

Chapter 4. Better measures of financing for sustainable development

A revolution is underway to promote better measures of financing for sustainable development. The estimated volumes of financing needed to achieve the global sustainable development agenda are unprecedented – in the order of trillions of dollars. Successful delivery of the different resources by the different actors, targeted where the resources are needed most and where they can have the greatest impact, will rely on better measurement frameworks and tools. These must recognise the development footprint of all actors connected to sustainable development targets and provide a mapping of actions to identify the financing gaps, imbalances and opportunities for dynamic interactions among resources and goals. They must further leverage the opportunities to provide reliable impact-driven data, harmonising approaches across actors. For this revolution to succeed, holistic approaches will be needed to design a new financing for sustainable development compass that integrates the synergies and trade-offs of both domestic and external resources, including and beyond traditional development finance.

In brief

The fast-changing system of financing for sustainable development (FSD) raises new challenges to measure the volume, development qualities and development impact of myriad contributions. While the Millennium Development Goals (MDGs) relied primarily on official development assistance to measure the financing needed to reduce poverty, the 2030 Agenda and Addis Ababa Action Agenda (AAAA) call for unprecedented levels of financing from new actors to advance sustainable development and to end poverty (Chapter 1).

An estimated USD 2.5 trillion in financing is needed to achieve the Sustainable Development Goals (SDGs). This amount is 17 times greater than current volumes of official development assistance (ODA), which in 2017 reached USD 146.6 billion, and more than 10 times greater than the estimated MDG financing gap. In consequence, the financing for sustainable development framework that emerged from the AAAA and previous financing for development fora seeks to align all financing flows and policies – public, private, domestic and international – with economic, social and environmental priorities.

Yet crucial data are still missing to fully track the true distance to reach financing goals. The AAAA underscores the importance of overcoming this data gap. It calls “on relevant institutions to strengthen and standardise data on domestic and international resource mobilisation and spending, as well as data on other means of implementation” (United Nations, 2015^[1]). Flows from OECD Development Assistance Committee (DAC) members and ODA are still measured with a narrow lens. This lens must widen. With the horizon for achieving the sustainable development ambitions fast approaching, fundamental changes are needed to understand the distribution of roles of emerging providers, foundations, multinational enterprises and diaspora communities, among others.

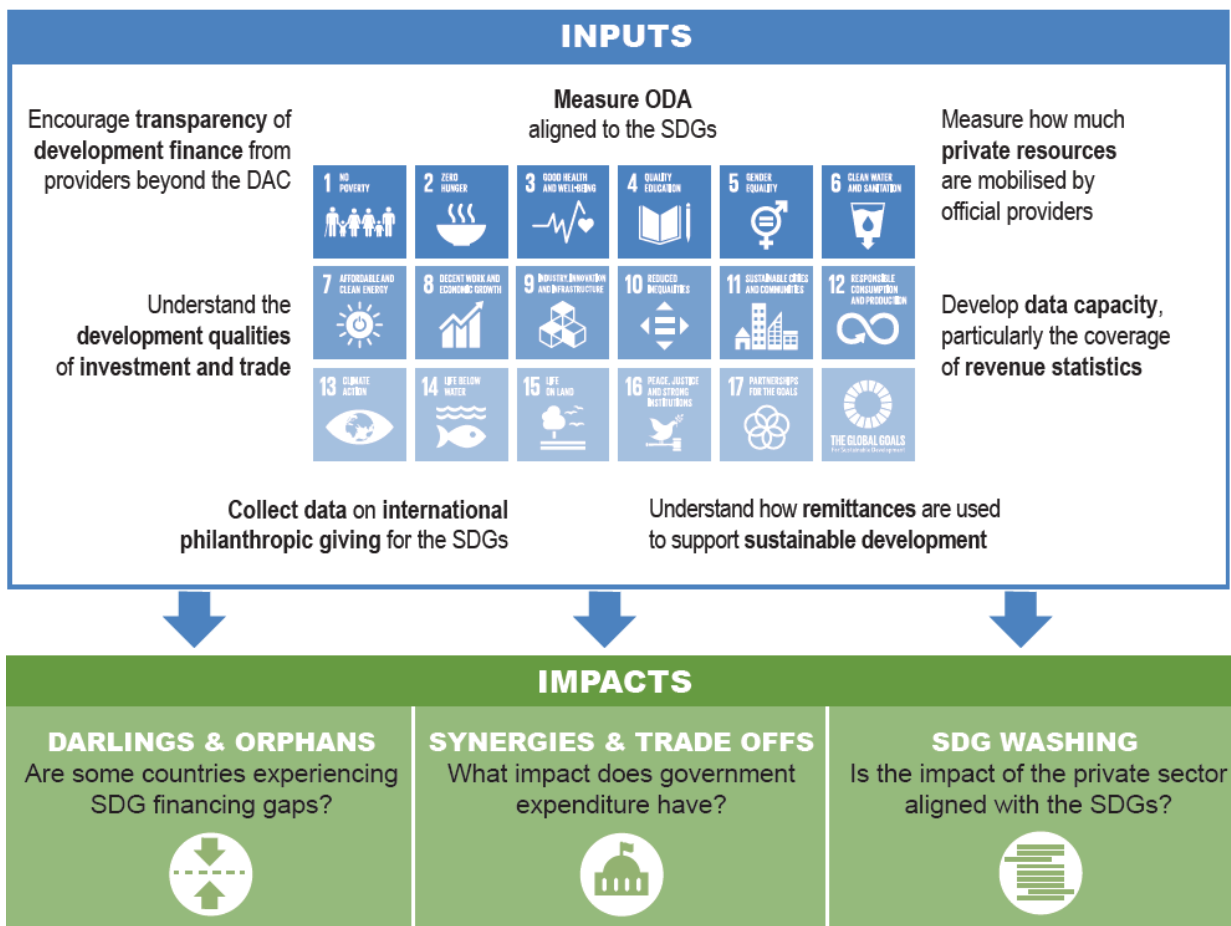
As the guardian of ODA, the OECD DAC faces a dual challenge. It must continue to provide robust ODA data for reliable comparison of existing donor commitments while also keeping pace with rapid changes in the financing for sustainable development (FSD) agenda and new sustainable development objectives. Understanding the development footprint of private sector resources is key to gauging the distance to the goals, as are measuring these resources and their impact on development results.

Better measurement is needed as well to help to mobilise the necessary finance aligned to the 2030 Agenda. To deliver on SDG financing, OECD constituencies will need tangible evidence of the positive results and impact of collective, multilateral action to advance sustainable development. Since 2016, 86% of OECD countries (31 out of 36) have carried out the United Nations SDG Voluntary National Review process. However, the SDGs appear to be largely unknown to the broader global public. A 2016 survey found that only three in ten people said they had heard of the SDGs, reflecting the need to better demonstrate the importance of the SDGs in people’s everyday lives and futures (GlobeScan, 2016^[2]).

A new FSD compass is needed to understand the contribution and complex interaction of different actors and sources of financing. Policy coherence of both domestic and international financing must be fully integrated into measurement frameworks. Looking forward, new and existing mechanisms must be strengthened for more comprehensive reporting across all actors and sources in support of sustainable development.

Figure 4.1 gives an overview of the challenges that remain to better measure resources and results for sustainable development.

Figure 4.1. Tracking the contribution of various financial flows to the SDG targets and indicators demands new metrics



Source: Author

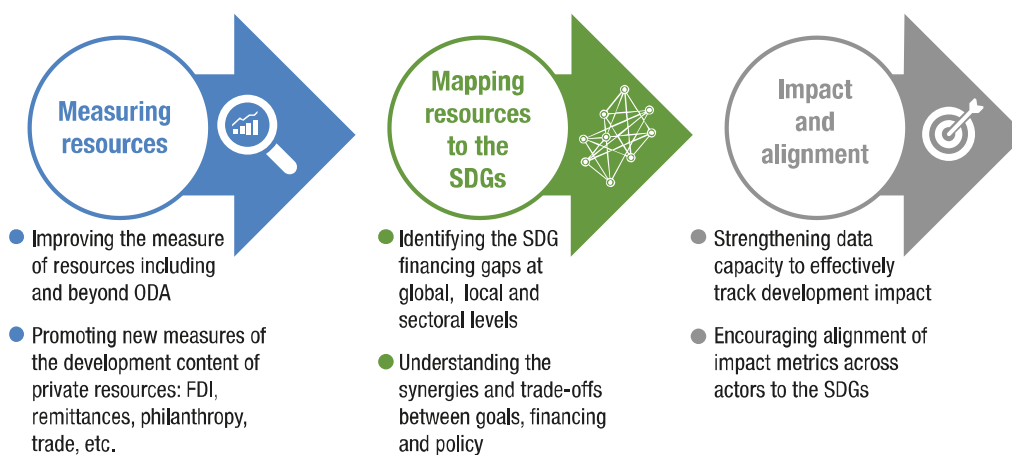
To deliver, efforts to measure and monitor sustainable development contributions must progress along three dimensions:

1. **Measures of all resources that impact sustainable development are needed.** The total official support for sustainable development (TOSSD) measurement framework holds the potential to ensure a more comprehensive measure of broader official and officially-supported resources beyond ODA and including non-DAC bilateral providers such as the BRICS countries¹. While TOSSD provides a first step in the right direction, other initiatives and measures will be needed to assemble a full picture of resources targeting the SDGs. To ascertain how external flows support the SDGs, efforts are underway to provide better measures of the development content, or footprint, of resources, particularly private finance such as philanthropy, remittances, foreign direct investment (FDI) and trade in value added.
2. **Mapping resources to the SDGs is necessary to identify gaps.** The SDG measurement framework itself lacks reliable data beyond ODA. Nearly half of the agreed SDG financing targets rely on indicators exclusively based on ODA. Only 9 out of 32 SDG financing indicators utilise data beyond ODA, i.e. other official

flows (OOF), FDI and remittances. Better data and tools to empower countries to assess the contributions of different actors and to strengthen the ability of countries to measure and finance their national development strategies. Private sector financing will be needed to fill over 50% of the financing gaps for transportation infrastructure, energy, telecommunications and agriculture sectors in developing countries. Yet on average, the private sector contributes to only 25% of all the SDG targets, raising the possibility that these sectors could be left behind as what are termed SDG orphans. There are also limits to measuring the dynamic effects among resources, for instance targeting the enabling environment for sustainable development.

3. **Measuring impact and aligning measures is required of all actors.** A broader mandate for the development effectiveness agenda has emerged and has been extended to both public and private actors. However, development of reliable measures that connect the financial inputs to the sustainable development results articulated in the SDGs is far from complete. For instance, SDG indicator 12.6.1 calls on governments to encourage companies to improve sustainability reporting as well as to adopt sustainability practices. The absence of a common framework for private sector actors to report against is increasing the risk of what has come to be called SDG washing.² There is a need to harmonise approaches to measuring results and to leverage the growing demand for heightened accountability across actors. Figure 4.2 illustrates the way forward through measuring, mapping and aligning metrics.

Figure 4.2. The way forward



Source: Author

Financing for sustainable development measurement: All resources linked to sustainable development must be measured

The emergence of new actors and instruments in the system of financing for sustainable development presents challenges for the tracking and monitoring. Section III of the AAAA, which covers data monitoring and follow-up, recognises the need for better harmonisation, transparency, capacity building, and access to qualitative and quantitative data for accountability across the AAAA action areas. Research commissioned by the OECD further demonstrates that data sources pertaining to these important, non-

traditional providers are highly fragmented across regions, sectors, instruments, flows, thematic and policy-related issues, and include more than 200 individual databases (Prada, 2014^[3]).

The measurement of international public resources is improving but remains politically challenging

For nearly 50 years, the donor community has adopted and strengthened accountability for international commitments in support of sustainable development on a collective basis, thanks to a common accounting of aid. The measure of ODA and its internationally agreed targets have served to maintain and improve donor provision of development finance and co-operation, shaping national strategies and informing policy decisions.

