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

Revised indicator proposal for SDG Target 17.3

(as of 19 May 2021)

Introduction

The Working Group's core task is to refine the indicators to be used to track progress on SDG Target 17.3 "Mobilize additional financial resources for developing countries from multiple sources". It is scheduled to make its final proposal on this to the IAEG-SDGs in October/November 2021, when it may also make recommendations for further work.

At its eleventh meeting on 27-29 April, the Working Group discussed two documents, "Towards an indicator proposal for SDG Target 17.3" and "How to operationalize the criteria of sustainable development as part of an indicator proposal for SDG Target 17.3". This document takes account of the Group's discussion of these documents and related issues, and offers a revised proposal. It is in three parts. The first presents the suggested method of implementing sustainable development criteria in the indicator. The second specifies the flows which the indicator is proposed to cover. The third summarises the reasoning behind the revised proposal. This proposal will be reviewed and updated as needed to take into account the proposal and outcome of work of the Sub-group on South-South cooperation.

Sustainable development criteria

Based on previous discussions of the group, which also build on the work of the TOSSD Task Force, the following cascading approach is suggested to identify flows that can be considered as supporting sustainable development:

1. Flows within the proposed indicators and sub-indicators detailed below and identified individually, such as an activity in the OECD-DAC reporting system, should be included if they directly support either (i) at least one of the SDG targets or (ii) an objective in the recipient country's development plan as long as this is directed towards supporting or achieving sustainable development, with the following exceptions:
    a. Flows for activities where a substantial detrimental effect is anticipated on one or more of the other targets;
    b. Flows where the recipient country, after discussion with the custodian agency and/or the reporting provider country, objects to their characterization as supporting its sustainable development;

2. Flows, or portions of flows within the proposed indicators and sub-indicators detailed below for which data are only available at the aggregate country-to-country level are also considered as supporting sustainable development, subject to the same exceptions as under 1.a and 1.b.

Note that some sub-indicators may contain a mixture of activity-specific and aggregate-level flow data and therefore require assessment against 1 and 2 respectively. Also note that further specific exclusions are proposed, as detailed below, that may in some cases be considered to reinforce the focus of the proposed indicators on the sustainable development of developing countries.

Proposed indicators

The co-Chairs and the Secretariat propose that the Group recommend measuring **each developing country's gross receipts** of:

17.3.1 a. Official development grants

b. Official concessional sustainable development loans

c. Official non-concessional sustainable development loans

Within the above, it is recommended to exclude debt relief, in-donor refugee costs, administrative costs not allocated to specific development activities, and peace and security expenditures other than those reportable as official development assistance (ODA). Official loans with a 35% grant element, calculated using a 5% discount rate, will be reportable under b.; and other official loans under c.

17.3.2 Remittances (unchanged indicator)

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In addition, the co-Chairs recognise that the following flows contribute to sustainable development and invite the Working Group to evaluate the addition of three sub-indicators:

d. Foreign direct investment

e. Mobilised private finance (MPF) as memorandum item consisting of private flows mobilized by official interventions that may include:

(a) free, subsidised or unsubsidised guarantees on loans and investments to developing countries;
(b) lines of credit;
(c) first-loss shares;
(d) co-financing;
(e) shares in collective investment vehicles;
(f) mezzanine finance; and
(g) technical assistance and capacity-building.

f. Private grants.

However, the Co-Chairs would only recommend the inclusion of these three items after careful consideration and resolution by the Working Group of conceptual, definitional and especially data-availability issues. If these issues cannot be sufficiently resolved at this time they suggest instead recommending to the IAEG that proposals for the three sub-indicators be considered as part of the 2025 global review of the SDG indicators when conceptual development may have further advanced and data availability issues may have been addressed.

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The co-Chairs also do <u>not</u> suggest including in the indicator proposal:

- Private non-concessional loans
- Portfolio investment
- Export credits, whether official, officially-supported, or private
- Short-term flows with an original maturity of 1 year or less
- Any other flows that are not within the scope of the proposed sub-indicators.

