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**Development Co-operation Directorate  
Development Assistance Committee**

## **DAC Working Party on Development Finance Statistics**

### **Commitments' interpretation and reporting practice of selected DAC members**

Formal WP-STAT meeting, 15-16 December 2022

This note is presented for DISCUSSION under item 11 of the draft annotated agenda [DCD/DAC/STAT/A(2022)4].

Statistical peer reviews conducted between 2017 and 2019 indicated that there is a need to map members' interpretation and reporting practices on commitments. This note first presents how select members report on commitments and then proposes possible next steps and potential solutions for increasing comparability of commitment data across countries.

Members are invited to comment on the paragraphs 34 and 35.

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## *Concept of commitment in DAC statistics: interpretation and reporting practices of selected DAC members*

### 1. Background

1. DAC statistics on development co-operation are based on the concepts of commitment, disbursement and grant equivalent. While disbursements and grant equivalents are the main measure to calculate ODA aggregates, commitments are frequently used for statistical analyses of ODA by sector, policy objective or tying status.

2. The Statistical Directives define commitment as: *a firm written obligation by a government or official agency, backed by the appropriation or availability of the necessary funds, to provide resources of a specified amount under specified financial terms and conditions and for specified purposes for the benefit of a recipient country or a multilateral agency.*<sup>1</sup> This assumes that the amounts reported as commitments are intended to be spent by providers, and that they reflect the support developing countries will probably receive. However, in the case where specified terms and conditions are not met, committed amounts may not be fully disbursed.

3. The Directives further specify that donors unable to comply with the above-mentioned definition should explain the definition they use internally.

4. Statistical peer reviews conducted between 2017 and 2019 as well as follow-up discussions at the WP-STAT have indicated that members' understanding of the concept of commitment vary. Consequently, the Secretariat was requested to i) prepare a mapping of members' interpretations and reporting practices, and ii) clarify the intended uses of commitment data and identify the data users.

5. This note provides a snapshot of members' understanding and use of the commitment concept, based on a data quality workshop organised in July 2019 and exchanges during the statistical peer reviews. It is meant as a first reflection for future work on the topic. It is presented **for discussion** at the WP-STAT scheduled on 15-16 December 2022. Members are invited to comment on **paragraphs 34 and 35**.

### 2. Findings from the data quality workshop in 2019

6. In July 2019, the Secretariat organised a workshop on data quality<sup>2</sup>, which revealed countries' different financial structures and commitment interpretations. Statistical reporters exchanged their approaches and ways of dealing with situations where not all committed funds are spent.

7. For some countries, the term “**commitment**” means **pledges/political commitments**, but not all of them are ODA-eligible. The ODA-eligible and non-ODA-eligible parts of political commitments (e.g. climate action) are not always distinguished by countries. Other countries perceive their **active aid budgets as commitments**. Following a bookkeeping methodology, countries register negative entries in the

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<sup>1</sup> Paragraph 141 of the Converged Statistical Reporting Directives (DCD/DAC/STAT(2020)44/FINAL)

<sup>2</sup> See concept note and Agenda at <https://community.oecd.org/docs/DOC-155484>

commitment data field when the funds are not fully spent. Moreover, some countries understand commitments as **legal requirements to disburse the funds**.

8. At the workshop, a suggestion was made on a **typology of commitments, distinguishing between legally binding commitments**, understood as firm obligations, **and “higher-risk” commitments**, where it is likely that not all the funds committed will be disbursed.

9. **The different interpretations and reporting practices affect the comparability of commitment data across members.** Some members have questioned the usefulness and suitability of commitment data for aggregate statistical analyses, given that recipient countries do not always receive the committed funds. Commitments are often multi-year, which can be a challenge for monitoring their implementation (e.g. unexpected delays). In other cases, a commitment is short-term or immediately disbursed (e.g. humanitarian aid in response to disasters).

10. However, at present some data dimensions are only collected on a commitment basis. (For example, the financial terms for loans or the tying status are set at the commitment stage and unlikely to change.) The peer learning report from the statistical peer reviews therefore noted that statistical teams need to consider how to align the reporting with the definition of commitments in the Directives to achieve greater comparability of commitment data among members.