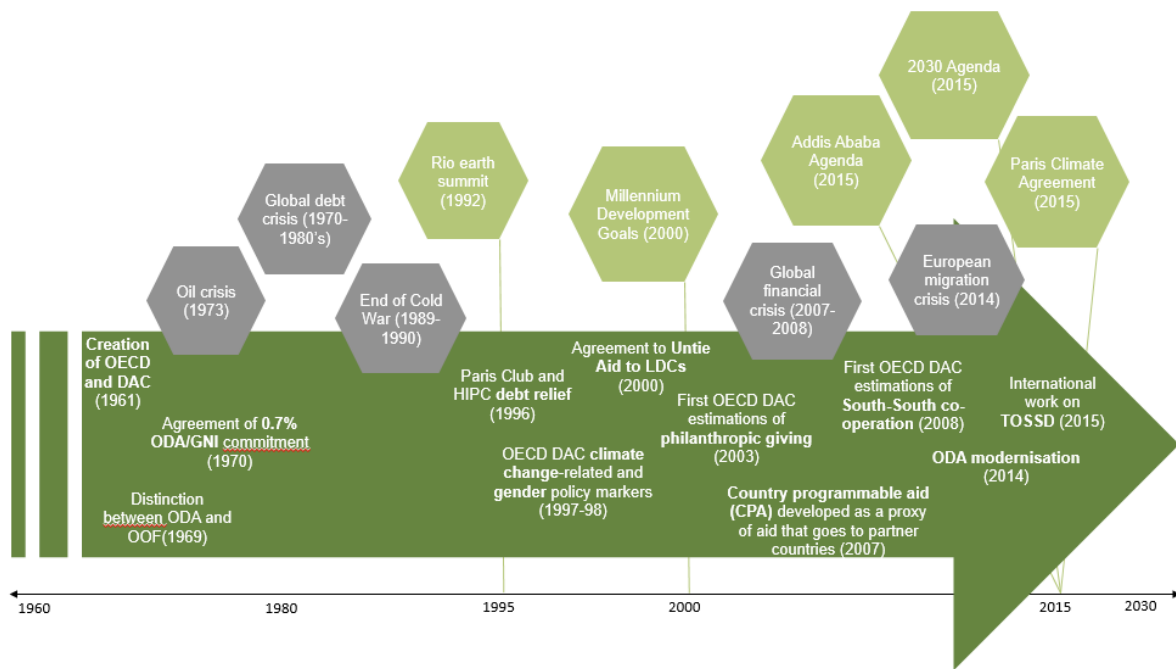
The definition of ODA itself, as Hynes and Scott (2013^[4]) noted, is “a compromise between political expediency and statistical reality”. The OECD DAC strives to ensure that the reporting of ODA enables the stability and quality of measurement and allows for comparison of members’ commitments over the long term.

Still, developing countries and the United Nations have expressed concerns over how inflows they receive are measured. A number of efforts have been made to address the divergent expectations and strike new compromises. One of these is reflected in the OECD DAC concept of country programmable aid.³ Several areas of measurement, however, remain contentious.

The measure of ODA must be continually modernised to maintain its integrity and ensure it is fit for purpose

The modernisation of ODA measurement, initiated in 2014, aims to clarify and improve a number of aspects that have an impact on measurement. Efforts aim to maintain the integrity of ODA through reporting incentives that promote spending of highly concessional resources targeted to developing countries with the greatest needs and to provide greater transparency to activities beyond official aid flows. OECD members are further responding to changes in the financing sustainable development system by developing measurement frameworks to capture development contributions such as blended finance.

The range of activities that qualify as development finance is also being updated to reflect global shifts that have affected development financing needs and capacities. Figure 4.3 presents a timeline of key development co-operation milestones. An example is the increased global movement of people through forced displacement and migration, which has an impact on what is counted as ODA. As Chapter 1 notes, spending on refugees that traditionally was considered as humanitarian assistance and intended as short-term emergency relief is more and more recognised as contributing to long-term development programming.

Figure 4.3. Measuring development finance in a fast-changing world

Note: Entries on the dark green arrow are the milestones in the evolution of the measurement of traditional development finance. Grey icons show major international events that made an impact on the measurement of development finance. Light green icons show key international agreements to finance sustainable development.

Source: Author

Measures of international public finance other than official development assistance remain limited

The AAAA and the 2030 Agenda call on all governments to contribute to SDG implementation. Non-DAC providers are increasingly engaged in the delivery of development finance and co-operation activities, yet publicly available data remains limited (Chapter 2). A diverse group of countries are considered non-DAC providers, among them several Arab countries, the BRICS nations, central European members of the European Union, and several Asian and Latin American countries. The estimated volume of development finance provided by these countries is growing each year, and in 2014 amounted to nearly USD 300 billion (Benn and Luijkx, 2017^[5]).

However, transparent statistics are not available for many of the non-DAC providers. While 20 countries that are not DAC members report on their development co-operation programmes to the OECD, only 8 of these are reporting detailed information on all projects they carry out. The OECD provides estimates of the development co-operation programmes of an additional ten countries that do not report to it (Benn and Luijkx, 2017^[5]).

Transparency challenges limit data and reporting on official flows beyond ODA, such as Other Official Flows (OOF). The number of DAC and non-DAC members reporting on OOF has increased, but reporting remains uneven among DAC members. Discrepancies in reporting among countries make it difficult to know whether differences in

non-concessional financing are due to data availability or to the preference of some donors for certain financing mechanisms.

Recent work on TOSSD aims to address the challenge of going beyond ODA and traditional providers (see Box 4.1). For example, in an era of increased globalisation, support provided to advance global goods is all the more crucial. Research to combat global pandemics, new technologies to reduce greenhouse gas emissions, and support for multilateralism to carry out global/regional policy discussions and international negotiations are just a few of these global goods that are core to financing sustainable development (Kenny, Snyder and Patel, 2018^[6]). While some ODA spending that supports global public goods is reported, there is currently no comprehensive measure of these flows beyond the OECD (OECD, 2018^[7]). Of those countries that responded to the “2018 Global Outlook on Financing for Sustainable Development Survey”, only three DAC member countries (Ireland, France and Japan) have developed metrics to track financing for global public goods and to address global challenges.

Box 4.1. How is TOSSD contributing to the measurement of financing for sustainable development?

Implementing the ambitious SDGs will require maximising the full potential of all forms of financing for sustainable development. Total official support to sustainable development (TOSSD) is a new statistical framework, specifically designed to measure external officially supported finance for sustainable development and the SDGs. It is designed to provide a coherent, comparable and unified system for tracking SDG-relevant investments that can inform strategic planning, identify emerging gaps and priorities, and assess progress in matching supply with needs.

A wide range of investments and contributions are covered in the scope of work to develop the TOSSD framework. Resources mobilised from the private sector by official development finance interventions are included. Also included is information collected on cross-border flows to help developing countries to track external resources in support of their national sustainable development strategies and support their national budgeting and financial planning processes. The work also will cover global public goods for sustainable development, which are essential for the implementation of the SDGs although they involve no direct resource transfers to developing countries. This information is currently not captured in any internationally comparable statistics.

In the spirit of SDG 17 (revitalising the global partnership for sustainable development) and the call of the Addis Ababa Action Agenda to “hold open, inclusive and transparent discussions” on TOSSD, an international task force was established in the second quarter of 2017 to further clarify the scope and statistical features of TOSSD. The composition of the task force ensures a balanced representation between traditional and South-South providers and partner countries, national statistical offices, development co-operation policy bodies, and international organisations. The task force has concluded its discussions on a number of key features of the TOSSD framework, such as the operational definition of TOSSD and the main statistical concepts and reporting principles.

TOSSD provides transparency of official resources beyond ODA and in support of sustainable development. However, it remains limited to total official support for sustainable development and officially-supported flows for sustainable development. The work on the framework intends to include so-called satellite indicators on other external private flows in an aggregate. Yet

measures of the development footprint⁴ of vast amounts of external private finance such as remittances, FDI and private giving remain challenging to ascertain.

The development footprint of private flows is difficult to capture, but new data are emerging

The AAAA recognises international and domestic private finance and business as crucial to support SDG financing. Private sector actors are called on “to engage as partners in the development process, to invest in areas critical to sustainable development, and to shift to more sustainable consumption and production patterns” (United Nations, 2015_[1]). Although the AAAA encourages private sector actors to play a role in financing development, not all private sector resources can be counted as financing *for* development.

To maximise the development footprint of resources beyond development finance, the AAAA cites in particular “positive spillovers” from FDI (paragraph 45) and the need to “increase world trade in a manner consistent” with the SDGs (paragraph 82) (United Nations, 2015_[1]). Measures of trade and investment are crucial to strengthen job creation and economic growth in developing countries. New data is emerging on how and to what extent different types of multinational enterprises (MNEs) and FDI flows are targeted to support sustainable development outcomes.⁵

Several initiatives have emerged recently that can help to better assess the quality dimensions of private finance:

- The OECD Quality FDI Toolkit aims to measure how FDI may contribute to economic (e.g. economic diversification), social (e.g. gender equality) and environmental (e.g. green infrastructure) aspects of sustainable development.⁶ The toolkit looks beyond country averages and studies heterogeneity with regard to FDI benefits and costs that is sectoral, within-country and subnational; and within-firm, such as in small and medium-sized enterprises versus large firms. The Quality FDI Toolkit builds on two core OECD instruments: the OECD Policy Framework for Investment (PFI), which provides policy guidance for mobilising private investment that supports steady economic growth and sustainable development, and the OECD Guidelines for Multinational Enterprises, which address responsible business conduct. It is expected to help improve assessments on how FDI contributes to sustainable development and supports achievement of the SDGs (Wermelinger, Mantovani and Montinari, 2017_[8]).
- The OECD Activity of Multinational Enterprises, or AMNE, database also provides insights on the impact of MNEs on host economies in terms of production, employment, value added, research and development, labour compensation, and exports (OECD, 2018_[9]).
- The OECD and World Trade Organization (WTO) Trade in Value Added (TiVA) initiative permits a better understanding of commercial relations between nations and the capture of value added by developing countries in the production of goods and services. The 2016 version of the TiVA database contains data from 28 developing economies including People’s Republic of China, Brazil and India (OECD-WTO, 2016_[10]). Trade data provide insights on the following indicators:
 - How developing countries are tapping into global value chains, including where the different stages of production are carried out across different countries.

- Whether and under what conditions it is possible to upgrade and avoid being caught in low value tasks.
- The type of employment and social gains that global value chains may generate and whether these foster greater gender equality in the workplace.
- Whether global value chains increase the vulnerability and exposure of a country to footloose investment⁷ and external shocks.

Measuring the development footprint of remittances requires innovative approaches

Remittances must be considered separately from other forms of financing for development because they are transferred at the level of households and not controlled by governments (Chapter 2). Nevertheless, remittances play an important role in a developing country's progress towards sustainable development and in its overall financing context.

As is the case with other non-ODA flows, measuring the share of remittances that contribute to sustainable development is challenging. Some remittances can contribute to property market speculation or disincentives to participate in local labour markets. Further, large volumes of remittances transit through informal rather than formal channels like banks. In Nigeria, which receives the largest volume of remittances of any African country, the Central Bank of Nigeria has neither a method to track formal and informal transfers nor a national policy to guide efficient use of remittance flows towards sustainable development (Oluwafemi and Ayandibu, 2014_[11]).

Well-known mechanisms to mobilise remittance financing, such as innovative, diaspora-based financial instruments can also facilitate understanding of how remittances contribute to development. Diaspora investment initiatives provide transparency for how remittance flows target specific projects linked to sustainable development, e.g. infrastructure projects or to secure balance of payments. An example is the Calvert Foundation, which was created in 2015 with the support of a development credit guarantee from USAID and aims to mobilise at least USD 50 million in impact investment from the Indian private sector diaspora in the United States.

International efforts increasingly seek to measure the development footprint of philanthropic giving

Standardising international measurement of the development footprint of philanthropy faces specific, but significant, challenges regarding transparency of data. These relate mainly to the accounting incentives or constraints placed on philanthropic actors by their boards or investors and by domestic laws and regulations that limit obligations to publicly disclose financial information (Box 4.2).

