

Concessional International Development and Climate Finance under FfD

Issue Brief

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This issue brief summarizes the key findings of the recently released SDSN Working Paper [Financing Sustainable Development](#) regarding opportunities to reform the current aid system. References and additional supportive evidence are provided in the Working Paper. Citations of this Issue Brief should refer to the Working Paper.

Significant public international development and climate finance will be needed to achieve the Sustainable Development Goals (SDGs). The current macroeconomic and fiscal outlook in many developed countries is unfavorable towards significant increases in Official Development Assistance (ODA). While these developed countries must meet their commitments over time, the Financing for Development (FfD) process should also broaden the provider base by including high-income countries that are not members of the OECD Development Assistance Committee (DAC), and by preparing upper-middle-income countries for their role as financial providers for global public goods and the development priorities of poor countries. To achieve this, the FfD process needs to set clear standards to improve the effective targeting and use of scarce public and concessional funds. Moreover, every effort should be made to use innovative mechanisms for generating concessional finance and to mobilize philanthropy for the SDGs.

This brief reviews practical steps towards mobilizing and targeting ODA, specifically concessional international public finance. Some of these steps are a continuation of the historic evolution of ODA, while others respond to new challenges.

AID ELIGIBILITY AND TARGETING

Today's aid does not target the poorest countries that are most in need, even if one takes into account that two thirds of the world's extreme poor now live in middle-income countries. Data from the OECD DAC shows that upper-middle-income countries receive 4-5 times as much ODA per person living in extreme poverty than the poorest countries whose GDP per capita is below \$500.

Moreover, the share of ODA going to the LDCs has been declining since 2010, while aid to upper-middle-income countries has been rising, and these trends are projected to continue. Since poorer countries have fewer domestic resources to invest in measures to end poverty, a rational allocation of aid should favor them and is needed to end extreme poverty globally by 2030.

ODA and concessional public climate finance are the most precious forms of international finance, since they can finance all manners of public goods. Unfortunately, ODA will continue to be scarce relative to demand for concessional finance, so FfD needs to consider clear standards for the eligibility and targeting of ODA.

Eligibility criteria determine which countries, and which types of projects, can qualify for ODA and other forms of concessional international public finance. The Monterrey Consensus, which the FfD process should update and broaden, rightly follows the subsidiarity principle, whereby the primacy in financing development belongs to domestic resources. In addition to financing global public goods, ODA should only be mobilized if a country's resources are insufficient to meet spending needs. For this reason, eligibility for ODA should be determined at the country level and as a function of a country's ability to self-finance necessary public investments. Since both Domestic Budget Revenues (DBR) and countries' ability to mobilize funding from private sources are functions of per capita incomes, the latter should form the principal basis for determining eligibility and graduation criteria, with due consideration paid to countries' special needs. A commonly used shorthand form of grouping countries by their ability to mobilized domestic resources is the World Bank classification of GDP per capita, expressed in 2014 income scale in purchasing-power parity:

- High-income country (>\$12,746)
- Upper-middle-income country (\$4,126-\$12,745)
- Lower-middle-income country (\$1,046-\$4,125)
- Low-income country (<\$1,045)

Yet, income per capita is a crude measure that does not take into account other factors that might reduce a country's ability to raise domestic resources or creditworthiness. Examples include small-island status and countries located in politically unstable region. We therefore propose that eligibility for ODA grants, excluding

technical assistance, be restricted to countries that are eligible for concessional lending from the International Development Association (IDA) at the World Bank. In addition, we propose to include 'blend' countries, which have higher per capita GDP but are eligible for IBRD lending, such as small island economies, among the countries eligible for ODA and concessional climate finance without any caveats, but note that a careful review of these 'blend' countries is needed to ascertain which should retain general eligibility for ODA, since some have a GNI per capita in excess of \$2500.

