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An Enquiry into the Evolving Landscape of Development Finance Flows

Towfiqul Islam Khan
Kazi Golam Tashfiq

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Preface

With the advent of the Sustainable Development Goals (SDGs), discussions on development finance have been revitalised. Mobilising sufficient financial support to meet the resource gap in SDG implementation is a critical challenge for developing countries.

Traditional aid flows to these countries have been restrained by both supply-side limits and demand-side pulls. However, new actors and innovative financial instruments develop opportunities for additional funding. In this context, improving the quality of development cooperation (including financial flows) and assessing its effectiveness have become more pertinent than ever.

Economic and political factors aggravate the challenge of effective development cooperation. The current global development finance architecture lacks necessary political ownership and momentum. Further, the discourse suffers from an obvious lack of credible knowledge that reflects realities on the ground. Demand is thus high for Southern perspectives so as to embed them in future reforms.

That is what Southern Voice, a network of over 50 think tanks from Africa, Asia, and Latin America, is facilitating. It provides structured inputs from the Global South for debates on the 2030 Agenda for Sustainable Development. With capacity gained through the successful execution of various research programmes, Southern Voice aims to contribute to the global discussion on the effectiveness of development cooperation in the era of SDGs.

The new initiative, "Rethinking Development Effectiveness: Perspectives from the Global South," is being carried out in partnership with the Centre for Policy Dialogue (CPD) in Dhaka, Bangladesh and with support from the Bill & Melinda Gates Foundation. The present study is the fifth in a series of nine occasional papers on rethinking development effectiveness. The study explores how the current landscape of development finance flows has evolved with the global development agenda.

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Abstract

This study assesses the evolution of global development finance flows over the last 15 years, contextualising this against the global development agenda more broadly. External flows of development finance, particularly official development assistance (ODA), have been insufficient to meet all Sustainable Development Goals (SDGs) by 2030. Incremental ODA has largely addressed humanitarian needs during early stages of SDG implementation. In contrast, South-South development finance flows, including through innovative new frameworks such as blended finance, have become more prominent. This study rethinks central questions of harmonisation, transparency, and data accessibility arising regarding external development financial flows. Whether traditional and non-traditional, these flows remain critical for assessing development effectiveness. This study therefore reinforces the significance of efficiently allocating, and scaling up the volume of, development finance to achieving results.

Authors

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Acronyms and abbreviations

CPA	Country Programmable Aid
GNI	Gross National Income
MDGs	Millennium Development Goals
LDCs	Least Developed Countries
LICs	Low-Income Countries
LMICs	Lower-Middle-Income Countries
ODA	Official Development Assistance
OECD	Organization for Co-operation and Development
OECD-DAC	OECD-Development Assistant Committee
SDGs	Sustainable Development Goals
UMICs	Upper-Middle-Income Countries
UN	United Nations

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Introduction

Development finance has evolved significantly in the past 15 years. A changing global economy, the emergence of Southern finance providers and instruments alongside traditional Development Assistance Committees (DACs), and shifting sectoral priorities have all played important roles. Since 2000, the external development landscape was dominated by official development assistance (ODA) shaped by the Millennium Development Goals (MDGs), humanitarian crises, and debt relief projects. The global financial crisis in 2008saw a sharp decrease in ODA, which has not since recovered. More recently, development finance flows were expected to be driven by the subsequent Agenda for Sustainable Development (Organisation for Economic Co-operation and Development [OECD], 2015). The SDGs called for greater financing to address a global financing gap estimated at USD 2.5 trillion per annum in 2014 (United Nations Conference on Trade and Development [UNCTAD], 2014). Moving towards the more global approach embedded in the SDGs, adequate and effective resourcing remains critical.

While total foreign aid to developing countries has increased five-fold since 1960, aid provided by DAC countries has only increased three-fold: a greater share thus comes from non-DAC sources. Indeed, emerging Southern providers are expected to be more prominent financers moving forward (UNCTAD, 2018). Non-conventional instruments, including blended finance, are receiving more attention when financing the SDGs. In the context of these changing dynamics, it is critical for recipient countries to carefully consider their selection of providers and their approaches.

To implement the SDGs by 2030 globally, the United Nations (2014) has outlined several financing options: domestic public and private finance, international public and private finance, and blended finance. Despite a large literature, there is further scope to explore overall aid allocation, as recent global trends in external development finance may alter its effectiveness. The current study seeks to answer the following research questions:

- How has ODA evolved over the last decade alongside changes to the global development agenda?

- How have emerging non-traditional sources (such as South-South financial flows) and innovative financing sources (such as blended finance) reshaped development finance?
- How may development finance flows change in the future? What are the key lessons for Southern recipient countries?

Development finance flows include diverse instruments from public and private sources. This study focuses on three instruments: ODA, South-South Cooperation (SSC) and blended finance. Definitions of these instruments vary, and the availability and harmonisation of data, particularly in cases of SSC and blended finance, can be limited.

Along with data challenges, conceptual challenges exist when defining development effectiveness. This study investigates the harmonisation of definitions, concepts and reporting from both recipient and provider perspectives. It undertakes a comparative analysis of mirror data and cost appropriation related issues. This study also emphasises the issue of data reporting from both flow and impact domains. Alongside a diverse set of data sources including OECD, AIDDATA and individual governments' budget documents, it also draws from existing literature and official reports as appropriate.

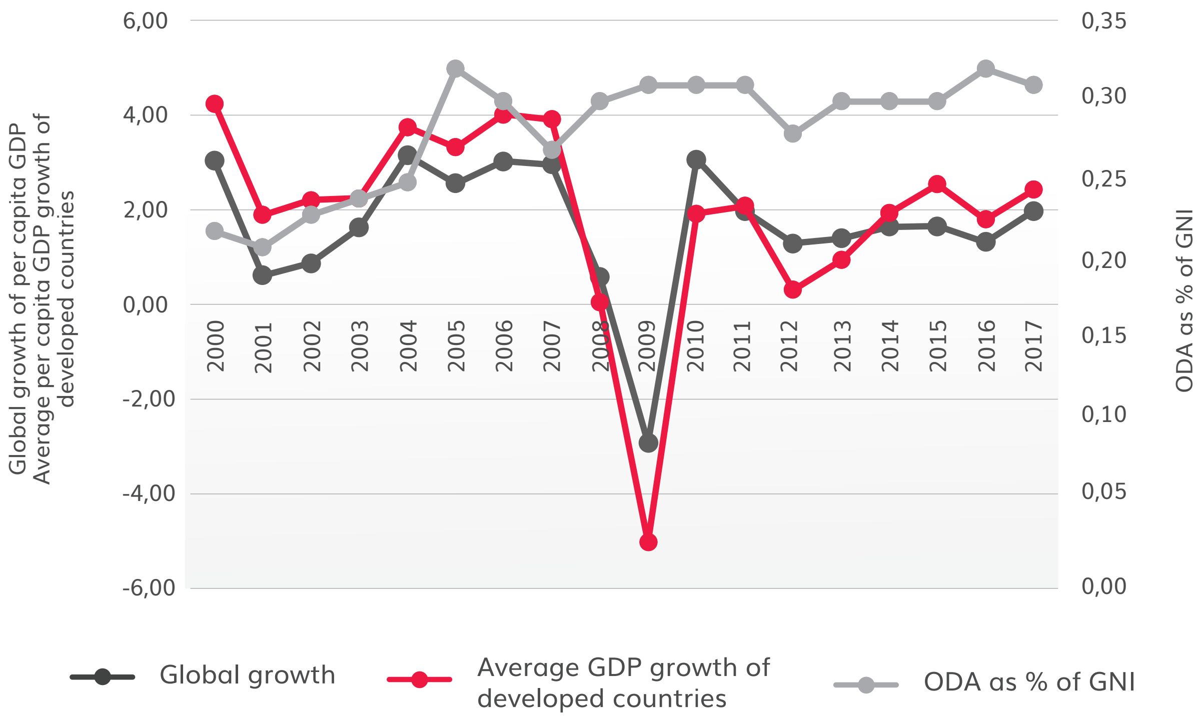
The second section of this study investigates the current landscape of development finance. The third section explores the literature and institutional evidence around future scenarios of development finance. The final section draws conclusions about approaches to future research on development effectiveness from Global South perspectives.

Current landscape of development finance: trends and dynamics

Current global economic recovery is inadequate to deliver the ODA target of SDGs

Despite strong economic growth, global ODA as a share of Gross National Income (GNI) declined to 0.31% in 2017 from 0.32% in 2016. According to OECD data, net ODA provided by DAC members has decreased by 0.6% over the same period. ODA further declined by 2.7% in real terms in 2018 compared to 2017 (OECD, 2018). From 2000 to 2016, DAC providers' total share of ODA remained at 68%, followed by the multilateral providers (27%) and non-DAC providers (6%). Moreover, between 2000 and 2016, the incremental share of contribution of non-DAC providers was 13.1% while the rest of the contribution is attributed to the DAC and multilateral providers. Although the share of non-DAC providers in total ODA has increased previously, it started to fall from 2015.

Figure 1. Global economic growth and ODA as a percentage of GNI



Source: Authors' estimation from OECD data.

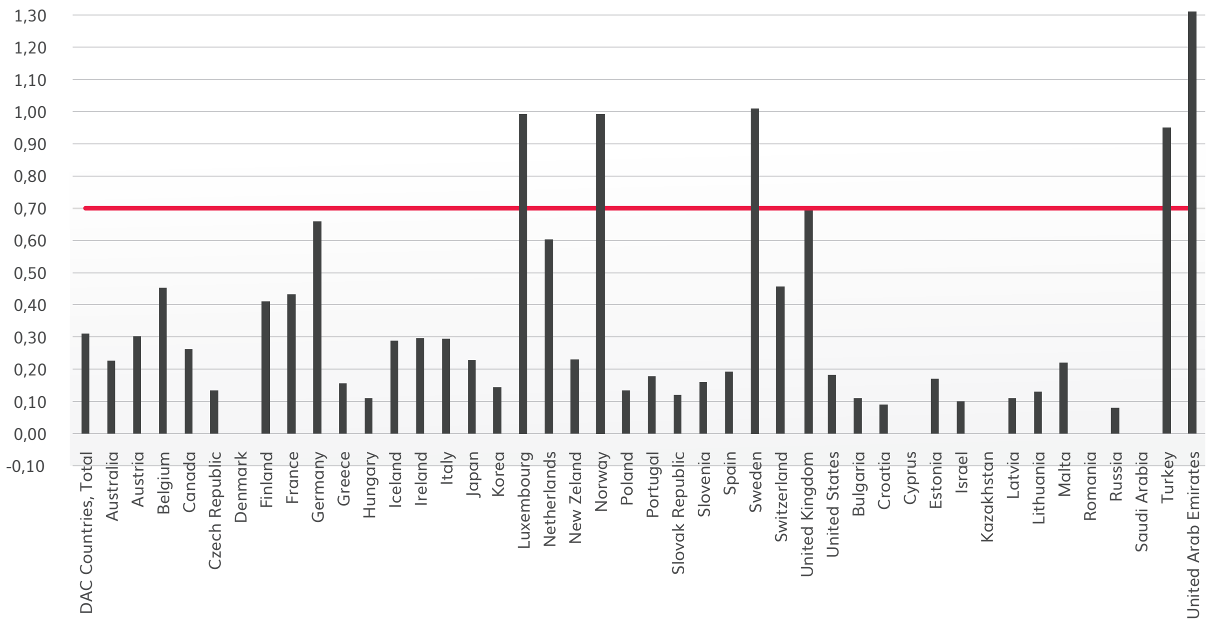
ODA levels remain well below the United Nations ODA target of 0.7% of GNI

The UN target of achieving ODA the equivalent of 0.7% GNI dates to 1958. Then, targets were based on the flow of both official and private resources to developing countries. It has since been a long journey towards acceptance of this goal by states, with many setbacks. Recently, in 2017, net ODA fell for 18 countries. Most of this decrease can be attributed to lower spending on in-donor refugees (OECD, 2018b). Data from 2018 also evidences this decrease (OECD, 2018)[1]. However, this decrease was offset by another 11 countries, which increased their net ODA. Lastly, while in 2016, USA, Germany,

1 On a flow basis, net ODA rose in seventeen countries, with the most significant increases in Hungary, Iceland and New Zealand, by contrast it fell in twelve countries, with the most significant falls recorded in Austria, Finland, Greece, Italy, Japan and Portugal. Most of these falls were due to lower in-donor refugee costs (OECD, 2018e, p.3).

