Towards an indicator proposal for SDG Target 17.3

(proposal as of 14 April 2021)

Background

Target 17.3, "Mobilize additional financial resources for developing countries from multiple sources", is one of five targets under the Finance section of SDG 17, "Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development".

Two indicators were originally agreed to measure progress against this target:

1. Indicator 17.3.1 was to measure "Foreign direct investment, official development assistance and South-South cooperation as a proportion of gross national income"
2. Indicator 17.3.2 was to measure "Volume of remittances (in United States dollars) as a proportion of total GDP".

Partly because comprehensive data have not been available on South-South cooperation, it has not been possible to arrive at totals for indicator 17.3.1. Currently, the global SDG Indicators database does contain data on 17.3.2.

The tenth meeting of the Inter-Agency and Expert Group on SDG indicators (IAEG-SDGs), held in Addis Ababa in October 2019, considered a proposal for the replacement of indicator 17.3.1 by Total Official Support for Sustainable Development (TOSSD), with the OECD as the custodian agency. Alternatively, if the IAEG-SDGs deemed it relevant to maintain indicator 17.3.1 unchanged, the OECD proposed to introduce TOSSD as an additional indicator under target 17.3. There was both strong support and strong opposition to this proposal from different groups of the IAEG-SDG members, and after lengthy discussion the IAEG-SDGs agreed that a proposal to the UN Statistics Commission (UNSC) would be put forward to establish a Working Group to be tasked with refining the methodology to measure all forms of support for sustainable development. The Group, approved by the UNSC, is now expected to submit a final methodology for consideration by the IAEG-SDGs in advance of the 53rd meeting of the United Nations Statistical Commission in 2022.

Building blocks for this proposal

The Working Group has now had ten virtual meetings, from which the co-Chairs and the Secretariat derive the following lessons:

1. Numerous participants have stressed the large differences between types of flows – concessional and non-concessional; developmental and profit-seeking; official and private; grants, loans, and investments, etc. This was also highlighted in a Background Note on the Addis Ababa Action Agenda and the measurement of SDG Target 17.3. A clear view has emerged that different types of flows should not be added up into a single indicator.

2. The 2030 Agenda calls for the SDG global indicator framework to be "simple yet robust" and the IAEG-SDG's criteria for the evaluation of indicator proposals, included in the Group's Terms of Reference, state that "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". This suggests the desirability of limiting proposed indicators to those which are strictly necessary.

3. While most participants agree that both gross and net figures are desirable, there has been slightly more support for gross figures, especially as net ODA is already reported in 17.2.1.

4. While most participants agree that both recipient and donor figures would be useful, recipient figures have been considered essential. This is consistent with the focus of the Target on resources for developing countries.

5. While noting that donors' ODA outflows are already covered under indicator 17.2.1, participants have nevertheless agreed on an "Option B" which would include ODA inflows as receipts under 17.3, while "Option A" of excluding ODA did not receive sufficient support by the group. However, several participants have urged that ODA not be taken "as is", and that the indicator(s) for 17.3 could use non-ODA concepts of concessionality or (sustainable) development intention, such as those developed in TOSSD.

6. Most but not all participants favour including FDI, which many see as likely to continue to make decisive contributions to development. Ideally, participants would prefer to focus on a "purified" figure that only captured FDI that directly finances developmental activities. Work is proceeding based on such a concept, but in the meantime, UNCTAD's FDI expert has recommended that FDI should be included, based on the total figures now available.

7. In discussing International Public Goods (IPGs), participants have noted conceptual, definitional and practical issues that would need further discussion to arrive at a globally agreed measure of their developmental contributions. The co-Chairs have concluded that there is insufficient time for the Group to include IPGs in its indicator proposal for the 2022 Statistical Commission, but that the Group may make recommendations for further work on this subject.

8. A Sub-group is considering issues related to the measurement of South-South cooperation. To avoid any interference with the work of this Sub-group, the proposal below should at this stage be taken to relate only to North-South flows, whether from OECD countries or from OECD countries plus other advanced countries.

Proposal

Based on the above considerations, the co-Chairs and the Secretariat would like to make an initial proposal for indicators to measure progress against Target 17.3. They suggest that the Group recommend measuring each developing country's gross receipts of:

17.3.1 a. Official development grants

b. Official concessional development loans

c. Official non-concessional development loans

d. Foreign direct investment

17.3.2 Remittances (unchanged indicator)

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In addition, the co-Chairs (and Secretariat), would like the Group to also consider whether to include the following additional indicators (either joining the official list as 17.3.1.e and 17.3.1.f, or reportable as supplementary indicators to the global indicator database):

- Mobilised private finance

- Private grants

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The following flows are not suggested for inclusion in the indicator proposal:

- Private non-concessional loans
- Portfolio investment
- Export credits, whether official, officially-supported, or private
- Any other flows that are not within the scope of the proposed sub-indicators

The next section discusses the proposal more in detail. One should also bear in mind the operationalizing of the criteria of sustainable developments (separate note).

