# COOPERATION JOURNAL

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## Editorial

Now in its fifth year, the *Cooperation Journal* continues to pursue its objective of contributing to public awareness of issues relevant to emerging and developing economies, especially those with Portuguese as an official language, as well as to the deepening of their relations with Portugal.

As usual, issue 9 begins with a brief analysis of the macroeconomic environment in the Portuguese-speaking African countries and Timor-Leste, based on a small group of indicators of the main macroeconomic aggregates. The majority of countries saw limited growth in 2015, in some cases due to domestic constraints, with impact especially on investment, or because of international developments in the price of exported commodities in others. This trend has continued into this year.

The next section presents information on cooperation activities undertaken between 1 January and 30 September 2016 between Banco de Portugal and its counterparts in emerging and developing countries, broken down by type and geography. In the first nine months of 2016, 86 cooperation activities took place, against a total of 103 initially planned. Portuguese-speaking countries remain the main recipients of this cooperation, representing three-quarters of total activities.

The article that closes the Journal looks again at the issue of Official Development Assistance (ODA), analysing the reform of the Development Assistance Committee's (DAC) instruments, carried out within the scope of the implementation of the United Nations' 2030 Agenda for Sustainable Development. Aiming to address the current dynamic of assistance flows from the private sector and widen the scope of ODA reporting, the article presents the two main components of the reform: the modernisation of the concept of ODA and the creation of a new statistical measure.

## Content

# Macroeconomic framework of Portuguese--speaking African Countries and Timor-Leste

## Angola

The Angolan economy continues to suffer from the effects of the oil price decline. The pace of economic expansion continued to decelerate significantly, and is expected to post the lowest growth rate of the past two decades in 2016. The economy posted twin deficits in the fiscal and external accounts for the second consecutive year, and the projection for this year indicates no change in this scenario. Inflationary pressure, largely resulting from the marked depreciation of the kwanza, returned the inflation rate to double-digits. External competitiveness gains of the past year may make a positive contribution to the economy's diversification efforts.

| | 2013 Est. | 2014 Est. | 2015 Est. | 2016 Proj. |
|---|---|---|---|---|
| Real GDP (annual % change) | 6.8 | 4.8 | 3.0 | 1.3 |
| Inflation (year-on-year % change) | 7.7 | 7.5 | 14.3 | [11-13] |
| Broad money (annual % change) | 13.2 | 16.2 | 11.8 | – |
| Current account (% of GDP) | 6.7 | -2.9 | -8.5 | -14.9 |
| Fiscal balance (% of GDP) | 0.3 | -6.6 | -4.3 | -5.7 |
| External public debt (% of GDP) | 22.6 | 28.4 | 34.9 | – |

Sources: Banco Nacional de Angola, Ministry of Finance (Angola) and International Monetary Fund.

## Cabo Verde

Economic activity slowed down in Cabo Verde in 2015, owing to weak investment dynamics, despite positive contributions from the external environment. A decline in imports, benefiting from a drop in oil prices, together with external support following the volcanic eruption, helped to improve the external accounts. Although on a downward path, FDI and disbursements of foreign public loans covered the external deficit and helped to strengthen foreign exchange reserves. With inflation under control, the central bank maintained an accommodative monetary stance, aimed at boosting credit to the economy. Continued containment of the public investment programme and a good performance of revenue led to a decline in the State's financing needs, but not without further increasing public debt.

| | 2013 Est. | 2014 Est. | 2015 Est. | 2016 Proj. |
|---|---|---|---|---|
| Real GDP (annual % change) | 0.8 | 1.9 | 1.5 | 2.7 |
| Inflation (year-on-year % change) | 0.1 | -0.5 | -0.5 | 1.0 |
| Broad money (annual % change) | 11.0 | 7.3 | 5.9 | 3.7 |
| Current account (% of GDP) | -5.8 | -9.0 | -4.3 | -6.9 |
| Official reserves (months of imports) | 4.8 | 5.4 | 6.4 | 6.0 |
| Fiscal balance (% of GDP) | -9.3 | -7.9 | -3.8 | -5.4 |
| Public debt (% of GDP) | 103.2 | 114.5 | 123.8 | – |

Sources: Banco de Cabo Verde, Ministry of Finance of Cabo Verde, Cabo Verde National Institute of Statistics and International Monetary Fund.

## Guinea-Bissau

Guinea-Bissau's economy continued on the recovery path that started in 2014, benefiting from favourable conditions in the production of cashew nuts, the country's main export and a key factor to positive developments in external transactions. Inflation, which is on an upward path, returned to positive territory, but remained at relatively low levels. The difficulties faced by the financial system led to the intervention of national authorities, which resulted in a substantial increase in public deficit. Political uncertainty, prevailing since the summer of 2015, and difficulties in complying with the limits set in the IMF adjustment programme pose the main risks to the economy.

| | 2013 Est. | 2014 Est. | 2015 Est. | 2016 Proj. |
|---|---|---|---|---|
| Real GDP (annual % change) | 0.8 | 2.5 | 4.8 | 4.8 |
| Inflation (year-on-year % change) | -0.1 | -0.1 | 2.4 | 2.5 |
| Broad money (annual % change) | 14.8 | 30.7 | 26.8 | – |
| Current account (% of GDP) | -5.0 | 0.6 | 3.9 | -1.7 |
| Fiscal balance (% of GDP) | -1.8 | -2.5 | -7.7 | -1.4 |
| External public debt (% of GDP) | 31.2 | 33.3 | 31.4 | – |

Sources: BCEAO National Directorate for Guinea-Bissau, Ministry of Economy and Finance of Guinea-Bissau and International Monetary Fund.

# Mozambique

Growth in Mozambique slowed down in 2015, mainly owing to a drop in investment. The current account deficit worsened compared with the previous year, in association with declines in foreign direct investment (FDI) and international aid. Interventions by Banco de Moçambique to sustain the metical and ensure fuel imports and public debt service have put pressure on the stock of official reserves. As the first five months saw a considerable increase in inflation, 2016 will likely be characterised by a continued contractionary monetary policy, which in October 2015, an expansionary fiscal policy and risks of a slowdown in growth, as a resoult of the delay in public-private negotiations on large-scale investment projects.

| | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|
| | Est. | Est. | Est. | Proj. |
| Real GDP (annual % change) | 7.1 | 7.4 | 6.6 | 6.5 |
| Inflation (year-on-year % change) | 3.0 | 1.1 | 11.1 | 5.6 |
| Broad money (annual % change) | 16.3 | 22.2 | 26.1 | 7.9 |
| Current account (% of GDP) | -38.8 | -33.5 | -39.8 | -33.1 |
| Official reserves (months of imports) | 3.3 | 3.9 | 3.0 | 2.3 |
| Fiscal balance (% of GDP) | -4.6 | -7.8 | -1.9 | -8.7 |
| Public debt (% of GDP) | 42.0 | 48.4 | 73.0 | 69.5 |

Sources: Banco de Moçambique, Mozambique National Planning and Budget Directorate, Mozambique National Institute of Statistics and International Monetary Fund.