We further recognize and underscore that a World Bank lending criterion cannot and will not provide a long-term basis for an internationally agreed eligibility for ODA and ODA for climate (ODA-C). We therefore propose that a new Multilateral Development Finance Committee (MDFC) develop criteria that are independent from the lending standards of the World Bank or of any other Multilateral Development Banks (MDBs).

ODA for global public goods located in ODA-eligible countries fulfils a special need under the SDG agenda and should be independent of country eligibility criteria. Examples include climate change mitigation, technology development and diffusion, ecosystems and biodiversity, and pandemics, as in the case of Ebola in West Africa. An important focus of the FfD discussions must be on overcoming the artificial distinction between country-focused ODA and the financing of global public goods. Both may require concessional international (co-)financing, so International Development Finance (IDF) should fill those financing gaps that cannot be closed through domestic or private resources. However, it is critical to retain ODA as a financing tool for developing countries: public concessional financing for global public goods located in non-ODA eligible high-income countries (e.g. technology development) should be financed through Other Official Flows (OOF) and domestic public finance, instead of scarce ODA.

Targeting refers to how ODA should be prioritized among eligible countries and projects. A clear focus must be placed on the Least Developed Countries (LDCs). It is sometimes argued that current capacity constraints in the poorest recipient countries make it impossible to deliver adequate aid effectively, but this strikes us as an excuse for inaction. As demonstrated by the health sector, properly programmed aid can help build systems that, over time, can absorb rapidly growing volumes of external finance.

The long-standing commitment to provide between 0.15 and 0.20 percent of GNI in ODA to the LDCs remains unfulfilled by most providers today. The DAC Secretariat has recently proposed that every provider should allocate at least 50 percent of total aid to LDCs (compared to 32 percent in 2012), but this proposal was not adopted at the 2014 DAC High-Level Meeting. The Intergovernmental Committee of Experts on Sustainable Development Financing broadly supports this target in its report. However, for some important providers, 50 percent might be lower than the internationally agreed threshold of 0.15-0.20 percent of GNI. We therefore suggest that every provider should provide either 0.15-0.20 percent of GNI or 50 percent of ODA to LDCs,

whichever is higher. Upper-middle-income countries should aim to provide at least 50 percent of their concessional international public financing towards LDCs.

A second dimension of targeting regards the types of investments ODA should support. As a general principle, we propose that ODA be targeted towards poverty eradication and public goods that directly support the achievement of the SDGs. We support the idea of explicit poverty markers in ODA reporting that make it possible to trace the 'poverty focus' of ODA spending.

The eligibility and graduation criteria might function as follows (important caveats are described below):

- **IDA-eligible countries** are eligible for ODA. This group covers a highly diverse set of countries ranging from extremely poor countries in conflict, such as Somalia and the Central African Republic, to stable lower-middle-income countries with substantial domestic resources, such as Ghana and Mongolia. Care should be taken to ensure that, contrary to the prevailing practice, the poorest countries that are most in need of concessional public finance receive the largest per capita allocations. At least 50 percent of every provider's ODA or 0.15-0.20 percent of GNI, whichever is higher, should go towards LDCs.
- **Non-IDA eligible lower-middle-income countries** should not receive ODA in the form of grants except under special circumstances, such as countries affected by conflict, natural disasters, or other special needs such as high disease burdens. These countries should, however, remain eligible for technical assistance as well as loans from the MDBs, with interest rates that correspond to the borrowing rates of the high-income members of these institutions, plus the cost of the additional administrative burden. In effect, the non-IDA lower-middle-income members should receive a partial subsidy, not in the form of grant financing, but in the form of borrowing at a near risk-free market interest rate. Moreover, such financing can be accompanied by export and investment guarantees by national and international entities.
- **Upper-middle-income countries** have the means to finance the public investments needed for poverty alleviation and so do not require ODA. Upon request, these countries should receive modest technical assistance to support them in achieving the SDGs. They should not benefit from subsidized MDB loans or subsidized contingency lending capacity. At the same time, these countries should prepare themselves to become providers to poorer countries. As described in the caveats below, there may be exceptional circumstances under which these countries receive ODA, such as when a high infectious disease burden requires international supportive action.