Explanation of the proposal

Proposed indicators:

For ***all the indicators proposed below***, it is suggested to measure flows gross, as this shows the new inflow of resources to finance sustainable development activities.

Showing flows gross has several implications. For one thing, it increases the importance of showing different types of flows separately, and not adding them up into a single indicator. This is because gross figures are the same for different types of flows with very different financial implications. Grants require no return flows; loans require repayment, usually with interest; and investments may generate profits and dividends and may or may not ultimately be sold at either a profit or a loss.

At this stage, it is suggested to show the figures in current US dollars, rather than as shares of recipients' GDP or GNI. This will facilitate production of regional and global aggregate flows for each indicator. Analysis of the indicators' progress over time may use additional measures.

It is not proposed to show figures by donor countries. The focus of the target on "resources…for developing countries" suggests that a recipient perspective is the most important. As of late March 2021, both of the reported series under 17.3 in the global database (FDI and remittances) were receipts-only. Showing donor country outflows as well as recipient country inflows would effectively double the number of indicators required, and also necessitate explanations about how the operations of multilaterals mean that donor country outflows do not equal recipient country inflows. In any case, donors' obligations and contributions are already covered by other indicators, such as 10.b.1 and 17.2.1.

17.3.1.a Official development grants: These would be grants for development purposes from either developed countries or multilateral agencies recorded in the OECD-DAC system with an identified developing country beneficiary. To ensure a focus on new developing country receipts, it is suggested to *exclude* debt relief grants, which do not involve a new flow of resources, and administrative costs not attributed to any developing country. It is also proposed to *exclude* all in-donor spending on refugees arriving from developing countries, since the benefits of this spending to developing countries themselves are not clear. However, it is suggested to *include* all technical cooperation, including training, experts, scholarships and student subsidies, even if delivered in the donor country, providing the benefiting developing country can be identified.

17.3.1.b Official concessional development loans: In the case of loans there should be no difficulty in identifying the benefiting country. Loan flows, measured gross, would cover developing countries' borrowings from both developed countries and multilateral agencies. Given the breadth of these providers, and the variety of concessionality tests they employ, it would be useful to identify all concessional loans on a consistent basis. In this respect, the IMF/World Bank test, also used in

TOSSD, would seem the most appropriate. Under this test, a loan would qualify as concessional if it embodied at least a 35% grant element, using a discount rate of 5%. The necessary information on financial terms should be available in the OECD database. Rescheduling of old loans would not be counted, as it does not produce a new flow.

17.3.1.c Official non-concessional development loans: At current very low interest rates, almost all long-term official loans to developing countries will qualify as concessional. However, if interest rates rise, many developmental loans, especially from multilateral agencies such as the World Bank and regional development banks, may no longer qualify as concessional. Yet they could still be expected to contribute substantially to development, and their terms may still be preferential as these institutions are able to raise the funds they lend to developing countries at lower cost than developing countries could raise those funds themselves. This suggests that non-concessional official loans (excluding rescheduling of previous loans) should be part of the measurement of Target 17.3. Data would again come from the OECD database.

> **Note on 17.3.1.b and c:** If the Working Group prefers a more concise proposal, these two indicators could be combined into a single indicator of gross official loans. This would obviate the need for a concessionality test, at the price of a loss of distinction between concessional and non-concessional official lending.

17.3.1.d Foreign direct investment: As already noted, the UNCTAD expert in this field advised that, while work is proceeding to isolate the share of FDI directed to productive or "greenfield" investment in developing countries, this is still at an early stage. Nevertheless, curated, high-quality aggregate FDI data can be supplied by UNCTAD for over 160 countries, and it is clear that FDI has made and will continue to make large contributions to the development of developing countries. At least as an interim measure, it is therefore proposed to include these data.

17.3.2 Remittances (unchanged)

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Other possible indicators to be included:

The co-Chairs and the Secretariat have not included the following two items in their proposal, but they invite discussion of them, since the cases for and against them are finely balanced.

Mobilised private finance (MPF): The only readily available data in this field concern mobilisation by multilateral development banks (MDBs), bilateral development finance institutions, and a number of other official bilateral agencies. Two datasets are available, using somewhat different methods. One is run by MDBs and one by the OECD. Participants who have expressed a view on this issue have generally favoured the OECD approach.