# São Tomé and Príncipe

In 2015 economic growth in São Tomé and Príncipe, although positive and above the average for African countries, was slightly below expectations, mainly owing to the delayed approval of the budget (which strongly conditioned the implementation of public investment projects) and a decline in cocoa exports and tourism flows compared with the high figures recorded in the previous year. For 2016, output was expected to accelerate slightly, but developments in the first half of the year (namely in the banking sector) seem to contradict this scenario.

| | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|
| | Est. | Est. | Est. | Proj. |
| Real GDP (annual % change) | 4.0 | 4.5 | 4.0 | 5.0 |
| Inflation (year-on-year % change) | 7.1 | 6.4 | 4.0 | 4.0 |
| Broad money (annual % change) | 14.0 | 16.8 | 13.2 | 11.1 |
| Current and capital account (% of GDP) | -23.4 | -22.0 | -16.8 | -12.2 |
| Fiscal balance (% of GDP) | -2.0 | -5.5 | -6.3 | -10.6 |
| Domestic primary balance (% of GDP) | -2.7 | -3.3 | -3.0 | -2.0 |
| External public debt (% of GDP) | 75.5 | 71.7 | 87.7 | – |

Sources: Banco Central de São Tomé e Príncipe, Ministry of Finance and Public Administration of São Tomé and Príncipe and International Monetary Fund.

# Timor-Leste

Growth in East Timorese economy (non-oil sector) in 2015 was below expectations, although current public expenditure (its main catalyst) has remained high. The exploitation of energy resources (oil and gas) continued to follow a downward path, which will tend to be exacerbated over the next few years due to the depletion of its main active oil field. Inflation has posted negative values since the last quarter of 2015, chiefly due the appreciation of the US dollar (Timor-Leste's official currency) against the currencies of its main trading partners. In 2015 and for the first time, the Petroleum Fund decreased, as a combined result of the fall in oil revenue and the growing need for public funding.

| | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|
| | Est. | Est. | Est. | Proj. |
| Non-oil real GDP (annual % change) | 2.8 | 5.9 | 4.3 | 5.0 |
| Real GDP (annual % change) | -12.8 | -27.8 | -0.6 | -8.8 |
| Inflation (year-on-year % change) | 4.0 | 0.3 | -0.6 | 3.6 |
| Broad money (annual % change) | 22.9 | 20.0 | 7.0 | – |
| Current account (% of non-oil GDP) | 181.3 | 79.9 | 30.5 | 2.8 |
| Fiscal balance (% of non-oil GDP) | 179.4 | 66.1 | 7.9 | 13.7 |
| Petroleum Fund (% of non-oil GDP) | 1,139 | 1,181 | 1,149 | 1,214 |

Sources: Banco Central de Timor-Leste, Ministry of Finance of Timor-Leste and International Monetary Fund.

# Cooperation activity undertaken by Banco de Portugal

## Cooperation
### 1 jan. – 30 sep. 2016

Up to the end of the third quarter of 2016, 86 cooperation activities took place, 64 of which involving institutions of Portuguese-speaking countries and 22 with other emerging and developing countries (OEDCs). The total number of activities undertaken in the course of these nine months, which exceeded that seen in the same period of 2015 (10 activities more), corresponds to 83 per cent of the total forecast in Banco de Portugal's *Cooperation Plan* for 2016 (103 activities).

As usual, cooperation activities aimed at Portuguese-speaking countries were predominant, accounting for approximately three-quarters of all activities undertaken. Of these, we highlight the visit of members of the Board of Banco Central de Timor Leste. Cooperation with entities in OEDCs has taken on an increasingly important role, particularly as regards Banco de Portugal's active participation in events organised by the Centre for Latin American Monetary Studies (CEMLA), whose *Meeting of Central Bank Governors* took place in Portugal, for the first time, in May 2016.

Banco de Portugal continues to organise courses and seminars on topics relevant to central banking, with the purpose of harnessing synergies. Of the eight courses/seminars already completed, where many Portuguese-speaking

**Chart 1 •** Execution by recipient

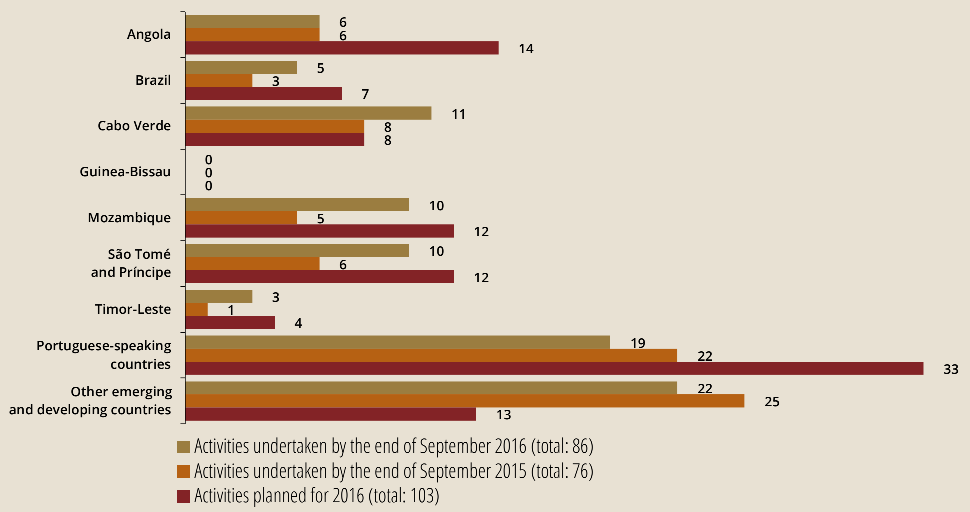
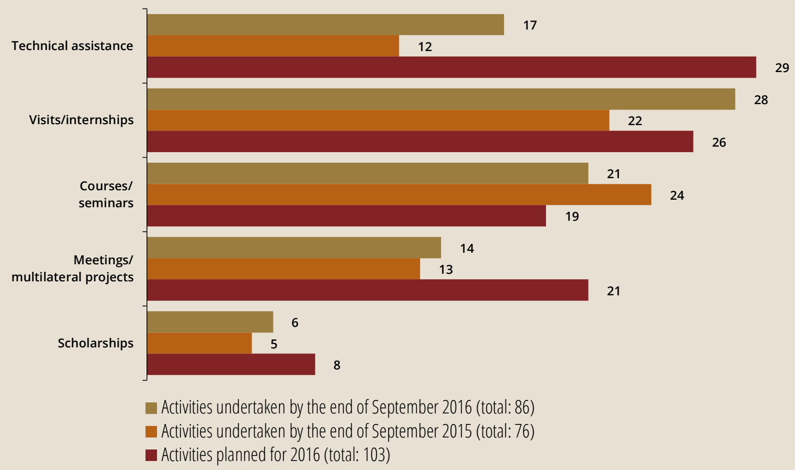



**Chart 2 •** Execution by type of activity



central banks participated, two were particularly noteworthy: the courses on *Balance of Payments and International Investment Position Statistics* and on *Prudential Supervision*, jointly organised, respectively, with the IMF Statistics Department and the Federal Reserve System.