Box 4.2. The challenges of measuring philanthropy for development

Before the recent OECD survey undertaken in connection with its report on philanthropy, global, comparable and publicly available data on philanthropic giving in support of development were virtually non-existent. In most countries, neither governments nor private philanthropic organisations collect and share data on philanthropic giving. In addition, definitions, legal status and regulations underpinning philanthropic giving vary dramatically from country to country. This hampers the ability of researchers, donors, governments and the philanthropic community itself to compare or aggregate data to map these actors accurately.

There are several reasons for this dearth of data:

- Foundations differ from official development agencies in their lines of accountability. Rather than being accountable to taxpayers, foundations answer to their boards and/or to their funder (often an individual, family or private company). As a result, in most countries, foundations are not registered at the national level. They often have limited obligations to disclose financial data to the public.
- Funding by philanthropic organisations that goes outside their home countries is hard to compare to financial flows like ODA. This is especially true for what is called overseas funding that might include grants not aimed at supporting development per se. For example, grants might support countries not included on the DAC list of ODA recipients or they might focus on causes that fall beyond the definition of development used by the OECD DAC.
- In some cases, foundations themselves have led the call to produce more and better data and standards on data and accountability. The Global Philanthropy Data Charter, developed by the Worldwide Initiatives for Grantmaking Support, encourages and helps guide foundations' efforts on transparency.
- While these are positive developments, none of these standards are binding. Nor have they been widely adopted by the philanthropic actors. The degree of transparency and the extent of reporting practices remain heterogeneous among foundations.

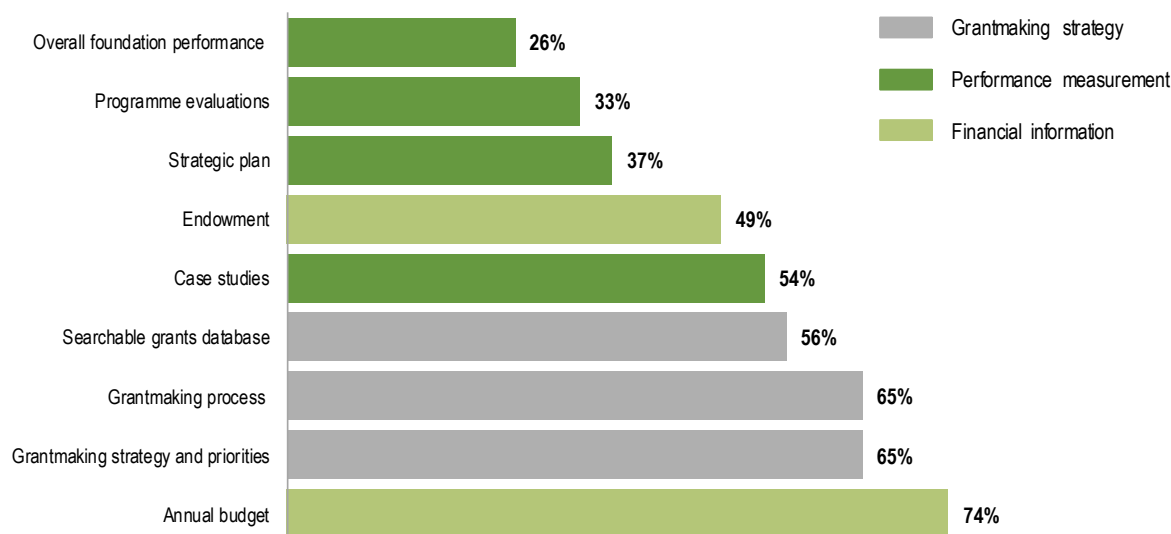
Source: OECD (2018_[12]) *Private Philanthropy for Development*, <http://dx.doi.org/10.1787/9789264085190-en>.

In connection with its (2018_[12]) philanthropy report, the OECD undertook a large-scale survey of private philanthropy for development that explored the feasibility of collecting data on these flows on a basis comparable to ODA. The survey was conducted in 2016-17, and targeted all countries, including and beyond the OECD, covering 147 foundations in total. It aimed to identify philanthropic flows supporting the economic development and welfare of developing countries as their main objective. It also provided an opportunity to engage with these institutions about regular statistical reporting, in a standardised manner, of philanthropic investment for sustainable development.

The survey also provided important data on the kind of information shared publicly by foundations. As shown in Figure 4.4, 74% of responding foundations provide financial

information on annual budgets but only 33% of these disclose performance measurement of programme evaluations (OECD, 2018_[12]).

Figure 4.4. Types of data shared publicly by foundations



Source: OECD (2018_[12]), *Survey on Private Philanthropy for Development 2013-15: Qualitative questionnaire*, <http://dx.doi.org/10.1787/9789264085190-en>.

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Mapping Sustainable Development Goal financing: Better data are needed to assess SDG financing needs and gaps

In the past, the financing needs of the MDGs were estimated by calculating the additional ODA required to cut poverty levels by half by 2015, which translated to a doubling of official aid flows over 2000 levels. (Radelet, 2009_[13]). This estimation was carried out based on the financing of the eight MDGs that mainly correspond to sectors such as health and education.

The SDGs comprise 17 goals and 169 targets. Each requires high-quality data and financing of external flows as well as domestic financing levels. As discussed in Chapter 2, domestic public resources present the largest source of financing for sustainable development. Even if all countries met their ODA targets, this would not cover the total SDG financing gap. The majority of financing (77%) for the MDGs relied on domestic resources (Martin and Walker, 2015_[14]). The SDGs also will rely heavily on domestic finance, but will further require private financing to succeed.

International collaboration is needed to tackle country-level data gaps

National governments require data that measure external resources received and also domestic resources and how these are marshalled and retained. Data that provide an understanding of the availability of domestic resources are a prerequisite to design and implement national SDG strategies that successfully guide all actors (Chapter 6).

Strengthening developing country data capacity and country ownership is the first step to address SDG financing gaps

Limited statistical capacity in developing countries hinders measurement of SDG financing gaps. In 2015, developing countries had the capacity to report on only 68% of the MDG indicators (United Nations, 2015^[15]) and even today, 44% of countries do not have comprehensive birth or death registration data (OECD, 2018^[16]). The data gap inevitably will increase because the SDGs have 169 targets, a sharp increase over the 21 targets of the MDGs.

Indeed, data capacity (SDG 17.18) in developing countries is itself a financing gap. The 2004 Marrakech Action Plan for Statistics (MAPS), led by the World Bank, the OECD and regional development banks, estimated additional annual financing needs for data capacity at USD 140-160 million per year. The (2016^[17]) Global Partnership for Sustainable Development Data estimated the cost of producing data for the SDGs in 144 developing countries at between USD 2.8 billion and USD 3 billion per year until 2030. International aid for statistics reached USD 541 million in 2015, when it represented less than 0.3% of annual ODA (PARIS21, 2017^[18]). This suggests that the remaining funding gap for data capacity is an estimated USD 635-685 million once available domestic budgets are taken into account. The global fund on data for development proposed by PARIS21 calls for reliable and sustainable resources to fund development data needs (Box 4.3).

Box 4.3. PARIS21 Initiative: Prospects for a global fund on data for development

The 2030 Agenda has set an ambitious objective for monitoring and implementing the Sustainable Development Goals that require more frequent and comprehensive data in a wider range of areas than ever before. Unfortunately, the call for producing more and better data has not yet translated into increased support for national statistical systems. While more resources are required to ensure SDG monitoring objectives are met, as the 2030 Agenda underscores, these resources also need to be reliable and sustainable. The current financial landscape for the sector is unbalanced since new actors focus on sectoral needs and thus overlook the broader structural needs and capacity challenges of national statistical systems.

Previous global action plans on statistics, such as the Marrakech Action Plan for Statistics (MAPS) and the Busan Action Plan for Statistics (BAPS), have managed to secure a stable funding source for their implementation because they were closely related to a broader policy agenda. The MAPS, established in 2004, was responsible for the implementation of national sustainable development strategies in International Development Association countries and establishing the International Household Survey Network (IHSN) and the Accelerated Data Programme (ADP). The BAPS prolonged this effort, integrating national statistical activities with national planning, promoting open access and increasing knowledge to use statistics effectively.

The Cape Town Global Action Plan for Sustainable Development Data

(CTGAP), endorsed by the UN Statistical Commission in 2017, outlines the actions necessary to generate quality and timely data to inform sustainable development at the requested level of disaggregation and population coverage. This plan provides a framework for discussion, planning and implementation of statistical capacity development to achieve the 2030 Agenda. However, it has not yet been integrated into policy processes like its predecessors. The High-Level Group for Partnership, Coordination and Capacity-Building for statistics for the 2030 Agenda for Sustainable Development (HLG-PCCB) has drawn attention to the importance of securing financial resources for the successful implementation of the CTGAP, particularly in developing countries where the capacity gap is significantly higher.

In this context, PARIS21 offers its support to assess the scope and feasibility of setting up a Global Fund on Development Data. The aim is to understand whether such an instrument would attract the attention of donors and encourage national investment. Drawing on lessons learned from existing global funds, the project will explore the opportunities and risks of such an instrument and provide insight into its design, especially its structure, institutional setting and mechanisms. The project will inform the discussion and activities of the High-level Group related to financing data in the future.

Source: PARIS21 (2017^[18]), *Partner Report on Support to Statistics*, http://www.paris21.org/sites/default/files/2017-09/PRESS2017_infographic.pdf

International support can improve developing country data on domestic revenue statistics

Although domestic resources represent the greatest source of financing for sustainable development (Chapter 2), developing countries face significant challenges to collect detailed and comparable revenue statistics vital to benchmark performance against the SDGs. Some of these challenges include little co-ordination across revenue collection agencies, little availability of historical data and the absence of appropriate IT systems to record revenue data. Revenue statistics are a valuable policy tool for benchmarking with similar countries and for analysing factors driving changes in revenue overtime.

The OECD Revenue Statistics series,⁸ a collaboration of the OECD, regional organisations and participating countries, is helping to improve high-quality, internationally comparable, publicly available revenue statistics in national currency, in US dollars and as a percentage of GDP. The series also tracks revenue by different types of tax categories and by level of government. Since 2012, coverage of developing countries in the Revenue Statistics series has increased across the regions of Africa, Asia and Pacific, and Latin America and the Caribbean. In 2018, the series is expected to cover 90 countries.

International co-operation can increase data availability to revenue authorities

Increasing data availability to tax authorities is a vital part of support to increasing tax revenues. This is especially challenging when the data required are held in and/or by other countries. Developing countries are especially vulnerable in this regard given their

high reliance on corporation tax (often from MNEs headquartered overseas) and the high level of assets held offshore. Getting access to the data required for effective risk analysis of taxpayers is therefore reliant upon international co-operation. Developments in recent years have significantly increased the opportunities for such co-operation.

New global standards on exchange of information (EOI) and automatic exchange of information (AEOI) provide frameworks for countries to both request specific information from other countries and to receive a range of information on financial accounts held by their taxpayers on an automatic basis.

The Base Erosion and Profit Shifting (BEPS) Actions provide countries with a number of data tools to help address the challenges of effectively taxing MNEs. One of the key tools is the requirement that MNEs produce a country by country report that breaks down their operations on a country basis. This provides the data needed to undertake high-level risk analyses and to identify avenues for further investigation and auditing.

These new sources of qualitative and quantitative data have huge potential value to developing countries, although ensuring that developing countries have the systems in place to be able to protect and use such data effectively is challenging. As such, international co-operation is needed – not just in willingness to provide the data but also in helping to support countries’ ability to make effective use of the data.

Challenges remain in estimating domestic revenues that are lost and financial flows that are leaving countries

Box 4.4 discusses the challenges of estimating the amount of domestic financing that is lost due to causes such as money laundering, stolen assets, trade mis-invoicing, etc. Improved understanding of these outflows could help identify further tools to track and reduce them and thus increase the domestic financing available for sustainable development.