- **High-income countries** should all provide ODA and climate finance, subject to the standards described in the next section. They are able to pay commercial rates for any technical assistance they may require.
- **Global public goods** should be financed according to their priority, including through ODA provided it goes to a developing country, regardless of that country's income category. Global public goods in non-ODA eligible countries require financing through IDF flows.

A few important caveats and limitations are in order. First, while we believe that clear and transparent eligibility and graduation criteria are important to use scarce public finance effectively, we recognize the need for flexibility to respond to exceptional circumstances. In particular, one needs to avoid the abrupt discontinuation of ODA, which might have adverse consequences on public finances, particularly in fragile lower-middle-income countries.

Second, while IDA eligibility is a useful criterion, it describes a lending standard that is set for different purposes by the World Bank. Over time, ODA eligibility should therefore be defined independently from the World Bank or any other MDB. We propose that a new Multilateral Development Finance Committee (MDFC) develop such eligibility criteria for ODA.

Third, in some cases, modest grant funding should be made available to non-IDA middle-income countries to help address special needs of vulnerable populations or challenges that might pose a risk to neighboring countries, such as a high infectious disease burden. For example, the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) has been very successful in addressing infectious diseases in several high-income countries. It allocates some 17 percent of total resources (including 'incentive funding') from the latest replenishment round to countries with incomes in excess of \$2000 PPP per capita. One reason for this relatively high allocation to non-IDA countries is that pooled financing mechanisms like the GFATM have a greater ability to work in middle-income countries. However, grant funding to upper-middle-income countries that have the domestic resources to finance the SDGs should be used sparingly and as a last resort, so as to avoid problems of 'moral hazard' whereby domestic responsibilities are offloaded to the international community.

Fourth, the proposed eligibility and graduation formula does not cover technical assistance, which should continue in all developing countries that request it. Well-designed technical assistance can make important contributions in middle-income countries.

Finally, these graduation criteria do not imply an automatic provision of ODA and public development finance. Where private finance can replace public funding (e.g. for an infrastructure project), the former should usually take precedence. Likewise, recipient countries need to mobilize domestic resources and demonstrate that they can use incremental aid effectively.

HONORING EXISTING ODA COMMITMENTS

High-income countries that are part of the DAC need to honor their existing commitments to provide 0.7 percent of GNI as ODA. Currently, DAC members provide 0.3 percent of GNI on average with only Denmark, Luxembourg, Norway, Sweden, and the UK reaching or exceeding the 0.7 percent threshold. Notably, the highest share of ODA is provided by the United Arab Emirates, a non-DAC member who provided 1.25 percent of GNI in 2013.

If all DAC members had reached the agreed 0.7 percent threshold in 2013 an additional \$184 billion would have been mobilized. At current DAC members' GNI, each ODA increase by 0.1 percentage points yields an additional \$45 billion per year. In the short term, the fiscal crisis in many high-income countries will make it difficult for this group of countries to achieve this target. Therefore, we propose that FfD adopt a medium-term target that each country cut by half the gap to 0.7 percent by 2020 at the latest. If countries that have already reached the ODA target stay at the same level, such a medium-term, halve-the-gap target would increase ODA by \$94 billion to some \$229 billion.

EXPANDING THE PROVIDER BASE TO INCLUDE NON-DAC COUNTRIES

The FfD process should consider opportunities for expanding the provider base, particularly for pooled financing mechanisms. While most DAC members have contributed to the GFATM, the Vaccine Alliance (Gavi), and/or the latest replenishment round of the Global Environment Facility (GEF-5), overall participation rates in pooled financing mechanisms from non-DAC high-income countries are low. The volumes of disbursements to pooled financing mechanisms have been modest in relation to most contributing middle-income countries' GNI, even though a number of middle-income countries have demonstrated their commitment to effective aid by participating in pooled financing mechanisms. Given that many non-DAC high-income countries are relatively small, their modest volumes of aid come with relatively high transaction costs. This makes pooled financing mechanisms a particularly important and attractive disbursement channel.