United Kingdom, Japan, and France were listed as the most significant providers, these countries nonetheless fall short of the UN target of 0.7% ODA of GNI.

Figure 2. ODA as a percentage of GNI (2017)



Source: Authors' estimation from OECD data.

In 2017, seven countries met the UN ODA target of 0.7% of GNI. Of the reporting countries, aid provided by the United Arab Emirates was the highest percentage of its GNI (Figure 2). Germany met the 0.7% target for the first time in 2016, but in 2017 fell back to 0.66%, due to significant increases to in-donor refugee costs (OECD, 2018). Kuwait, which became a DAC participant in 2017, also met the UN target in 2016. Among the most significant providers, only the United Kingdom met the UN target of 0.7% of GNI in 2017.

The loan-to-grant ratio seems to be increasing globally for DAC providers

Despite the ODA loan-to-grant ratio (the share of loan component against the grant component of ODA) for developing countries decreasing slightly after 2000, the global average increased from about 3.0 to about 4.3. This ratio globally increased most significantly in Africa; in Asia, it remained approximately the same (Table 1).

The loan-to-grant ratio of DAC members increased most in the Europe and America regions, while it decreased most in Asia. However, the ratio has also slightly increased in Africa, contradicting the conclusion that poorer countries receive more ODA as grants

(Johansson, 2009). Studies suggest grants should be preferred for poorer recipient countries as they do not have the burden of repayment (Morrissey, Islei, & M'Amanja, 2006). The literature has also posited a strong causal relationship between grant funding and provider country income (Odedokun, 2004). The increasing loan-to-grant ratio globally seems to contradict this conclusion in relation to global per capita income. However, one suggested reason for the consistent increase in the loan-to-grant ratio is that grants promote government consumption spending and retard investment spending (Odedokun, 2004). The grant share of aid in Africa from 2000 to 2016 declined from 2006, right after the 31st G8 summit at Gleneagles, where global development partners committed to extending development assistance to Africa (Figure 3) (Infrastructure Consortium for Africa [ICA], 2018).

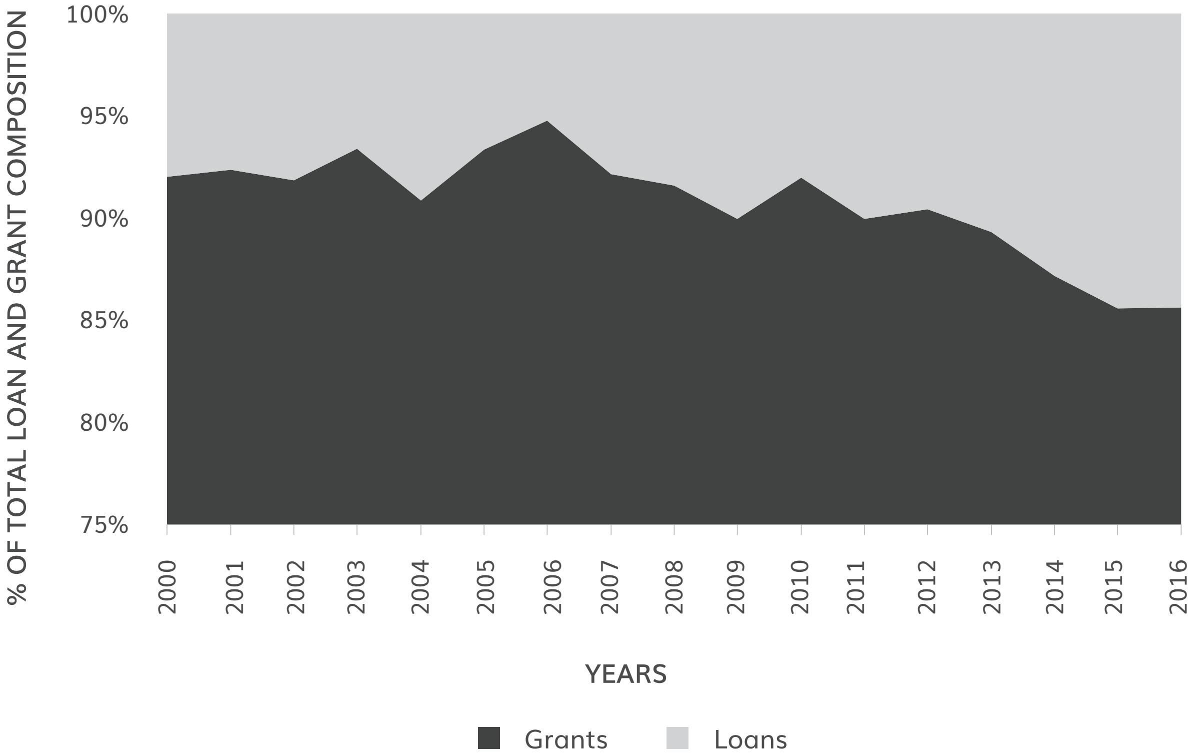
Table 1. Region-wise the loan-to-grant ratio of net ODA (Total) over the period 2000 to 2016

Region	2000	2005	2010	2015	2016
Developing Countries, Total	0.4	0.2	0.3	0.3	0.3
Europe, Total	0.2	0.2	0.4	0.8	0.7
Africa, Total	12.9	10.7	10.1	19.3	18.6
America, Total	0.1	0.0	0.1	0.1	0.1
Asia, Total	1.9	1.6	1.3	2.4	1.9
Oceania, Total	0.0	0.0	0.0	0.0	0.0
Global average	3.0	2.5	2.4	4.5	4.3

Source: Authors' estimation from OECD data.

Furthermore, a ranking of countries' loan-to-grant ratio from 2000 to 2016 reveals that the ratio of African countries increased (Table 2). Recipient countries including El Salvador, Albania, Paraguay, Zimbabwe, and Armenia stayed in the top 15 over this period. Moreover, debt as a percentage of GDP in these countries is, on average, higher than 50% over the last five years.

Figure 3. Loan and grant composition of ODA in Africa the region over the period 2000 to 2016



Source: Authors' estimation from OECD data.

Table 2. Ranking of the countries based on the loan-to-grant ratio for the years 2000 and 2016

2000		2016	
Countries	The loan-to-grant ratio	Countries	The loan-to-grant ratio
Mali	1.5	Central African Republic	3.2
El Salvador	1.4	Mayotte	3.1
Albania	1.4	**Armenia**	2.6
Paraguay	1.2	Croatia	2.0
Kyrgyzstan	1.1	Timor-Leste	1.8

Pakistan	0.8	**Zimbabwe**	1.8
Nicaragua	0.7	Cuba	1.6
Zimbabwe	0.6	Côte d'Ivoire	1.4
Cameroon	0.5	Colombia	1.4
Ecuador	0.5	Lebanon	1.3
Uzbekistan	0.5	**El Salvador**	1.2
Viet Nam	0.4	**Paraguay**	1.1
Armenia	0.4	**Albania**	1.0
India	0.4	Belize	0.9
Mauritius	0.3	Iraq	0.9

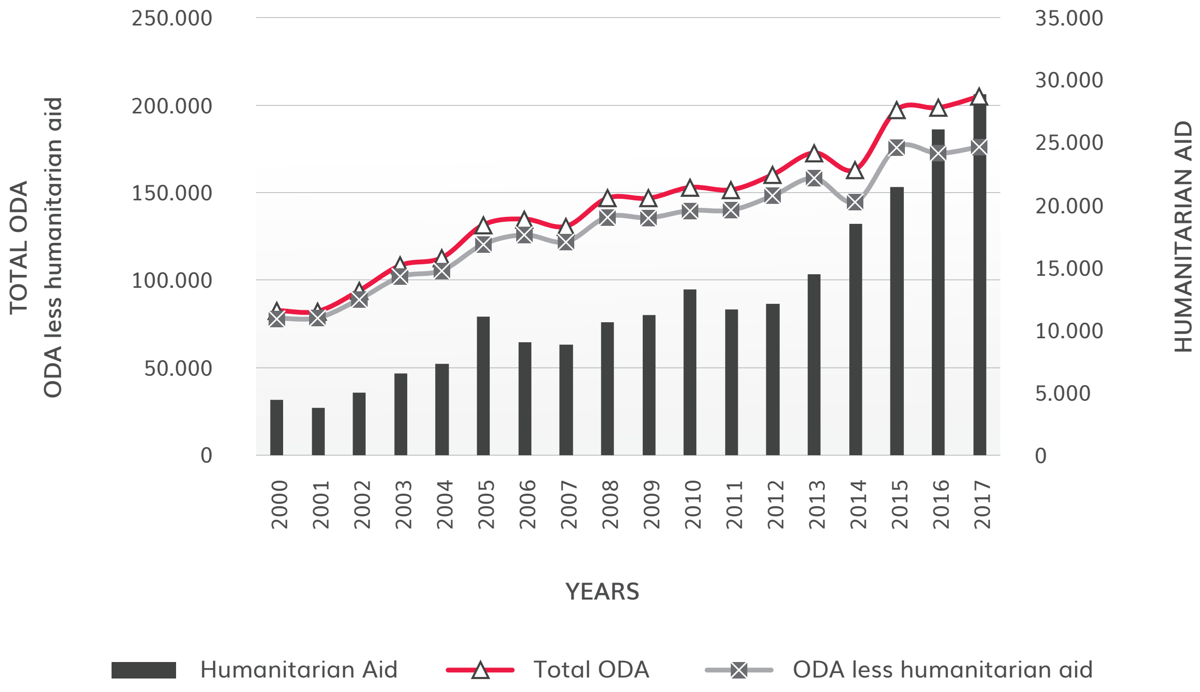
Source: Authors' estimation from OECD data.

Growing focus on humanitarian aid is a significant concern

Providers' sectoral interventions in development funding have changed. Indeed, non-DAC providers' changing preferences—from funding social infrastructure to economic infrastructure, to humanitarian responses and aid provision—seems to move in the opposite direction to DAC providers. The share of humanitarian aid increased from 5.2% to 13.2% from 2000 to 2016. While this surge in humanitarian aid helped tackle humanitarian crises, it also raises concern about diverting ODA from more productive to less productive sectors. After 2015, ODA—excluding humanitarian aid—has fallen for ten of the top 17 providers. For example, net Danish ODA increased, but excluding humanitarian aid, the trend reverses. In 2017, ODA increased by almost USD 16 billion; humanitarian aid comprised 18% of this increase. The rise in humanitarian aid has been led by DAC members. For DAC member countries, although net ODA increased marginally (4%) since 2015, it experienced an annual growth decrease of 0.38% in 2017.

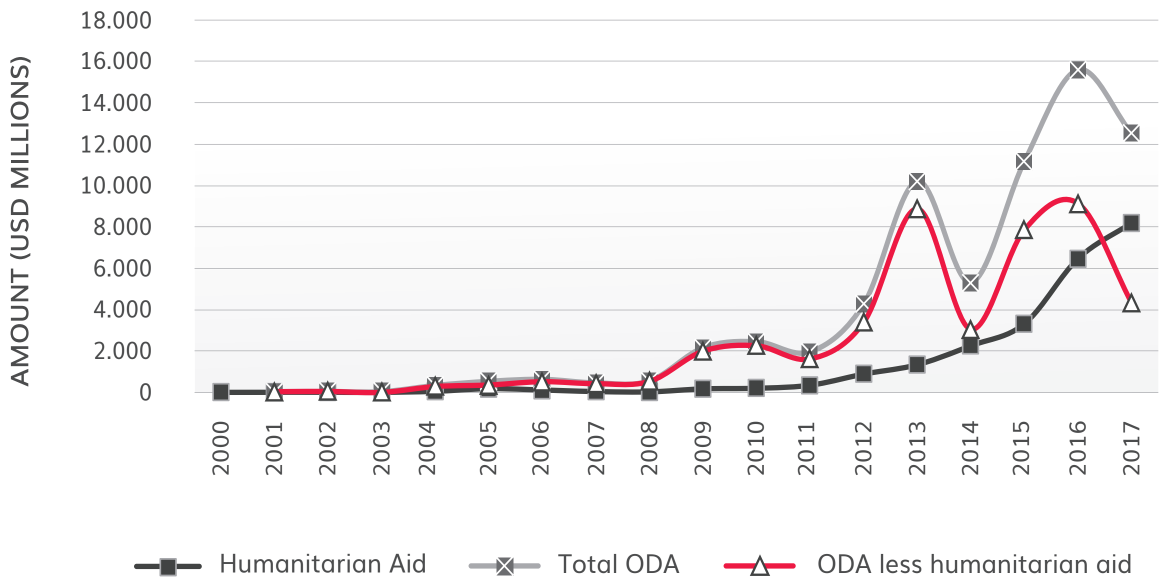
For non-DAC OECD members, the rise in ODA following a substantial drop in 2014 did not continue in 2017 (Figure 4). Compared to 2015, overall, ODA in 2017 remained the same, but ODA excluding humanitarian aid fell significantly. Figure 5 also shows the humanitarian aid curve crossed the curve of ODA-less humanitarian aid very recently, illustrating the share of humanitarian aid has become dominant in non-DAC ODA.