Box 4.4. The challenges of defining and measuring illicit financial flows

Given their illicit nature, illicit financial flows (IFFs) are difficult to measure and understanding the full scale of IFFs is challenging. Nonetheless, these flows have become a prominent issue in financing for sustainable development as they deprive developing countries of significant volumes of capital that could be invested domestically and be subject to taxation. Recent efforts seek to understand the scale of all resources lost due to money laundering, stolen assets, trade mis-invoicing and other such causes. A recent estimate put the total value of IFFs between USD 1.4-2.5 trillion in 2014 (Spanjers and Saloman, 2017_[19]), but there is currently no agreed international definition of IFFs or methodological framework for measuring their volume.

Measures of good governance, anti-corruption performance and similar conditions can provide indicators of a country’s capacity to effectively retain and spend resources in support of the SDGs⁹ (Chapter 6). For instance, current measures of governance and quality of public spending by the Extractive Industries Transparency Initiative (2016_[20]) show that some developing countries potentially have substantial financing that could be redirected towards sustainable development. One example is Peru, where only 15% of revenues from the mining and hydrocarbon sector now are used for developmental

spending on programmes such as infrastructure and economic diversification. Actions can also be taken in the countries where these outflows end up. The Financial Action Task Force monitors progress against a number of standards for combatting money laundering, yet compliance is often low; a 2014 review of OECD countries found none were fully compliant with the beneficial ownership recommendations for legal arrangements (OECD, 2014^[21]).

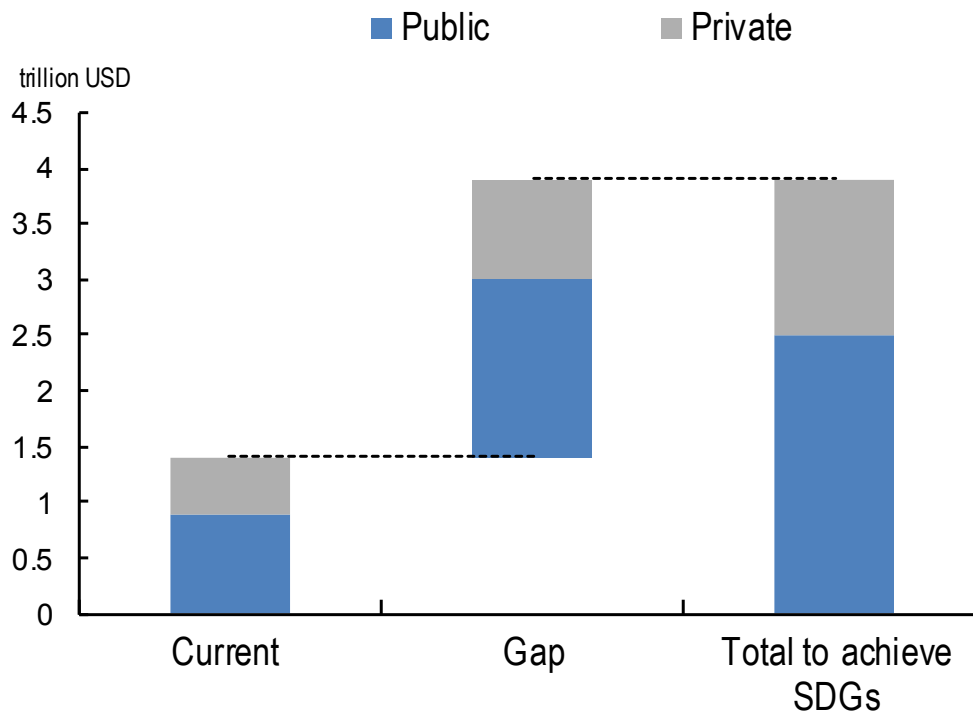
Mapping techniques must help identify potential SDG orphans and darlings

The SDGs call for a more complex distribution of financing across sectors for broad-based economic transformation to eradicate poverty by 2030. Estimations of gaps in SDG financing measure the domestic and external resources required to fulfil projected needs estimates. Needs assessments aim to systematically identify the discrepancy between current conditions of financing and development progress, with domestic revenues and external finance, on the one hand, and desired levels of finance and progress, on the other.

The costs of achieving the SDGs in developing countries, as shown in Figure 4.5, are estimated at USD 3.9 trillion annually while current public and private annual investment in SDGs estimated at USD 1.4 trillion – leaving an investment gap of USD 2.5 trillion each year (UNCTAD, 2014^[22]).

The recent retreat of private sector financing to developing countries (Chapter 2) may call for even more, and particularly better targeted, support from the public sector for the SDGs. In Box 4.5, Chantal-Line Carpentier discusses the need for partnerships to fill SDG financing gaps. Based on its current share of investment in SDG areas, the private sector would be expected to cover USD 900 billion of this gap, leaving USD 1.6 trillion to be covered by the public sector including ODA (UNCTAD, 2014^[22]). Other, more conservative estimates project that ending poverty in low-income and lower middle-income countries will cost USD 1.4 trillion per year in public and private investments (Schmidt-Traub, 2015^[23]).

Figure 4.5. Public/private SDG financing gaps



Source: UNCTAD (2014^[22]), *World Investment Report 2014: Investing in the SDGs, An Action Plan*, http://unctad.org/en/PublicationsLibrary/wir2014_en.pdf.

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It is important to underscore that these results are highly sensitive to projections of GDP that may be considered optimistic in today's economic climate. Lower GDP growth rates would reduce domestic resource mobilisation and thereby increase the external financing gap. Moreover, the potential for better redistributive mechanisms through improved fiscal policy in developing countries may contribute to advancing progress to fill the gap. Complicating mapping further, SDG forecasts, such as the World Poverty Clock (World Data Lab, 2015^[24]), cannot fully account for future interactions among sources of financing, technological advances, global shocks, and other impacts and trends.

Box 4.5. In My View: Financing and partnerships to fill the Sustainable Development Goal financing gaps, by Chantal-Line Carpentier, Chief New York Office, UNCTAD

Although estimates vary, the United Nations Conference on Trade and Development (UNCTAD) has estimated a USD 2.5-trillion per year gap to finance the SDGs in developing countries. We must find a way to incentivise investment in innovations and partnerships to eradicate poverty, mitigate inequality and broaden access to basic services by unlocking the USD 12 trillion of new market opportunities related to achieving the SDGs. The potential for increased private sector investments, especially in infrastructure, is significant.

Yet as it stands now, there is not enough to fill this gap. For example, UNCTAD estimates the total cost of universal access to modern energy in least developed countries (LDCs) is somewhere between USD 12 billion and USD 40 billion per year, even without considering the need to meet productive capacity. Although the share of gross ODA disbursements to the energy sector in LDCs increased to 5.7% in 2015, funding tends to be concentrated in a few countries, with 43% going to only five LDC recipients. Moreover, foreign direct investment (FDI) makes up 39% of total inflows in developing countries and represents their largest external source of finance. But it constitutes less than 25% of the inflows for the LDCs and its share in such countries has been declining since 2012. This and other alarming trends, such as the 17% drop in FDI in 2017 and falling exports from LDCs, are incompatible with the key principle of the 2030 Agenda – leave no one behind.

Funding and partnerships will be crucial. Country ownership based on the priorities outlined in voluntary national reviews (VNRs) provide the basis to strengthen a global positioning system to finance the SDGs. These priorities need to be included in the UN development assistance frameworks of developing countries and in the local and national sustainable development strategies of OECD countries. They should likewise serve as a signal to DAC members in setting their funding priorities. These reviews add certainty that investment will flow into priority sectors, thus serving as powerful signals to capital markets.

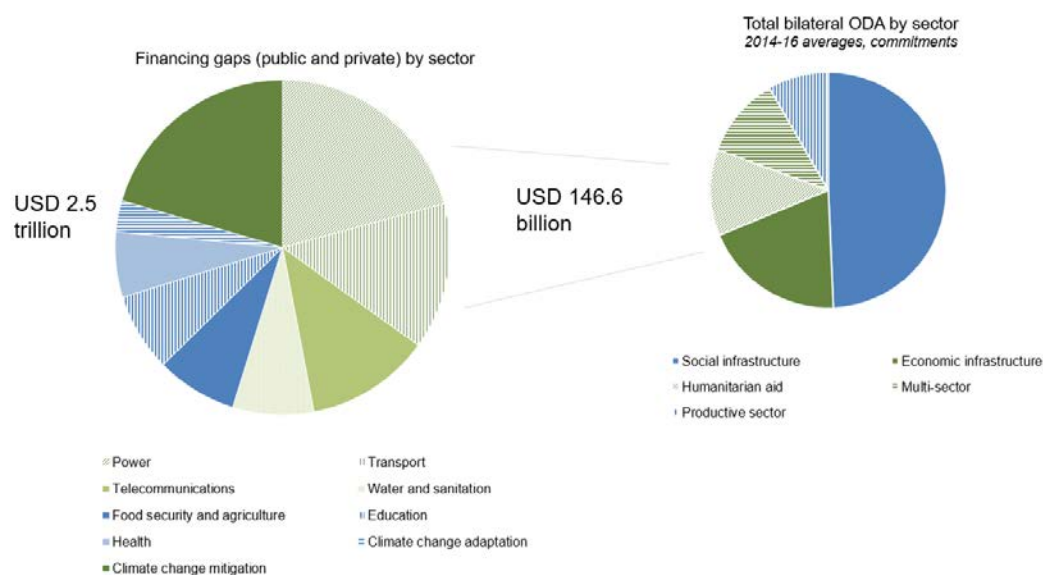
A partnership between the OECD and the UN entities offers great potential to help fill the SDG financing gap. Such a partnership, among other benefits, could help to reform the investment regime to facilitate attainment of the SDGs – including the unprecedented USD 58.7 trillion in wealth transfer to women and millennials that will occur over the next 35 years. This partnership could muster evidence-based consensus on which sectors need to be funded and which can be financed – and it could do so with the sense of urgency that the 2030 Agenda requires. To achieve this vision, we must be proactive, united and focused.

Efforts to map official development finance to the SDGs have gained momentum yet remain conceptually challenging

Assigning sectoral or policy objectives to ODA is conceptually and empirically challenging. This is due to the cross-cutting nature of the SDGs, which also makes it difficult to avoid double counting across financing and to achieve harmonisation across actors on reporting. For example, SDG 1 (no poverty) is also an underlying objective of all ODA, raising the question of how the portion of ODA targeted to this goal should be measured. The OECD DAC policy markers traditionally provide one way to weight cross-cutting policy objectives such as gender and environmental issues^{10 11} (OECD DAC, 2016_[25]). They provide a qualitative approach to measure the degree to which finance targets multiple objectives while avoiding double counting. Future work will establish an SDG data field to identify linkages between inputs and desired SDG outputs and outcomes. Recent discussions have resulted in the introduction of a new system of multiple purpose code reporting better aligned to the SDG targets (OECD, 2018_[26]). To enrich future SDG sectoral analysis, a pilot case study was carried out with Finland to assess multi-sector reporting (OECD, 2016_[27]). Work is also underway to leverage the potential of machine learning to assess SDG financing gaps.

Measurement of how private sector resources target the SDGs is needed to identify imbalances among public and private resources. According to a recent OECD (2015_[28]) study, the USD 146.6 billion of ODA in 2017 mainly targets social and administrative infrastructure in the sectors of basic education, primary healthcare, nutrition, and safe water and sanitation. Figure 4.6 shows that total public and private financing gaps are much larger than ODA volumes and are concentrated in other economic infrastructure sectors. These sectors include climate change mitigation (a gap of USD 380-680 billion per year); power (a gap of USD 370-690 billion per year); water and sanitation (a gap of USD 260 billion per year); and transportation (a gap of USD 50-470 billion per year) (UNCTAD, 2014_[22]).

