THE DEVELOPMENT ASSISTANCE COMMITTEE:
ENABLING EFFECTIVE DEVELOPMENT

15-16 December 2014, OECD Conference Centre, Paris

DAC HIGH LEVEL MEETING

FINAL COMMUNIQUÉ

16 December 2014

1. We, the members of the OECD Development Assistance Committee (DAC), convened at high level in Paris on 15-16 December 2014. We welcomed the five new members who have joined the Committee since our last High-Level Meeting in 2012: the Czech Republic, Iceland, Poland, the Slovak Republic and Slovenia. We also welcomed the United Arab Emirates as the first country beyond the OECD membership to become a Participant of our Committee. The International Monetary Fund, the World Bank, the United Nations Development Programme, the Inter-American Development Bank and non-DAC OECD members – Chile, Estonia, Hungary, Israel, Mexico and Turkey – participated in our deliberations.[1]

2. We have witnessed tremendous development progress over the past 15 years. Globally, extreme poverty has been halved, substantial progress has been made toward reaching gender parity in school enrolment at all levels and in all developing regions and child mortality has been halved as has the proportion of people without access to safe water. Yet the job of ending global poverty is unfinished, and we encounter continued instability and conflict, humanitarian crises and rising inequality. Addressing all these challenges in a sustainable way requires a renewed global partnership for development.

3. We met as the world prepares the ground for the post-2015 agenda, an ambitious global framework for achieving inclusive, sustainable development for all. Three decisive events taking place next year will sharpen the vision and clarify the means of implementation underpinning this agenda: the Third International Conference on Financing for Development, the United Nations Summit for the Adoption of the Post-2015 Development Agenda, and the 21st Conference of the Parties on the United Nations Framework Convention on Climate Change.

4. As we shape the new sustainable development goals for the post-2015 era, we want to ensure our contributions make the difference that is needed. We invite the OECD to fully use its interdisciplinary expertise to support members and partners as they design and implement the range of policies needed to achieve these goals in all countries. This new set of goals will require both financial and non-financial means and efforts. As regards the financing challenge, a wide array of domestic and international resources – both concessional and commercial in nature – needs to be mobilised from public and private sources and from all providers. These different resources must also be used effectively, drawing on their respective comparative advantages. In this context, we welcome relevant efforts from across the OECD on development finance, including in the areas of taxation and investment. We consider that improving global access to reliable statistics regarding all these resources will be essential for all stakeholders, including developing and provider countries, to optimally plan, allocate, use and account for development resources. Reliable statistics will also facilitate national, regional and global transparency and accountability.

---

[1] Representatives from OECD accession countries, Colombia and Latvia, as well as from Brazil, China, Croatia, India, Indonesia, and South Africa also attended the DAC High Level Meeting as observers. Also present were representatives of the Arab Co-ordinating Group Institutions, the co-chair of the Global Partnership for Effective Development Co-operation (Malawi), the co-facilitators of the July 2015 Third International Conference on Financing for Development (Guyana and Norway), the OECD Business and Industry Advisory Committee (BIAC), the OECD Trade Union Advisory Committee (TUAC), and the Bill and Melinda Gates Foundation.

5. OECD DAC statistics on development finance are a global public good that informs policy choices, promotes transparency and fosters accountability. Following a mandate that we adopted at the 2012 High Level Meeting, we began work to modernise our statistical system, measures and standards to ensure the integrity and comparability of data on development finance and create the right incentive mechanisms for effective resource mobilisation. We have today taken stock of progress achieved in this regard, and have taken decisions in a number of areas.

6. Official Development Assistance (ODA) will remain a crucial part of international development co-operation in implementing the post-2015 agenda, particularly for countries most in need. We also acknowledge the important role of international private flows. Domestic resources, however, will continue to be the main pillar of development finance for the broad majority of developing countries.

7. We note that despite challenging fiscal circumstances in many OECD countries, we have maintained high levels of ODA – which reached an all-time high of USD 134.8 billion in 2013. We reaffirm our respective ODA commitments, including those of us who have endorsed the UN target of 0.7 per cent of Gross National Income (GNI) as ODA to developing countries, and agree to continue to make all efforts to achieve them.

8. We also agree to allocate more of total ODA to countries most in need, such as least developed countries (LDCs), low-income countries, small island developing states, land-locked developing countries and fragile and conflict-affected states. We have agreed today to commit to reversing the declining trend of ODA to LDCs. Those members who have committed to the specific UN target of 0.15-0.20 per cent of GNI as ODA towards these countries reconfirm their commitment. We underscore the importance of collective action and individual steps to better target ODA towards countries most in need (See Annex 1). We will monitor progress in line with each member's commitments through the OECD peer review process, and additionally on an aggregate DAC level at our senior level meetings.