Other high-income countries that are currently not part of the DAC should contribute at the same level of concessional international public finance (expressed in percent of GNI) and with similar transparency as the members of the DAC. Such financing includes both ODA as well as concessional 'South-South Cooperation'. There is simply no reason why high-income countries whose per capita GNI is much higher than that of some DAC members do not contribute their fair share. If all non-DAC high-income countries honored the same commitments as DAC members, they would contribute between \$22 billion (at 0.3 percent of 2013 GNI, i.e. the average performance of DAC members) and \$37 billion (at 0.7 percent of 2013 GNI) ODA disbursements for 2013 by the OECD DAC.

FfD should establish as a principle that every upper-middle-income country (UMIC) contribute a fair share in international public financing towards the shared SDGs, in preparation for these countries becoming high-income countries themselves. We propose that a minimum threshold of 0.1 percent of GNI be established for concessional international public finance, which corresponds to \$20 billion in development finance using 2013 GNI. Note that only a share of this financing would be incremental, since Brazil, China, India, and Thailand provided an estimated \$3.6 billion in net concessional public financing during 2011, which is equivalent to some 0.03 percent of their GNI. Such a standard would be particularly important for China, which may become a high-income country in 2020, some ten years before the target date for the achievement of the SDGs.

Most UMICs are already providing rapidly growing volumes of public development finance, often referred to as South-South Cooperation. Brazil, China, and other UMICs play an important role, particularly in Africa and in sectors that do not receive adequate funding from traditional DAC providers, such as transport and power infrastructure. As a result, they have made important contributions to the recent growth spurts in many African countries. We are very hopeful that the Asian Infrastructure Investment Bank and the New Development Bank recently announced by the BRICS countries will provide much-needed financing at scale to infrastructure and other project types across low-income and lower-middle-income countries.

Increasing aid commitments from non-DAC countries must go hand in hand with more transparent reporting, which is currently lacking. The current state of reporting contributes to a sense among some analysts that this financing may be of insufficient quality.

We recognize that for many reasons, many non-OECD provider countries may not sign up to the DAC, which they regard as an OECD-governed institution. The International Aid Transparency Initiative (IATI) has filled some of the gaps by involving a broader range of stakeholders. Still, we see an important case for a new Multilateral Development Finance Committee (MDFC) that shares governance among all provider countries, as well as recipient-country governments and other stakeholders. Such a new mechanism should be a major outcome of the FfD process.

MOBILIZING PRIVATE PHILANTHROPY: A GIVING PLEDGE FOR THE SDGS

Private wealth can make a very substantial contribution towards financing the SDGs. Current levels of private giving have been estimated at \$60-70 billion per year, representing nearly half of official ODA disbursed by all DAC members. While this high number is somewhat doubtful, and probably inflated, the actual sums are no doubt significant.

One avenue to mobilize further philanthropic funding is the Giving Pledge, announced by Warren Buffet and Bill and Melinda Gates in 2012. It aims to convince billionaires to donate at least half their net wealth for charitable causes, including development aid. The Giving Pledge has since secured some 127 pledges from 12 countries, reaching an estimated \$250 billion. According to Wealth-X, there were 2,325 billionaires worldwide in early 2014 owning some \$7.3 trillion in assets. If half the world's billionaires signed the Giving Pledge and donated half their wealth, this would yield around \$1.8 trillion in assets. Assuming further that only 20 percent of these billionaires commit their wealth to achieving the SDGs, this would yield an annual flow of \$18 billion in perpetuity at a 5 percent annual pay-out. These numbers could be significantly higher if other ultra-high-net-worth individuals owning less than \$1 billion in assets were included.

