Summary of the IATF Technical Discussion on a future international metric for development finance - Total Official Support for Sustainable Development (TOSSD)

Tuesday 19 July 2016 • 9:00-11:00am • UN Headquarters

Highlights:

- The **Inter-Agency Task Force (IATF) on Financing for Development (FfD)** held its first technical consultation to provide feedback on the proposed new statistical measure of **Total Official Support for Sustainable Development (TOSSD)**. More than 25 member agencies, as well as experts from academia and think tanks actively participated in the event, which was co-hosted by UN-DESA and the OECD.
- The **core architecture of TOSSD** – currently comprised of the provider and recipient perspectives – could be simplified to ensure greater comprehensibility and a more adapted incentive structure.
- **The provider perspective** risks creating disincentives vis-a-vis ODA due to conceptual similarities with ODA and the inclusion of private flows mobilised by official intervention. At the same time, it provides a more complete picture of official and officially-supported investment in the 2030 Agenda, covering concessional and non-concessional public financing, as well as support to activities beyond ODA, such as cultural goods and global public goods, and thus can also incentivize greater non-concessional financing and be a useful analytical tool.
- **The recipient perspective** is more relevant to developing country needs because it provides an assessment of the amount of support that is truly available to a country, and it has the potential to alleviate concerns regarding the dilution of ODA. However, views diverge regarding i) whether its scope should be narrower (comprised only of Country Programmable Aid and humanitarian aid) or broader (covering all flows promoting public interest and national priorities in developing countries), and ii) whether it should present the different categories of flows separately, as an aggregate, or both.
- Although TOSSD has the potential to **improve the tracking of private flows leveraged by public interventions** as well as of **financing for global public goods that supports developing countries**, views differ as to how these should be captured, given the different purpose and quality of such flows, and given the conceptual challenges in allocating spending on global public goods to recipient countries.
- Another challenge identified was **how to collect data from different providers**. There was no uniform answer but the importance of **working together to standardize data** for aggregation purposes was recognized.
- A proposal was put forward for the **Task Force to contribute to measuring and presenting comprehensive data on development finance** in its annual reports. This could include elements, such as public finance raised on international capital markets, which are critical to track as part of public finance, but not easily added into a single metric such as TOSSD.

Full Summary:

I. Background

On Tuesday, 19 July, Members of the Inter-agency Task Force on Financing for Development were invited by UN-DESA and the OECD to a technical discussion on Total Official Support for Sustainable Development (TOSSD), a proposed new international statistical measure for sustainable development finance. More than 25 member agencies of the Task Force attended the meeting, along with several academics and representatives from think tanks. Member agencies of the Task Force provided targeted feedback on the OECD's "TOSSD Compendium", which describes the proposed aims, scope, and emerging features and statistical parameters of the OECD's TOSSD measurement framework.

The purpose of the meeting was twofold: i) to provide targeted feedback on the "TOSSD Compendium" and ii) to discuss how the TOSSD measurement framework could support follow-up to the Financing for Development outcomes and the 2030 Agenda, as well as the Task Force's future work.

Questions raised at the meeting included the purpose and rationale of TOSSD, as different purposes would imply different methodologies; whether both provider and recipient perspectives were necessary and what their respective value added was; the scope of TOSSD and which flows should be included or excluded, and how different elements should be valued (in particular how to add up separate items that have different impacts on development, and whether it makes sense to do so); and governance issues.

While participants agreed on the need for an improved metric or metrics for greater transparency and comparability of international contributions to sustainable development and uniformly welcomed the initiative to develop TOSSD, they expressed different opinions on both the details of how it should be constructed, and on the governance arrangements. Some participants believed that a narrow measurement of donor effort would be useful, but stressed the need for it to be focused on official efforts only, in what could be referred to as TOSSD minus. Others suggested widening the concept beyond the current proposal, in what could be called TOSSD plus.

The workshop also discussed the contributions that the Inter-agency Task Force and its annual report could make to measuring different financing flows for sustainable development. Key takeaways from the meeting are laid out below.

II. Presentation of TOSSD

Introducing the Compendium to the meeting, Suzanne Steensen, Manager, Development Finance Architecture Unit, OECD, described the purpose, scope and motivations of TOSSD. While the presentation followed the framework as laid out in the Compendium, she also noted that the DAC Secretariat's views have already evolved since the publication of the Compendium. For example, although the core architecture of the TOSSD framework was initially conceived to include both a provider and a recipient perspective, the utility of maintaining both perspectives is under consideration. The provider perspective would reflect the resources made available by a provider country to support sustainable development in developing countries, complementing the ODA measure with more comprehensive tracking. The recipient perspective would capture all cross-border resources (CPA and humanitarian/food aid) from all providers for sustainable development.

As presented in the Compendium, TOSSD would be broader in scope than ODA, reflecting both concessional and non-concessional public finance, as well as private finance mobilised from official interventions that promotes sustainable development in developing countries, aligned with internationally agreed standards and principles (WTO, Equator Principles, Human Rights, etc.). It would capture all contributions to the 2030 Agenda, including financing for the three dimensions of sustainable development, including peace and security expenditures and global public goods. Importantly, flows from all providers (not only DAC members) would be included. Flows would be measured at face value. There would be no donor targets for TOSSD, so as not to dilute ODA commitments.

The ensuing discussion was moderated by Shari Spiegel (UN-DESA). Two lead discussants, Homi Kharas (Brookings Institution) and Jose Antonio Ocampo (Columbia University), provided initial comments, followed by an interactive exchange of views among Task Force members.