9. In line with the 2012 High Level Meeting mandate, we have carefully examined how the ODA measure could be strengthened to reflect the nature of today's development co-operation and to better address current and future development challenges, while maintaining its core character. We remain committed to maintaining the integrity of the ODA definition and further strengthening transparency regarding its measurement and use, including through defining clearly concessionality and updating the reporting guidance on peace and security expenditures. We also recognise that ODA can help bring in private investment to support development, and that it is essential to capture the breadth of official support provided to developing countries.

10. While most ODA is provided in the form of grants, concessional loans form an important part of the measure. However, differences have developed in the way members interpret the unclear "concessional in character" criterion of the ODA definition. We therefore agree to modernise the reporting of concessional loans to make it easier to compare the effort involved with that in providing grants, by introducing a grant equivalent system for the purpose of calculating ODA figures. This means that under the new reporting system, ODA credit counted and reported will be higher for a grant than for a loan. Furthermore, among loans which pass the tests for ODA scoring, more concessional loans will earn greater ODA credit than less concessional loans. Alongside reporting on a grant equivalent basis, ODA figures will continue to be calculated, reported and published on the previous cash-flow system. This means that data on actual disbursements and repayments of loans will continue to be collected and published in a fully transparent manner.

11. We have further decided to assess concessionality based on differentiated discount rates, consisting of a base factor, which will be the IMF discount rate (currently 5%), and an adjustment factor of 1% for UMICs, 2% for LMICs and 4% for LDCs and other LICs. This system, combined with a grant equivalent method, is expected to incentivise lending on highly concessional terms to LDCs and other LICs. To ensure that loans to LDCs and other LICs are provided at highly concessional terms, only loans

with a grant element of at least 45% will be reportable as ODA. Loans to LMICs need to have a grant element of at least 15%, and those to UMICs of at least 10%, in order to be reportable as ODA.[2]

12. Consistent with our commitment to pay particular attention to debt sustainability when extending loans to developing countries, we agree that loans whose terms are not consistent with the IMF Debt Limits Policy and/or the World Bank's Non-Concessional Borrowing Policy will not be reportable as ODA. We request the WP-STAT to prepare the revised Reporting Directives, in accordance with our agreement further detailed in Annex 2, for endorsement by the DAC by the end of 2015.

13. We recognise the importance of strengthening private sector engagement in development and we want to encourage the use of ODA to mobilise additional private sector resources for development. We recognise that the present statistical reporting system does not fully reflect the changing way in which members are engaging with the private sector, nor does it incentivise innovation. We take note of progress already made in developing a modern taxonomy of financial instruments, and methodologies to measure private sector resources mobilised, for example through guarantees. We agree to urgently undertake further work to reflect in ODA the effort of the official sector in catalysing private sector investment in effective development. In doing so, we will explore further the institutional and instrument-specific approaches that have been developed by members, and potentially other approaches, with the aim of concluding at our next meeting. We will continue to collaborate with agencies with special expertise in this field, such as donors' Development Finance Institutions and other bilateral institutions that use private-sector instruments, and similar multilateral institutions.

14. The development agenda is becoming broader. It is therefore important to recognise and further incentivise the efforts that are being made above and beyond ODA. Accordingly, we agree to continue to develop the new statistical measure, with the working title of Total Official support for Sustainable Development (TOSD). This measure will complement, not replace, the ODA measure. It will potentially cover the totality of resource flows extended to developing countries and multilateral institutions in support of sustainable development and originating from official sources and interventions, regardless of the types of instruments used and associated terms. (See Annex 3). The components of this measure have been discussed and will be refined, working with all relevant stakeholders, in the lead-up to the Third International Conference on Financing for Development in Addis Ababa. Its ultimate parameters will be clarified once the post-2015 agenda has been agreed. We will also collect data on resources mobilised by official interventions from the private sector using leveraging instruments such as guarantees. We support continued work to establish an international standard for measuring the volume of private finance mobilised by official interventions and want to explore whether and how this could be reflected in a new measure.

15. Supporting developing countries to optimally use the increased diversity of funding sources that they can access today will be important. The transparency of resource flows reaching developing countries plays a role in enhancing the effectiveness of development co-operation. We will therefore strengthen our dialogue with developing countries to ensure that our statistical system contributes to meeting their information and planning needs. Further, we will continue to develop our systems for measuring resource inflows to developing countries, building on our longstanding work with country programmable aid.