Figure 4.6. SDG-related sectoral financing gaps



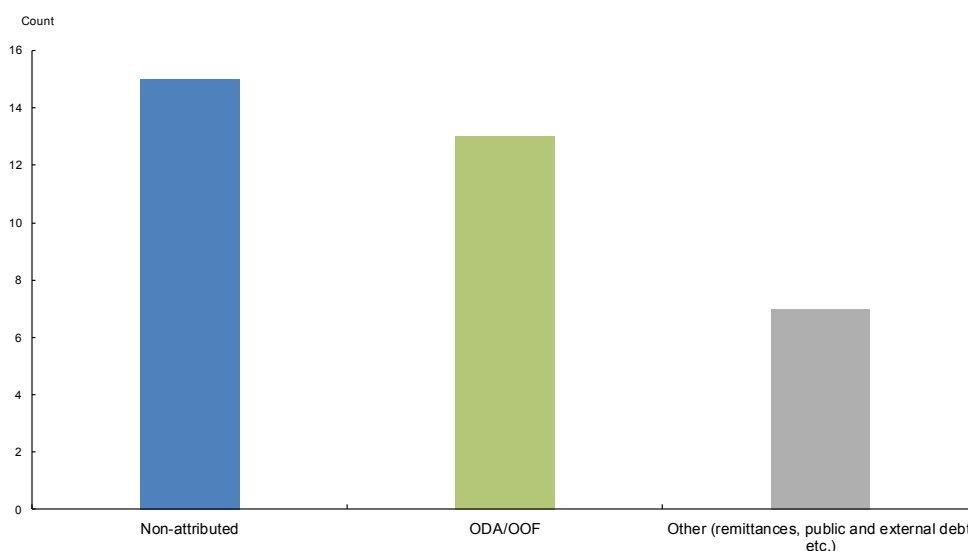
Source: Author's illustration based on UNCTAD (2014_[22]), *World Investment Report 2014: Investing in the SDGs, An Action Plan*, http://unctad.org/en/PublicationsLibrary/wir2014_en.pdf and OECD (2018_[7]), "Creditor Reporting System" (database), <https://stats.oecd.org/Index.aspx?DataSetCode=crs1>.

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A lack of internationally agreed SDG indicators presents a challenge to map resources beyond aid

Although SDG 17.3 calls on countries to measure efforts to “mobilise additional sources of financing”, indicators are mainly limited to measures of official development finance provided by members of the OECD DAC (Figure 4.7). This underscores the need to look beyond ODA and towards better measures that connect broader public and private financing sources with the development impact. As further detailed in Annex Table 4.A.1, 13 of the 32 SDG financing indicators rely on ODA and/or OOF data; 15 indicators lack data; and only 9 indicators include non-ODA data and 4 of these rely on solely non-ODA data.

Figure 4.7. Financial indicators of SDG Indicators Framework



Source: Author’s calculations based on the database of the global indicator framework for the Sustainable Development Goals and targets of the 2030 Agenda for Sustainable Development. (United Nations, 2018_[29]). Accessed on 21 March 2018.

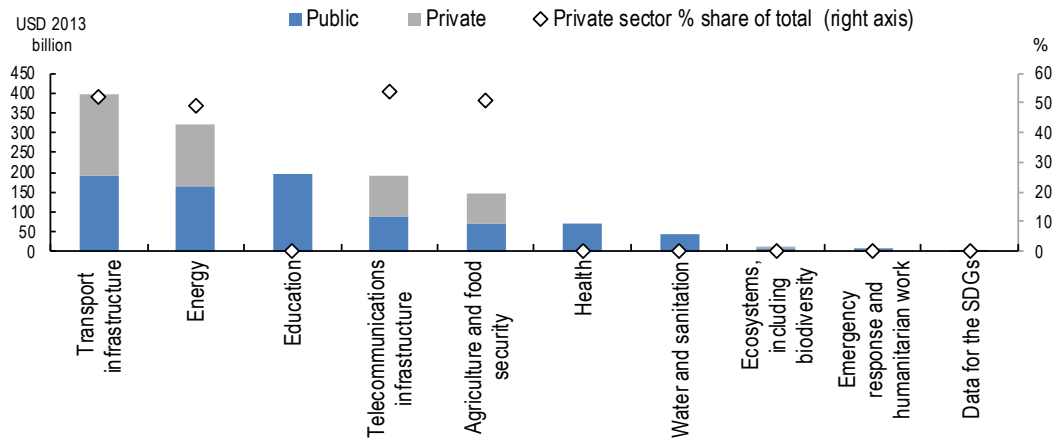
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Data can help articulate the roles of public and private actors to fill the SDG financing gaps

Certain SDGs, such as those related to infrastructure, represent areas where the private sector is already contributing. The AAAA emphasises the importance of bridging the global infrastructure gap of USD 1-1.5 trillion¹² and urges “enhanced financial and technical support” (paragraph 14). Figure 4.8 illustrates that the public and private sector infrastructure financing should cover nearly equal shares of the gaps in the transportation infrastructure, energy, telecommunications and agriculture sectors in developing countries. In this way, private flows align closely with infrastructure-related SDGs such as SDG 6 (clean water and sanitation), SDG 7 (affordable and clean energy), SDG 9 (industry, innovation and infrastructure), and SDG 10 (reducing inequalities, which

indirectly covers transport infrastructure as part of the target of reducing the cost of exporting).

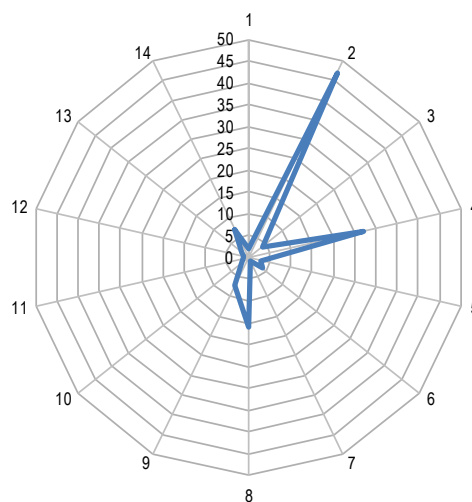
Figure 4.8. Public and private financing needs by sector



Source: Authors based on UNCTAD (2014^[22]), *World Investment Report 2014: Investing in the SDGs, An Action Plan*, http://unctad.org/en/PublicationsLibrary/wir2014_en.pdf.

StatLink  <https://doi.org/10.1787/888933853167>

Recent studies of private sector contribution to the SDGs demonstrate further convergence with other SDG-related areas beyond infrastructure that can be scaled up. One such study stems from an initiative led by the World Bank, the World Economic Forum and the International Development Research Centre with support from the GrowInclusive platform of the German Federal Ministry for Economic Cooperation and Development (BMZ). The study finds that support is reaching several goals including SDG 8 (job creation), SDG 2 (zero hunger), SDG 4 (quality education), SDG 10 (reducing inequalities), and SDG 17 (partnerships for the goals). However, these hits were highly concentrated in 40 of the 169 SDG targets or 6 of the 17 SDGs.¹³ It shows that more than 75% of SDG targets are not yet supported – they had no so-called “hits” – by private sector activities, suggesting that 11 SDGs are underfunded Figure 4.9.

Figure 4.9. SDG hits per business case study

Source: (World Economic Forum, International Development Research Centre, World Bank Group, 2018_[30]), “GrowInclusive Initiative”, <https://www.growinclusive.org/data-and-methodology/our-solution/>.

StatLink  <https://doi.org/10.1787/888933853186>

Further analysis of how both public and private resources are targeting SDG-related sectors is important, particularly in cross-cutting areas, to address potential gaps in support. Better data is needed to ascertain the characteristics, particularly of private sector activities. As demonstrated in the studies above, the coverage of private sector actors in survey data can be scaled up to encompass a wider range of SDG-related sectors where the private sector is playing a role.

Measuring the catalytic effects of resources as countries transition through levels of development

Since the Monterrey Consensus (United Nations, 2003_[31]), governments have sought to maximise the catalytic effect of ODA to unlock other sources of financing in order to fill financing gaps. The Addis Ababa Action Agenda also emphasises the need to more effectively maximise the catalytic role of development finance, and particularly ODA, to mobilise domestic resources, strengthen public services and private sector development, and unlock additional finance through blended or pooled financing and risk mitigation (paragraph 54).

As discussed in Chapter 3, to assess financing needs and gaps, it is necessary to measure the dynamic effects among resources in the form of synergies and trade-offs as countries’ income per capita or level of development changes.

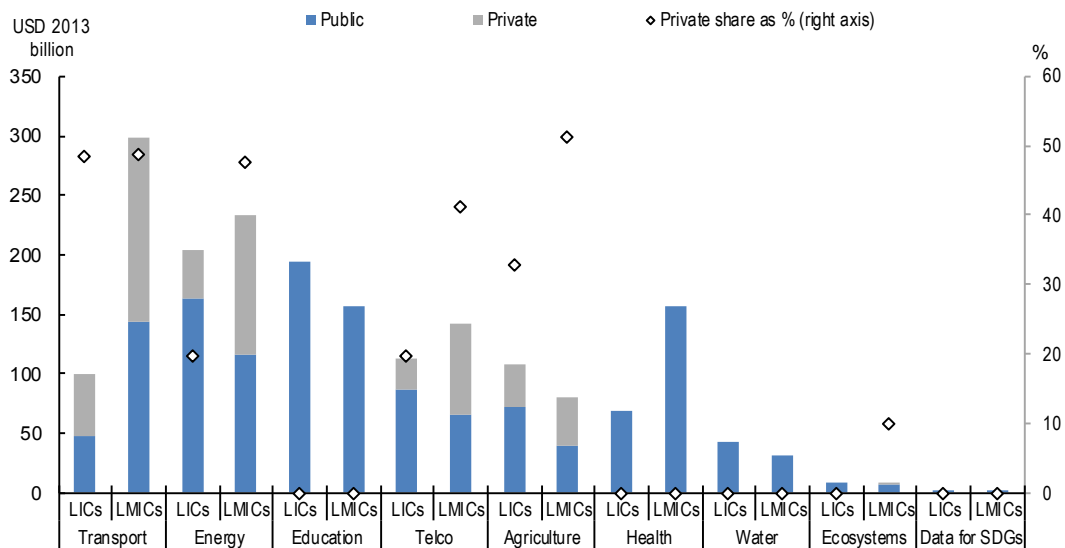
The measurement of blended finance provides an understanding of some but not all catalytic effects

Instrument-based approaches offer opportunities to measure the catalytic effects of official support to mobilise public and/or private financing for development¹⁴ (Chapter 3). A greater share of private sector resources is expected to fill larger gaps in higher-income countries (in absolute terms). There is a concentration of private sector mobilisation in middle-income countries, which demonstrates the need to examine how official

development finance should be targeted to promote access to financing in lower income countries.

While lower middle-income countries have the potential to raise domestic financing to nearly self-finance the achievement of the SDGs, low-income countries will require, by some estimates, USD 152-163 billion per year (Schmidt-Traub, 2015^[23]). As Figure 4.10 shows, private sector investment is projected to provide nearly half the resources that will be needed in lower middle-income countries in key SDG sectors such as agriculture and energy.

Figure 4.10. Public and private investment needs by income level



Source: UNCTAD (2014^[22]), *World Investment Report 2014: Investing in the SDGs, An Action Plan*, http://unctad.org/en/PublicationsLibrary/wir2014_en.pdf.

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Alignment and impact: Efforts to deliver impact-driven data aligned towards sustainable development rely on a new culture of evaluation

Not every dollar spent on development has equal impact, and measuring just the financing will not reveal development impact. The 2005 Paris Declaration on Aid Effectiveness provided the first international agreement on how to maximise the impact of aid.¹⁵ It reaffirmed the importance for donors to “increase the impact aid has in reducing poverty and inequality, increasing growth, building capacity and accelerating achievement of the MDGs”. However, several challenges limit assessments of the SDG impacts of different actors and sources.

A broader set of actors also is demanding better measures of impact to assess actual SDG outcomes. A report by the Business and Sustainable Development Commission (2017^[32]) estimates the potential economic output of delivering the SDGs at close to USD 12 trillion per year across 60 new markets in four economic systems, which far outstrips the estimated cost of USD 2.5 trillion to deliver the goals. A stronger common framework of

indicators and targets, aligned both to the SDGs and returns on investment, is key to reaping these benefits, particularly for private sector actors.