Figure 4. Trend of ODA and humanitarian aid (in million USD)



Source: Authors' estimation from OECD data.

Figure 5. Trend of ODA, Total and Humanitarian Aid for non-DAC providers (million USD)



Source: Authors' estimation from OECD data.

With the sharp rise of humanitarian aid (as part of total ODA) in the Asian and Africa regions over the last decade, allocations to different, and sometimes cross-cutting, sectors have been affected (OECD, 2018). Close consideration of sectoral ODA composition reveals that humanitarian aid increased gradually from 2000 to 2017. The opportunity cost of this was declining aid to the economic, services, commodity aid, and general program assistance sectors. The share of ODA allocated to development sectors has fallen from 76% to 70% since 2010.

Since 2000, humanitarian aid to Africa and Asia has risen the most globally. In Africa, the humanitarian aid share increased from 10% to 15.5% over 2005 to 2016. In Asia, the share increased from 9.5% to 17.1%. OECD data from 2016 shows that the sharp rise in humanitarian aid to countries including Zimbabwe, Uganda, Tanzania, South Sudan, Somalia, Malawi, Mozambique, and Nigeria has resulted in the significant decrease of ODA in social infrastructure, service sectors, and economic infrastructure. Recognising this global shift in aid composition, the Inter-agency Task Force on Financing for Development (2008) argued that addressing humanitarian needs must include development investment addressing underlying drivers of fragility. Moreover, there is a significant difference between unspecified aid share between traditional and non-traditional sources of aid. Non-DAC providers seem to have a lower share of unspecified aid compared to DAC providers.

Since 2000, humanitarian aid to Africa and Asia has risen the most globally.

The current situation of humanitarian aid by traditional providers

The share of traditional providers in total humanitarian aid appears to be declining consistently. In 2009, DAC members provided USD 13.14 billion for humanitarian assistance. This is equivalent to the provision of USD 14 by each citizen of a DAC country; it represents 10.1% of total ODA. The top recipients of humanitarian assistance in 2009 were Sudan, Palestinian Administered Areas, and Afghanistan. Traditional providers' share of humanitarian aid delivery has declined since 2011 due to the rise of in-donor refugee costs. In contrast, non-traditional providers are filling this gap (OECD, 2016a). However, in 2015 there were still ten DAC members for whom in-donor refugee costs were between 10% and 34% of total ODA.

Streamlining the climate-related development finance data

Climate-related development finance has gained attention since the first Rio Summit in 1992. There, it was agreed that finance for global public goods like fighting climate change should be separated from other ODA. The OECD-DAC Creditor Reporting System (CRS) publishes comprehensive, publicly available activity-level data on climate-related development finance. Although the reporting is mandatory for ODA from DAC members, it is voluntary in all other cases. However, climate-related development finance mainly comprises ODA, other official flows (OOF) and private donors. According to OECD data, DAC providers held a 57% share of the total climate-related development finance over 2015 and 2016, with multilateral providers accounting for the rest. Adaptation was the purpose of 60% of these funds; 27% focussed on mitigation. The remainder was accounted for by mutually overlapping purposes (OECD, 2018a). Sectorally, climate-related development finance accounted for 21% of total ODA in2015-16. One significant concern is that LDCs are receiving only 20% of climate-related development finance; LMICs in turn received 35%, and UMICs 30%, over the same period.

The share of loans against grants and equity is unusually high (around 85%) for LMICs in the same year (OECD, 2018a). There have been debates in the literature about separating climate-related development finance from conventional ODA; the former can be understood as payment for a service rather than a transfer. Research suggests the recipient countries adopt a dual-track budgeting approach for separating green climate funds from conventional development funds (Kaul, Davies, Glasser, & Lu, 2015). Other literature suggest climate funds for mitigation purposes should be considered additional assistance on top of conventional ODA, while climate-related development finance for adaptation can be counted as ODA (Shine & Campillo, 2016).

Climate change should be recognised as an eminent global risk, possessing the potential to reverse progress achieved in reducing poverty and meeting the SDGs. Streamlining data and reporting systems of climate-related development finance is critically important to its effectiveness.

Growth of Country programmable aid (CPA) falls in stark contrast with the growth of ODA

Traditional providers report data based on the OECD definition of ODA. In practice, however, resources transferred as development assistance are a subset of total reported ODA (United Nations Economic and Social Council, 2008). In response to this concern, DACs have recently introduced the concept of CPA, representing the resources recipient countries are left with to spend for development purposes. CPA thus excludes humanitarian assistance, debt relief, administration costs, in-donor country refugee costs, and imputed student costs from the calculation of ODA. The growth of CPA falls in stark contrast with the growth of ODA from 2000 to 2016 (OECD, 2018c). Table 3 below provides approximates growth of ODA and CPA at both current price and constant price since 2000:

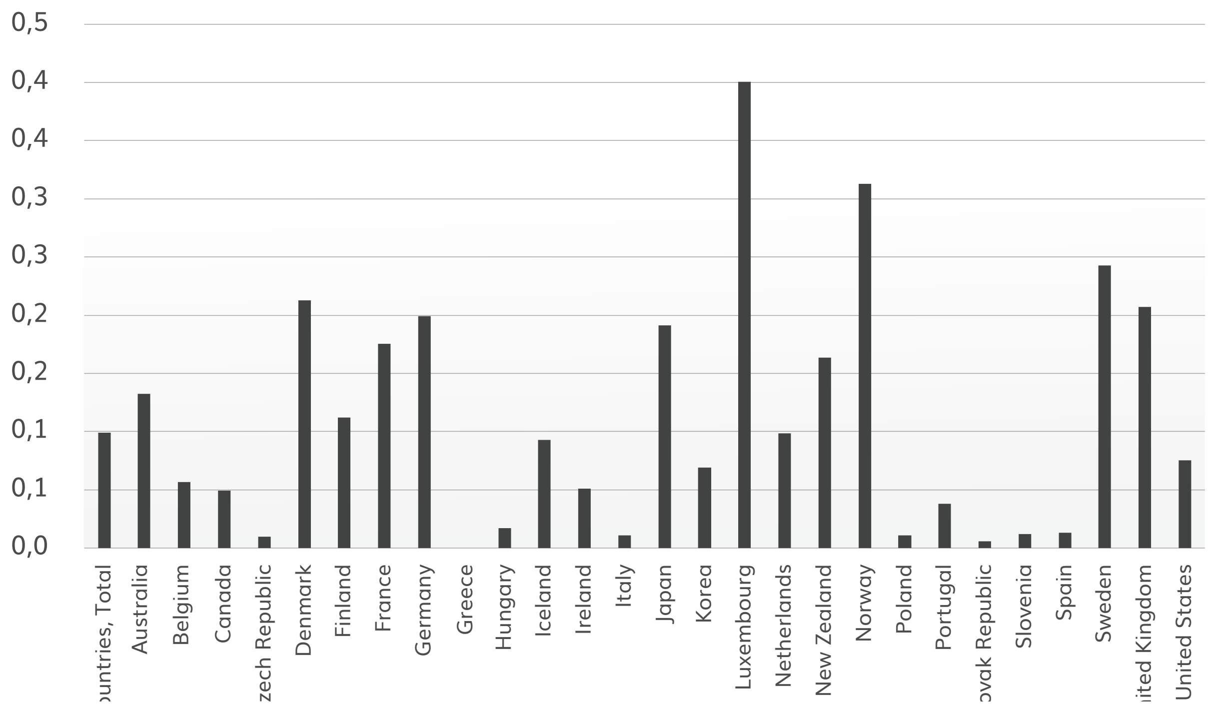
Table 3. Growth of ODA and CPA between 2000 and 2016

Price	ODA growth (%) since 2000	CPA growth (%) since 2000
Constant price	135	77
Current price	202	130

Source: Authors' estimation from OECD data.

Presently, efforts of global development partners are assessed in terms of ODA as a percentage of GNI. Recipient countries do not usually receive the total amount of the disbursed ODA; instead they receive an amount closer to the CPA. This paper therefore assesses the efforts of providers through the lens of CPA, rather than ODA, as a percentage of GNI (Figure 6).

Figure 6. CPA as a percentage of GNI (2016)

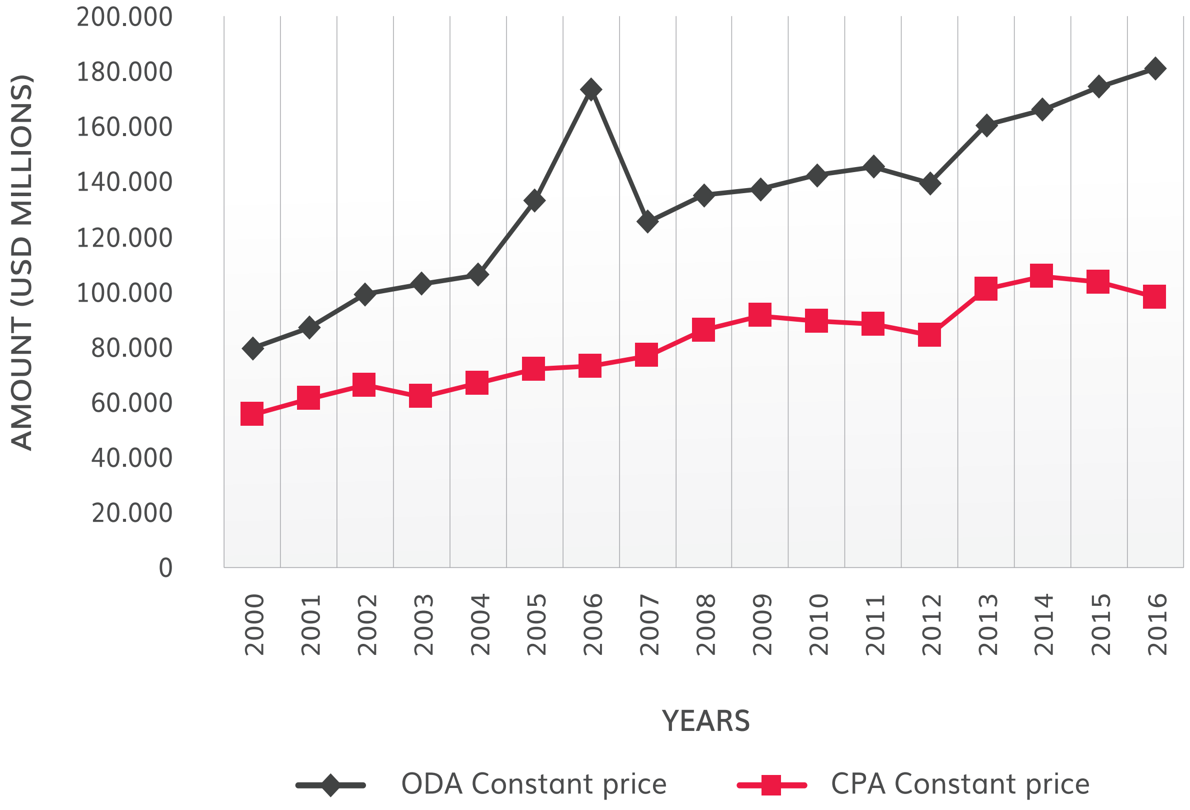


Source: Authors' estimation from OECD data.