Eight sectoral meetings also took place among Portuguese-speaking central banks (one for the first time in Timor Leste, the *9th Statistics Meeting*) and the Bank carried on with three multilateral projects that had started in previous years, in the fields of Anti-money laundering, Statistics and Supervision and financial stability.

On 3 October, the *26th Lisbon Meeting of Central Banks of Portuguese-speaking countries* will take place, a key event in Banco de Portugal's cooperation calendar, and in the course of which planning of the cooperation activity for 2017 will begin.

**Cooperation activities in 2916 (undertaken up to the end of September)**

| Country | Type of activity | No of activities | Subject areas of the activities |
|---|---|---|---|
| Angola | Visits/Internships | 5 | Issue and Treasury, Statistics, Reserve management, Strategic planning, Human resources. |
| | Courses/Seminars | 1 | Issue and Treasury. |
| Brazil | Technical assistance | 1 | Statistics. |
| | Visits/Internships | 4 | Issue and Treasury, Financial stability, Risk management. |
| Cabo Verde | Technical assistance | 5 | Exchange Rate Cooperation Agreement, Financial stability, Statistics, Trust Fund management. |
| | Visits/Internships | 4 | Audit, Statistics, Banking supervision. |
| | Scholarships | 2 | Scholarship. |
| Mozambique | Technical assistance | 1 | Audit. |
| | Visits/Internships | 5 | Legal matters, Audit, Public relations, Payment systems, Banking supervision. |
| | Courses/Seminars | 2 | Accounting, Issue and Treasury. |
| | Scholarships | 2 | Scholarship. |
| São Tomé and Príncipe | Technical assistance | 5 | Economic Cooperation Agreement, Legal matters, Audit, Statistics. |
| | Visits/Internships | 3 | Audit, Financial stability, Statistics. |
| | Scholarships | 2 | Scholarship. |
| Timor-Leste | Technical assistance | 1 | Anti-money laundering. |
| | Visits/Internships | 2 | Cooperation and international relations, Statistics. |
| Portuguese-speaking countries | Courses/Seminars | 8 | Audit, Statistics, Reserve management, Risk management, Payment systems, Banking supervision. |
| | Meetings/projects | 11 | Legal matters, Audit, Accounting, Issue and Treasury, Statistics, Risk management, Information systems and technologies, Banking supervision. |
| Other emerging and developing countries | Technical assistance | 4 | Cooperation and international relations, Statistics, Payment systems. |
| | Visits/Internships | 5 | Cooperation and international relations, Statistics. |
| | Courses/Seminars | 10 | Cooperation and international relations, Financial stability, Statistics, Reserve management, Administrative services, Payment systems. |
| | Meetings | 3 | Cooperation and international relations, Statistics. |
| Total | | 86 | |

# Article

## Reforming the DAC's instruments[1]

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This article aims to succinctly characterise the current modernisation process of the instruments used by the Development Assistance Committee (DAC) in monitoring and promoting development assistance. This reform is part of the implementation of the United Nations' 2030 Agenda for Sustainable Development, dedicated to meeting the Sustainable Development Goals.

The reform of the DAC's instruments essentially covers two components: the modernisation of the reporting of Official Development Assistance (ODA) and the creation of a new statistical benchmark, TOSSD – Total Official Support for Sustainable Development. These changes aim to address the evolution observed in development assistance flows, which increasingly come from private sector sources, as well as broadening their reporting, including initiatives aimed at peacekeeping and security, or of an environmental nature.

Modernising ODA also covers a review of loan concessionality, aimed at reducing the subjectivity of this criterion. The role of assistance directed at refugees, which has been growing since 2012, is also reinforced.

In turn, the creation of TOSSD serves to homogenise reporting of development assistance flows, complementing ODA by including additional initiatives such as partnerships between public and private bodies, or development-promoting trade flows.

Also presented are preliminary statistics on ODA flows for OECD countries that are DAC members (Box 1) and for Portugal in 2015 (Box 2). A fall has been observed in Portugal, reinforcing the downward trend ongoing since 2011, whilst this type of flows has increased in OECD countries, contrary to the drop noted in 2014.

## Introduction

The need to modernise the concepts used by the Development Assistance Committee (DAC) in measuring the international mobilisation of development aid has grown in recent years. This growing need is the result of new trends emerging in the international development financing agenda, within the scope of the Sustainable Development Goals (SDG) for the post-2015 period, included in the 2030 Agenda for Sustainable Development (2030-ASD). Examples of such trends are the growing importance of private investment and non-concessional resources to meet development targets.

**SDG – Sustainable Development Goals**

A set of 17 goals for the post-2015 period, seeking to build on the Millennium Development Goals which aim to promote a peaceful and inclusive society, eradicate extreme poverty and contribute to a more environmentally sustainable society by combating climate change.
For more information, see: http://www.un.org/sustainabledevelopment/development-agenda/

**2030 Agenda for Sustainable Development (2030-ASD)**

A plan of action by the United Nations aiming to ensure the Sustainable Development Goals are met. It consists of 169 targets and aims to encourage respect for human rights (e.g. gender equality) as well as include the three dimensions of sustainable development: economic, social and environmental, in decision making.
For more information, see: https://sustainabledevelopment.un.org/post2015/transformingourworld

In 2015, approximately USD 130 billion were provided by DAC members in the form of Official Development Assistance (ODA). However, it is estimated that total development assistance flows are approximately seven times greater than this value, if bank loans, philanthropy and foreign direct investment are considered. The growing importance of private flows and new types of assistance render ODA an incomplete concept and require a reformulation in order to reflect current financial conditions.

At the DAC High Level Meeting in 2014[2] changes were made to the definition of concessional loans, with a view to encouraging the granting of loans with a high degree of concessionality to low income countries.

**Concessional Loans**

These are loans that are extended on terms substantially more generous than market loans. The concessionality is achieved either through interest rates below those available on the market or by longer grace periods, or a combination of both.

The meeting also launched two broader initiatives that would shape the methodological evolution of the DAC until today:[3]

1. a methodological modernisation process for ODA was begun and
2. a new benchmark, TOSSD – Total Official Support for Sustainable Development – was created, aiming to increase the coverage of development financing options and their impact, improve transparency and assistance accounting, and encourage information sharing between organisations promoting development.