Harnessing impact-driven data for the SDGs to drive a race to the top

Governments are stepping up efforts to put impact measurement at the heart of financing aligned to the SDGs

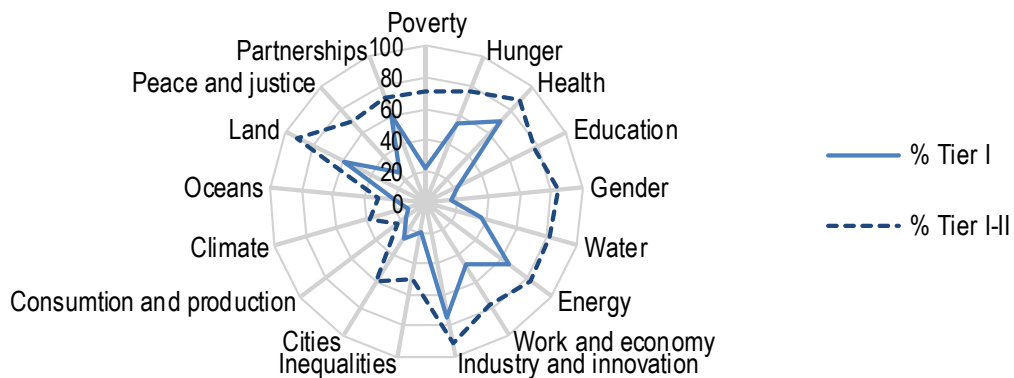
Development co-operation providers use output, outcome and impact information (i.e. results data) at different levels such as corporate, country and project level to communicate and account for what has been achieved and to enable learning, informed decision making and course corrections.

OECD members are incorporating SDG targets and indicators into existing development results frameworks. A study conducted for the results community of the OECD DAC finds that results frameworks can be strengthened by SDG targets and indicators (Engberg-Pedersen and Zwart, 2018^[33]). Box 4.6 discusses the findings in greater detail. Notably, providers and partners can use the SDG targets as a common framework to prioritise relevant development goals, measure progress towards the goals and assess the challenges to reaching them.

However, more robust data for impact are needed. The indicators developed to track SDG progress provide the basis for assessing the impact of finance for sustainable development. Yet, 60% of these indicators are not considered robust in terms of coverage or methodological definition. The UN Inter-agency and Expert Group on SDG Indicators has established a classification system of SDG data by tiers, with Tier 1 signifying most robust and Tier 3 signifying least robust data (Figure 4.11).

Across the SDGs, better data and indicators of impact from private sector actors will be required. Robust data from the private sector are lacking for a number of SDGs including: SDG 8 (decent work and economic growth) to measure not only the number of jobs but also the quality of jobs created, which encompasses measures of gender equality, inclusiveness, contract duration, impact on poverty rates, etc.; SDG 10 (reduced inequalities), for which recruitment costs require employer data; SDG 11 (sustainable cities and communities); SDG 12 (sustainable consumption and production); SDG 13 (climate action); and SDG 14 (sustainable marine and ocean development) (OECD DAC, 2018^[34]) (United Nations, 2018^[29]).

Figure 4.11. SDG indicators by goal and tier



Source: United Nations (2018^[29]), “The Inter-Agency and Expert Group on SDG Indicators” (*website*), <https://unstats.un.org/sdgs/iaeg-sdgs/>.

StatLink  <https://doi.org/10.1787/888933853224>

Despite this lack of data, governments are seeking to improve reporting on SDG implementation and commitments through the voluntary national review (VNR) process.¹⁶ VNRs are emerging as an important tool to ensure policy coherence on SDG implementation at both domestic and international levels. In 2016-17, 65 countries conducted VNRs. The number of OECD members conducting VNRs has increased to 9 on average (2016-18). However, 5 out of 35 OECD members have yet to carry out a VNR. Although annual reporting is not required, it is recommended that all countries carry out the process at least once before the end of the 2016-18 cycle.

Box 4.6. Using the SDGs as a common framework to strengthen results-based management

The 2030 Agenda for Sustainable Development expresses the visions and aspirations of the international community and sets up an ambitious results framework with goals, targets, indicators and deadlines. Providers can strengthen their results frameworks and results-based management by incorporating SDG targets and using SDG indicators.

At country level, providers and partners can identify a commonality of priorities and targets and establish country results frameworks around the SDG targets that are most relevant to their goals for the country’s development. They can also identify gaps in development efforts to meet the partner country’s needs and priorities. Within the government’s development priorities, the parties can discuss particular challenges related to the distance to the estimated end values of the 2030 targets.

Many providers and partners already identify SDGs and SDG targets that fit with their respective development goals and priorities and can be incorporated in their results framework. This requires selecting from among the 169 SDG targets those targets that are supported by robust indicators. It also means differentiating among the SDG

outcome targets and indicators and those indicators that address the means of implementation.

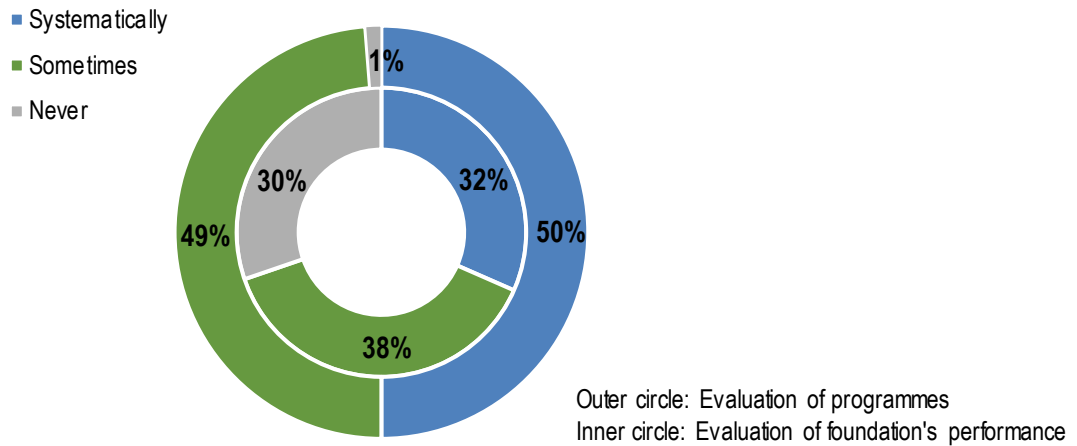
To support these efforts, the OECD Development Co-operation Directorate (DCD) results team screened the 169 targets to present a menu of 60 SDG targets and indicators that can strengthen providers' results frameworks. This menu comprises, first, 42 SDG outcome targets supported by 53 robust SDG indicators agreed by the UN Statistical Commission and that providers and partners can consider as components of results frameworks for development co-operation. Second, the menu includes 18 SDG targets and indicators covering "means of implementation" that can be included in Tiers 2 or 3 of results frameworks concerning provider performance and outcomes.

An assessment of the standard indicators applied by eight bilateral and multilateral providers shows that there is scope for linking these directly to SDG targets and indicators. This would be instrumental in reducing the number of indicators. These can be unwieldy. For example, under target 6.1, providers utilise seven different indicators to measure SDG indicator 6.1.1 on the proportion of the population using safely managed drinking water.

Source: (Engberg-Pedersen and Zwart, 2018_[33]) *The 2030 Agenda and Development Co-operation Results*, <https://doi.org/10.1787/24140929> and (Zwart, 2017_[35]) *Strengthening the results chain: Synthesis of case studies of results-based management by providers*, <https://doi.org/10.1787/24140929>.

While private sector actors increasingly utilise measures of sustainable development impact, these measures must be improved for reliability

Certain private sector actors are increasing efforts to measure and monitor the development impact of their activities. The recent OECD (2018_[12]) survey on philanthropy finds that foundations are increasingly measuring impact and integrating monitoring and evaluation in their processes (Figure 4.12). Nearly all foundations responding to the survey reported that they evaluate their programmes, with half confirming they do this "sometimes" and half "systematically" (OECD, 2018_[12]). Targets and indicators of private sector participation in developing countries are also being improved by initiatives that aim to better harmonise data such as the Global Impact Investing Network's IRIS metrics catalogue, the Harmonized Indicators for Private Sector Operations (HIPSO) and the OECD Social Impact Investment (SII) initiative.

Figure 4.12. Foundations' use of performance evaluation mechanisms

Source: OECD (2018^[12]), "Survey on private philanthropy for development, 2013-15, qualitative questionnaire", www.oecd.org/site/netfwd/.

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The number of private sector actors engaged in measuring development impact is increasing. Beyond philanthropic actors, 73% of United States investors incorporate environmental, social and particularly governance issues into investment analysis and decisions (CFA Institute, 2017^[36]). In addition, 93% of the 250 largest corporations in the world report on their sustainability performance (KPMG, 2015^[37]).

The reliability of impact assessments is being called into question, given that many public and private sector actors develop and cite such assessments as to improve their reputation and to reassure stakeholders. The "In My View" piece by Eric Berseth and Vincent Mudry in Box 4.7 argues that impact measurement is becoming a hollow "buzzword". Ensuring a high standard for assessing impact is essential to strengthen accountability.

**Box 4.7. In My View: The challenges of measuring the impact of investments,
by Eric Berseth, Executive Director, and Vincent Mudry, Head of Operations, Philanthropy
Advisors**

Impact measurement has become a buzzword for social change actors, impact investors and donors in the humanitarian and development community. These actors are giving increasing importance to evidence-based results and performance measurement to better track inefficiencies and to ensure greater value for money. This trend has pushed programmatic and implementing institutions, including foundations, to talk about impact. Today, most organisations say they run impact programmes, implying that they measure impact. Yet strictly speaking, impact measurement is rare and most of these claims are unsubstantiated.

As with any other buzzword, the term impact measurement has been used in so many different ways that its meaning has become unclear to many actors of change. A precise description starts by defining the impact of an action as the context that results from all significant and lasting changes in the life and environment of individuals and groups of people, whether they are directly or indirectly connected to the action. These changes can be positive or negative, foreseen or unforeseen. Impact is therefore the new context that results from the combination of outcomes derived from the action.

When an organisation intends to measure the impact of its programmes, it requires a level of expertise and significant financial means to carry out all related activities over a relatively long period of time. Impact involves a variety of variables that are often independent of the action itself, which means that reliable measurement of causality is challenging to identify. Impact measurement is therefore difficult to carry out in a systematic manner. Overcoming the challenges of impact measurement can be difficult and carries the risk of over-simplifying the process and watering down its meaning. There is no easy answer to get around the costs.

Conscious of the challenges of impact measurement, some actors prefer to measure the likelihood of impact in order to circumvent some of the costs. This helps to address what the programme does and how it could achieve desired impact. Measurement of the likelihood of impact provides a middle ground between deploying expertise and resources that are not necessarily available, on one hand, and being accountable for the programmes that are being implemented, on the other.

Innovative financial instruments, such as the well-known Humanitarian Impact Bond, can also present a suitable solution to combine the different requirements that stem from impact and accountability. Traditional donors transfer risk – for a profit – to private investors, while assigning verification and performance measurement. Although “impact” bonds do not fall within the boundaries set by the academic definition of impact measurement, they are built on a solid theory of change with measured results and thus offer greater assurance vis-à-vis the overall quality of programmes.

Leveraging measurement for SDG impact

There is a demand for more effective measures of sustainable development impact from both public and private actors. Stronger measurement tools are needed to cultivate and develop this emerging new culture of evaluation to deliver value for money and maximise available

resources (Chapter 5). Traditional donors have a longstanding history of carrying out evaluation and assessment of development co-operation activities and can provide capacity support.

Innovative tools can help to measure sustainable development impact

Tools for results-based evidence provide greater opportunities to identify win-win solutions in support of the SDGs based on empirical evidence. For example, private sector actors could benefit from the experience of multinational development banks to improve the quality of measurement frameworks for assessing the impact of activities. The International Finance Corporation (IFC), for one, has instituted a new tool called Anticipated Impact Measurement and Monitoring (AIMM), which is meant to “identify and catalogue IFC interventions that contribute to market creation” (International Finance Corporation, 2018^[38]).