CPA of the OECD-DAC member countries revolves around 0.2% of GNI on average. A rethinking of the metric for measuring efforts of development partners is therefore crucial to get the real picture of the global aid scenario.

The rising gap between ODA and CPA is significant because the former underpins commitments made by DAC countries, whereas the latter is more relevant for financing for development goals or meeting balance of payments gaps (Kharas, 2014). A closer look at Figure 7 also reveals that after 2000, the gap was highest in 2006: when, surprisingly, ODA growth was a record high of 30%. Additionally, most members of the DAC announced necessary medium-term plans to increase ODA in 2005 (OECD, 2006).

Figure 7. Trend of ODA and CPA over the period 2000 to 2016



Source: Authors' estimation from OECD data.

The annual growth of ODA and CPA poses some more interesting questions. As shown in Figure 7, the growth of both was higher than usual in 2002, 2005, and 2013. According to the OECD, both increases in 2002can be attributed to DAC members' commitment to increase their ODA to achieve the MDGs and eradicate poverty. As mentioned earlier, the higher annual growth from 2005 to 2006 represents medium-term plans to increase ODA by DAC members along with the Paris High-Level Forum on Aid Effectiveness in 2005. And finally, in 2013, unusually high growth of both ODA and CPA can be explained by the call during the Rio Earth Summit to better finance sustainable development.

CPA appears more volatile than total ODA for non-DAC providers

Often, the effectiveness of aid is measured in instability over time. Development assistance from DAC providers is more volatile than non-traditional (non-DAC) counterparts in terms of both ODA and CPA. For DAC and multilateral providers, the volatility of CPA appears to be lower than that of ODA; for non-DAC providers, the scenario is the opposite. Sectoral volatility of ODA disbursement across providers shows that, excluding humanitarian aid, non-DAC aid is the least volatile (Table 4). The higher volatility of non-DAC aid for humanitarian assistance is because, unlike traditional providers, they are recent entrants to this space. Between 2000 and 2016, the non-DAC share of humanitarian aid increased from 0.1% to 24.1%.

Table 4. Volatility of ODA across sectors (measured in standard deviation)

Sectors	Total ODA disbursement	DAC ODA disbursement	Multilateral ODA disbursement	Non-DAC ODA disbursement
Social Infrastructure & Services	19971.0	12348.5	7561.7	511.0
Economic Infrastructure & Services	10368.9	4743.6	6175.4	536.8
Production Sectors	7973.1	3020.2	6586.3	236.7
Multi-Sector / Cross-Cutting	5664.3	3476.5	2201.7	559.7
Action Relating to Debt	5940.3	5777.0	888.5	188.3
Humanitarian Aid	5970.6	4040.3	1235.0	1706.0
Unallocated / Unspecified	4347.7	3732.8	722.5	248.6

Source: Authors' calculation from the OECD database.

Concentration of ODA has shifted gradually from the production sector to economic infrastructures and humanitarian aid

From 1990 to 2016, ODA shifted from the production sector to economic and social infrastructure. The shift toward social infrastructure has been led by DAC providers. Moves toward social infrastructure and the services sector can be explained in relation to the MDGs (Kenny, 2013). From 2000 to 2016, debt relief considerably reduced mainly due to large Paris Club debt relief operations for Iraq and Nigeria (Deutscher, 2009). The sectoral preference for social and economic infrastructure and services has been consistent, while the humanitarian aid share has increased due to global crises including tsunamis, earthquakes, refugee flows, alongside unrest in the Middle East (Development Initiatives, 2018).

> **The humanitarian aid share gap created by DAC and multilateral providers has been partly compensated for by non-DAC providers.**

The OECD notes that, since 1990, debt relief as a percentage of ODA has decreased, where humanitarian aid and investment in economic and social infrastructure has increased (OECD-DAC, 2018). Investment in the latter sectors is likely to remain, as implementing the SDGs is dependent on ODA as a primary funding source. Unspecified aid (as a share of total aid) for DAC providers increased by 9% between 1990 to 2016, indicating higher administrative costs. From 2001 to 2016, the focus of non-DAC providers has shifted from social infrastructure to humanitarian aid (59%) followed by economic infrastructure (11%) (although reduced recently). The humanitarian aid share gap created by DAC and multilateral providers has been partly compensated for by non-DAC providers. The unspecified aid share of non-DAC providers has also reduced significantly, indicating a lower administrative cost.

Africa and Asia are receiving a more significant share of ODA

Regional distribution of ODA shows that Asia and Africa are preferred regions for providers (Deutscher, 2010). From 2007 to 2016, ODA in Asia in the social infrastructure and services sectors has fallen by almost 13%, compared with sharp growth in the humanitarian, economic infrastructure, and services sectors. Interestingly, the sector-specific growth trend of ODA in Africa matches Asia in terms of economic infrastructure and services sectors. However, across the regions, the dominance of humanitarian aid by volume is also evident from growth figures (Table 5). Only Africa and Europe have experienced ODA growth in the social infrastructure and services sectors. This poses a question, whether more aid in the economic infrastructure and service sectors demonstrates that commercial purposes are critical factors driving aid provision.

Table 5. Growth of ODA across regions and sectors over the period 2007-2016

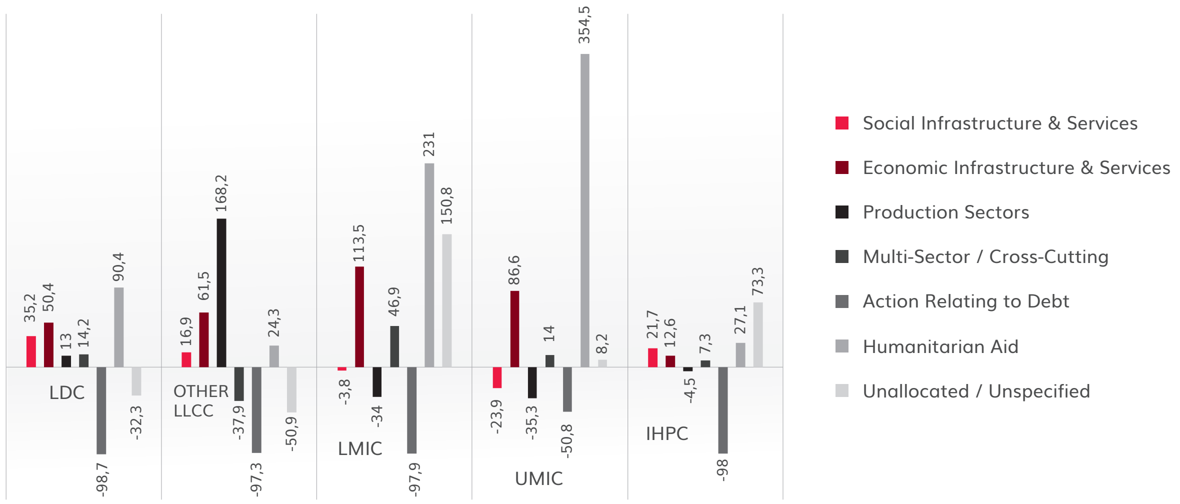
Region	Social Infrastructure & Services	Economic Infrastructure & Services	Production	Multi-Sector	Action Relating to Debt	Humanitarian Aid	Unallocated / Unspecified
Asia	-12.8	96.9	-42.3	74.8	-99.8	195.0	-4.1
Africa	25.5	87.7	32.5	13.8	-97.3	60.3	43.0
Europe	23.0	86.0	151.1	174.8	-100.0	1625.2	85.2
America	-13.1	111.6	-26.6	118.1	547.3	68.3	-43.5
Oceania	-14.3	25.9	122.7	-12.5	0.0	995.7	12.3

Source: Authors' estimation from OECD data.

Sectoral ODA growth across different country groups is also interesting. Least developed countries (LDCs) have experienced the highest growth (35.2%) of ODA in the social infrastructure and services sectors, across all country groups (Figure 8). Despite this growth, the picture looks grim when ODA across other sectors is considered. Putting aside humanitarian aid, ODA growth in LDCs has been highest in the economic infrastructure and services sectors. In lower-middle-income countries (LMICs), ODA growth is focussed in the same sectors. Humanitarian aid increased the most in upper-middle-income countries (UMICs), which is quite impressive. Also interesting is that, in LMICs, ODA growth in the unspecified sector appears unusually high. Net bilateral ODA to other country groups, like LMICs, LDCs, (excluding high-income countries) also decreased in 2018 (OECD, 2018).

In addition to preferencing the social infrastructure and services sector over others, ODA over the last decade has also increased in volume in the economic infrastructure and services sectors. In the social infrastructure and services sectors, EU DAC members contributed the most, followed by non-DAC providers. However, for EU DAC members, unspecified ODA increased considerably. DAC providers are inclined more towards humanitarian aid, and the economic infrastructure and services sectors, while non-DAC ODA providers have focused on the humanitarian sector.

Figure 8. Growth of sectoral ODA across country groups over the period 2000 to 2016



Note. HIPC= Heavy Indebted Poor Countries.
Source: Authors' estimation from OECD data.

From 1995 to 2000, the leading non-DAC providers were the Czech Republic, Korea, Poland, and Turkey (Faure, 2000). All concentrated on three main areas: sustainable economic and social development, environmental concerns, and humanitarian crises. In 2001, more than 50% of bilateral non-DAC aid from these providers was allocated to Asia. After 2010, new non-DAC providers have seen increased aid allocations to Asia and Africa. Non-DAC ODA disbursement in Asia increased consistently until 2015, after it appears to shift towards Africa. Since 2010, bilateral ODA was the major component of increased aid allocations to Asia and Africa (OECD, 2015). Asia's predominance is driven by large allocations of aid for trade, whereas Africa seems to be preferred for MDGs and debt relief grants (Basnett et al., 2012). Interestingly, aid disbursements in these two regions appear to be countercyclical in recent years. This may be an issue for more in-depth future research in the area of external development finance flows.

Increased ODA to Africa from 2005 to 2010 reflects commitments to tackle climate change and foster economic development made at the 31st G8 Summit at Gleneagles (ICA, 2018).Within Africa, most ODA increases have been channelled to the Sub-Saharan region. A simultaneous decrease in ODA to Asia from 2005 can be attributed to the consistent decrease of ODA to the Middle East due to declining projected aid to Iraq. While non-DAC providers appear more interested in Asia, DAC providers have historically maintained a balance between Asia and Africa.

ODA from DAC countries increased to developing countries but not to LDC

The least developing countries, unlike developing countries, have received a roughly constant amount of ODA since 2000. However, LDCs experienced a temporary rise of ODA (in real terms) in 2017, which fell again in 2018 by 2.7%. In the case of multilateral ODA, growth of received ODA by LDCs appears to be slower compared to developing countries.

ODA concentration in terms of destination has primarily shifted from LMICs to fragile states

According to OECD development cooperation reports, providers have, since 2000, become more inclined towards fragile countries who are—unlike lower-middle-income countries (LMICs)—less capable of sustaining their level of development (Manning, 2005). From 1960 to 2016, the preference of provider countries has shifted from lower-middle-income countries (LMICs) to fragile states.

Due to debt relief and humanitarian emergencies, aid appeared high from 2005-2006. Data on highly aid-dependent countries (Table 6) in 2004-2005—most of which are small or fragile—also justifies the compositional shift of the providers (OECD, 2006). This scenario has not since changed considerably. This can be explained with two different hypotheses. Firstly, previously aid-dependent countries may not have had enough economic growth to escape this dependency. Secondly, previously aid-dependent countries may have experienced growth in both aid and gross national income (GNI), but the former has been higher than the latter.