16. Recognising that building peaceful and inclusive societies will be an increasingly important part of the development agenda, we will generate greater political momentum in support of peacebuilding and statebuilding efforts. We agree to further explore how support in this area could be better reflected in our statistical system through a possible broader recognition in TOSD, and through updating ODA reporting instructions. In doing so, we will ensure that the main objective of ODA remains the promotion of the economic development and welfare of developing countries. We aim to complete this work in time for our next meeting.

[2] One member is not able to agree at this stage to apply the thresholds for LMICs and UMICs.

17. We have come some distance in our efforts to upgrade and modernise our statistical systems and tools in order for them to contribute to monitoring the financing framework underpinning the post-2015 agenda. By implementing these changes, we reaffirm our commitment to remain the centre of excellence of high-quality statistics on official development finance. We will explore ways of engaging more systematically with other stakeholders (e.g. partner countries, other providers of development finance, foundations, civil society, private sector, the United Nations and other international organisations) in the further development and use of our statistical system, measures and standards. We welcome the reporting of development co-operation data from an increasing number of sovereign states beyond DAC members (such as European Union Member States, Israel, Kuwait, Liechtenstein, the Russian Federation, Saudi Arabia, Thailand, Turkey, and the United Arab Emirates) as well as other development actors (including the Bill and Melinda Gates Foundation and more than 30 multilateral institutions), and encourage other providers to follow their example.

18. We strongly support the work of the Global Partnership for Effective Development Co-operation (GPEDC), agreed in Busan, as a leading international policy platform and a hub to "share, support and spread development success", including through the contribution of voluntary initiatives and building blocks. We believe the GPEDC's flexible, multi-stakeholder, action-focussed approach means that it can play a useful role in helping to implement the post-2015 agenda. We stand ready – with other international fora such as the Development Cooperation Forum – to drive efforts at the international level to anchor the quality of co-operation and the development effectiveness principles in the post-2015 agenda, and at country level to foster learning and exchange of experience in achieving sustainable development results. We reaffirm our existing aid and development effectiveness commitments and resolve to further engage with other providers. We note that a strengthened GPEDC monitoring framework can be a useful tool to measure and report on progress in support of future efforts to implement the post-2015 agenda at developing country level.

19. We look forward to actively contributing to the UN-led process to shape the ambitious post-2015 agenda, and the renewed global partnership to support its implementation, including the future accountability and monitoring system. We will engage with international, regional and local initiatives and actions for a successful outcome of the decisive meetings in 2015.

20. We will reconvene end-2015/early-2016 to take stock of progress in implementing the decisions we have taken today, and in carrying out additional analytical work to bring to closure our effort to modernise the DAC statistical system for the post-2015 era.

Annex 1: Measures to improve the targeting of aid to countries most in need

1. We, DAC members, agree to allocate more of total ODA to developing countries most in need, such as least developed countries (LDCs), low-income countries, small island developing states, land-locked developing countries and fragile and conflict-affected states. We will strive to achieve this goal together, through both collective efforts and individual actions. Our collective and individual efforts will take into account our specific circumstances and previous commitments.

2. We also recognise the importance of complementary measures to help countries most in need. These include measures such as incentivising more ODA and ensuring softer terms and conditions for finance. These are key elements of our ongoing reform on concessionality. We are also putting particular emphasis on mobilising additional resources, both external and domestic, for development and using ODA in a catalytic way so that it helps leverage domestic policies for greatest impact.

3. We acknowledge the effort of the following DAC member countries who have committed to and met the UN target for ODA to LDCs in 2012: Denmark, Ireland, Luxembourg, Norway and Sweden (above 0.20% of GNI as ODA to LDCs), and Finland, the Netherlands and the United Kingdom (between 0.15% and 0.20% of GNI as ODA to LDCs).

4. Collectively, we agree to:

- reverse the declining trend of aid to LDCs, recalling the specific UN target of 0.15% – 0.20% of GNI as ODA allocated to LDCs. We reaffirm our respective ODA targets, including those who have committed to the UN target of 0.7% ODA/GNI target and the UN LDC target, and reaffirm our strong commitment to achieve them.
- enhance the monitoring and visibility of members' performance in providing support to countries most in need through regular assessments, both individually through DAC peer reviews and collectively on the occasion of senior level meetings.
- undertake more analytical work to help identify countries where ODA is most needed and where additional actions may be required. This could include issues such as under-aided countries, aspects related to fragility and vulnerability, including in LDCs and small island developing states, as well as questions of changing poverty patterns. This work will be done in collaboration with other development actors including the UN system.
- promote the effectiveness and quality of ODA through the monitoring of the impact of different channels, instruments and modalities in various contexts and for different purposes across countries, including in countries most in need. This includes measures to promote regional connectivity and capacity for domestic resource mobilisation.