More recently, and as a result of these commitments, the 2016 DAC High Level Meeting agreed the following principles:

- Clarification of ODA classification for peacekeeping and security;
- Creation of incentives for the deployment by the public sector of private sector instruments such as loans, guarantees and mezzanine financing to support international aid activity to developing countries;
- Identification of practices and mechanisms to support leveraging of private capital;
- Development of TOSSD, to be approved at the DAC Senior Level Meeting,[4] in October 2016;
- Improvement of the reporting of refugee-related costs in order to make the component more consistent and comparable between countries.

# Modernisation of ODA

The methodological modernisation of ODA consists of three key elements: (a) reviewing the reporting method for concessional lending, (b) reinforcing the role and volume of the instruments and flows from the private sector, and (c) clarification of ODA-eligibility of peace and security-related expenditures. Furthermore, (d) refugee assistance costs are also to be revised in the October 2016 meeting.

## Concessional Loans

Reliance on ODA flows varies across developing countries. There are countries for which these flows represent a small proportion of the total international flows they receive. For others, ODA represents over 70 percent of available external finance, and more than one-third of total public revenue.

While most ODA continues to be provided as grants, concessional loans also play an important role in meeting SDGs. The "concessional in character" criterion – determining the extent to which loans could be scored as ODA – was open to interpretation and resulted in inconsistent reporting across DAC members, and therefore needs to be reviewed.

In the December 2014 High Level Meeting, there was a transition from a cash flow paradigm – one in which the face value of grants and loans is accounted for – to a grant equivalent paradigm – in which only grants and the grant element of concessional loans (portion of a loan corresponding to a grant) are counted as ODA, thus more adequately valuing donors' efforts. This revision aimed to encourage the use of grants and highly concessional loans (i.e. loans with a greater portion corresponding to a grant). The discount rates applied to different groups of developing countries were also reviewed, with agreement that a greater discount rate be applied to countries with lower rates of income.

### Discount rate

The annual percentage rate by which future income is discounted to give an equivalent value in the present period. The current value of the loan is then compared to its nominal value to calculate the grant element, which in turn will determine the level of concessionality of the loan.

### Grant element

Calculated as the difference between the face value of a loan and the discounted present value of the service payments the borrower will make over the lifetime of the loan. This difference is expressed as a percentage of the face value of the loan. Future service payments are calculated by applying the face value of the interest rate charged by the donor over the loan's lifetime. These service payments are then converted to their present value, with the discount rate being used for the conversion – the result of this calculation is the present value of the loan. The result of this methodology is that, when the interest rate charged by the donor is lower than the discount rate, the present value of the loan is lower than the nominal value, with this difference corresponding to the grant element of the loan.
For more information on the discount rate and calculation of the grant element, see: https://www.imf.org/external/np/pdr/conc/calculator/

Furthermore, it was decided to update the minimum threshold to the weight of the 'grant proportion' of concessional loans – the threshold above which the loan becomes eligible as ODA. The fixed limit of 25 percent was changed to a limit which varies in inverse proportion to the variation in income of the country.

Debt sustainability was also considered: to be reportable as ODA, loans will have to be consistent with the IMF Debt Limits Policy[5] and the World Bank's Non-Concessional Borrowing Policy.[6]

Table 1 summarises the main methodological changes made to the concept of 'concessional loan' in 2014:

**Table 1** • Concessional loans, main changes

| | Before | After |
|---|---|---|
| | Cash Flow | Grant Equivalent |
| Grant element thresholds (percentage of the nominal value of the loan) | 25% | • 45% for LDCs and other LICs<br>• 15% for LMICs<br>• 10% for UMICs |
| Discount rate | 10% | 5% base (current IMF discount rate) + adjustment factors of:<br>I. 4% for LDCs and other LICs<br>II. 2% for LMICs<br>III. 1% for UMICs |
| | Used for assessing the concessionality of a loan | Used both for assessing the concessionality of a loan and for calculating its ODA grant equivalent |
| Measurement of flows | Flows accounted for as ODA by nominal value, when disbursed<br>Flows subtracted from ODA when reimbursed | Flows accounted for by grant equivalent – grant element (one part of nominal value) – when disbursed<br>Reimbursement of past loans is not subtracted from ODA |
| Debt sustainability | Lack of explicit guidance | Included in the IMF's policy on public debt limits and the World Bank's non-concessional borrowing policy |

The new system will become the standard of ODA reporting from 2018, replacing the current system.

### LDC - Least developed countries

Countries with a Gross National Income *per capita* lower than USD 1,035. They are characterised by long-term constraints to economic development, such as weak institutional capacity and low levels of human resource development.

### LICs – Low-income countries

Countries with a Gross National Income *per capita*, calculated using the World Bank Atlas method, of USD 1,025 or less in 2015.

### LMIC – Lower middle-income countries

Countries with a Gross National Income *per capita*, calculated using the World Bank Atlas method, between USD 1,026 and USD 4,035 in 2015.

### UMIC – Upper middle-inwcome countries

Countries with a Gross National Income *per capita*, calculated using the World Bank Atlas method, between USD 4,036 and USD 12,475 in 2015.

## Private Sector Instruments

The modernisation of the reporting system of this type of flows aims to capture as ODA the public sector effort of using private sector instruments (PSI) to foster their use and encourage providers' support to the private sector in developing countries.

In order to ensure that development projects are distinguished from commercially motivated flows, the DAC will assess each initiative (investment strategy, mandate, project portfolio, due diligence mechanisms) as well as a biennial report to promote transparency and regular statistical checks.

The data will be collected on inflows to Development Finance Institutions (DFIs), on flows from DFIs to partner countries, and on capital returns and dividends, as shown below:

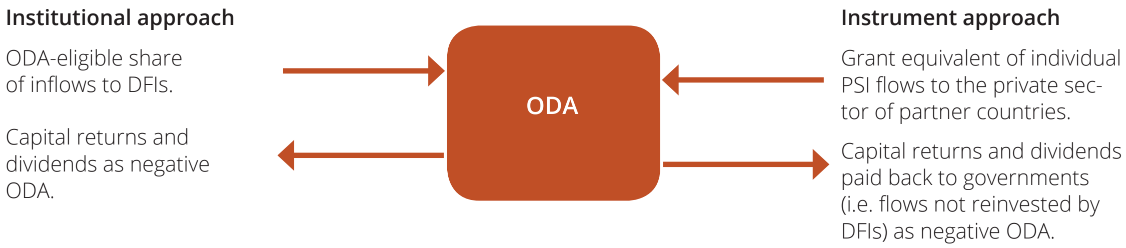
**Figure 1** • Data collection flowchart


The effort may be measured using two alternative systems:

- the institutional approach, focused on the point of transfer of funds to a DFI, or
- the instrument approach, for each PSI transaction between the DFI and the private enterprise or institution in the partner country.

These measurements will be based, whenever possible, on the grant equivalent method.