Table 6. List of heavily aid-dependent countries as of 2004-2016

Net ODA receipts as a percentage of GNI (2004-2005)		Net ODA receipts as a percentage of GNI (2007-2008)		Net ODA receipts as a percentage of GNI (2015-2016)	
Sao Tome & Principe	60.2	Liberia	181.22	Liberia	44.79
Solomon Islands	59.1	Nauru	74.38	Tuvalu	44.44
Liberia	53.8	Afghanistan	47.63	Central African Republic	28.5
Burundi	50.9	Solomon Islands	43.64	Burundi	24.86

Micronesia, Fed. States	40.0	Micronesia	35	Malawi	23.32
Afghanistan	37.7	West Bank and Gaza Strip	33.63	Kiribati	23.22
Eritrea	32.7	Tuvalu	33.06	Sierra Leone	21.11
Sierra Leone	32.0	Burundi	32.39	Tonga	20.91
Marshall Islands	30.9	Marshall Islands	27.06	Afghanistan	20.66
Timor-Leste	28.8	Sao Tome and Principe	25.16	Somalia	20.42
Guinea-Bissau	28.5	Palau	22.96	Nauru	17.72
Congo, Dem. Rep.	28.4	Rwanda	19.38	Guinea-Bissau	17.53
Malawi	27.7	Mozambique	18.36	West Bank and Gaza Strip	16.03
Rwanda	27.3	Malawi	17.45	Solomon Islands	15.22
Madagascar	23.6	Guinea-Bissau	15.94	Mozambique	14.21
Congo, Rep.	21.8	Zimbabwe	15.43	Rwanda	14.05
Mozambique	21.5	Vanuatu	15.2	Sao Tome and Principe	13.36
Nicaragua	21.5	Haiti	14.15	Haiti	13.29

Source: Authors' estimation from OECD data.

Countries most in need should remain the focus of providers

Countries receiving the highest volume of ODA are mostly those in conflicts or humanitarian crises. These include Syria, Afghanistan, Turkey, India, Pakistan, Bangladesh, Myanmar, Iraq, Yemen, and Ukraine. Although these aid-darling countries have historically received more ODA, many low-income countries (LICs) and LMICs including Samoa, Gambia, Congo, and Eritrea have received the least. As such, these countries can be named aid orphans.

The list of most aid-dependent countries is dominated by island states as well as landlocked countries (Table 7). Their dependency on aid has increased at a faster rate since 2010. Surprisingly, Tuvalu, as an upper-middle-income country, appears to be highly aid-dependent. Between 2010 and 2015, increased ODA to Tuvalu has resulted from the partnership with Australia, established in 2010, and the Tuvalu Trust Fund formed in 1987 by New Zealand, Australia, and the United Kingdom. Although the Trust Fund aimed to help Tuvalu reach financial autonomy, the country still has the highest aid dependency of all recipients globally.

Table 7. List of aid-dependent countries in terms of ODA as a percentage of GDP

Country Name	1990	1995	2000	2005	2010	2015	2016
Comoros	31.9	52.3	60.8	148.5	121.5	226.6	181.0
Tuvalu	37.4	44.2	24.9	35.8	38.8	134.9	62.3
Liberia	19.1	60.9	8.3	26.9	101.1	66.4	50.1
Central African Republic	24.9	11.8	6.3	5.6	12.2	34.0	33.5
Burundi	20.8	21.2	9.3	24.0	28.5	15.9	32.3
Kiribati	23.4	15.2	17.5	19.5	13.6	34.3	31.5
Sierra Leone	4.5	18.1	17.8	17.6	16.5	29.0	20.7
West Bank and Gaza Strip	N/A	12.7	14.9	15.7	26.9	16.6	20.4
Tonga	18.5	15.8	9.0	10.1	17.1	17.7	20.3
Solomon Islands	16.6	9.4	21.8	44.4	44.1	22.1	19.5

Source: Authors' estimation from OECD database.

Some upper-middle-income countries are also present in the list, including Jordan and Palau (Table 8). The presence of these upper-middle-income countries is in stark contrast with the presence of some low- and lower-income countries: namely, the Philippines, India, Bangladesh, and Nepal.

Table 8. List of aid-dependent countries in terms of ODA per capita

Country Name	1990	1995	2000	2005	2010	2015	2016
Tuvalu	890.8	1193.9	765.4	1043.2	1172.7	4666.8	2202.4
Nauru	29.5	383.2	544.0	1123.2	2420.9	2534.7	1738.1
Palau		11794.5	2200.8	1329.2	1394.2	674.1	825.9
Tonga	471.8	481.1	293.2	355.8	606.6	655.2	771.2

Kiribati	395.5	248.4	302.2	332.2	202.3	581.3	531.8
Syrian Arab Republic	99.5	25.0	11.6	4.2	5.9	255.5	481.2
Vanuatu	498.3	326.7	381.1	224.9	421.1	713.4	477.3
Samoa	438.4	306.0	249.5	271.7	722.4	491.8	454.3
Solomon Islands	215.7	155.1	273.0	514.4	569.2	327.5	292.8
Jordan	368.1	128.7	143.1	142.1	133.6	236.8	289.6

Source: Authors' estimation from OECD database.

LDCs comprise the most considerable share (23%) of ODA provided by the OECD-DAC member countries, followed by the LMICs with 20%. Surprisingly, low-income countries comprise only 2% of the total ODA provided by DAC countries, which needs to be increased further (OECD, 2016b). However, the unallocated share of ODA provided by DAC members is almost 40%, which mostly goes towards developing countries other than LDCs, LICs, and LMICs. This poses a question: are countries most in need of development assistance receiving an adequate share of global ODA?

Bilateral ODA continues to grow faster than multilateral ODA

From the mid-1970s, aid has grown almost 2.6 times over, with compound growth averaging 3.1% per year. Bilateral aid accounted for almost three-quarters of the total. Until 2005, multilateral aid saw greater growth than bilateral aid; after 2005, the pattern reversed. The consistent increase in bilateral aid from 1990 was primarily driven by political interest, along with, from 2005, providers' inclination towards implementing the MDGs (Kharas, 2007). The growth fatigue of the mid-1990s can be attributed to the end of the Cold War. In contrast, aid fatigue in the mid-2000s was due to the global economic downturn (Kharas, 2007). From 2012, increases in bilateral aid continued as implementing SDGs called for greater financial cooperation across the globe. Preliminary ODA data for 2018 also justifies this trend: bilateral aid for projects, programmes, and technical assistance rose slightly by 1.3% in real terms in 2018 compared to 2017 (OECD, 2018).

Multilateral providers are increasingly inclined towards the upper-middle-income countries

Recently, multilateral ODA has become a major contributor to global aid. Multilateral aid growth in UMICs has been significantly higher than in developing countries since 2010. However, sectoral preferences within multilateral aid for social infrastructure and service sectors has significantly decreased, while the economic infrastructure and service sectors have gained more importance since 2000 (Table 9).

Table 9. Changes in sectoral composition of multilateral aid (%)

Sectors	2000	2005	2010	2015	2016
Social Infrastructure & Services	44.0	49.6	44.7	40.5	38.5
Economic Infrastructure & Services	22.5	19.7	21.7	24.6	26.8
Production Sectors	12.9	10.3	8.8	10.1	11.2
Multi-Sector / Cross-Cutting	7.3	8.5	12.1	12.8	11.7
Action Relating to Debt	0.1	0.2	1.6	0.4	0.0
Humanitarian Aid	6.8	7.7	7.2	7.6	7.5

Source: Authors' estimation from OECD data.

Increased aid volatility due to proliferation of multi-bi aid may adversely affect economies

Aid delivered through multilateral organisations has risen significantly as a share of total aid since the mid-1990s. Currently, it accounts for more than 40% of total official development assistance (OECD, 2018f). In 2010, the multilateral share of aid reported by twenty-one non-DAC members to the OECD-DAC was 22% of total financing. Emerging economies have become essential contributors to the multilateral system: these include Brazil, China, India, and South Africa, among others. In recent years, multi-bi aid[2] has gained considerable attraction with traditional and non-traditional providers due to the greater possible coordination and harmonisation between provider and recipient countries. Research suggests that the share of earmarked aid increased from 29% between 1995-2000 to about 38% of total ODA between 2001-2006 (Adugna, 2009). Moreover, a recent dataset published by AIDDATA reveals that earmarked aid currently represents around 20% of total global aid, which amounts to more than USD 20 billion.

In a multi-bi aid system, bilateral providers supply aid to multilateral organisations voluntarily, without losing authority over provided resources by earmarking a specific

2 Multi-bi aid can be defined as donor contributions to multilateral organisations that are earmarked for specific development purposes.

sector, theme, or country. This system addresses the issue of fragmentation of individual provider interventions. Through earmarking, this system also addresses sector- or country-specific development challenges as part of the global development agenda 2030 (Tortora & Steensen, 2014). However, research also suggests that earmarked multi-bi aid has contributed to the increased volatility of aid in developing countries.

Earmarked multi-bi aid poses significant challenges to alignment with recipient-country priorities, risks aid fragmentation, and increases transaction costs. Furthermore, it is susceptible to influence by special interest groups, although one of the stated objectives of earmarking is to protect revenue for a specific theme or sector. While some research suggests earmarked aid increases effectiveness by enhancing accountability and efficiency, it may cause economic distortion unless its economic costs are fully recovered (Eichenauer & Reinsberg, 2017). Smaller states are more inclined towards the use of earmarked aid. This contradicts other evidence of increased adoption of earmarked aid globally by advanced high-income economies. Empirical evidence (Table 10) shows that Asia and Africa receive the highest amount of earmarked aid through the multilateral system from DAC providers. The earmarked amount received by Asia and Africa is almost six times that received by the other three regions.

Earmarked multi-bi aid poses significant challenges to alignment with recipient-country priorities, risks aid fragmentation, and increases transaction costs.

Table 10. Earmarked fund distribution (2016) by DAC members

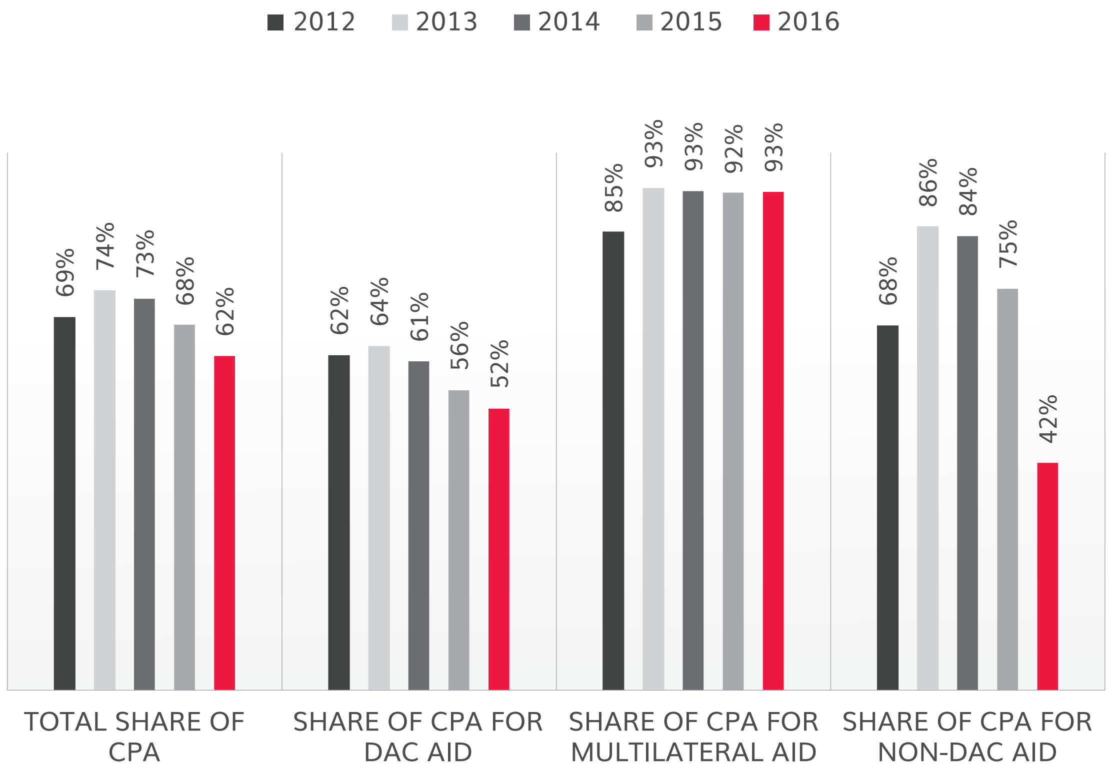
Indicator	Asia	Africa	Europe	America	Oceania
Earmarked fund distribution (2016) by DAC members to Multilateral Institutions (In Mln USD)	22,475.1	17,884.4	3,564.9	2,342.2	589.4

Source: Authors' estimation from OECD data.