11. To better understand the differences between commitments and disbursements, and some of the uses of the data, the Statistical Reporting Directives includes a clarification cited below:

### Box 1. Commitments versus disbursements

*Commitments measure donors' intentions and permit monitoring the targeting of resources to specific purposes and recipient countries. They fluctuate as aid policies change, and reflect how donors' political commitments translate into action. They thus give an indication about future flows.*

*Disbursements show actual payments in each year. They show the realisation of donors' intentions and the implementation of their policies. They are required to examine the contribution of donors' actions in development achievements. They better describe aid flows from a recipient's point of view.*

*Analysing the relation between commitments and disbursements can provide useful insights on aid delivery. Commitments are often multi-year and subsequent disbursements spread over several years. In DAC statistical reporting systems, commitments, even if multi-year, are recorded in whole in the year they are signed (the use of moving averages in statistical presentations smooths the resulting fluctuations). Subsequent disbursements of an earlier commitment are recorded annually, in the years they are transferred from donors to recipients. An increase in aid allocations over time is thus visible in disbursements data only with a few years' time lag. Consequently, disbursements in one year cannot be directly compared to commitments in the same year, as disbursements may relate to commitments originally recorded in different years.*

Source: Reporting Directives (DCD/DAC/STAT(2020)44/FINAL) Box 7, pages 118-119.

## 3. Members' current reporting practices

12. Information **on the interpretation and practical usage of commitments** is currently documented only for a few countries, that either took part in statistical peer

reviews or that use a simplified reporting method (Nature of submission = 8, commitments equal to disbursements).

13. Analysis of CRS data from DAC members and other countries reporting to the CRS between 2019 and 2021 shows that **10 DAC members** (Australia, Belgium, Canada, Denmark, Italy, Korea, Norway, Slovenia, Sweden, and the United States) **reported some negative commitments while 21 others<sup>3</sup> reported only positive commitments in their records**. In most cases, the number of aggregated negative commitment records is three or fewer. The only exception is Canada, which has a far more complex approach to tracking unspent committed amounts and may report several dozens of negative commitments each year.

14. Moreover, there are **two DAC members** (Ireland and Luxembourg) **and seven other countries** [Azerbaijan, Latvia, Liechtenstein, Lithuania (see footnote 3), Monaco, Romania and Türkiye] **that reported 2019-2021 commitment data in a simplified way by coding all or majority of their records with nature of submission code 8**. Other providers (11 DAC members and 5 other countries) reported between 10% and 90% of their activities/lines in the CRS using the nature of submission code 8. On average, this code was used in 18% of activities reported by DAC members and other countries between 2019 and 2021.

15. The Secretariat suggests **opening a broader discussion on the interpretation and practical usage of commitments to document the approaches of all reporters**.

#### 4. Statistical Peer Reviews exchanges

16. The concept of commitment has been subject to discussion in several statistical peer reviews. Some members provided broad information on how they understand and report commitments, what issues they come across in applying the Directives' definition and how coherence could be improved in this regard. The paragraphs below have been extracted from the countries' peer reviews reports as well as their bilateral exchanges with the Secretariat<sup>4</sup>. **Similar information could be collected from other members.**

##### *Australia*

17. Australia's budget is entirely managed by disbursements. **The term "commitment" is mostly used synonymously with "disbursement budget"** for multi-year engagements.

18. The above interpretation is visible in data for 2018-2019. Apart from records with positive commitments equal to disbursements, there is one record each year that represents aggregated negative commitments equal to the sum of repayments.

##### *Canada*

19. Canada represents a **more complex approach to understanding commitment**. At the project level, a commitment means **"an active budget" of a project, which assumes a need for tracking increases and decreases over the last reported "active budget"**

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<sup>3</sup> The analysis is based on 2019-2021 data and Lithuania is not considered as a DAC member in this analysis.

<sup>4</sup> Further information is available in each country's peer review report at <https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/peer-reviews-on-development-finance-statistics.htm>

(sometimes positive, sometimes negative) **and calculating the field** ("current active budget" minus "last budget reported to the DAC") **each year**. The data must be stored in a data warehouse, often in a separate system, since the measure does not have any other business value than CRS reporting.

20. In addition, Canada has put in place an "investment tag" which relates individual projects to specific **political/corporate financial commitments**. It is using existing classifications as far as possible to formulate (calculate baseline spending) and track its commitments (e.g., using purpose codes, policy markers, aid types). However, additional codes (beyond existing CRS codes) are necessary to track commitments which overlap between sectors and/or policy markers. Tracking overlap is important to ensure that all commitments are funded and met.

