission.
- On mobilized private finance (MPF), there are two established methodologies, but both are limited to mobilization by donor agencies or multilaterals, each may include funds mobilized within developing countries, and neither considers developing countries' own efforts to mobilize external resources.
- On private finance in general, FDI is part of the existing indicator 17.3.1 and it is recognized that it represents an important dimension of the indicator, but several members do not support its inclusion in the proposal. The inclusion of portfolio investments is rejected by many members, as well as the inclusion of other private flows, although there has been relatively little discussion of foundation and other private philanthropic flows. The contribution to sustainable development of some private flows might also be difficult to assess.
- Apart from its direct discussions of what types of flows should be included, the Group has also explored various questions which may impinge on its choice, such as the purpose and meaning of the indicator (i.e. "what should the indicator be used for"), what concept of development support should apply, for which countries the indicator should be compiled, whether to have one or more indicators, whether to express the indicator(s) as a ratio or an amount; as well as data availability, data flow and timeliness issues.
- In particular, there has been considerable discussion of what "mobilize additional resources" implies in terms of data coverage. Countries have noted that domestic resource mobilization is already covered by Target 17.1, and official development assistance (ODA) by Target 17.2. In this perspective, they agree that domestic resource mobilization should *not* be measured again under Target 17.3, and furthermore that

17.3.1 should only measure international financial flows. But they have been divided on ODA. Some believe it should be excluded from 17.3 as it is already covered by 17.2. Others favor including ODA in 17.3, pointing out that 17.2 only measures donors' performance against the UN target for net ODA as a share of GNI, and fails to address gross flows, recipients' receipts, or monetary amounts, all of which may be of interest.

- ODA's link to sustainable development has also been questioned: even though most ODA will probably be sustainable, there is no explicit requirement of sustainability in the ODA reporting directives, and, for example, some support to fossil-fuel power projects has been reported as ODA. Participants noted that the Addis Ababa Action Agenda, and Financing for Development work generally, had recognized that different flows had different characteristics and objectives. It was therefore *not* advisable to add them together, which in turn suggested that multiple indicators would be required. However, the Group was also aware of the need for its proposal to be relatively parsimonious, given the requirement in Agenda 2030 for the indicator framework to be "simple yet robust", and the IAEG criteria in its Terms of Reference (TOR) which state that new indicators "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".
- Several countries that are members of the International Task Force on Total Official Support for Sustainable Development have highlighted along the Group's meetings that the TOSSD Task Force has already considered many of the above questions and taken decisions on them. Besides sharing with the Group the approach and developments made by the Task Force, they have urged the members to build on this work. However, other countries have stated that they disagree with one or more aspects of the TOSSD concept and coverage.

Towards a core proposal – step by step

The Working Group may wish to consider the following propositions as potential guideposts towards its eventual recommendation for a new indicator 17.3.1, subject to further inputs and discussions.

1. Given the wording of the Target, the Group's proposal will need to measure "additional financial resources" mobilized "from multiple sources" "for developing countries". The Group's discussions so far strongly suggest that only flows of external financial resources including South-South flows should be considered. But the Group appears divided on whether ODA should be included, or only external finance additional to ODA. Upon reflection, this appears to be a crucial threshold question, the answer to which will heavily influence the path the Group subsequently follows to arrive at its recommendation. To illustrate this, the following discussion is divided into two sections. The first section discusses the path to a proposal that excludes ODA, which it calls the *A-route (Option A)*. The second section discusses the path to a proposal that includes ODA, called the *B-route (Option B)*.[1]

[1] At the eighth meeting of the Working Group on 26. January 2021, members and observers will be requested to provide their initial views on what option they most likely will prefer, and also to give their reasons.