Share of ODA from the non-DAC providers are increasing

Since 1995 non-DAC aid has gradually increased, while multilateral and DAC aid have decreased. This points to the evolution of the development finance landscape in line with the evolving global development agenda from the MDGs to the SDGs. Although the SDGs call for greater cooperation among development partners globally, the share of CPA between provider classes appears to be declining, except for multilateral aid (Figure 9).

Figure 9. CPA as a share of ODA (%)



Source: Authors' calculation from the OECD database.

Growth of non-DAC aid complemented the slower growth of DAC aid in the last two decades

Apart from CPA, the overall growth of ODA from DAC countries seems to have slowed, compared to other development partners, in the last two decades. Decade-length growth of ODA across different classes of providers since 1976 shows that growth of non-DAC aid has compensated the lack of growth in aid from DAC providers. Although the picture of multilateral aid appears to show a positive growth path, complacency would be premature, as multilateral providers seem inclined towards UMICs, as mentioned earlier.

Data mismatch constrains transparency in accountability of ODA at the country level

Many critics have argued that significant differences remain between reported ODA figures from the OECD creditor reporting system (CRS), and the government agencies of different countries. This is because considerable resources are spent in provider countries throughout the aid disbursement process (The Guardian, 2018). Comparative studies in some countries showed harmony between ODA and national government agencies' data; however, in others, the differences are striking (Petras, 2009). As an example, the data reported by the Government agency Economic Relations Division of Bangladesh on ODA disbursed by the top 20 providers differs significantly from the figures reported pursuant to the OECD CRS. Table 11 shows the contrasting picture between these OECD and government data sources. Surprisingly, data on net ODA is not even reported in the Bangladeshi case.

The discrepancy between OECD and government data points towards either definitional or methodological disharmony.

Table 11. Flow of ODA disbursement for 2016 (in million USD)

Development Partners	Net ODA reported by OECD	CPA reported by OECD	Net ODA reported by ERD, Bangladesh
IDA	752.5	957.1	NA
ADB	111.7	385.7	NA
Japan	461.3	561.3	10367.9
UN System	67.4	N/A	NA
USA	244.2	211.9	33588.54
UK	200.5	209.8	18013.11
Canada	45.9	33.5	3961.87
Germany	61.1	34.4	24669.53
EU	115.1	85.9	81308

Unicef	22.2	22.1	NA
Netherlands	38.2	33.6	4988.22
Denmark	24.5	25.5	2371.56
Sweden	30.0	22.5	4870.44
Norway	2.7	1.3	4352.24
IFAD	42.2	50.4	NA

Source: Author's estimation from MOF Bangladesh data.

This discrepancy between OECD and government data points towards either definitional or methodological disharmony. ODA reported by the OECD includes different kinds of spending in provider countries, shrinking the aid left to recipient countries. Besides, many countries may not have streamlined the disharmony both in terms of the definition of the concepts (like ODA, CPA) and in terms of the accounting mechanism of ODA at a national level, such as in Bangladesh. Literature shows that the amount of bilateral aid available to country partners excluding all administrative and other cost accrued inside the provider countries (those considered as ODA according to the 'ODA' definition of OECD) amounts to less than half of the reported ODA amount.

Although OECD-DAC members introduced the concept of CPA, research shows that DAC providers systematically overestimate the amount of CPA provided in technical assistance. In reality, technical assistance remains tied to provider country consultants and provider country personnel. In Bangladesh, government ODA figures differ to the CPA figures published by the OECD. Additionally, CPA reported by OECD members does not include loan repayments from recipient countries; this figure is considerable for many developing countries like Bangladesh. Harmonisation of the definition of ODA, as well as a national and international accounting mechanism, are preconditions for resolving complications caused by inconsistency of data reported by provider and recipient sides. This will facilitate a better assessment of development finance effectiveness at the country level.

Non-DAC partner countries are providing a larger share of total aid as CPA compared to the DAC counterpart

CPA, being a subset of ODA, represents the amount of development aid reaching the recipient countries. Compared to DAC counterparts, non-DAC providers supply more aid as CPA, as reported by OECD data. Research shows that CPA has a positive causal relationship with economic growth in recipient countries. However, there is still scope for revisiting the concept of CPA as a measure of the quality of providers' ODA. As defined by the OECD, CPA still includes technical assistance and loan repayments. Many studies have argued that technical assistance and loan repayments should not be understood as CPA (United Nations Development Programme, 2011). Between 2000 and 2016, technical cooperation comprised around 25% of the total CPA for developing countries. Accepting the above, one may argue that CPA, as being reported by OECD, was thus inflated by 25%.

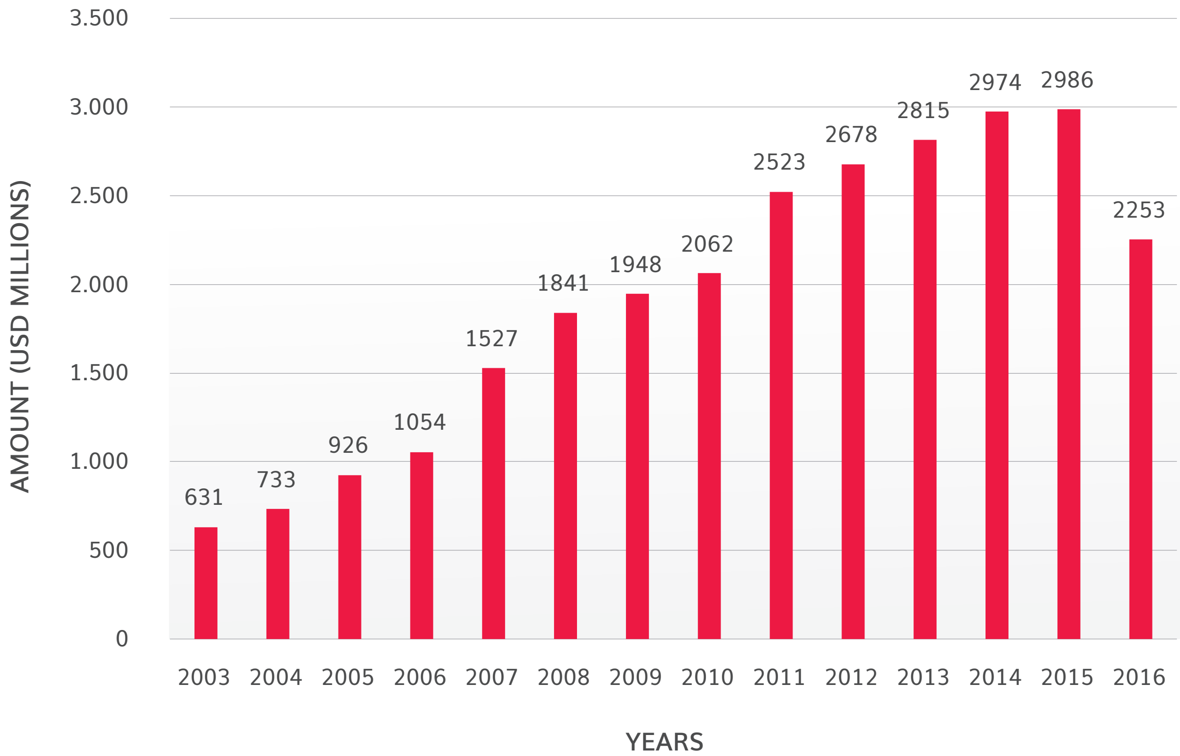
Growing importance of non-traditional providers in the form of South-South Cooperation is changing the external development finance landscape

South-south cooperation (SSC) has become an essential source of aid in recent years, accounting for about 10% of global aid in 2006. SSC drew the attention of traditional providers as a new model of international cooperation (Cabana, 2014). Southern bilateral providers, including Brazil, China, India, Korea, Kuwait, Saudi Arabia, and Venezuela, provide both grants and loans, as do southern multilateral providers such as the Arab Bank for Economic Development in Africa (BADEA), the Islamic Development Bank (IDB), and the OPEC Fund for International Development (OFID). Although the first UN high-level conference on South-South cooperation at Nairobi significantly amplified SSC by recognising its particularities and realising its potential, SSC itself dates back to the 1955 Bandung Conference—also known as the Asian-African Summit. The Millennium Summit in 2000, with its new global development agenda, provided Southern providers renewed importance as part of the global development finance landscape. Following 2000, when OECD countries were negatively affected by economic crises, developing Global South countries, including China, India, Brazil and South Africa, maintained steady economic growth. Moreover, the BRICS Bank and the Asian Infrastructure Investment Bank (AIIB) were established, creating a new class of Southern development partners. After the First Nairobi conference on South-South Cooperation, the second United Nations High-Level Meeting on South-South Cooperation in Buenos Aires in 2019 aimed to review the progress and prospects of past commitments made by the international community.

China has emerged as the dominant Southern provider

China, despite being one of the largest Southern development donors, does not publish data on the volume of its foreign aid; traditionally, this has been seen as an essential part of China's foreign policy. However, from budget documents and online sources, the overall aid budget of China is discernible, although disaggregated sectoral data is not published. Based on available data, China's foreign aid budget has increased by almost 3.6-fold since 2003 (Figure 10).

Figure 10. Foreign Aid China (USD mln unadjusted)



Source: Ministry of Finance, People's Republic of China (2018).

The Chinese white paper (2014) provides the most authoritative data on Chinese aid. It reports that, since 1950, China has provided a total of USD 37.5 billion in aid to foreign countries. Of this total, grants comprised 41.4%, interest-free loans 29.9%, and concessional loans 28.7% (OECD, 2012). The white paper details an average aid growth rate of 20.4%from 2003 to 2009, which seems higher compared to growth rates since 2009. Interestingly China's aid growth was highest at the time of the financial crisis in 2008.

China has launched around 5000 projects in different regions, especially in Africa and Asia, since 2000. It generally provides aid as part of a broader package of investment, trade deals, and larger non-concessional loans and export credits in the energy, transport, and connectivity sectors (OECD, 2012). Bhattacharya and Rashmin (2016) concluded that LOCs provided by the EXIM Bank of China were not concessional (UNDP Bureau for Development Policy, 2016). Analysis of project-level Chinese aid data since 2000 reinforces that official finance is less concessional than that of other significant players. While China gives aid mainly to Africa, its commercial interests are more geographically dispersed. The top ten recipients of Chinese ODA indicate the dominance of African recipients, despite China's proximity to other Asian economies.

According to the white paper, 45.7% of Chinese aid has gone to Africa, while the share is significantly lower for Asia. China's aid is allocated towards LICs and LDCs. Although most Chinese aid was targeted to improving the trade capacity of the country groups (namely, LICs and LDCs) mentioned above, a large amount of aid is also as debt relief. A large part of Chinese aid was also provided bilaterally to developing countries and international financial institutions. Project-level data reveal the distribution is more concentrated on Asia and Africa; in 2014, however, the Middle East received an unusually high amount of aid.

Analysis of the period from 2000 to 2014 shows that China has distributed most of its total aid after 2008. Moreover, over the years of the financial crisis, China disbursed most of its aid to African and Latin American countries (Table 12).

