



## List of TOSSD recipient countries: alternatives to the opt-in procedure

*Issues Paper for the TOSSD Consultation with LAC Countries and Institutions<sup>1</sup>*

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*For discussion under agenda item 2*

### I. INTRODUCTION

1. The emerging TOSSD Reporting Instructions define, in Chapter 2, the list of TOSSD recipient countries. It is based on the list of recipients for Official Development Assistance (ODA) and an “opt-in procedure” for countries and territories that face challenges in their economic, social or environmental context and would like to receive TOSSD financing.
2. Countries from Latin America and the Caribbean (LAC) have often argued that the way the list of ODA recipients is constructed is not appropriate as income per capita cannot be the only indicator of the status of development of a country. Similar feedback was received in the context of the TOSSD pilot study of Costa Rica. Moreover, some countries e.g. Mexico, have expressed in international fora that it would be preferable to define TOSSD recipients based on an objective criterion rather than a voluntary procedure. This paper therefore discusses alternatives to the opt-in procedure.

### II. BACKGROUND

3. The list of TOSSD recipients was discussed at the first and second meetings of the TOSSD Task Force. In the first meeting, general feedback was gathered from Task Force members, and at the second meeting three options were proposed: i) drawing on an existing list of developing countries, ii) establishing multi-dimensional criteria for the list, or iii) taking as a starting point the list of ODA recipients and supplementing it with a voluntary opt-in procedure<sup>2</sup>.
4. Task Force members expressed wide support for establishing a list of TOSSD-eligible countries that is broader than the list of ODA recipients: all countries that are ODA-eligible should be included but, in the spirit of the 2030 Agenda, other countries should be given the opportunity to opt-in. To be as inclusive as possible, no specific requirements for a country to opt-in were devised. The request only needs to be motivated by the specific economic, social or environmental context that the country faces. This option was initially selected because it was simple to understand and implement. It also allowed all countries that wanted to participate in the TOSSD framework to do so.

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<sup>2</sup> For more information, please refer to the issues papers presented at the first meeting available at <http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/Clarifying-key-concepts-embedded-in-the-TOSSD-definition.pdf> and at the second meeting at <http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/TOSSD-Item-3-Stock-take-and-considerations-on-the-definition-of-TOSSD.pdf>.

### III. POTENTIAL ALTERNATIVES TO THE OPT-IN PROCEDURE

5. After consulting with different experts on the matter, the TOSSD Task Force Secretariat has identified three additional factors or methods that could be taken into account in elaborating the list of TOSSD recipients. These are:

- **The capacity of the countries to redistribute their own income.** This is a measure proposed by the researcher Martin Ravallion in his article *Do poorer countries have less capacity for redistribution?*<sup>3</sup>
- **The borrower status of the country in multilateral development banks.** A criterion for including a country in the list could be whether it can borrow from regional development banks e.g. Inter-American Development Bank.
- **The structural gaps in the country.** This is a multidimensional measure of poverty developed by the Economic Commission for Latin America and the Caribbean (ECLAC).

#### a. Capacity of countries for redistribution

6. The measurement of capacity of countries for redistribution looks at whether the “rich” people of the developing country could finance the poverty gap of the country with a tax. This tax, called the Marginal Tax Rate (MTR), would finance a basic income scheme which would bring all the poor above the poverty line. If the MTR is very high, it can reasonably be argued that the country does not have the capacity to redistribute its income. If it is low, then the country can redistribute its income and is less dependent on external resources.

7. The “rich” are defined as those who would not be defined as “poor” in a high income country. The reasoning here is that it would seem unfair to finance the poverty gap in a developing country by redistributing the income of people that would be considered poor in a high income country. The poverty line of the US for a family of four is used, which is established at 13 USD per person per day at 2005 PPP. The “poor” are defined as per the either 1.25 USD or 2 USD per day poverty lines, which are the most common in developing countries. The MTR is neutral to the middle class, who is not expected to finance the poverty gap.

8. The information on the MTR for each country is not available at the moment, but could be calculated using the PovcalNet tool of the World Bank.