**Figure 2** • Effort measurement




This discussion will be taken up by the October 2016 DAC Senior Level Meeting, which will decide the criteria for DFI assessment, the ODA-eligibility thresholds of flows to and from DFIs, the risk premium and discount rates to measure provider effort, and the lock-in period for switching between the institutional and instrument approach.

**Risk premium**

Additional return on an investment, when compared with a similar, risk-free investment, which aims to protect the investor from the risk incurred. When a donor provides a loan to a developing country, there is a default risk, therefore risk premia are charged to safeguard against potential reimbursement defaults. The greater the country risk, the greater the risk premium associated to the loan.

## Assistance for Peacekeeping and Security

In February 2016, the members of the DAC recognised the need to improve the coherence and consistency of reporting ODA flows on peacekeeping and security operations, which currently account for approximately 2% of total ODA. The motivations for the changes were: to clarify ambiguities and thereby prevent the abuse and misuse of aid, to respond to developmental challenges in conflict situations, and to create a new impetus towards achieving the peacekeeping goals contained in the 2030-ASD. Despite the enormous variety of viewpoints in the discussion of the theme, there is a consensus among DAC members that these issues are important challenges to development, to reducing poverty and to promoting economic growth.

The main changes introduced into the statistical monitoring methodology of this assistance component in February 2016 are listed as follows:

- inclusion of military training in partner countries, with a clear development purpose and guarantee of respect for human rights,
- reporting, in specific circumstances, of additional costs of military operations (salaries, maintenance, etc.),
- the possibility of reporting the prevention of violent religious/political extremism, provided its primary purpose is developmental (e.g. flows directed at preventing the appearance of extremist groups).

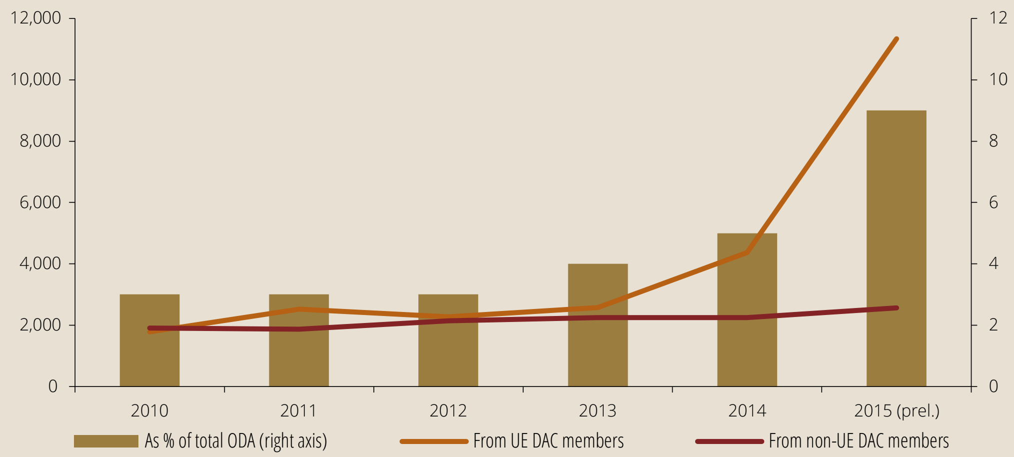
## Assistance to refugees

'In-donor refugee costs' have been increasing since 2012, both by absolute volume and as a share of total ODA. This growth has accelerated at such a rhythm that refugee costs have more than doubled between 2014 and 2015. When the component is broken down between assistance provided by European Union DAC members and non-European Union DAC members, an interesting pattern emerges: from 2013, as a result of the refugee crisis affecting Europe, this breakdown by origin went from a balance between EU members (53 percent) and non-EU members (47 percent), to a situation in which 82 percent of this component originates in EU member states.

ODA has been essential in responding to the current refugee crisis, meaning it is necessary to continue monitoring these flows adequately in order to maintain their credibility. Many entities argue that these types of flows are not in line with the main purpose of ODA in promoting economic development and well-being in developing countries. This topic will be the subject of more in-depth discussion at the DAC Senior Level Meeting in October 2016.

**Figure 3** • In-donor refugee costs reported as ODA | constant 2014 USD billions

Source: OECD.



# A new measure: TOSSD

With its conclusion planned for 2019, TOSSD will complement ODA, fostering transparency in the reporting of development assistance flows by broadening the spectrum of initiatives included, and capturing new trends that guide international financial flows, such as the use of blended finance packages[7] and risk mitigation instruments.[8]

TOSSD is currently defined as the totality of international public finance extended to developing countries and multilateral institutions with a view to:

- promoting sustainable development at subnational, national and international levels, with particular focus on developing countries;
- job creation;
- environmental protection, and;
- supporting the dimensions of sustainable development – peace, security, freedom, justice and human rights.

The private resources mobilised through public schemes could also potentially be covered, as well as the activities of diverse financial intermediaries, including collective investment vehicles and venture capital funds.[9]

A key advantage of TOSSD is the common framework it will provide at international level for flows not hitherto included in ODA, enabling all official donors to collaborate and harmonise their approach to reporting which will, in turn, facilitate partner country access to granular project-level information.

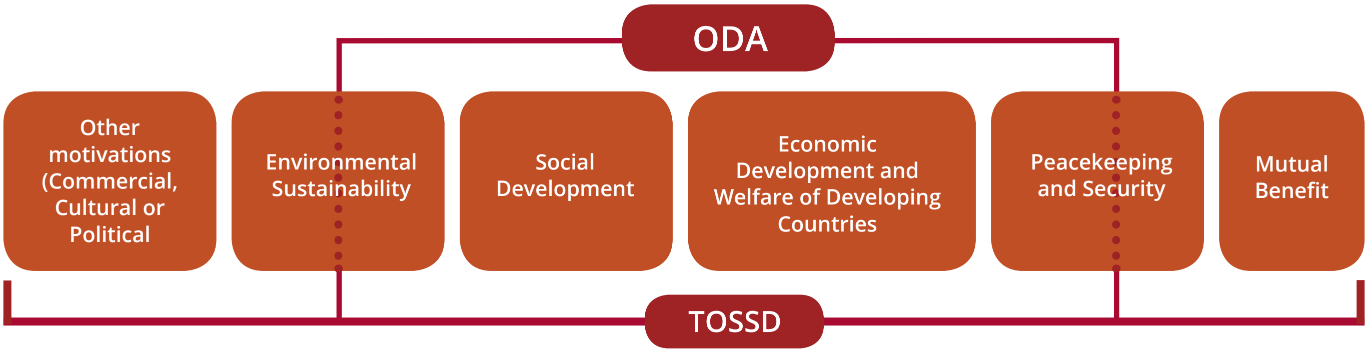
Despite ODA remaining the measure of provider effort for monitoring performance against the target of 0.7 percent of Gross National Income, as established by the United Nations and reinforced in July 2015 at the Third International Conference on Financing for Development in Addis Ababa, Ethiopia, TOSSD will provide an important contribution for the monitoring of the 2030-ASD as:

- The 2030-ASD recognises the important role that private sector finance plays to meet SDGs, appealing to a greater mobilisation of new sources of financing (public and private); TOSSD provides a more complete understanding of the public-private interface and considers concessional and non-concessional resources, including those from the private sector, through blended finance or risk mitigation mechanisms;
- TOSSD will not only cover financial resources, but all forms of international cooperation that support developing countries in implementing the SDGs; the 2030-ASD states that these will include "the mobilisation of financial resources as well as capacity-building and the transfer of environmentally sound technologies to developing countries on favourable terms.";[10]
- TOSSD places great emphasis on the environmental dimension of sustainable development and recognises peace and security as a pre-condition for sustainable development, in line with the SDGs and as stated in the 2030-ASD;
- As in measuring ODA, the measurement of TOSSD recognises the positive contribution of international migration to inclusive growth and sustainable development of society as a whole, reflecting the 2030-ADS.