A central principle of giving for the SDGs should be to support existing institutions where possible. Signatories of the Giving Pledge could be encouraged to channel their resources through the major multilateral pooled financing mechanisms that will be at the center of successful goal-based public-private investment partnerships for the SDGs. Alternatively, they can scale up efforts of other successful philanthropies, just like Warren Buffet decided to channel his giving through the Gates Foundation.

To achieve the greatest impact possible, these funders need to consider creative ways of investing. The Gates Foundation has used flexible and results-based funding to support a vibrant ecosystem of advocacy and research institutions in health. Other major philanthropists could do the same in education, water and sanitation, biodiversity, or other public-private investment challenges. In addition, efforts must be increased to include these private flows in reporting on international aid. Private philanthropists should follow the example of the Gates Foundation, which reports its funding using DAC standards.

INNOVATIVE MECHANISMS FOR MOBILIZING CONCESSIONAL FINANCING

Several new innovative mechanisms for mobilizing greater volumes of concessional financing have been explored by the Landau commission, the High-level Advisory Group on Climate Change Financing, and many others. Many different mechanisms have been proposed, including taxes on key sectors (e.g. aviation, maritime shipping), taxing tobacco use, lotteries, financial transaction taxes, taxing assets held in offshore tax havens, voluntary contributions, payments for ecosystem services, or various forms of leveraging public balance sheets, such as the creation of additional IMF Special Drawing Rights. Yet, today the potential of innovative resource mobilization mechanisms remains largely untapped. They mobilize \$2 billion per year: a significant amount but one that pales in comparison with total ODA of \$127 billion in 2012.

Two headline categories of innovative mechanisms for resource mobilization stand out as having the greatest potential: (i) direct or indirect taxes on greenhouse gas emissions and key emitting sectors (e.g. aviation, maritime

shipping); and (ii) financial transaction taxes. Other innovative mechanisms can make important contributions towards raising resources for specific uses, but they will play a marginal role in the overall picture of development finance. We discuss the former in the following section, and focus here on financial transaction taxes.

The discussion on financial transaction taxes has a long history. Following the 2008 financial crisis a growing number of economists believe that such taxes may be feasible on a regional or national basis, and that they could contribute to the stability of the financial system while mobilizing substantial resources. Naturally, other economists disagree with these assertions. This brief is not the place to discuss whether financial transaction taxes can increase the stability of the financial system, so we focus on their revenue-generating potential.

The EU is currently discussing the introduction of a small levy on financial transactions among 11 of its members (including France, Germany, Italy and Spain), and has postponed its decision to January 2016 for reaching an agreement. The first phase of this tax would see a levy of 0.1 percent (some suggest up to 0.5 percent) applied to transactions in shares, and a much lower rate (less than 0.01 percent and adjusted by type of asset and maturity) applied to certain categories of derivatives. Further phases of the tax would extend the levy to bonds and other derivatives. The EU Commission estimates that a broad-based tax may generate some €34 billion per year for national governments, and the French Government has suggested that a portion of this should be devoted to providing climate finance and ODA. Based on this example, it seems reasonable to assume that a financial transaction tax introduced in key markets might generate some \$50 billion annually in ODA or concessional climate finance flows. Of course, the actual sums could be much higher if all countries adopted such a tax, but this seems unlikely at present.

MOBILIZING OFFICIAL CLIMATE FINANCE

Developed countries have pledged \$100bn in additional climate finance by 2020 and cumulative fast-start finance of \$30bn from 2010 through to 2012. According to their own reporting, developed countries have exceeded the fast-start climate finance goal by some \$5bn, but much of this finance was neither new nor additional. Some 80 percent of fast-start finance was also reported as ODA, thus undermining the notion that climate finance would be additional to development finance. As reported by Climate Policy Initiative (CPI), overall climate finance flows flat-lined in 2012 at some \$358 billion, far below even the most conservative estimates of investment needs.