5. A number of DAC members also commit to additional measures to better target their support to countries most in need as a step towards achieving their commitments. The DAC will establish a compendium of such measures from this day forward, and will make it publicly available.

Annex 2: Modernising the reporting on concessional loans in DAC statistics

In line with the 2012 HLM mandate, the DAC has worked on options to revise the treatment of loan concessionality in DAC statistics, taking into account the resource allocation, mobilisation and accountability objectives of the general reform of the system for measuring development finance post-2015. The revised system should:

- **provide a fairer picture of donor effort, ensuring comparability of resulting statistics across members;**
- **encourage lending practices that are aligned with developing countries' needs, capacities and constraints in terms of volumes, concessionality levels and debt sustainability;**
- **strengthen the credibility and integrity of DAC statistics and the transparency of development co-operation**.

1. Concessional loans have been an important part of ODA, actively used by a number of members, as well as by other providers of development assistance. Such loans are important instruments to finance long-term investments in economic and social infrastructure in developing countries and to address the vast financing needs for the provision of global public goods. The level of concessionality of loans needs to take into account the level of development of individual countries and their specific capacities as well as the nature of the project.

2. In recent years, some members have been scaling up their lending programmes. Concessional loans help mobilise more resources in particular for countries with limited or no access to international capital markets, including many low-income countries (LICs) and small island developing states (SIDS). Members are, though, also very concerned to avoid adding inappropriately to the debt burdens of developing countries, especially those, mostly LICs and SIDS, who have needed official debt relief in recent years. They have expressed their support for measures to ensure that lending to such countries is highly concessional, and adapted to the nature of each project and counterpart, and for safeguards to ensure debt sustainability. All members support the IMF/World Bank debt sustainability framework as a determining factor for the volume and terms of debt that should be taken on.

3. To be recognised as concessional and reportable as ODA, a loan must according to the present reporting criteria have a grant element of at least 25%, calculated at a discount rate of 10%, and be "concessional in character". The 2012 HLM agreed to establish, as soon as possible, and at the latest by 2015, a clear, quantitative definition of "concessional in character", in line with prevailing market conditions. It also agreed, among other things, that *"*the reporting of loans should withstand a critical assessment from the public, be generally consistent with the way concessionality is defined in multilateral development finance and prevent notions that ODA loans schemes follow a commercial logic*"*.

4. Concessional loans are at present counted in DAC statistics on a cash-flow basis, as positive ODA when disbursed, and as negative ODA when repaid. Over time, the net ODA effect of the loan – if repaid – is therefore zero, but in times of inflation, the real value of the repayments is substantially lower than the face value of the loan. In the present system, ODA in any given year may be greatly influenced by the development co-operation policies of the past.

5. To address weaknesses of current DAC statistics, we agree to introduce a grant equivalent system for the purpose of calculating the ODA figures. This means that under the new reporting system, greater credit, in terms of the amount of ODA scored and reported, will accrue to grants rather than loans. Among loans which pass the tests for ODA scoring, more concessional loans will earn greater ODA credit than less concessional loans.

6. The donor effort in providing a loan consists both of the funding cost of the loan and the risk associated with it. Recognising that lending to poorer countries involves greater donor effort than lending to richer countries, we have decided to assess concessionality based on differentiated discount rates. The rates will consist of a base factor, which will be the IMF discount rate (currently 5%), and an adjustment factor of 1% for UMICs, 2% for LMICs and 4% for LDCs and other LICs.

7. Having a higher discount rate for LDCs and other LICs, combined with a grant equivalent method whereby higher concessionality results in more ODA being reportable, is also expected to incentivise lending on highly concessional terms to LDCs and other LICs, and thereby to help concentrate the available ODA resources more on the poorest countries. This is a policy goal members support.

8. To ensure that loans to LDCs and other LICs are provided at highly concessional terms, only loans with a grant element of at least 45% will be reportable as ODA. The need for concessionality reduces as countries become richer. So we have agreed that loans to LMICs need to have a grant element of at least 15%, and those to UMICs of at least 10%, in order to be reportable as ODA.[3,4]

9. Consistent with our commitment to pay particular attention to debt sustainability when extending loans to developing countries, we agree that loans whose terms are not consistent with the IMF Debt Limits Policy and/or the World Bank's non- concessional borrowing policy, will not be reportable as ODA.