There are several arguments in favour of including MPF. For example, the fact of official support (mobilization through official interventions) will generally ensure that a developmental test has been applied and passed. Excluding MPF could be seen as discriminating against instruments such as guarantees, equity participations and mezzanine finance which have the potential to finance development more efficiently than traditional grants and subsidies. The mobility of private capital may also suggest that there should be no reservations about including private funds raised in the benefiting developing country, or other developing countries.

On the other hand, current MPF measures fail to count the much greater resources developing countries mobilize themselves through bonds, investment incentives, tax breaks, special development zones and other mechanisms. MPF may thus be minor in the "big picture" of development finance, especially if mobilisation within developing countries, or by particular instruments such as export credits or purchased guarantees, is excluded. MPF instruments are also essentially commercial, so that motives of export promotion or securing markets may be involved as well as development.

It should be noted that where MPF is an investment rather than a loan, it should in principle be included in FDI.

Private grants: These are essentially NGO and foundation expenditures for development. The total flow is substantial and private grants constitute a major source of additional financial resources for developing countries. In principle they are very likely to be directed towards sustainable development, although they may not necessarily be in line with developing countries' development strategies. However, it should also be noted that data quality and completeness is a major issue. According to recent OECD figures (Table 14 here) OECD-DAC countries reported nearly $46 billion in private voluntary grants in 2019, but the USA accounted for around 80% of this, and the UK, France and several other countries did not report. On the other hand, some large philanthropic foundations report directly to the OECD on their outflows: these totalled $8.2 billion in 2019, but not all of this relatively small amount could be attributed to countries.

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Flows <u>not</u> suggested for inclusion in the indicator proposal

The Co-Chairs have formed the view that there is probably insufficient support to include the following flows in the Working Group's proposal, but they would welcome any further discussion of them – or of other items – that members believe is desirable.

Private non-concessional lending: In principle, private bank and other private lending to developing countries may well finance sustainable development. However, its prime motivation is always commercial, and participants have pointed out that it may have negative effects. It can also take many forms, some of which may be more likely to be developmental than others. The most developmentally relevant finance may be the purchase by foreign actors of developing countries' bonds, since these provide funds for use at the discretion of the developing country itself. However, even here, the money must be returned, with interest, typically at rates much higher than those offered on official development loans.

Portfolio investment: These are placements of capital that do not imply a lasting interest in the outcome of an enterprise, as opposed to FDI which does imply a lasting interest, expressed by ownership of at least 10% of the capital. Portfolio investment is essentially profit-seeking rather than developmentally motivated, although development effects may well be present in practice. Portfolio assets have traditionally been omitted from UN coverage of developmental flows, and were already excluded in the aggregate recommended by UNCTAD II in 1968, as explained in the Background Paper for the Group's second meeting.

Export credits, whether official, officially-supported, or private: Again, the credits may well support development in practice by facilitating the importation of developmentally useful products. But the actual developmental contribution will not be known in advance, and in any case development is not the prime purpose of export credits. Their prime purpose is commercial – to support the exports of the extending country and help secure markets for the output of that country. Like portfolio investment, commercial debt was also excluded by the coverage of development flows agreed at UNCTAD II. In any case it could be argued that, since if the same item had been imported for cash, it would not have counted as development support, there is no case for so counting it merely because it is obtained on credit.

Annex: Relationship of the proposal to TOSSD

In its proposal, the Working Group has, inter alia, built on the work of the TOSSD Task Force. In particular:

- The proposal follows TOSSD's focus on recipient receipts, rather than donor outflows. This means that it will record multilateral agencies' flows to developing countries, rather than donor countries' contributions to multilateral agencies.
- The proposal focuses on countries' gross inflows, which are also the main focus of TOSSD, rather than on their net inflows, which are given priority in ODA measurement.
- The proposal uses the World Bank and IMF test to identify which loans are concessional (those that embody at least a 35% grant element using a 5% discount rate), which has also been adopted in the TOSSD methodology;
- The proposed criteria for sustainable development adopt core elements of the TOSSD proposal;
- TOSSD uses the OECD approach to measuring private finance mobilised by bilateral and multilateral agencies (MPF), rather than the approach developed by multilateral development banks. The proposal contains an option to include MPF in the indicator, observing that participants who have favoured this option generally prefer the OECD approach.

However, the proposal also diverges from the TOSSD approach in several respects. In particular, it does not add all flows together into a single total. It also does not suggest including international public goods in the indicator proposal for the 2022 Statistical Commission meeting, and it recommends excluding certain other specific items, e.g. debt relief (as not being a new flow), in-donor refugee costs (as not being a flow to developing countries) and export credits (as essentially commercially motivated).

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