### *Denmark*

21. **In Denmark, a commitment in the context of CRS reporting means a firm, legally binding obligation that has been signed with the relevant partner, partner ministry or organisation.** This can be a signed standard legal agreement (bilateral, joint or delegated) or consist of a signed development engagement document and relevant partner documentation. In the case of joint (sector) budget support or pooled funding, joint financing agreements are signed. Commitments are approved by the head of mission/unit and quality assured by a Chief Financial Officer before booking, based on broad management guidelines on aid.

22. The allocation of resources to Danish development co-operation programmes and instruments is framed in the Finance Act, which is approved on a yearly basis. **In the Finance Act, the budget for development co-operation is set to reach the 0.7% ODA/GNI target on a commitment basis. With the exact 0.7% ODA/GNI target (measured on a grant equivalent basis), multi-year commitments have become increasingly challenging to manage.**

23. Given uncertainty and fluctuations on ODA/GNI levels (e.g., variations of GNI estimates, fluctuations of in-donor refugee costs), the Government introduced an adjustment mechanism in 2017 to enable a margin of action in particular circumstances. Through the adjustment mechanism, any insufficient commitments/provisions to reach 0.7% by the end of one year (commitment basis) are added to the following years' volumes so that further funds can be allocated to still attain the 0.7% target on average.

24. Denmark uses advanced IT systems and automated tools for tracking financial commitments, however, it emphasises **the need for introducing net-commitments in the CRS.**

### *Iceland*

25. **In Iceland, once the Minister has signed the ODA budget, it is considered as committed.** However, **data reported on individual commitments refer to signed contractual obligations rather than contractual activities.** This once led to a misinterpretation of commitment data used in the calculation of tying status. For this reason, **gross disbursements are currently used as a proxy for commitments.**

26. Iceland does not report negative commitments in its aid statistics.

### *Norway*

27. In Norwegian development statistics, **a commitment is defined as the full amount included at the time of signature of an agreement. No commitment figures are based**

**on pledges or other more loosely defined intentions.** Pledges are not recorded or reported, however may be relevant in a humanitarian context.

28. Regarding addendums to the existing agreements, Norway faces some internal IT-system issues. Since the system does not allow for multiple records of agreement amounts, the information about date of the addendum is lost.

29. **Norway had also to choose reporting commitments at the sub-unit level, rather than at framework agreement level** (which will have no disbursements) and then report all the disbursements over this agreement on the different sub-units (which will have no commitments). Therefore, the year when a framework agreement is signed, Norway reports the sum of amounts disbursed plus registered planned disbursements on the individual sub-units as the committed amount for each sub-unit. In the following years, all new disbursements/planned disbursements not already reported the first year as commitments, will then be reported as commitments in the year they first appear as either disbursements or registered as planned disbursements.

30. Sometimes, planned disbursements on a unique subunit are removed, and funds are transferred to a different subunit. This is handled by reducing the commitment of the one subunit (thus resulting in Norway reporting a negative commitment) and reporting the commitment on the other subunit. In this way Norway avoids double-counting commitments, and over the life-span of the framework agreements, the commitment figures of the subunits should reflect the commitment of the framework agreement.

31. Norway highlighted that there is no demand for commitment figures domestically and is of the opinion that **when measuring actual donor effort to any certain topic within development assistance, data on disbursements should be used.** The rationale behind this is that disbursement measures real donors' effort and is not open to interpretation and diverging definitions, which commitments possibly could be.

### *Sweden*

32. According to Sweden's interpretation, **a commitment is defined as funding available for several years under a specific budget.** Each strategy is linked to a specific budget item, which determines also the annual volume that will be disbursed.

33. Sweden reports negative commitments at aggregated level (usually one or two records per year).

## 5. Possible next steps

34. **To prepare a full mapping of commitment interpretations for all DAC members and other countries reporting to the CRS, reporters could be invited to send to the Secretariat information (similar to section 4 above) on the definition they use and on practical reporting issues they face.**

35. **In terms of improving the comparability of members' data,** inspired by discussions at statistical peer reviews and the above-mentioned data quality workshop, **work could be undertaken to:**

- **clarify and refine the definition of commitment.**
- **distinguish between different approaches in data reporting by expanding the list of *Nature of submission* codes.** The following categories could be discussed<sup>5</sup>:

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<sup>5</sup> Pledges are not proposed as not captured in DAC statistics.

- **commitments understood in the book-keeping sense** (with a net-commitment concept and negative commitments reporting at activity level);
  - **commitments in the appropriation-sense** (a formal internal approval/grant stage prior to disbursement);
  - **commitments as budget allocation.**
36. Members are welcome to comment on suggestions in **paragraphs 34 and 35.**