10. The changes will become the standard of reporting from 2018 (for which ODA reporting will take place in early 2019). ODA will be reported for 2014 on the basis of the 2013 DAC agreement on concessionality. It will be reported from the year 2015 (i.e. in reports issued from early 2016) to the year 2017 using both the new and the current (2013) system.

11. The discount rates and the grant element thresholds to be applied under the changes we are agreeing today will need to be regularly reviewed, reflecting changes in borrowing costs, emerging experience with risk (for example as reflected in default rates) and any need for further incentives for countries most in need. We agree to further study the basis for assessing the risks incurred in lending, and ask the OECD to help assess different approaches proposed by members. On the basis of this analysis we may reassess the adjustment factors agreed today. Once the new system takes effect, the DAC will regularly assess the need for such adjustments, in particular following any change to the IMF rate.

12. We agree to live up to our Busan transparency commitments.

13. A considerable stock of loans that have been reported as ODA in the existing system will remain outstanding by the time of the change. So alongside reporting on a grant equivalent basis, ODA figures will continue to be calculated, reported and published on the previous cash-flow system. This means that data on actual disbursements and repayments of loans will continue to be collected and published. There will therefore be a very high degree of transparency on disbursements and reflows (payments on principal and interest), and therefore on gross and net ODA flows.

14. We agree that the cost of risk should not be double counted. Changing the measurement system from net flows to risk-adjusted grant equivalents will therefore also change the basis on which we report on debt relief of ODA loans. We have therefore agreed that the rules on reporting ODA debt relief will need to be updated to rule out double counting, bearing in mind the past need to encourage debt relief initiatives such as HIPC and MDRI.

15. More generally, we have also concluded that the existing regulations for reporting debt relief should expire with the reporting of 2017 flows, and be replaced by new regulations reflecting our agreement today.

16. The WP-STAT is requested to prepare the revised Reporting Directives for endorsement by the DAC by the end of 2015, including looking at options to improve the timeliness of reporting.

---

3 One member is not able to agree at this stage to apply the thresholds for LMICs and UMICs.

4 A small proportion of loans are extended with variable interest rates. For these loans, the concessionality test is only applied at the time of the commitment.

Annex 3: Developing a new measure - Total Official support for Sustainable Development

1. We, DAC members, recognise that the development agenda is broad and complex and that we need to mobilise resources and expertise to address related challenges.

2. We agree, therefore, that there is a need to capture in OECD DAC statistics the wide array of support we are providing beyond concessional finance through a measure of Total Official support for Sustainable Development (working title). Such a measure would encourage visibility and understanding about development financing options and impacts, enhance transparency and foster accountability beyond ODA, and facilitate information-sharing with providers of development co-operation beyond our Committee. This will contribute to broader global efforts to monitor international resource mobilisation for implementing the post-2015 agenda.

3. We have reviewed the work carried out on this measure and express our appreciation to various stakeholders who have participated in our ongoing efforts to shape its narrative and possible components.

4. We agree, today, to create a TOSD measure, which will:

- complement and not replace ODA;
- potentially cover the totality of resource flows extended to developing countries and multilateral institutions in support of sustainable development and originating from official sources and interventions, regardless of the types of instruments used and associated terms, i.e. including both concessional and non-concessional financing provided through various instruments, such as grants, loans, equity and mezzanine finance;
- cover activities that promote and enable sustainable development, including contributions to global public goods when these are deemed relevant for development and aligned with developing countries' priorities;
- make a clear distinction between official support and flows mobilised through official interventions, but also between flows and contingent liabilities; and
- capture and report resources on a gross cash-flow basis, while also collecting and publishing net flows so as to ensure full transparency of support and flows.

5. We agree to consult broadly with developing countries, international institutions, other providers of development co-operation and stakeholders on the scope, definition and statistical features of the measure, with the hope of contributing to a more global monitoring mechanism. We will also explore whether and how private finance mobilised by official interventions could be reflected in this new measure.

6. We will clarify the ultimate parameters once the final shape of the post-2015 agenda has been agreed. We will share the emerging features of this measure with the international community at the July 2015 Financing for Development conference in Addis Ababa, as an additional DAC contribution to the post-2015 monitoring framework, and use the opportunity to collect feedback on these features.