Explanation and rationale for the revised proposal

General considerations

There are both conceptual and practical difficulties to develop an indicator proposal for Target 17.3, and decisions on some aspects constrain the choices available on others. The Group's final proposal must conform with its Terms of Reference, which include rather strict general IAEG criteria for new indicator proposals.

The underlying rationale for the co-Chair's proposal is to show reliable data, comparable in coverage over time and space, for new inflows of capital to developing countries that are likely to finance sustainable development, while excluding purely commercial debt-creating flows.

This revised proposal maintains mainly unchanged the main categories of flows proposed for measurement at the eleventh meeting of the Group. However, discussions at that meeting did not conclude on the issue of mobilized private finance and private grants, and some concerns regarding FDI were noted. The co-Chairs have also thoroughly revised and clarified the presentation of the sustainable development criteria in line with suggestions at the meeting, in particular to remove the references to excluding specific types of expenditures.

The following sections summarise the reasoning behind each element of the revised proposal, in the order in which they have been presented above.

Sustainable development criteria

A strong majority of the Group has been in favour of only counting flows likely to promote sustainable development. Most though not all participants suggested that the definition of official development assistance (ODA), viz. that flows should have "the economic development and welfare of developing countries as their main objective" was insufficient as it left out the sustainability dimension.

By contrast, Total Official Support for Sustainable Development (TOSSD) is specifically designed to count flows deemed to support sustainable development. According to its Reporting Instructions (paragraphs 47-9), an activity may be reported as TOSSD if it either "directly contributes to at least one of the SDG targets as identified in the official list of SDG targets…and…no substantial detrimental effect is anticipated on one or more of the other targets" or, "If a reporter cannot find a direct link between one of its activities providing a critical contribution to sustainable development and an SDG target, the reporter will still be able to report it, linking it to a goal and providing an appropriate justification."

However, this TOSSD sustainability test is not yet operational in practice. In the TOSSD Data Visualisation Tool, 49% of all activities reported for 2019 were not allocated to any SDG goal, and the unallocated share rises to 55% if only flows to countries under Pillar I of TOSSD are considered.

The co-Chairs' proposed sustainable development test therefore proposes a modified version of the TOSSD sustainability criteria which takes account of both the progress these criteria represent in theory and their incomplete implementation in practice. It retains the link to the SDGs, but also allows other flows recorded in the OECD-DAC reporting system to be counted, subject to safeguards, including reference to developing countries' development plans and specifying their rights to object.

Showing data by recipient

There was strong support at the eleventh meeting for showing data by recipient country. The Group had earlier been attracted to the idea of also showing data by donor, but support for this has dwindled.

Donor data are already shown for ODA in indicator 17.2.1 and for total flows in 10.b.1, and the strict IAEG criteria for additional indicators, included in its Terms of Reference, as well as the requirement in the 2030 Agenda for the indicator framework to be "simple yet robust", both suggest the need for a parsimonious approach to additional indicators.

Gross flows

There was also strong support for showing flows gross. This gives a clear idea of the new resources flowing into a country to finance sustainable development activities. While ideally one might also show net figures, the co-Chairs see good reasons not to do so. Among the proposed indicators it only applies to loans and in this case raises questions about whether to count net loan flows (disbursements minus repayments of capital), net transfers (disbursements minus both repayments of capital and payments of interest), or both. Moreover, net figures may be of most interest in relation to donor efforts, already covered in 17.2.1 and 10.b.1; and debt burdens, already covered by 17.4.1.

Separate indicators for different flow types

This proceeds from the advice that the UN Finance for Development office has given to the Working Group. In the paper on the Addis Ababa Action Agenda and the Measurement of SDG Target 17.3, presented to the Group's sixth meeting in November 2020, FfD staff noted that the AAAA recognised that there are different benefits, risks and impacts associated with different financing flows, and that for this reason the Inter-Agency Task Force on Financing for Development had made the decision to report on all relevant flows separately and to avoid aggregation.