The FfD process, in coordination with the UN Framework Convention on Climate Change (UNFCCC) negotiations, will need to identify how additional official climate finance of some \$100 billion annually can be mobilized and leverage additional private investment flows (enabled of course by supportive policies including an adequate 'price on carbon'). Climate finance needs to co-finance adaptation measures for which there is no market, research, development, demonstration and diffusion (RDD&D) for clean technologies, and developing countries'

efforts on mitigation and adaptation. Unless substantial volumes of additional climate finance are mobilized, it is difficult to see how a global agreement to achieve 2°C can be reached or implemented.

Currently, climate finance negotiations in the UNFCCC have yet to converge on transparent standards for levying climate finance. We believe that an assessment-based approach for mobilizing climate finance should be considered, even though this is not aligned with the bottom-up pledging rounds for climate finance and contributions to the Green Climate Fund (GCF) that are currently pursued under the UNFCCC. The motivation for an assessment-based approach are threefold: (i) curbing climate change is a global public good that requires fair and transparent resource mobilization in order to reduce the risk of free riding; (ii) an assessment-based approach can consider the large differences within the groups of developed and developing countries, and (iii) the distribution of per GDP as well as per capita greenhouse gas emissions is likely to change substantially in coming decades. A dynamic assessment formula provides a clear and transparent framework for periodically updating countries' contributions to climate finance.

An assessment-based resource mobilization model for climate finance, and the GCF in particular, could be based on a country's per capita level of income (suitably adjusted for special needs) and its greenhouse gas emissions. The combination of these two criteria will help ensure that all countries contribute towards climate change mitigation and adaptation based on their ability to pay and their contributions towards global emissions. Financing would then be determined through annual 'assessed contributions' using the following formula:

$$\text{Assessed climate finance contribution} = \text{GDP Factor} \times \text{CO}_2 \text{ Emissions} \times \text{CO}_2 \text{ Assessment Rate}$$

IDA eligibility provides a useful expansion of a straight GDP factor since it takes into account countries' special needs. Using such an expanded definition, the GDP Factor (as of 2014) might be as follows:

- High-income country (>\$12,746): 1.0
- Upper-middle-income country (\$4,126-\$12,745): 0.5
- Non-IDA lower-middle-income country (\$1,046-\$4,125): 0.10
- Low-income country (<\$1,045) and IDA lower-middle-income countries: 0.0

The Assessment Rate is expressed in \$/ton of CO₂. If one assumes for illustration that some \$33 billion would need to be raised every year in public concessional financing, then the appropriate level of assessment is some \$2 per ton of CO₂ emission at today's levels of greenhouse gas emissions. The assessment rate could be fixed every five years to produce the targeted funding stream. Of course, the values of these parameters are illustrative only and can be revised as necessary.

We propose that resource mobilization be based on consumption-based estimates of greenhouse gas emissions, which assign greenhouse gas emissions related to the export and import of products to the country where the goods are consumed. Such consumption-based estimates probably provide a truer picture of a country's carbon footprint by shifting a larger share of the financing to countries that import commodities and energy-intensive products. Practically, such an assessed contribution could be collected in the form of a carbon levy from the fossil fuel industry (akin to levies on cigarettes imposed on the tobacco sector). Alternatively, they could be financed out of a country's general tax revenues.

The dramatic fall in oil prices observed over the last twelve months provides a tremendous opportunity for introducing carbon levies. High-income countries can use this opportunity to scale back fossil-fuel subsidies and introduce dedicated carbon pricing mechanisms to mobilize resources for domestic mitigation and adaptation efforts as well as, crucially, establish a recurrent resource mobilization channel for ODA-C and the GCF in particular. Even if the volumes of GCF funding mobilized through such means are modest at first, establishing such resource mobilization mechanisms will send a powerful signal of countries' commitment to mobilizing long-term climate finance. Moreover, the introduction of fossil fuel levies to support the GCF will establish a precedent that other countries can be encouraged to follow, and, once in place, resource mobilization can be increased in line with needs by adjusting the tax rates.