Table 12. Annual distribution (%) of Chinese project aid across regions over the period of 2000 to 2014

Year	Asia (Share)	Africa	Central and eastern Europe (Share)	Latin America and Caribbean (Share)	Middle East (Share)	Pacific (Share)	Total project aid in Bln USD (Share)
2000	1.5	0.7	0.0	0.0	0.2	0.6	0.6
2001	0.8	0.5	0.1	0.0	0.0	0.3	0.4
2002	3.0	0.5	0.5	0.2	0.2	5.1	1.1
2003	1.4	0.8	0.2	0.6	0.1	0.2	0.7
2004	1.6	2.0	0.2	0.1	0.1	1.2	1.1
2005	2.2	2.0	1.1	0.2	0.1	0.7	1.4
2006	6.5	4.5	0.2	0.2	0.5	5.1	3.2
2007	2.7	7.2	2.1	3.8	0.2	22.6	4.0
2008	2.8	4.8	0.4	8.4	0.5	15.6	3.8
2009	9.9	7.8	24.5	15.2	0.5	14.8	12.6
2010	23.8	17.1	24.3	21.2	0.1	4.6	20.0

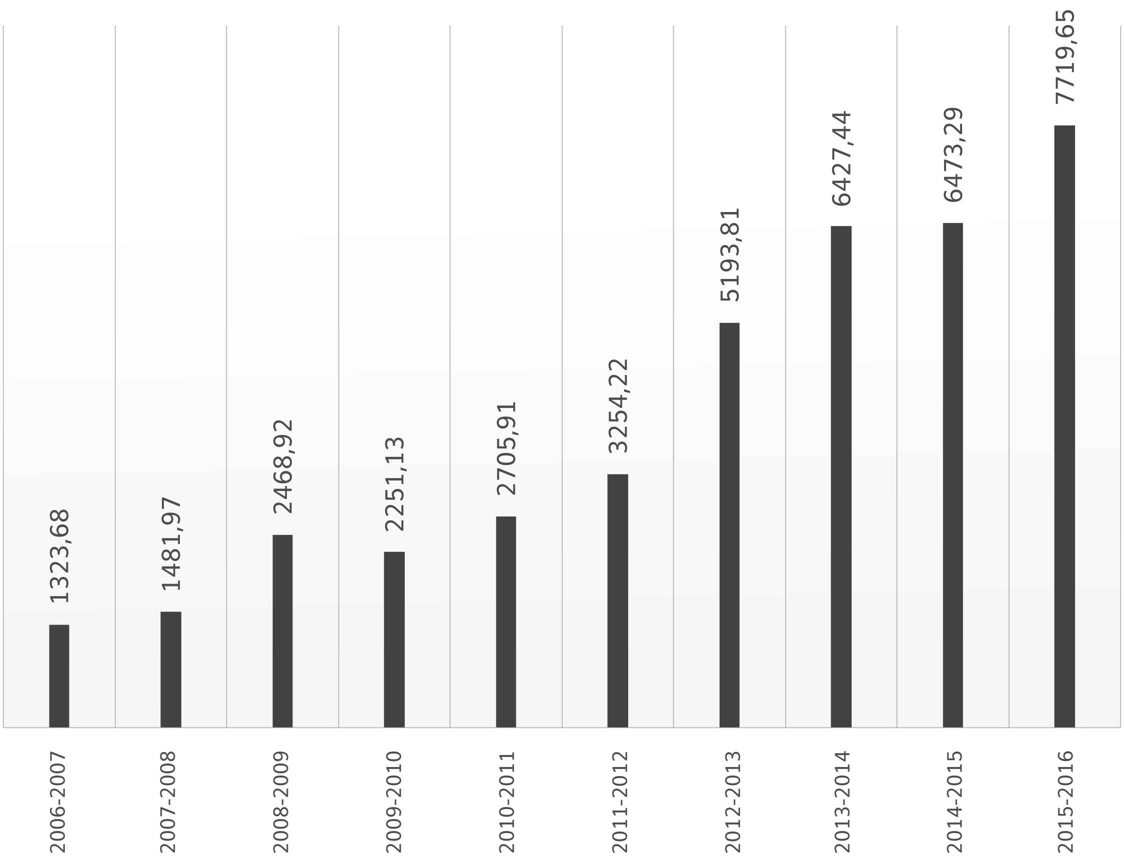
2011	11.7	11.1	3.9	19.5	0.0	7.6	11.6
2012	12.2	9.2	22.6	5.8	0.1	8.8	11.4
2013	6.0	15.5	2.9	10.7	1.5	8.0	8.7
2014	14.0	16.3	16.9	14.1	95.8	4.8	19.5

Source: Authors' estimation from AIDDATA database.

India appears as an emerging Southern provider

India has transitioned from a prominent recipient of multi-lateral aid into a net provider, having given more aid to foreign countries than it has received over a three-year period until 2017 (Sharma, 2017). Since 2007, foreign aid provided by India has increased by more than three-fold. Since 2012, this increase has accelerated (Figure 11).

Figure 11. India's foreign aid budget in crore Rupees



Source: Ministry of External Affairs, Republic of India (2017).

> India has transitioned from a prominent recipient of multi-lateral aid into a net provider.

Like China, India does not officially report foreign aid data. In contrast, however, it provides most assistance to neighbouring South Asian countries under the "Neighbourhood First" policy. Research uses India's foreign aid budget as a proxy for its ODA. India's foreign aid program dated to the 1950s and 1960s when it committed Rs 100 million in multi-year grants to Nepal and Rs. 200 million loans to Myanmar. Bhutan has received the most significant chunk of recent Indian aid with Rs. 5,368.46 crores in 2015-2016 primarily aimed at developing hydro-electric power. In the same financial year, the second-largest recipient was post-conflict Afghanistan, where India has been constructing a parliament building and cricket stadium. Sri Lanka ranks third, where India is constructing houses for Tamils displaced by nearly three decades of civil war (Sharma, 2017).

Apart from neighbouring recipient countries, India provides a large amount of aid to Africa. There seems to have been a shift geographically from near to far since 1999. From 1999 to 2009, the compound annual growth rate of India's foreign aid to Africa was above 22%(Chanana, 2009). Research suggests that while OECD countries promote social development, and China offers an infrastructure-first approach, India's approach is informed by its own experience of development with democracy and growth(Channa, 2010). The sectoral preference of India's aid is mainly rural development, education, health, and technical cooperation for infrastructure(UN ECOSOC, 2008). The most frequent modality is bilateral aid provision to Southern partners. However, India has also been involved in regional and triangular South-South Cooperation to some extent (Lengyel & Malacalza, 2011). Fuchs and Vadlamannati (2012) examined India's aid-darling countries to understand the dynamics of decisions. They concluded that both commercial and political interests predominate in India's aid decisions; India generally provides aid to countries which are geographically closer and developmentally similar (Fuchs & Vadlamannati, 2012).

Seven countries in Latin America accounted for 90% of the 721 Bilateral SSC projects in 2015

Bilateral modalities have dominated SSC in Latin America since 2015. In 2015, 19 Latin American countries participated in 721 Bilateral South-South Cooperation projects and 155 actions. Compared to 2014, although projects increased by 30.6%, actions decreased by more than 50%.

Most of the SSC projects in Latin America are concentrated in social infrastructure and services and productive sector

According to the Ibero-American report (2017), projects and action shave gradually shifted towards the productive sector. However, the social infrastructure and service sector still has a considerable number of projects. Disaggregated, the health, agriculture, and government sectors received a considerable number of projects in Latin America. Although the top providers in Latin America remain the same between 2010 and 2015, concentration appears to have shifted towards productive sectors (Table 13). However, more than half of regional SSC programs and projects already underway in 2015 focused on social (26.7%) and economic problems (another 26.7%).

Table 13. Compositional shift in the concentration of SSC in Latin America

Countries	2010				2015			
	Social	Infrastructure and economic services	Productive sectors	Other spheres	Social	Infrastructure and economic services	Productive sectors	Other spheres
Brazil	37.9	11.3	27.8	22	44.8	12.8	18.4	24
Cuba	84.2	3.6	5	7.2	88.9	1.7	1.7	7.7
Mexico	23.6	16.9	27	32.6	18.4	8.8	44.8	28
Argentina	10.5	14	33.3	42.1	21.1	10	41.7	27.2
Chile	57.7	0	15.4	26.9	28.8	6.3	31.3	33.6

Source: Ibero-American report on South-South Cooperation (2015).

Comparing the top recipients (Bolivia, Argentina, Mexico, Uruguay, and Costa Rica) in Latin America, it can be shown the providers area of concentration is driven by the needs of the recipient.

Blended finance has become a globally popular solution to bridge the USD 2.5 billion investment gap for SDGs

> **Blended finance has emerged as a popular solution to mobilise the private sector to bridge the investment gap and meet the SDGs.**

As countries commit to implementing the ambitious 2030 Agenda, they realised achieving the SDGs would require scaling up existing financing, as well as utilising innovative forms and strategies. If the global investment scenario remains on its current trajectory, it will not be enough to achieve the SDGs. Blended finance has thus emerged as a popular solution to mobilise the private sector to bridge the investment gap and meet the SDGs. Other objectives of blended finance are to overcome market failure and accelerate market evolution in developing countries where sources of financing are low. Unlike ODA, which has a standard definition among all OECD-reporting countries, blended finance is understood differently both across and within classes of development partners. According to the OECD-DAC, blended finance is defined as the strategic use of development finance towards sustainable mobilisation of additional[3] finance towards sustainable development in developing countries (OECD, 2018e, p. 3). At present, provided we take the varying individual understanding of blended finance, 17 out of the 26 OECD-DAC member countries are engaged in blended finance in some form.

Most of the private finance has been mobilised in Africa

Regional distribution of gross private capital mobilised for aid throughout 2012-2015 reveals that most went to Africa, followed by Asia (Figure 12). A small share (5%) was unallocated, reflecting the global or multiple-continent scope of some large CIVs and guarantee programmes. Guarantees were the main leveraging instruments in Africa (62%), and in Sub-Saharan Africa (73%), Asia, and Oceania. Syndicated loans were mobilised the most in Latin America (45%), and credit lines in European developing countries (50%). Turkey was the largest single recipient of mobilised private finance, mainly due to European Investment Bank credit lines.

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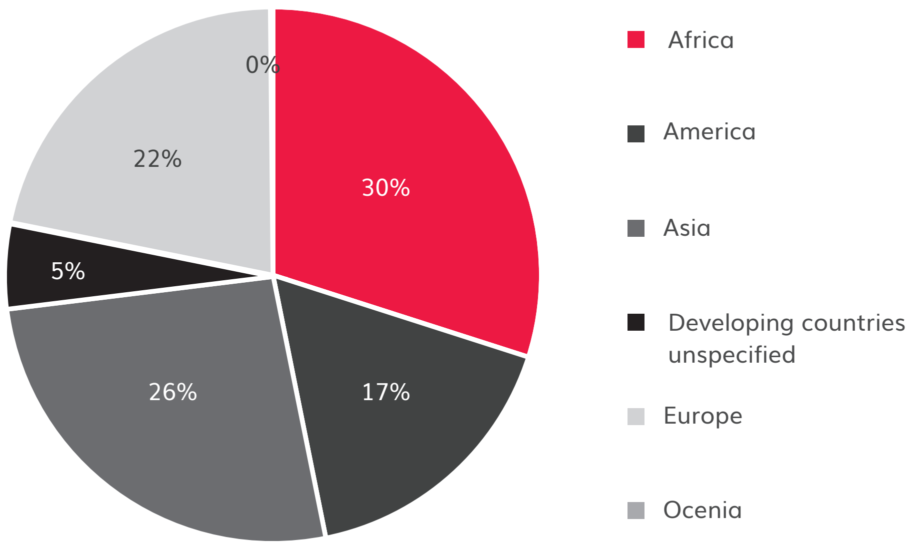
3 Additional finance refers to the commercial finance (both public and private sources) that is not currently deployed to support development outcomes.

Figure 12. Region-wise share of private finance mobilised in 2012 to 2015.



Source: Authors' estimation from OECD blended finance report.

Share of private capital mobilised in LDCs and LICs continues to below

The fact that 77% of funds mobilised were for projects in middle-income countries has created concern. According to the OECD blended finance report (2016), USD 5.5 billion (7%) was mobilised for projects in LDCs and USD 2.2 billion (2%) in other LICs. In the latest OECD report, the financing gap for the missing middle, i.e. small and medium-sized enterprises (SME) has been highlighted. The report also found that LDCs received only 6% of total private development finance between 2012 and 2017, which was 7% until 2015 (OECD, 2019). Apart from LDCs, small islands and conflict-afflicted states continue to be missing in the list of countries where private capital was most mobilised since 2012. Guarantees mobilised a significant portion of the financing in LDCs and LICs, while credit lines were mostly used in case of UMICs and LMICs.

From 2012 to 2015, the highest share of private capital was mobilised by UMICs, followed by LMICs; in LDCs and LICs the share is low but stable. This issue takes us back to the question of rethinking the objective of blended finance, which was accelerating market evolution by removing market failure caused by inadequate finance to developing countries. Between 2012 and 2015, private capital was mostly mobilised in the economic infrastructure and services sector.