TOSSD and ODA differ in the following aspects:

- ODA applies only to the 28 OECD DAC[11] members and other providers who report on their development cooperation following its very specific definitions and rules.[12] TOSSD aims to bring together all providers of public international flows, and the private operators they are collaborating with, in a global statistical reporting framework.
- ODA is measured by the grant equivalent of the resource flow and thus registers donor "effort" in making resources available. TOSSD will be measured by the full face value of the flow – or the gross amount – to provide a fuller picture of resources available to developing countries.
- No TOSSD targets or associated commitments will be established. ODA will remain the cornerstone of OECD DAC members' accountability to the international development community.
- In contrast to ODA – which covers activities administered with the economic development and welfare of developing countries as their main objective – TOSSD would additionally include other activities, *e.g.* mutual benefit initiatives (resulting from partnerships between public and private institutions), or trade flows with a positive impact on economic development - and cover initiatives dedicated to environmental sustainability (rational use of natural resources), and peacekeeping and security.

**Figure 4** • Comparison of measures in terms of coverage




The question of how private resources can best be accounted for and mobilised is at the heart of discussions around how to realise developed countries' commitment to mobilise, by 2020, USD 100 billion per year for environmental action in developing countries. There are new sources of capital, innovative financial instruments are widely available and investment opportunities abound. Yet in order to realise this potential, incentives need to be created for mobilising "patient capital" – *i.e.* funds invested for the medium or long-term, from the private sector. Once again, the importance of mutual benefit is reinforced, as public funds can be used to create these incentives through guarantees, mitigating risks, improving the enabling environment and helping to improve technical capacity.

Despite not being an immediate aim, trade finance (short and long-term) is a significant part of development for it encourages innovation and economic growth. For this reason, there is an international discussion under way on the inclusion of trade finance in the TOSSD measurement framework, despite not having reached any meaningful conclusions.

Notes:

1. This article is the result of a project undertaken during the Summer Internship the author participated in during July and August 2016. The opinions expressed herein are the exclusive responsibility of the author and do not necessarily reflect the positions of Banco de Portugal or the Eurosystem. Any possible errors and/or omissions are the exclusive responsibility of the author.

2. A meeting in which ministers from DAC countries as well as other OECD members, representatives of international organisations and development banks, foundations and other countries participate. These meetings discuss the situation of development assistance and the role of developed countries in global development is reinforced. The February 2016 meeting assessed the modernisation process of the DAC instruments and reviewed the comprehensiveness of ODA. Issues relating to the refugee crises and the role of private sector instruments were also debated, as well as the 2030 Agenda for Sustainable Development.

3. http://www.oecd.org/dac/financing-sustainable-development/modernisation-dac-statistical-system.htm

4. Meeting similar to High Level Meetings but at the level of Secretaries of State and/or Directorates-General.

5. The International Monetary Fund's debt limits policy has been in place since the 1960s (with recent reforms), and is based on a set of robust principles guiding the use of public debt in Fund-supported arrangements, seeking to limit new loans funding public debt in countries under macroeconomic assistance programmes. For further information on these principles, see: http://www.imf.org/external/np/spr/2015/conc/index.htm and *Cooperation Journal* of Banco de Portugal No. 8, April 2016 http://www.bportugal.pt/en-US/PublicacoeseIntervencoes/Banco/Cooperacao/Tumbnails%20List%20Template/CooperationJournal%20-%20April%202016.pdf.

6. This policy aims to encourage the incorporation of debt sustainability in the decision-making process by countries involved in international assistance and debt relief programmes, as well as reducing their risk of over-indebtedness. For further information on these principles, see: http://ida.worldbank.org/financing/non-concessional-borrowing-0 and *Cooperation Journal* of Banco de Portugal No. 8, April 2016 http://www.bportugal.pt/en-US/PublicacoeseIntervencoes/Banco/Cooperacao/Tumbnails%20List%20Template/CooperationJournal%20-%20April%202016.pdf.

7. Blended finance is defined as 'the strategic use of development finance and philanthropic funds to mobilise private capital flows to emerging and frontier markets', delivering potentially positive returns to investors and the communities assisted. Against a background of ever scarcer public funds available for development, and private sector funding to developing countries is ever more relevant, these packages are an important solution given that they encourage public-private partnerships.

8. Several risk mitigation mechanisms are used to attract private sector investors, such as: i) technical assistance, to lower investors' transaction costs and support their capacity, ii) total or partial risk underwriting to protect the investor, and iii) creation of market incentives for upfront investment.

9. For more information on TOSSD, as well as on the discussion under way, see: http://www.oecd.org/dac/financing-sustainable-development/tossd.htm

10. See *TOSSD Compendium for Public Consultation*, OECD, June 2016.

11. Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Ireland, Iceland, Italy, Japan, Luxembourg, Norway, Netherlands, New Zealand, Poland, Portugal, Slovenia, Slovakia, South Korea, Spain, Sweden, Switzerland, United Kingdom, USA.

12. Bulgaria, Cyprus, Croatia, Estonia, Hungary, Israel, Kazakhstan, Kuwait, Latvia, Liechtenstein, Lithuania, Malta, Republic of China (Taiwan), Romania, Russia, Saudi Arabia, Thailand, United Arab Emirates.

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United Nations Organisation: Report of the Third International Conference on Financing for Development, Addis Ababa, 13-16 July 2016

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For more information on calculating ODA, see: http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/

For more information on modernising the DAC, see: http://www.oecd.org/dac/financing-sustainable-development/modernisation-dac-statistical-system.htm

For more information on TOSSD, see: http://www.oecd.org/dac/financing-sustainable-development/tossd.htm

For more information on SDGs, see: http://www.un.org/sustainabledevelopment/development-agenda/

# Box 1 | Official Development Assistance

Created in 1961, the Development Assistance Committee (DAC) operates under the auspices of the Organisation for Economic Co-operation and Development (OECD) and is responsible for collecting the main data on Official Development Assistance (ODA), a concept created in 1969 and revised in 1972.