#### b. Borrower status in multilateral development banks

9. This method would explore whether a given country has a right to borrow from the regional development bank of which it is part. In Latin America and the Caribbean, the borrower status of countries of the Inter-American Development Bank (IADB) would be looked at. The IADB has 26 borrowing member countries in the region<sup>4</sup>, of which 22 are ODA recipients. In addition, the Bahamas,

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<sup>3</sup>Available at <https://www.degruyter.com/view/i/jgd.2010.1.2/jgd.2010.1.2.1105/jgd.2010.1.2.1105.xml>

<sup>4</sup> The list is available at <https://www.iadb.org/en/about-us/capital-stock-and-voting-power%2C1352.html>

Barbados, Chile and Uruguay can borrow from the IADB. In Asia, countries' status as borrowers from the Asian Development Bank would be considered.<sup>5</sup>

10. Each MDB has its own criteria for deciding on the borrower status and banks do not share a common methodology. However, they do publish the list of countries that can borrow, so this methodology would be easy to apply.

### c. Multi-dimensional measure of development or poverty: ECLAC's structural gap methodology

11. ECLAC has a well-known and sound methodology to measure the level of development of a country: the structural gap approach. In 2010, ECLAC member states mandated the institution to analyse new alternatives for generating the volume of resources necessary for financing the development of LAC countries and develop a broader set of indicators to reflect the particular realities in the countries and support the identification of their main needs. ECLAC's methodology proposes complementing the per capita income measure with an analysis of structural gaps that constrain the development of middle-income countries.

12. Gaps considered in this methodology are: (i) per capita income, (ii) inequality, (iii) poverty, (iv) investment and savings, (v) productivity and innovation, (vi) infrastructure, (vii) education, (viii) health, (ix) fiscality, (x) gender, and (xi) the environment. The methodology then selects indicators as proxies for those gaps. The results show that the ranking of countries is very different depending on which gap is considered.<sup>6</sup>

13. To establish the list of TOSSD recipients, several or all of the above structural gaps could be looked at. The data are available for LAC countries, but not necessarily for the rest of the world. Therefore, if this option is preferred, the Secretariat will need to assess, in collaboration with ECLAC, which indicator(s) could be available for all countries.

## IV. PROS AND CONS OF EACH ALTERNATIVE

14. The table below compares the pros and cons of the voluntary opt-in procedure and the three alternatives to it proposed in this paper.

METHODOLOGY	PROS	CONS
<b>Opt-in procedure</b>	<p>In line with country's ownership and capacity to take its own decisions.</p> <p>Easy to implement.</p>	<p>It could give the opportunity to rich countries to opt-in.</p>

<sup>5</sup> In the case of the Asian Infrastructure Investment Bank (AIIB), all countries, including high income countries, are potentially allowed to borrow.

<sup>6</sup> For more information, please see ECLAC's report: Middle-income countries: a structural gap approach, available at [https://repositorio.cepal.org/bitstream/handle/11362/13536/S2012864\\_en.pdf?sequence=1&isAllowed=y](https://repositorio.cepal.org/bitstream/handle/11362/13536/S2012864_en.pdf?sequence=1&isAllowed=y). Indicators can be found in page 23.

		Potential sensitivities for countries which exit the list of ODA-recipients.
<b>Country's capacity for redistribution</b>	Specifically designed to measure country's need for external support.	Data need to be calculated, not immediately available.
<b>Borrower status of MDBs</b>	Readily available and easy to implement.	There is no common / globally uniform criteria.
<b>Structural gap approach</b>	Comprehensive measure of a country's development needs.	Not available for other regions beyond Latin America and the Caribbean.

#### Issues for discussion

- **What are participants' views of the opt-in procedure? If your country were to exit the list of ODA-recipients and feels it still has needs for external financing, would there be any sensitivities to apply the opt-in procedure for TOSSD?**
- **If the opt-in procedure is not considered appropriate, what alternative methodology would you prefer for TOSSD?**