

Development in Brief



No. 3, 28 January 2015

"TOSD": A new measure for official development finance

Author: Simone Sieler

Editor: Clara-Luise Weichelt

The context in which international development co-operation takes place is changing. The group of developing countries is changing and their needs are becoming increasingly diverse. The range of development policy instruments that are available is becoming more diversified as a result. By implementing the "Sustainable Development Goals (SDG)" the global development agenda will be renewed and broadened this year. At the same time, the number of parties involved in international development cooperation is constantly growing, and the international flows of capital (both official and private) are higher than ever.

Some of these capital flows consist of Official Development Assistance (ODA). These payments are included in the OECD's statistics on ODA. ODA comprises grants and soft loans issued by donor countries to developing countries to promote their economic and social development. ODA is currently the only internationally recognised and politically important benchmark for development finance, and is mainly used to compare donors' efforts (including using the 0.7% target). Despite rising figures in absolute terms, in comparison to other sources of financing ("new" donors, private foundations, foreign direct investment, remittances etc.) ODA has become far less important as time has passed. While more than 50% of the net capital flows from DAC countries to developing countries were made up of ODA in 1970, today the figure has fallen to below 20%.

TOSD is intended as a modern measure of development finance in addition to ODA

The changing context of development co-operation raise the question of whether the existing definition of ODA should be kept, narrowed or broadened. The DAC countries

recently came to a seminal decision in this respect: the way that ODA is calculated will be improved, but the definition of ODA is to remain essentially the same. At the same time, a new measure called TOSD ("Total Official Support for Sustainable Development") is to be defined that takes better account of the changing context of development co-operation and includes the perspective of the recipient countries.

Differences between ODA and TOSD

No precise definition of TOSD has yet been provided. The definition is to be discussed at the UN's third International Conference on Financing for Development in Addis Ababa in July 2015, and finalised at the meeting of DAC ministers in February 2016 once the new target agenda has been ratified in September 2015. However, the DAC member countries have already set out the following general points:

1) TOSD covers all payments that promote or facilitate sustainable development (SDG)

Unlike ODA, TOSD is to be consistently based on the broader spectrum of sustainable development goals linked to the post-2015 development agenda, or in other words systematically record all measures aimed at financing economic, social and ecological development in developing countries (including Global Public Goods such as peace, biodiversity and climate).

2) Comprehensive inclusion of all types of instruments of official financing

TOSD is intended to reflect the entirety of all official financing provided to developing countries (or multilateral institutions) as much as possible. This is independent of the type of instrument used for financing as a matter of principle, which means that equity investments, mezzanine financing, structured

funds and guarantees are included in addition to grants and loans. While ODA will primarily remain a benchmark for donors' efforts, and therefore only include grants and the grant-like components of other financing instruments, TOSD aims to measure donors' gross contribution to covering recipients' financing needs (independent of the terms of financing or levels of concessionality).

Purely private flows of financing, on the other hand, will not be included in TOSD, firstly because the volumes and development policy objectives are difficult to assess and secondly because they are largely beyond direct political control. The treatment of officially mobilised private flows (for example by means of guarantees) is still undecided. If possible, these flows should also be reported but separately presented.

3) TOSD should be acceptable to all donors as a common reporting platform

Some non-DAC countries have a different concept of international development cooperation compared to the traditional DAC countries that is based more on mutual benefit than assistance. As a result they do not report to the OECD in accordance with the ODA standards, which means that the ODA statistics only paint an incomplete picture. The definition of TOSD is to be as free from ideology as possible and adaptable to any country in order to allow an almost complete picture of official development finance from the perspective of the recipient.

Does TOSD stand a chance?

With TOSD, the OECD has introduced an interesting indicator for the monitoring of SDG financing into the discussion. Whether or not TOSD can fulfil this role will mostly depend on whether a consistent and clear definition can be agreed on beyond the group of DAC donors at the level of the UN, as well as the extent to which the international community wants to lend political weight to the indicator by defining quantitative parameters. ■