The Board is currently composed of 29 members: Australia, Austria, Belgium, Canada, Czech Republic, Denmark, the European Union (EU), Finland, France, Germany, Greece, Ireland, Iceland, Italy, Japan, Luxembourg, Norway, Netherlands, New Zealand, Poland, Portugal, Slovenia, Slovakia, South Korea, Spain, Sweden, Switzerland, United Kingdom, and USA.

The DAC defines Official Development Assistance as the flows of official financing to countries and territories on the list of ODA recipients, as well as multilateral institutions that meet the following requirements:

- made available by the official sector, including state and local governments, or their executive agencies, and
- each transaction undertaken complies with the following:

  – it is administered with the economic development and well-being of developing countries as its main objective, and

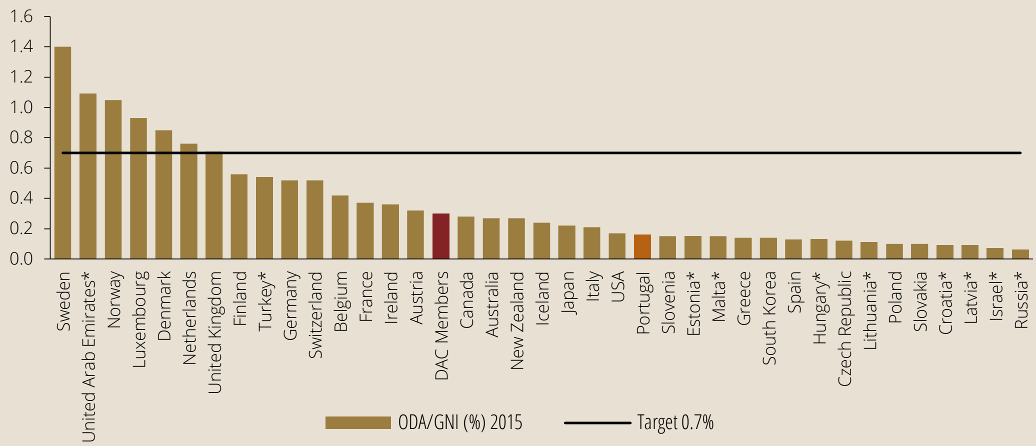
  – in the case of loans, these are concessional in character, that is, granted with more favourable conditions to the recipient country than those applied to loans of a more 'commercial' nature.

ODA flows can be in the form of grants or loans and may be bilateral, when granted directly to the official bodies of assistance-receiving countries, or multilateral, when ODA is provided through a regional or international organisation that serves as an intermediary between donor and recipient countries.

Bilateral ODA falls into four major categories: (i) development projects, programmes and technical assistance, (ii) humanitarian aid, (iii) debt relief, and (iv) refugees.

The list of countries eligible for ODA comprises all the low and medium-income countries, as measured by Gross National Income (GNI) per capita, published by the World Bank, excluding members of the G8, European Union or those with a pre-established date for accession to the EU. This list includes all Least Developed Countries, according to the United Nations' definition. The DAC reviews the list every three years, with the next review due in 2017. Countries which exceed the income threshold for three consecutive years are removed from the list.

**Chart 1** • Net ODA as a percentage of Gross National Income | Preliminary 2015 data, current prices




Source: OECD
Notes: *Non-DAC member country.

Based on the preliminary values published by the OECD in 2016, net ODA in 2015 (of loan reimbursements) originating in the DAC member countries increased 6.9 per cent in comparison to 2014 (adjusted for exchange rate variations and inflation), which represents a recovery against the previous period (from 2013 to 2014 there was a fall of 0.5 per cent).

In 2015, DAC countries contributed USD 132 billion, to which donations from non-DAC countries should be added. The average value of ODA from DAC members remained at 0.3 per cent of GNI, being that the target of 0.7 per cent of GNI, as defined by the United Nations, was only met or exceeded by seven countries: Sweden, United Arab Emirates (non-DAC members), Norway, Luxembourg, Denmark, Netherlands and United Kingdom.

In relation to the 19 DAC countries belonging to the EU, their net ODA was USD 74 billion in 2015, corresponding to 0.47 per cent of GNI (an increase when compared with 0.42 per cent in 2014), to which the EU institutions added USD 14 billion. In turn, the nine EU member states that are not DAC members contributed USD 527 million in net ODA. The ODA/GNI ratio increased in fifteen EU member states, fell in nine, and was unchanged in the remaining four.

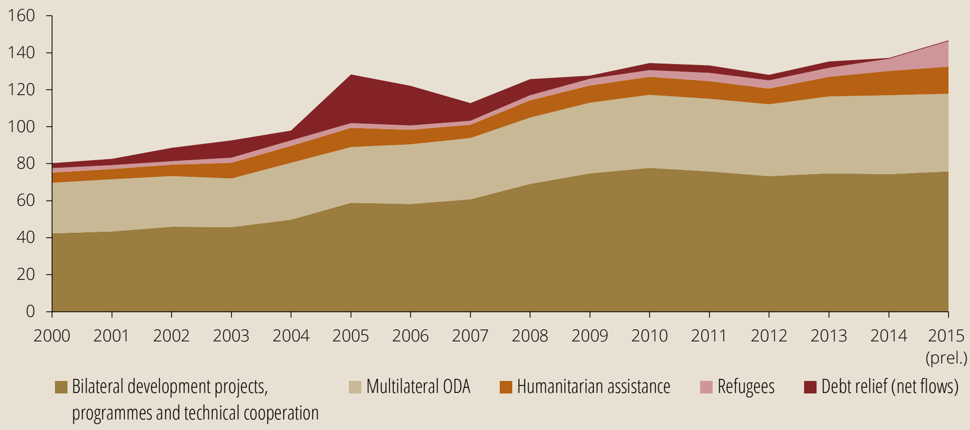



**Chart 2** • ODA components, DAC countries | Preliminary 2015 data, USD billions, constant 2014 prices

Source: OECD.

Multilateral ODA, which has been growing since 2012 in real terms, fell slightly in 2015.

Development projects, programmes and technical cooperation continue to be the main component of bilateral assistance. However, despite the increase seen in this component in absolute terms, its weight as a proportion of ODA fell slightly (from 54 to 52 per cent). The debt relief component, which was significant between 2005 and 2007, has fallen in importance, with its current weight being almost irrelevant. This is due to the fact that the HIPC (Heavily Indebted Poor Countries) initiative and MDRI (Multilateral Debt Relief Initiative), both launched by the International Monetary Fund and World Bank, are practically concluded. On the other hand, assistance to refugees has been gaining relative weight.