A-route: excluding ODA *(Option A)*

2. Under this option, the field of potential resource flows to be covered would be all external finance except ODA (but including South-South concessional flows, such as grants and concessional loans). For ODA providers it would mean covering only:
   a) Non-concessional official loans and investments
   b) Private loans and investments
   c) Private grants, such as foundation and other philanthropic flows.
3. At least in the limited discussion of the issue so far, there has been little support for 2c), philanthropic flows. Countries have pointed out that, while some such flows may indeed promote sustainable development, others may follow particular agendas that may or may not coincide with countries' development plans.
4. If one concludes from this that consideration should be limited to non-concessional official and private flows, these could be further articulated into the following major items:
   (a) Official non-concessional loans, such as from bilateral development finance institutions (DFIs) and multilateral development banks (MDBs).
   (b) Official equity participations by DFIs and MDBs
   (c) Export credits
   (d) Private bank and other institutional lending
   (e) Private foreign direct investment (FDI).
5. Items 4 (a), (c), and (d) are all loans, and therefore eventually produce a zero net capital flow and a negative net transfer, once interest payments are taken into account. Items (b) and (e) can also include reverse capital flows when investments are sold, or reverse current transfers when earnings are repatriated. This means that gross flows can be large, while net flows are small or negative. Both sets of figures may be useful – the gross flow shows the new resources available to developing countries; the net flow or transfer is more relevant to their overall financial position.
6. This in turn suggests that both gross and net figures should be shown. If the Group proposed these for each of 4 (a) to (e), this would require ten indicators, which may be considered excessive. The number, could, however, be reduced in various ways. For example, export credits could be excluded on grounds of limited development motivation, and (a) and (b) could perhaps be combined. Alternatively, one could aggregate (a), (c) and (d), which are all loans, with (b) and (e) either being aggregated to "investments" or kept separate.

B-route: including ODA *(Option B)*

7. Under this option, the potential field of flows would be the totality of external resource flows for development, including South-South flows, whether official or private, and whether concessional or non-concessional, thus:
   (a) Official grants, concessional loans and investments, whether ODA or South-South flows
   (b) Non-concessional official loans and investments
   (c) Private loans and investments
   (d) Private grants, such as foundation and other philanthropic flows.

8. The inclusion of ODA casts a somewhat different light on the questions just considered under the A-route. For a start, it may be less clear that private grants should be excluded, since these are in some sense the private counterpart of ODA, and since Target 17.3 specifically mentions “multiple sources”.
9. Including ODA and possibly also private grants also highlights the challenge of keeping the indicators to a manageable number, although at the same time it opens the possibility of different aggregations. For example, flows could be summed into broad categories, such as official and private, or concessional and non-concessional, or both. Alternatively, as under A, they could be aggregated by financial instrument, e.g. grants, loans, and investments.
10. Including ODA may also boost the case for reporting the indicator net rather than gross, at least for source countries, since ODA targets are themselves expressed net, and the traditional measure of total resource flows to developing countries (still reported under 10.b.1) was also net. A strong case would nevertheless appear to remain for reporting inflows to developing countries both gross and net, for the reasons given above.

11. ***Under either route***, the Group still would still have several other matters to address before formulating its recommendation, including:

    (a) Review the work done by the Sub-group on South-south cooperation, as well as progress on the Research Agenda on IPG and MPF, to see how this may affect its recommendations.
    (b) Consider whether and if so how to operationalize the concept of sustainable development in the selection of flows to be included in the indicator. For example, if the B-route is preferred, consider whether ODA should be taken as it is, or modified, or whether TOSSD coverage of concessional official flows – which adopts different concessionality and (sustainable) developmental tests – should be preferred. If a modified-ODA or a TOSSD approach is preferred, the Group may wish to make recommendations for reviewing other indicators based on or including ODA as it stands, such as 10.b.1, 1.a.1, 2.a.2, 3.b.2, 4.b.1 etc.
    (c) Consider data availability and custodianship, and make at least a proposal for a pilot compilation, so as to fulfill the IAEG criteria for new indicators included in its TOR.
    (d) Address technicalities and the following detailed issues:
        i. Decide whether the indicator should be expressed in monetary units, or as a share of countries’ GDP, or both.
        ii. Decide whether its recommendation should include “memorandum item” indicators, or only official SDG indicators.
        iii. Decide how to implement its apparent preference for both source country and destination country data, and determine which countries appear on each list.

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