IMPROVED REPORTING AND MONITORING OF INTERNATIONAL DEVELOPMENT FINANCE FLOWS

Transparency and effective monitoring are central to ensure that commitments to mobilize resources are honored, and to build the trust that is needed for the international partnership to achieve the SDGs and the climate objectives. While there have been significant improvements in the way aid and climate finance are monitored, notably thanks to the work of the OECD DAC, the IMF/World Bank, the International Aid Transparency Initiative (IATI), and numerous civil society organizations (CSOs), including CPI for climate finance and DATA for ODA, today's monitoring and reporting systems for public international finance are deficient in six ways:

- 1. Insufficient transparency and major gaps in the monitoring of aid and concessional financing:** Efforts by the OECD DAC combined with the launch of the International IATI in 2008 have led to a step-change in the availability of timely, forward-looking and comprehensive data on aid. Since 2011, nearly 300 organizations have published information in IATI's common, open data format. Yet, transparency is not improving fast enough, and to date only a minority of providers is on track to fully meet their IATI commitments agreed upon at the 2011 Busan High-Level Forum on Aid Effectiveness. The 2014 Aid Transparency Index shows that many providers, particularly bilateral ones, still have poor or very poor aid transparency. Under FfD, all providers should fully implement IATI and extend them to the monitoring of

climate finance. While South-South Cooperation, including aid from non-DAC high-income and upper-middle-income countries, is expanding, data from emerging providers is at best patchy.

The need for South-South Cooperation providers to “continue to improve the availability of information on the scope, results and impacts of their cooperation actions” was noted in the consensus communiqué from the High-Level Meeting of the Global Partnership for Effective Development Co-operation held in Mexico. Although some non-DAC providers make data available to the DAC, others voice concerns about joining DAC mechanisms that are dominated by ‘traditional providers.’ The DAC is working with non-DAC providers to improve reporting (any provider of aid is invited to participate in the DAC Working Party on Development Finance Statistics), but better systems are needed. One option is to expand the work of the DAC to cover non-DAC providers, another is to further develop the IATI standard to fully capture South-South Cooperation, and a third would be to create a new Multilateral Development Finance Committee (MDFC) that works with the UNFCCC and builds on the DAC and IATI, but has a broader governance model to address the needs of non-traditional providers (see below).

- 2. Unclear and potentially self-serving standards on what to count as aid:** Since today’s definition and reporting on public international finance are provider-led, it is not surprising that despite valiant efforts by the DAC secretariat, today’s aid reporting comprises categories that should perhaps not be included under ‘aid.’ Examples include some flows that are essentially commercial in nature; some military and security-related expenditure; spending on refugees in developed countries; imputed costs for students from developing countries studying in provider countries when there is no expectation that these students will return to their countries of origin; the accounting of debt relief at face value; or the non-consideration of debt repayments from countries that have graduated from ODA. Moreover, significant shares of ODA are double counted as ‘climate finance’, which undermines the spirit of the Cancun agreement. On the flipside, current definitions of ODA are seen as discouraging the use of risk-mitigation instruments.

These issues of definition and additionality of ODA, as well as the counting of other official non-ODA flows, have been raised repeatedly by the DAC Secretariat, which has proposed ways to address them. The 2014 DAC High-Level Meeting adopted a number of recommendations and principles, including (i) counting only the grant element of development finance as ODA; (ii) clearer standards for assessing concessionality of loans; and (iii) a complementary measure of Total Official Support for Sustainable Development. These are significant reforms, but more must be done in the run-up to FfD to improve the standards for what counts as aid, drawing inter alia on the emerging IATI standards for official flows.