Selection of financing flows

There has been firm support for counting ***official grants and official concessional and non-concessional loans***. Solid data are available on these flows and the bulk of them are likely to have a sustainable development dimension. These data will include the costs of technical cooperation such as training, experts, scholarships and student subsidies, even if delivered in the donor country, providing the benefiting developing country can be identified.

To ***separate concessional from non-concessional*** loans, the co-Chairs suggest a uniform test based on IMF/World Bank criteria, also used in TOSSD (35% grant element using a 5% discount rate). They recognise that in the current low-interest environment, this will mean classifying some loans from unsubsidised multilateral development bank windows as concessional. However, they believe that, given the focus on recipients, this is preferable to the inconsistency that would result from counting such loans as non-concessional when the same loan at the same terms would be classed as concessional if it came from a bilateral provider.

Some participants appear to have suggested that any financing flow used by the official sector should be included, as long as it has been reported under TOSSD Pillar I as supporting sustainable development. However, this is not supported by the discussions so far and given the requirement for separate recording of each instrument, it would lead to a large number of indicators. Moreover, for some of these instruments, external flows may be non-existent (e.g. guarantees to domestic exporters), covered elsewhere (official equity investments captured under FDI), essentially commercial in character (official export credits), or subject to confidentiality restrictions that limit the ability to judge their sustainable development impact or motivation. Other official instruments such as lines of credit, mezzanine finance, and participations in structured financial packages are both relatively minor in volume and difficult to track or explain to the public.

Exclusions within the selected indicators

There has been good support for excluding ***in-donor refugee costs*** and ***administrative costs*** not allocated to specific development activities from the coverage of the selected indicators, since these are recognised as not directly providing new resources for developing countries.

The co-Chairs also suggest leaving out ***debt relief***, for reasons which they explained in a note for the eleventh meeting. The co-Chairs would also point out that, if debt relief were to be included in the gross measure proposed, numerous practical questions would need to be answered, e.g. about how to handle the offsetting entries required in the balance of payments; whether to score relief on private loans not originally counted by the indicators; the appropriate valuation of non-concessional rescheduling, debt swaps and debt conversions; whether and how to respect the principle of equality of treatment between different Paris Club relief options; whether to count relief on penalties and late interest; whether to score relief on "illegitimate debt", etc.

Some participants have also suggested including ***peace and security expenditures*** included in TOSSD Pillar I but excluded from ODA. Information provided at the eleventh meeting suggested that these might relate mainly to counter-terrorism activities and fighting organised crime including drug crime. However, some participants noted that, while such actions may promote global sustainable development, the benefits were likely to be shared by providers and recipients. Others pointed to the geopolitical motives of many peace and security interventions, and instances in which they had gone wrong. All things considered, the co-Chairs believe it is prudent to remain within the restrictive and carefully delineated ODA coverage of peace and security activities, which is limited to those with the economic development and welfare of developing countries as their main objective.

Optional and excluded indicators

After discussions at the eleventh meeting and further research, the co-Chairs wish to propose further discussion of indicators on foreign direct investment, mobilised private finance or private grants.

There has been both strong support and significant opposition to counting ***foreign direct investment*** inflows (FDI). On balance, the co-Chairs believe that, given the contribution that FDI makes and is likely to continue to make to development, leaving it out would be an unjustified omission as it reflects a lasting interest to participate in the economic and with it, the sustainable development of a recipient country. FDI normally enhance growth and innovation, create jobs and develop human capital, and raise living standards and environmental sustainability. However, the co-chairs recognise that FDI can include pass-through flows and that not all development resulting from FDI has been sustainable. It should be noted that FDI is compiled and reported by the recipient country so that concerns of information gaps present in donor data do not arise. Developing countries would thus have the opportunity to eliminate from the sub-indicator overly large pass-through flows, or large investments that are deemed as not supporting sustainable development. The co-Chairs also support the current efforts to develop a "cleaned-up" FDI that would focus on sustainable "greenfield" investment, but they also accept the advice they received from UNCTAD's FDI expert, reported to the Group's tenth meeting in February, to use total FDI data in the meantime. UNCTAD can provide reliable, curated FDI data for over 160 countries.