## Box 2 | Official Development Assistance – Portugal

Portuguese ODA, which was EUR 279 million in net terms in 2015, has registered a falling trend since 2011, with a fall of 16.1 per cent between 2014 and 2015 (in real terms). Similar patterns can be seen in other OECD countries, which can be explained by the international financial crisis. In 2015, Portugal had an ODA/GNI ratio of 0.16 per cent.

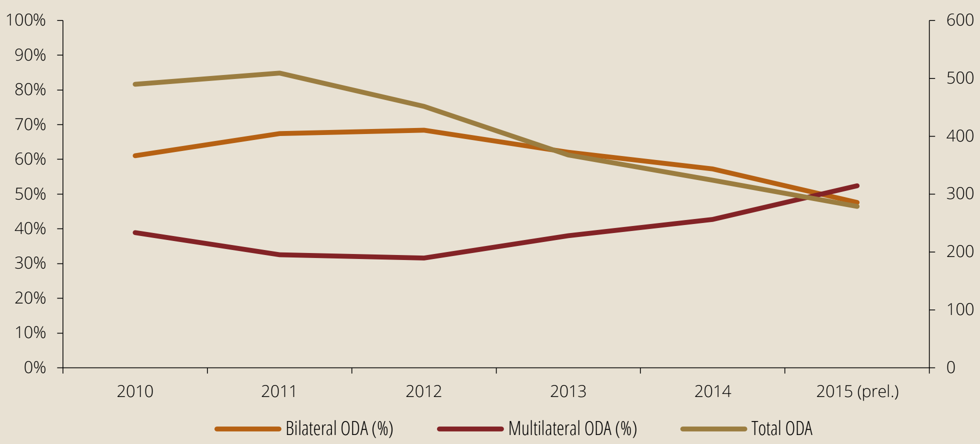


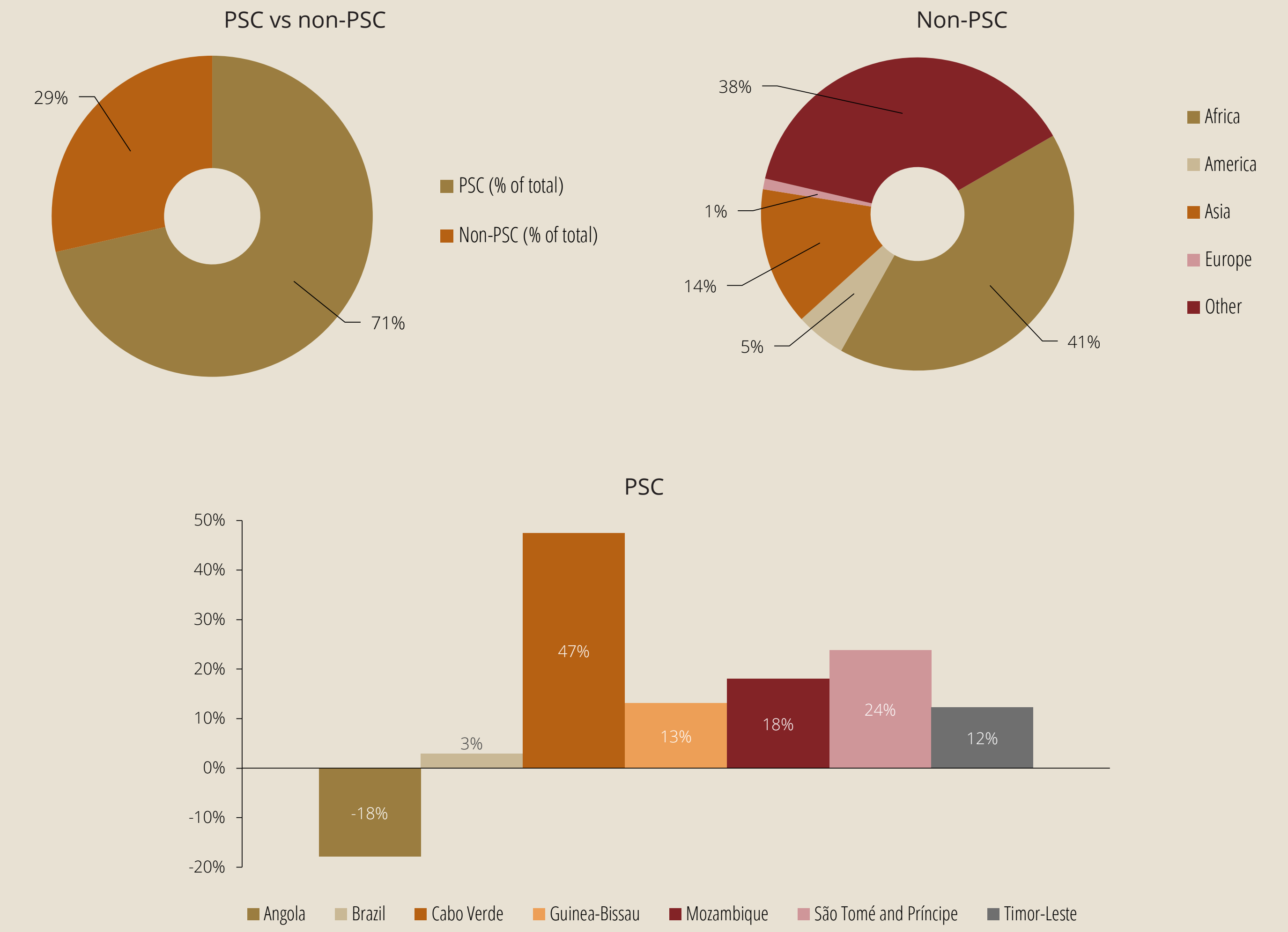

**Chart 1** • Distribution of Portuguese ODA | Preliminary data for 2015, EUR millions

Source: Camões – Instituto da Cooperação e da Língua (CICL).

As a proportion of total Portuguese ODA in 2015, 52 per cent was multilateral, whereas the remainder was bilateral in nature. These numbers confirm the trend registered since 2012, in which ODA has been losing relevance, a phenomenon explained by the fall in concessional loans over the same period, as well as the reimbursement of the debt to Portugal by the Angolan State, which began in 2009.

Bilateral ODA is essentially directed at Portuguese-speaking countries (PSC). Despite these countries representing between 80 and 90 per cent of total bilateral ODA in recent years, its weight fell in 2015 to 71 per cent. This variation is partly due to the reimbursement of Angolan debt, the reduced use of concessional credit lines by partner countries (Cabo Verde, Mozambique) and the increase in weight of Morocco (seven per cent of bilateral ODA).

**Chart 2** • Geographical distribution of Portuguese ODA | Preliminary data for 2015




Source: Camões – Instituto da Cooperação e da Língua (CICL).
Note: Net flows.

In relation to regional distribution to other countries, there was a considerable increase in flows directed at African countries (explained by the increase in bilateral ODA to Morocco) and a small reduction in bilateral ODA flows to European and Asian countries, associated with some countries losing their status as ODA recipients.

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