In addition, the effectiveness of private sector engagement can be increased by improving alignment of results frameworks to the SDGs. For example, the Commonwealth Development Corporation (CDC), the United Kingdom’s development finance institution, is working to implement a new strategic approach that will require it to align investment to all the SDGs, broadening measures of development impact beyond job creation to include impact in the priority sectors such as women’s economic empowerment, climate change, job quality, and skills and leadership (Commonwealth Development Corporation, 2017^[39]).

Private sector actors are also turning to environment, social and governance (ESG) metrics as a tool to use market forces that align their contribution to social, environmental and economic impacts. For institutional investors, asset managers, financial institutions and other stakeholders, ESG performance metrics bring transparency to investor decisions and reinforce investor confidence by quantifying environmental and social outcomes. In this regard, Morgan Stanley Capital International (MSCI) developed the ESG Sustainable Impact Metrics, a framework to measure and monitor sustainable impact. It covers 2 500 companies for social impact themes and 8 500 companies for environmental impact themes (MSCI ESG Research Inc., 2016^[40]).¹⁷

Challenges remain to translate sustainable development objectives into corporate evaluation techniques

ESG metrics rely mainly on self-assessment, which presents significant risk of SDG washing. SDG indicator 12.6.1 calls on governments to encourage companies to improve sustainability reporting as well as to adopt sustainability practices. However, there is no common definition of ESG metrics, and reporting practices vary from business to business. For instance, some companies may prioritise gender equality and women’s empowerment while others focus solely on reducing carbon emissions.

Some private sector actors are calling for a move towards a unified framework for corporate sustainability metrics aligned to the SDGs. One initiative that is gaining traction is the SDG Compass for Business, developed by the Global Reporting Initiative, the UN Global Compact and the World Business Council for Sustainable Development. In adopting the Compass, companies commit to align their strategies and measure and manage their contribution to the SDGs. Nevertheless, self-reporting practices continue to represent cause for concern over the reliability and accuracy of impact measurement, as highlighted in the “In My View” piece by Pietro Bertazzi in Box 4.8.

Box 4.8. In My View: The importance of integrating SDGs in corporate sustainability reporting, by Pietro Bertazzi, Head of Sustainable Development, Global Reporting Initiative (GRI)

The Sustainable Development Goals (SDGs) have ushered in a new era of global development with their aim of addressing the world's most pressing challenges. The active participation of business is essential to achieve these goals. By upholding and respecting recognised standards and principles, business makes an essential contribution to the SDGs.

Many companies already act and report on topics covered by the SDGs such as climate change, sustainable water management, gender equality, or employment and decent work. Over time, sustainability reporting has evolved into a strategic tool for organisations to support decision-making processes at all levels. Reporting is used to shape business strategy, guide innovation, drive better performance and value creation, engage stakeholders, and attract investments.

Integrating SDGs in corporate sustainability reporting means measuring companies' impacts and performance against the ambitious sustainable development agenda and ultimately driving their positive contribution to the SDGs. It is essential that companies report on the topics, SDGs and targets on which they have the highest impact. And this requires prioritisation.

GRI and the United Nations Global Compact have established an Action Platform, Business Reporting on the SDGs, to drive corporate reporting on the global goals. Together we have developed a principles-based approach to SDG prioritisation that provides the basis to identify the SDGs on which companies have the most significant impact. This is done as part of a materiality assessment. The approach is based on corporate baseline responsibilities identified in the Ten Principles of the UN Global Compact, the UN Guiding Principles on Business and Human Rights, OECD Guidelines for Multinational Enterprises, and the related OECD Guidance on Due Diligence.

Principled prioritisation will help avoid common pitfalls such as SDG washing (i.e. focusing on or accounting only for positive impacts on the goals) and cherry picking (i.e. selecting goals based on what is easiest or most profitable for the company to do and ignoring important negative impacts). Only then are investors and other stakeholders able to assess the real progress towards the Sustainable Development Goals.

Better incentives frameworks are needed to align the behaviour of actors to the SDGs. Private sector actors do not have the same legal responsibility to fulfil the SDGs as do governments. Yet all private sector actors have a responsibility to comply with relevant domestic legislation, uphold internationally recognised minimum standards and respect universal human rights.

OECD members have a role to play to strengthen the development footprint of the private sector and to ensure that domestic legislation guides companies to adhere to a common framework for reporting. Delivering the right policy mix to guide business and investment practices will rely largely on governments setting the right incentives frameworks. Chapter 5 discusses this issue further.

Looking forward: Towards a new financing for sustainable development compass

The AAAA (paragraph 2) aims to provide a “holistic and forward-looking framework” and “concrete actions to deliver on the promise of the agenda”. To meet this call, a revitalised FSD compass is required to guide all actors, sources of finance and policy in support of collective and coherent global action for sustainable development.

Domestic efforts to advance sustainable development also come with the risk of impeding progress elsewhere. Policy areas such as international taxation or migration can have important positive or negative spillover effects in developing countries and careful consideration of these effects must be accounted for. The “In My View” piece by Guido Schmidt-Traub in Box 4.9 provides insights on the challenges of measuring the spillover effects of SDG financing among countries.

An overarching challenge of implementing the ambitions of the AAAA is the cross-cutting and integrated nature of the SDGs, meaning that successful achievement of one goal must not come at the expense of the other goals. Nor should achievement of one country’s SDG implementation come at the expense of another country’s progress.

**Box 4.9. In My View: International spillover effects of SDG financing,
by Guido Schmidt-Traub, Executive Director, Sustainable Development
Solutions Network**

One country’s progress towards achieving the Sustainable Development Goals (SDGs) depends in part on actions by other countries. Such international spillover effects cover environmental dimensions (transboundary pollution, climate change or supply chain impacts on biodiversity); social dimensions (labour standards); security (weapon exports or conflict); and financing (international development finance, banking secrecy, unfair tax competition, etc.). For this reason, the SDGs are a truly universal agenda.

The 2018 SDG Index and Dashboards Report prepared by the Bertelsmann Stiftung and the Sustainable Development Solutions Network (SDSN) shows that high income countries generate large negative international spillover effects, particularly on environmental dimensions and finance. Variations across countries at similar levels of per capita GDP are high. For example, Denmark and Switzerland have comparable levels of per capita income, but Switzerland exhibits vastly higher negative spillover. This evidence suggests that negative spillover effects can be curbed through appropriate policies.

Among international development finance flows, official development assistance (ODA) and non-concessional finance are among the best-studied and most comprehensively-reported, thanks in large part to the OECD DAC. In particular, we now have clear measure of programmable aid. One worrying trend, however, is the growing dilution of the ODA definition and the difficulties of matching provider data with records from recipient countries. Here, mechanisms like the International Aid Transparency Initiative have been very helpful. In recent years, efforts have also been undertaken to collect and harmonise data on private

philanthropic giving, which also is becoming an increasingly important source of development finance.

A greater challenge is understanding non-concessional public finance and the volume of private finance that is leveraged through public-private partnerships and other blended finance mechanisms. Many providers and particularly multilateral development banks use different standards for reporting. In some cases, they have been suspected of inflating such development finance flows, which generates suspicion among developing country finance ministries about the quality of the data. It is therefore vital to make underlying project data publicly available in order to harmonise reporting standards and to cross-check provider reporting with recipients' records. Another major challenge is the need for better and transparent reporting of development finance flows from China and other non-OECD countries.

We also lack sufficiently harmonised data on commercial foreign direct investment. Databases maintained by UNIDO, the OECD and the IMF are not fully consistent. Not all FDI contributes towards the SDGs. Some foreign investment may even be harmful if – for example – it undermines environmental objectives. The largest incremental volumes of such financing are coming from China under the Belt Road Initiative, but we lack a clear understanding of the volumes and composition of these flows.

The most controversial aspect of international spillover effects on SDG financing concerns banking secrecy and unfair tax competition. Data produced by Oxfam and other organisations show that OECD member countries, including their overseas territories, operate banking systems that promote large-scale tax evasion and hide the beneficial ownership of companies and trusts. While there have been significant improvements in getting financial centres to comply with OECD transparency standards, the Panama Papers and other leaks underscore the vast scale of tax evasion and money laundering that occur today. Given their pernicious impact on public finances, public trust and countries' ability to finance the SDGs, greater action is required on reporting and curbing these illicit flows.

Given as well the importance of positive and negative international financial spillovers, it is critical that work continues by the OECD and other organisations help to clarify definitions and reporting standards. Partnerships with China and other providers are needed to increase the transparency and coverage of data. Such flow data must be matched against assessments of development finance needs across the key SDG dimensions, as provided by the SDSN for low-income and lower middle-income countries, to determine the finance gaps and to foster discussions on how they can be closed in time for the 2030 deadline.

Measuring the trade-offs and synergies across the goals is needed to avoid setbacks

The SDGs can be articulated as a network of targets, a perspective and approach that allow for clearer understanding of areas where synergies among goals can potentially be leveraged to positive effect (Le Blanc, 2015^[41]). Shared targets such as those to end poverty and inequalities (SDG 1 and SDG 10) indicate opportunities to impact progress across goals simultaneously. They also call for deeper analysis into how a network approach could help to maximise the development effectiveness of financing.

To accelerate progress, measures must identify how all SDGs reinforce or cancel out one another. For all countries, SDG 1 (end poverty) is associated with the greatest number of positive synergies across the SDGs and is statistically linked with progress in SDG 3 (good health and well-being), SDG 4 (quality education), SDG 5 (gender equality), SDG 6 (clean water and sanitation), and SDG 10 (reduced inequalities). In contrast, SDG 12 (responsible consumption and production) is the goal most commonly associated with negative trade-offs (Pradhan et al., 2017^[42]).

A more holistic approach is required to measure the spillover effects of domestic and external SDG financing

OECD members have initiated efforts to break the policy silos of SDG implementation. A focus solely on commitments to mobilise financing, whether framed as the target of 0.7% ODA/GNI or as billions to trillions, misses how financing actually impacts sustainable development progress. Ensuring a whole-of-government approach to SDG monitoring, such as voluntary national review reporting and implementation across institutions and policy communities, is needed. The discussion of policy coherence in Chapter 5 makes this clear.

Some OECD members are acting to develop new measurement tools to guide implementation at the domestic and international levels. One promising example is a recent French government invitation to all ministries to evaluate the alignment of policy to the SDGs. A recent study conducted by the Institute for Sustainable Development and International Relations (IDDRI) identifies opportunities in support of the French initiative to break the silos between goals and to ensure the policy coherence of financing to advance progress at domestic and international levels. This study is discussed in Figure 4.6.

Box 4.10. Measuring Sustainable Development Goal implementation in France: The challenge of breaking down the SDG silos

Are the SDGs relevant for an OECD country like France? Given current trends France will have difficulty meeting a number of targets, including reducing inequalities in education and conserving biodiversity. Hence, although France has managed to tackle a lot of development challenges in the past, new challenges emerge questioning the sustainability of its development model.

The SDGs are not the only tool and policy framework for sustainable development, but they are the most overarching ones. A question for OECD countries like France is how to move beyond raising awareness of the SDGs and their relevance to concrete action through existing tools.

The main added value of the SDGs lies in advancing policy coherence by promoting synergies and avoiding trade-offs among different policies and budget lines. In order to be used as such, the SDGs need to be taken out of their own silo and become relevant for policy making and budgeting.

In September 2017, the Ministry of Ecology and Solidarity announced on behalf of the French government that an SDG roadmap would be developed. At an inter-ministerial meeting on 8 February 2018, in the framework of the Interministerial Committee for International Cooperation and Development, the government reaffirmed its intention to rapidly set up a roadmap and announced it would include the SDGs in the budget process and in the evaluation of future laws, public policy reviews and mobilisation of a broader array of actors.

How the SDGs will be included in the budget process still needs to be clarified. The government has said that “where relevant and possible” it will align its budget performance indicators with the SDGs. It is hoped this will permit better measurement of the impact of public budgets on the SDGs internally and externally. The revision of budget performance indicators in light of the SDGs, if not carried out purely as a token gesture, may indeed prove useful, in that the SDGs provide a coherent framework.

Advancing policy coherence also means limiting negative impacts on third countries. At the moment, the link between the external and internal dimension of the SDG implementation is still a blind spot in the French SDG implementation approach. The SDG roadmap could remedy this omission by emphasising SDG implementation measures that limit negative impacts on third countries.