3. Unclear standards on what to count as climate finance: Data on climate finance from developed countries is collected through the same system as ODA using the DAC's 'Rio Markers' to identify climate finance. Unfortunately, common, transparent definitions of the 'additionality' of climate finance largely do not exist. As a result, few recipient countries trust providers' assertions that they are on track towards meeting their climate finance commitments.

Care must be taken in defining additionality since many climate projects offer significant socio-economic benefits beyond reducing greenhouse gas emissions or adapting to climate change. In other words, climate finance is broader than just financing climate change mitigation or adaptation. It is therefore important that definitions of additionality for climate finance agreed under the UNFCCC do not adopt a narrow view on how the resources can be spent since this might divert funding from highly meritorious initiatives that have non-climate co-benefits. So, even though climate finance operates under the responsibility of the UNFCCC, it is important to coordinate standards for reporting and additionality with ODA standards in order to increase coherence and avoid double-counting.

4. Insufficient recipient reporting: Today's monitoring of aid and climate finance flows depends on reporting from aid providers and should be complemented by systematic recipient reporting. Since aid can be provided to many different actors (governments, CSOs, consulting companies, etc.) and in different forms, most developing countries cannot quantify aid flows, and we do not really know exactly how much aid is transferred to developing countries. Where recipient countries have conducted detailed assessments of ODA, their numbers often do not match the provider reporting provided through the DAC.

Genuine 'double entry' bookkeeping by providers and recipients alike will help identify such discrepancies in reporting; help address issues of aid fragmentation, provider coordination, and predictability of aid commitments; promote a dialogue on what to count as aid; and improve public financial management in recipient countries. Similar questions of recipient reporting will also need to be addressed for climate finance under the UNFCCC.

To the extent possible, such recipient reporting should be based on existing systems to minimize transaction costs. Promising candidates are national Aid Management Systems (AIMS) that capture incoming flows in most recipient countries. Yet, AIMS currently rely on the manual input of data provided in-country by providers. This data is often not supplied in a timely manner and tends to be insufficiently forward-looking to support recipient budget and planning processes. IATI has successfully piloted automated data exchange with AIMS. Such automatic import of IATI data into national systems should eliminate the current discrepancies between provider and recipient systems.

- 5. No effective monitoring of financing commitments made by provider countries:** With the exception of the important contributions made by leading CSOs, there is no systematic follow-through on commitments made to raise ODA or climate finance. The discrepancy between developed country financing commitments made in various fora and actual disbursements is high, and no formal system exists to raise alarm when commitments are not honored.
- 6. Inadequate tracking of private finance:** In spite of the importance of private finance in financing the SDGs, data and standards for tracking private financial flows are poor. The OECD DAC has recently started some technical work on possible standards for defining and tracking PFM. This work remains at an early stage, but it forms a promising basis to develop global standards for tracking PFM, ideally under the proposed Multilateral Development Finance Committee (MDFC).

Given these limitations of current IDF reporting and monitoring, FfD should consider how to strengthen and expand reporting on IDF flows, for the benefit of all countries. As part of the 'data revolution' for the SDGs, FfD should commit to a major effort on the reporting of IDF to address these shortcomings, in a way that includes both DAC and non-DAC members.

Building on the work of the UNFCCC, the DAC, and IATI, a new Multilateral Development Finance Committee (MDFC) should be established. Such a mechanism would build on existing data collection mechanisms and be a forum for development financing among all provider and recipient countries, both DAC and non-DAC members. It would monitor not only official flows but also private flows that are directed at SDG-related activities and sectors.

In particular, it should (i) establish clear standards for reporting and additionality of ODA, ODA-C, other concessional international public finance, Other Official Flows (OOF), Private Finance Mobilized (PFM), and other development finance flows; (ii) consolidate data on IDF flows from all major official and non-official providers, as well as recipient countries; (iii) inventory assessments of investment needs to achieve the SDGs at national, regional, and global levels, and determine the adequacy of resource flows to meet these investment needs; and (iv) track and monitor financing commitments made at international conferences.