III. Provider and recipient perspectives

Views among participants diverged about the merits of provider and recipient perspectives of TOSSD, and whether it would be useful to maintain them both, or whether reporting two separate metrics, alongside ODA, as headline numbers would be overly complex.

The benefit of reporting the provider perspective is that it would allow for a more complete assessment of donor countries' financial support toward sustainable development and the SDGs. It would measure concessional and non-concessional public financing provided, and support to activities beyond the boundaries of ODA, such as cultural goods and global public goods. The impact of this metric on political incentives was also discussed. Some participants noted that the provider perspective could lead donors to provide more non-concessional lending, as well as greater ODA to leverage other sources of finance, based on the idea that a small increase in ODA could lead to a large increase in TOSSD if private finance leveraged by public sources is included. Others noted that rather than increasing ODA, this could result in a shift in ODA from other areas, which may or may not be in line with country priorities. Some participants also argued that a measure emphasizing provider effort, and thus conceptually similar to ODA, would increase the risk of 'crowding out' ODA, given that fiscal constraints and related political pressure could provide incentives to emphasize broader support provided as TOSSD at the expense of meeting existing ODA commitments.

It was agreed that the recipient perspective would be of great relevance to developing countries, as it would provide a comprehensive assessment of financing sources for sustainable development investments. It could also be used to assess the amount of official support that is truly available to a country and not being spent domestically in donor countries, in other words an expanded version of CPA.

Some participants suggested that the recipient perspective of TOSSD should encompass all flows that are used to promote the public interest and national priorities in developing countries, because the source of funding for investments in the public interest was not as relevant from a recipient's point of view. Developed in this vein, TOSSD could include public, philanthropic, private flows mobilized by public support, and possibly also privately sourced flows such as borrowing from international capital markets, as well as impact investing. However, it was also pointed out that the Addis Agenda emphasizes the quality of flows, and the efficacy of adding up the separate components into one metric was questioned. For example, should private flows leveraged from public resources from foreign companies be counted to the same extent as leveraging funds from domestic companies, which would have a greater impact on employment? Should short-term government borrowing with a high interest cost be counted the same as long-term lending from multilateral sources?

IV. Scope of TOSSD

The discussions focused on the question of which types of financing flows should be included and how they should be treated in a composite measure.

Views differed on the inclusion of private financial flows mobilized by official support, in both the provider and recipient perspectives. While all participants agreed that it is important to measure private financial flows, and to improve tracking of private flows leveraged by public interventions, the question raised was whether these should be added into a broader metric. Some emphasized that such flows should be reported separately and should not be added up with public flows because of their different purpose and quality. Views also differ as to whether trade and investment finance provided to domestic private companies for cross-border investments in a developing country ought to be considered as investment in sustainable development.

Meeting participants broadly agreed that tracking of financing for global public goods that supports developing countries needs to be improved. Some participants argued that this should be limited to cross-border financing flows from developed to developing countries in support of global public goods. Others underscored that national contributions to global norm-setting, multilateral organisations and related activities should not be discarded. Participants agreed that activities addressing global challenges within developed countries (such as national green energy policies) should not be part of TOSSD. While participants agreed on including such financing in principle, difficulties in measuring some of these flows were acknowledged. In some cases it might make sense not to include the nominal value of these flows – for example, one question involves how to include peace and security, and whether the full amount, which includes arms expenditures, should be included.

While it was agreed that the measurement of all flows is also critical, it was noted that this would need to incorporate knowledge about South-South development cooperation and related financing flows. It was stressed that some providers of South-South cooperation might not want to report their development cooperation efforts to the OECD's Development Assistance Committee. One way forward could be for Southern think tanks to jointly develop common data standards, which would facilitate greater comparability of efforts.

The meeting further discussed whether to attribute financing that multilateral development banks mobilize from capital markets to their shareholders. While such financing was clearly going to be an important part of TOSSD, some felt that attributing it to shareholders in the provider perspective would improve their incentives to support MDBs. Opinions differed on whether to include export credits and resources mobilized by national governments from international capital markets, though there was agreement that tracking these flows is important.

V. Conclusion

While different perspectives were voiced during the meeting, some possible solutions emerged. One option put forward was to focus on the recipient perspective of TOSSD while providing information on provider efforts in an online tool.

In terms of the recipient perspective, it was suggested that different categories of flows be presented both separately and as an aggregate. As one example, it was suggested that TOSSD could be an aggregate of 2 to 3 categories including: i) concessional finance, including country-programmable aid and humanitarian finance; ii) non-concessional public lending, market-like instruments; iii) possibly private finance mobilized by public interventions (though there was no agreement on whether this should be included in the aggregate measure).

Going beyond the recipient perspective, adding in a fourth category of "contributions to global public goods" as discussed above would give a more complete picture of sustainable development finance, possibly including some in-donor costs.

Questions remained as to how to collect data from other providers; the general view seemed to be that this would need to come from Southern countries themselves, but that it was also important to work together to standardize data for aggregation purposes.

In concluding, participants discussed how the Task Force could contribute to measuring and presenting comprehensive data on development finance – a gap that TOSSD can help to reduce, but not close completely on its own. Since several members of the Task Force engage in data collection on financing flows from all sources, it would be well placed to provide a comprehensive view of the global development finance picture in its annual reports. This approach could also include elements, such as public finance raised on international capital markets, which are critical to track as part of public finance, but not easily added into a single metric, such as TOSSD. Such an overview would report different flows in a common framework but separately, without adding them up. It was agreed that the Task Force could consider ways to present data in a clear and concise manner, while emphasizing the differences in the role that different kinds of flows play.