Guarantees appear to be the most popular tool to mobilise private capital between 2012-2015

Given that blended finance aims to mobilise private sector resources in developing countries, this naturally highlights the risk-return aspect of investment. A wide array of instruments can be of use in a blended finance framework to alter risk-adjusted returns. From 2012 to 2015, ODA mobilised USD 81.1 billion of private sector finance, a majority of which was in guarantees (USD 35.9 billion), syndicated loans (USD 15.9 billion), and credit lines (USD 15.2 billion) (Table 14). The 2019 OECD blended finance report also included two additional leverage instruments to mobilise private finance: project finance and public-private partnership (PPP) of simple co-financing. The report found simple co-financing in LDCs to be prevalent, even though the volume of mobilised private finance was small (OECD, 2019). Mobilisation took place mainly in Africa (30% of amount mobilised), followed by Asia (26%), with the majority of financing mobilised in middle-income countries (43% in UMICs and 34% in LMICs) (OECD, 2017). However, the popularity of guarantees as an instrument can be explained by their risk mitigation properties.

Table 14. Instrumental share of private capital mobilised (%)

Year	Guarantees	Syndicated loans	Shares in CIVs	Direct investment in companies	Credit lines
2012	53.4	7.3	10.8	7.3	21.1
2013	49.4	11.5	14.5	5.9	18.7
2014	38.6	24.5	11.7	4.5	20.7
2015	40.3	27.5	10.4	5.9	15.9

Source: Authors' estimation from OECD blended finance report.

The yearly share of mobilised private finance (Table 15) through different instruments from 2012 to 2015 shows that the larger share of private finance has been mobilised through guarantees. Although the larger share of private capital has been mobilised through guarantees, private finance mobilised through guarantees reduced, with syndicated loans and credit lines becoming more popular as tools for private capital mobilisation over time (Table 15).

Table 15. Overall share of private finance mobilised in 2012-2015 (%)

Year	Guarantees	Syndicated loans	Shares in CIVs	Direct investment in companies	Credit lines
2012	22.3	17.1	23.4	20.8	18.5
2013	24.5	27.2	22.5	21.9	22.0
2014	23.1	26.4	20.5	29.3	26.5
2015	30.1	29.4	33.6	28.0	33.1

Source: Authors' estimation from OECD blended finance report.

Critical issues associated with blended finance mechanism need to be addressed to reap the full benefit of this innovative approach to financing

Blended finance has been widely used in the last decade to address market failure in different countries and sectors. However, this approach is also associated with several critical issues that must be addressed to maximise its development impact. Firstly, blended finance has been accessible in most middle-income countries, while LICs and LDCs require the most development financing due to large SDG financing gaps. Secondly, the blended mechanism lacks a standard methodology to account for ODA, which results in reporting non-concessional finance as ODA. This may also lead to the double-counting of ODA. Thirdly, the risk-averse nature of providers and sustainability criteria of blended mechanisms may discourage providers from providing finance to countries most in need. Additionally, the sectoral preference of ODA may shift, adversely affecting some recipient countries. Lastly, the lack of a transparency and accountability mechanism in blended finance makes it difficult to assess the effectiveness of associated projects. Addressing these downsides of a blended finance mechanism will ensure better results for the countries which require more financing to successfully implement the global agenda of Sustainable Development by 2030.

Immediate outlook of external development finance

Based on the current global economic scenario, the outlook for development financing seems to be positive but challenging. According to the latest World Economic Outlook, global growth is projected to be around 3.9% in 2019 (International Monetary Fund, 2018). Given trade tension between global players, tightened financial conditions, and an uncertain political outlook, the share of ODA (as a percentage of GNI) may experience a further downturn. According to OECD projections (2019), the GDP growth (5.07%) of non-OECD economies will be higher than the growth (2.48%) of OECD economies. From that perspective, non-traditional aid is expected to grow at a comparatively higher rate than the traditional counterpart.

Humanitarian aid will rise at a faster rate with growing crises in Syria, Iraq, Afghanistan, Myanmar, Bangladesh, Sudan, South Sudan, Nigeria, Somalia, Ethiopia, and Somalia. According to a preliminary report on ODA by the OECD (2017), humanitarian aid rose by 6.1% in real terms in 2017 compared to 2016. The global humanitarian assistance report also reinforced that humanitarian assistance has grown faster (at 124%) than overall ODA (at 41%) since 2007 (Development Initiatives, 2018). However, the growth of humanitarian aid in the coming years will be shared between traditional and non-traditional providers. Humanitarian aid will continue to consume a more substantial portion of total ODA left for the countries to utilise on development purposes. This implies that the effectiveness of development aid will decline in general.

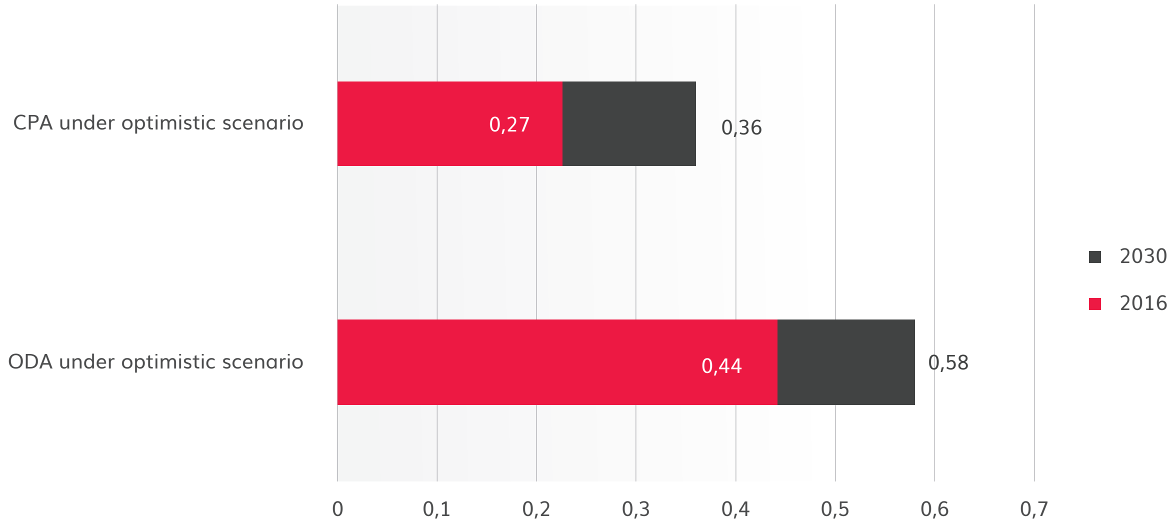
Aid flows to LDCs remain far below SDG targets (UNCTAD, 2017). In the coming years, net ODA to LDCs and developing countries will rise due to the commitment[4] by partner countries to direct funds to those most in need of aid (Development Initiatives, 2018). In the context of the 2030 Agenda, mapping the aid programmes of development partner sindicates that aid flows to social and economic sectors will increase (OECD, 2018). While increased ODA allocations in the social sector will be led by DAC providers, multilateral providers are expected to allocate more aid to economic sectors. Although the aid outlook of Asia and Africa (especially for the LICs, small islands, and fragile states) seems to be positive in terms of net ODA disbursement according to OECD projections, the picture does not look encouraging in these regions in terms of CPA.

Apart from the current business as usual scenario, the probable implications of assumptions imposed on development finance by the SDG financing gap will be interesting to assess. Firstly, if it is assumed that OECD-DAC countries will grow at a rate of 2% per annum (in terms of their GDP) from 2016 to 2030, and that all will provide the present share of 0.31% of their GNI as ODA (indicated by the term optimistic scenario), there will remain a consistent resource gap in financing the SDGs by 2030 in developing countries. Secondly, if it is assumed that OECD-DAC member countries manage to meet the commitment to0.7% ODA as a share of GNI over the same period, then there will

4 The 2011 Istanbul Programme of Action for LDCs recommended that donors spend 0.15–0.20% of GNI on LDCs.

be a significant increase in mobilised ODA finance. ODA volume will increase by almost two-fold, and CPA only by 1.5-fold (Figure 13).

Figure 13. ODA and CPA scenarios in the context of SDG implementation (trillion USD)



Source: Authors' estimation from OECD database.

This simple exercise provides some secure messages regarding the financing of the SDGs by 2030 in developing countries. One is that SDG financing in developing countries requires not only the fulfilment of commitments by DAC providers to meet the 0.7% ODA/GNI target but also further efforts to increase the share of CPA within ODA. It should also be noted that even meeting the 0.7% ODA/GNI target by the DAC providers will not bridge the gap of USD 2.5 trillion per annum. To completely bridge the SDG financing gap, Southern providers must play a more prominent role. The private sector will also need to participate; innovative financing instruments like blended finance may leverage private investment. However, the effectiveness of development finance flows must be considered by recipient Southern countries.

Conclusion

The current landscape of development finance

This analysis used the measure 'ODA as a percentage of GNI' to assess the development effectiveness of aid from traditional development partners. Results show the volumes inadequate, as reported ODA does not appear to be disbursed in recipient countries. CPA, as a share of GNI appears to provide a better assessment of provider efforts in terms of development effectiveness. Moreover, the current measure of CPA provides an inflated figure of disbursements to recipient countries due to methodological bias. Rethinking the concept, as well as the definition, of CPA is vital to getting the real picture of the development finance landscape and assessing the effectiveness of aid.

Along with these conceptual issues, our analysis also found that data transparency remains a barrier to assessing the effectiveness of different development financial flows. There remains significant disharmony in terms of accounting mechanisms as well as conceptual understandings of different financial flows like ODA, CPA, SSC, and blended finance. This will need to be identified and addressed to appropriately assess the effectiveness of different development financial flows.

Although Southern flows cannot be compared with traditional development finance, a data reporting system similar to that of the traditional counterpart will facilitate the assessment of the effectiveness of the Southern development finance, and will also enhance the predictability of Southern flows. Given that the use of blended finance to bridge SDG financing gaps in countries most in need remains prominent, tracking it is also critically important to mapping its effectiveness. Existing data on private finance mobilisation only provides outcome data; country studies would require flow data indicating how much concessional finance triggered the outcome flow. As blended finance should remain complementary to, rather than a substitute for, ODA to achieve the SDGs, the lack of standard methodology needs to be also addressed in order to serve its development purpose.

Lastly, streamlining the accounting and reporting mechanism of climate-related development finance with that of the first Rio Summit in 1992 is also essential to ensure efficient production and preservation of global public goods. Separation of mitigation funds, on top of ODA, may solve the issue, but the accrued cost of sharing negative externalities triggered by development is also associated with this process. In the era of the SDGs, it is high time to streamline these structural issues affecting climate-related development finance.

The future concern of development finance

Although the ambitious 2030 Agenda calls for more significant development financing, ODA is expected to decrease further amidst rising geopolitical tensions and tight financial conditions. This study found that to bridge the total SDG financing gap, a committed financing effort from Southern providers is required, in addition to meeting the 0.7%

ODA/GNI target set by DAC providers. The Private sector should also play a pivotal role by means of new financing instruments to help fill the financing vacuum. With rising long-term humanitarian crises, humanitarian aid will continue to consume a more significant portion of total ODA left for recipient countries to utilise. This reinforces the significance of efficient allocation of aid in generating development results. Country studies should assess whether aid diversion is taking place at a country level, and if so, which sectors have experienced significant setbacks. The current landscape illustrates the rising share of loan instruments compared to grants in ODA to more impoverished regions like Africa and Asia. Country studies may investigate whether the debt sustainability of recipient countries is being affected due to South-South financial flows and higher loan-to-grant ratio in ODA.

Takeaways for Southern recipients

Firstly, Southern recipients should make strategic use of development finance by leveraging the availability of the different classes of development finance and its instruments. As there is a well-established view that bilateral ODA will not be enough to meet the infrastructure financing gap of the southern recipients, they need to move towards emerging Southern providers, but they should equip themselves with better negotiation capacity as well as a better understanding of pros and cons of welcoming Southern development finance.

Secondly, Southern recipients should critically consider the new global development context before welcoming different development of financial inflows. Countries should be cautious regarding the country priorities in view of the SDGs, systematic concerns, and the inclusiveness of the Leave No One Behind principle, while adopting development financial flows mainly from the Southern providers. Furthermore, Southern developing countries should also be careful to strike an appropriate balance with external development finance in social, economic, and environmental sectors.

Thirdly, Southern recipients and providers alike should strengthen their transparency and accountability mechanisms. Southern providers will need to systematically generate disaggregated data on their external development finance to ensure its efficient allocation as well as better utilisation at the recipient country level.

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