France is accelerating SDG implementation and is moving in the right direction. The ultimate success of the announced projects to remove the SDGs from their silo and integrate them into policy and budget choices depends on how they are translated into concrete measures and whether they garner political buy-in.

Source: Elisabeth Hege and Damien Demailly (IDDRI).

Future work must seek to establish a new FSD compass, one that builds on the existing initiatives to guide actions across actors and sources of financing. The OECD (2017^[43]) report, *Measuring the Distance to the SDG Targets*, includes analysis of spillover effects of actions that help other countries in meeting the targets. As noted in this chapter, the Index and Dashboard 2017 report (Bertelsmann Stiftung-Sustainable Development Solutions Network, 2017^[44]) provides another methodology to assess the spillover effects of SDG implementation and financial contributions such as international tax transparency and including and beyond ODA. Similarly, the new index launched by the Center for Global Development (2017^[45]) assesses policies and financial contributions of OECD countries to the SDGs.

New tools and measurement frameworks can help governments take a more holistic approach to measuring the contribution and progress of all actors – whether they are private sector actors, civil society organisations, academics, philanthropists or diaspora senders of remittances. These tools and frameworks already are helping to strengthen reporting in the context of SDG implementation (e.g. the formulation of voluntary national review reports).

Conclusion and recommendations

Measurement is the first step to setting goals and targets, and ultimately to defining strategies and policies that maximise development impact and advance progress toward the global agendas. A crucial lack of data is impeding understanding of progress to finance sustainable development and identify potential gaps. The current SDG targets and indicators framework relies primarily on official aid data provided by the OECD DAC to track SDG financing, leaving the development content of the majority of financing unknown.

Measuring the volume of flows is not enough. There is a demand for a more holistic approach and effective measures of development impact from both public and private actors, with public actors seeking to demonstrate value for money of public funds and private sector actors looking to increase economic, social and environmental returns on investment. A culture of evaluation and impact can be leveraged.

Efforts should be made to measure how much the various flows, including and beyond aid, actually contribute to sustainable development and the 2030 Agenda. Several policy recommendations can help to achieve this level of ambition:

- To support the transparency initiative, develop local capacities to better measure the flows, map flows to the SDGs (including through TOSSD), and assess SDG financing needs and gaps. Explore new technologies (e.g. machine learning) that can be adapted to measure resources and results linked to sustainable development.
- Develop evaluation and impact assessment tools (e.g. business self-assessment tools to benchmark performance against specific SDG and SDG results frameworks for governments) to measure the quality and development footprint of various FSD actors and sources.
- Launch discussions about moving from measuring financing for development to financing for sustainable development, addressing a broader array of resources and actors (what to include and exclude?), and about exploring the trade-offs and spill-overs among SDGs.

Chapter 5 applies these emerging findings to maximise financing by strengthening the effectiveness and coherence of policies in support of sustainable development. It calls for a second paradigm shift to make the best use of existing resources, by both seizing new opportunities and managing potential risks.

Notes

- ¹ The BRICS group of countries is Brazil, Russian Federation, India, China and South Africa.
- ² SDG washing is a recent term that signifies a marketing or branding strategy showcasing SDG impact without evaluation or monitoring of potential negative impacts of actions. For example, electric car companies may wish to emphasise their contribution to renewable energy and climate change action (SDGs 7 and 13) without acknowledging that labour rights (SDG 8) may have been violated in the mining of the cobalt used in their batteries (SDG 8).
- ³ Country programmable aid is defined as is the portion of aid that providers can programme for individual countries or regions, and over which partner countries could have a significant say. Developed in 2007, country programmable aid is a closer proxy of aid that goes to partner countries than the concept of official development assistance.
- ⁴ The term “development footprint” is meant to signify a certain class of resources with the potential to produce development results and should not be used interchangeably with development results, i.e. output, outcome or impact.
- ⁵ The potential consequences of gaps in measurement were highlighted by the 2013 Rana Plaza disaster in Bangladesh, in which more than 1 100 people died in the collapse of a building housing garment factories. The incident demonstrated how unsustainable upstream production at the domestic level can become embedded in products that move through global value chains and impact FDI-based production networks of MNEs.
- ⁶ The work will draw on OECD and other international statistics including the OECD FDI statistics, the World Bank Enterprise Survey (WBES), the Bureau van Dijk’s ORBIS firm-level dataset, the International Trade Centre (ITC) Investment Map database, the UNIDO INDSTAT database on manufacturing, the ILO database on employment (LABORSTA), FactSet Supply Chain Relationships database, the United Nations Statistics Division (UNSD) database on gross value added across sectors, the Financial Times fDi Markets statistics on greenfield foreign investment, and Dealogic on cross-border mergers and acquisitions activity.
- ⁷ Footloose investment is commonly defined as manufacturing industries that are not dependent on any particular location and thus can relocate across national borders to produce goods.
- ⁸ For more information on the OECD Revenue Statistics series, see: <http://www.oecd.org/tax/tax-policy/global-revenue-statistics-database.htm>.
- ⁹ For example, the Transparency International Perception of Corruption Index and the International Budget Partnership’s Open Budget Survey provide proxies of developing countries’ capacity to effectively allocate financing in support of sustainable development.
- ¹⁰ Projects can be identified as targeting the policy marker to varying degrees, i.e. “significant” or “principle”.
- ¹¹ Climate change mitigation and adaptation are recorded in ODA using the Rio policy markers as cross-cutting objectives, recognising the importance of mainstreaming climate change-related finance across sectors. Climate change-related aid represents roughly 20% of total bilateral ODA in 2016. See <https://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/Climate-related-development-finance-in-2016.pdf>.

¹² The Woetzel et al. (2017_[46]), in a report published by the McKinsey Global Institute, argue that about USD 3.7 trillion a year must be invested in economic infrastructure to maintain current growth trajectories, with 63% of that annual investment needed developing and emerging economies. The OECD (2017_[47]) is projecting even greater infrastructure needs of USD 6.3 trillion per year over the period 2016-30. See <https://www.oecd.org/env/cc/g20-climate/Technical-note-estimates-of-infrastructure-investment-needs.pdf>.

¹³ The limited scope of hits is due in part to the nature of several targets that could not be included in the survey because the private sector could not meet the level of detail of reporting required. For example, in order to report on SDG indicator 5.5.2 (the proportion of women in managerial positions), companies must report on the payroll of each of the beneficiaries of a specific project to assess the career level.

¹⁴ In the case of reporting on private sector instruments in DAC statistics, an official transaction is considered “additional” because of its financial additionality, value additionality or both.

¹⁵ OECD DAC defines “effectiveness” as “a measure of the extent to which an aid activity attains its objectives”.

¹⁶ As part of the follow-up and review of the 2030 Agenda for Sustainable Development, governments have committed to carry out voluntary national reviews to assess the domestic and international impact of implementation efforts (2030 Agenda paragraph 84). The VNR follow-up process aims to strengthen reporting to the annual UN High-Level Political Forum on contributions to SDGs by national government and private sector actors, civil society organisations, youth, sub-national government, and academia. VNRs are individual self-assessments provided by governments on a voluntary basis to indicate quantitative and qualitative contributions of domestic and international support of individual SDGs.

¹⁷ According to MSCI, the framework aims to enable investors to make informed decisions regarding the exposure and ESG compliance of companies based on five impact themes: basic needs, empowerment, climate change, natural capital and governance (MSCI ESG Research Inc., 2016_[40]).

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Annex 4.A.

Annex Table 4.A.1 takes the current, internationally agreed SDG indicators framework and highlights the agreed measures of SDG financing. This table shows that ODA/OOF represents the main source of data for indicator across goals.

Annex Table 4.A.1. SDG financing indicators

Inter-agency and Expert Group on SDG Indicators-agreed indicators of SDG financing		
SDG financial indicators	Source of financing	Custodian agency
1.5.2 Direct economic loss attributed to disasters in relation to global GDP	economic loss, monetary value	UNISDR
1.a.1 Proportion of domestically generated resources allocated by the government directly to poverty reduction programmes	metadata NA	NA
1.a.2 Proportion of total government spending on essential services (education, health and social protection)	metadata NA	NA
1.a.3 Sum of total grants and non-debt creating inflows directly allocated to poverty reduction programmes as a proportion of GDP	metadata NA	NA
1.b.1 Proportion of government recurrent and capital spending to sectors that disproportionately benefit women, the poor and vulnerable groups	metadata NA	NA
2.a.2 Total official flows (official development assistance plus other official flows) to the agriculture sector	ODA,OOF	OECD
3.b.2 Total net official development assistance to medical research and basic health sectors	ODA	OECD
4.b.1 Volume of official development assistance flows for scholarships by sector and type of study	ODA	OECD
6.a.1 Amount of water- and sanitation-related official development assistance that is part of a government-co-ordinated spending plan	ODA	OECD
7.a.1 International financial flows to developing countries in support of clean energy research and development and renewable energy production, including in hybrid systems	Total ODA, OOF and total public investment flows	OECD, IRENA
7.b.1 Investments in energy efficiency as a proportion of GDP and the amount of foreign direct investment in financial transfer for infrastructure and technology to sustainable development services	metadata NA	NA
8.a.1 Aid for trade commitments and disbursements	ODA	OECD
9.a.1 Total official international support (official development assistance plus other official flows) to infrastructure	ODA,OOF	OECD
10.b.1 Total resource flows for development, by recipient, donor country and type of flow (e.g. official development assistance, foreign direct investment and other flows)	ODA, OOF, and Private flows	OECD
10.c.1 Remittance costs as a proportion of the amount remitted	metadata NA	NA
11.4.1 Total expenditure (public and private) per capita spent on the preservation, protection and conservation of all cultural and natural heritage, by type of heritage (cultural, natural, mixed and World Heritage Centre designation), level of government (national, regional and local/municipal), type of expenditure (operating expenditure/investment), and type of private funding (donations in kind, private non-profit sector and sponsorship)	metadata NA	NA
11.c.1 Proportion of financial support to the least developed countries that is allocated to the construction and retrofitting of sustainable, resilient and resource-efficient buildings utilising local materials	metadata NA	NA
12.a.1 Amount of support to developing countries on research and development for sustainable consumption and production and environmentally sound technologies	metadata NA	NA
13.a.1 Mobilised amount of USD per year between 2020 and 2025 accountable towards the USD-100 billion commitment	metadata NA	NA
15.a.1 Official development assistance and public expenditure on conservation and sustainable use of biodiversity and ecosystems	ODA	OECD
16.4.1 Total value of inward and outward illicit financial flows (current USD)	metadata NA	NA
16.6.1 Primary government expenditures as a proportion of original approved budget,	National budget	World Bank

by sector (or by budget codes or similar)	data	
17.1.1 Total government revenue as a proportion of GDP, by source	metadata NA	NA
17.1.2 Proportion of domestic budget funded by domestic taxes	metadata NA	NA
17.2.1 Net official development assistance, total and to least developed countries, as a proportion of the OECD DAC donors' gross national income (GNI)	ODA	OECD
17.3.1 Foreign direct investment, official development assistance and South-South co-operation as a proportion of total domestic budget	ODA	OECD
17.3.2 Volume of remittances (USD) as a proportion of total GDP	Remittances	World Bank
17.4.1 Debt service as a proportion of exports of goods and services	Public and publicly guaranteed external debt	World Bank
17.7.1 Total amount of approved funding for developing countries to promote the development, transfer, dissemination and diffusion of environmentally sound technologies	metadata NA	NA
17.9.1 USD value of financial and technical assistance (including through North-South, South-South and triangular co-operation) committed to developing countries	ODA, OOF	OECD
17.17.1 Amount in USD committed to public-private and civil society partnerships	metadata NA	NA
17.19.1 USD value of all resources made available to strengthen statistical capacity in developing countries	ODA, survey	OECD DAC CRS, PARIS21

Source: United Nations (2015^[15]) *SDG Indicators Metadata repository*. Retrieved from the SDG indicators metadata repository on 21 March 2018: <https://unstats.un.org/sdgs/metadata/>.



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