Mobilised private finance (MPF) has been discussed as part of the Group's research agenda, and outstanding issues were canvassed in a paper for the eleventh meeting. Two competing methods of valuing it are available, one run by multilateral development banks (MDBs), and one by the OECD. Members have generally indicated that the OECD method seems preferable, although this may be partly because it offers a fairer attribution to providers, which would not necessarily be relevant in a recipient-only measure. There is also a third methodology used by Convergence, the global network for blended finance, which overlaps considerably in its coverage with the OECD and MDB methods.

However, all of these methods have large information gaps about individual transactions, many of which are unlikely to be filled because of commercial confidentiality restrictions which also impede the assessment of causality. For example, roughly three-quarters of MPF commitments in the TOSSD Visualisation Tool are currently unallocated to a country or region; SDG-allocation is sparse; and while negotiations are underway with MDBs to be able to publish additional information, this will not reach down to activity level. All this impedes the assessment of the sustainable development orientation of MPF activities.

Two further problems are that MPF data are recorded at the stage of commitments, not actual disbursements, and that some of the MPF most likely to promote sustainable development will be long-term investments that will be captured anyway at the disbursement stage in FDI.

MPF coverage is also gradually expanding. For example, the OECD has flagged further work to investigate the mobilising effect of technical co-operation and capacity-building activities. This is welcome for an informational perspective but it means that, taken as an aggregate, MPF data may not have stable statistical scope over time.

A wider issue is the major areas of official provider-country action to stimulate private charitable or market flows which are currently left out of all MPF methods. These include tax breaks for contributions to developmental NGOs, and duty and tariff concessions on developing country imports.

Given this complex situation, the co-Chairs recommend that the Working Group carefully considers the inclusion of this optional indicator and encourages all agencies working on MPF to continue their efforts to provide more comprehensive and granular data, and to work towards harmonising their methodologies.

The situation is somewhat similar in regard to ***private grants***. In principle many of these are likely to finance sustainable development. However, again there are large data gaps. In 2019, OECD-DAC countries reported a total flow of grants from private voluntary agencies of nearly $46 billion, but this was dominated by reporting by the United States ($38 billion) with other major countries such as France and the UK not reporting. Moreover, very little of this flow could be allocated to countries. Overall, the co-Chairs are concerned that current private grants data are not sufficiently comprehensive to warrant the inclusion of a dedicated indicator in a recipient-based measure of new developmental inflows.

Finally, the co-Chairs believe that a clear majority of the Group wishes to exclude ***private, commercially motivated, debt-creating flows***. This represents a change from the traditional UN coverage of total developmental resource flows as outlined on pages 8-9 of the Background Paper presented to the Group's second meeting, and it could also be seen as diverging from the AAAA which "recognizes that all sources of financing – public and private, bilateral and multilateral […]concessional and non-concessional[…] – are needed to finance sustainable development". However, the co-Chairs believe that, given the Group's concern about exacerbating debt burdens, it can be justified to both include all official loans, which in principle are not profit-seeking, and leave out private lending.

Excluding private, commercially motivated flows implies not proposing indicators for ***private non-concessional loans*** including ***private export credits***, or ***private portfolio investment***. This does not mean that none of these flows could or would lead to sustainable development. However, they are all commercially-motivated, debt-creating flows, and in the case of export credits it could be argued that, since importing the same item for cash would not have counted as development support, there is no case for counting the item's value merely because it is obtained on credit. In any case, the level of information usually available on these flows does not permit meaningful assessment of their sustainable development contribution, and the co-Chairs believe that the small number of exceptional cases on which sustainable development impact could be demonstrated would not justify an additional indicator. The only other alternative, i.e. including them under an existing indicator, would be inconsistent with the AAAA's approach of showing different types of flows separately and not adding them up.

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