Development Co-operation Report 2014: Mobilising Resources for Sustainable Development

HIGHLIGHTS
Editorial: More and better financing for development
by Erik Solheim, Chair of the OECD Development Assistance Committee

There is plenty of money in the world that could be used for development. Just stopping the enormous sums illegally flowing out of developing countries could provide billions of dollars for poverty reduction. Redirecting fossil fuel subsidies to renewable sources of energy would reduce the pace of climate change and more than double investments in green energy. Every child would be enrolled in school and teachers celebrated as heroes if peace entrepreneurs were able to mobilise as much money as war entrepreneurs. Money can be allocated and used much more effectively if we choose to do so.

Poverty has been cut by half and millions of lives have been saved since the world mobilised around the Millennium Development Goals. As these goals expire in 2015, world leaders will gather at the United Nations (UN) to agree on a new set of Sustainable Development Goals covering areas such as poverty reduction, education, health, equality and the environment. Whatever the goals, political leadership, policies that work and financial resources will be needed to implement them.

Making the right political decisions is of utmost importance. All the amazing success stories of recent decades have emerged from countries making the right political decisions. The Asian economic miracles did not happen because of a great new invention, discoveries of valuable natural resources or conquests. They were made possible by leaders who made good political decisions. Deng Xiaoping took the People's Republic of China in a new direction, which eventually brought 600 million people out of poverty. Korea made smart choices that took it from being one of the poorest countries in the world to one of the richest. Brazil would have continued down the road of ever worsening inequalities had President Lula and the reformists not demanded equality through minimum wages, cash transfer programmes for the poor and better public services. Indonesia, Malaysia and Singapore provide other inspiring examples of leadership.

Implementing policies that work in various sectors and learning from each other are key to success. Take the cases of Viet Nam and Ethiopia. In Viet Nam, high school students do better than the average student in much richer OECD countries. It has been shown that countries that prioritise teachers result in better student performance. Ethiopia has reduced child mortality by two-thirds over two decades. How? By training thousands of health workers and deploying them across the country. We should all learn from these successes and do more of what works.

But it is not only a question of making the right political decisions. Reducing extreme poverty – and poverty at large – and driving economic growth in an inclusive and planet-friendly way will require a great deal of money. This report is about how to mobilise the necessary resources to tackle the challenges of the post-2015 Sustainable Development Goals.

The world is changing and so must development co-operation

Official development assistance (ODA) has been a tremendous success. We need more of it! A new world record of USD 135 billion in development assistance was reached in 2013, debunking the myth that development will be put on the backburner because of economic stress. The next time you hear a minister, ambassador, development worker or journalist say that development assistance is decreasing, please tell them that this is not true. ODA is increasing, and it has never been higher. The United Kingdom fulfilled, for the first time, the international target of giving 0.7% of national income as development assistance. Turkey managed the biggest jump in foreign development co-operation spending in all of Europe – a 30% increase. Japan's development co-operation also increased substantially. The United Arab Emirates set a new world record in generosity by spending 1.25% of its national income on development assistance.

Yet the geography of poverty is changing. Poor people used to live in poor countries, but today there are 1 billion extremely poor people living in middle-income countries such as India and Nigeria. While the relative importance of ODA compared to private investments is decreasing in these countries, by becoming smarter – mobilising greater private flows by mitigating risk, leveraging private investment and facilitating trade – it can continue to contribute to reducing poverty, wherever it exists.

Despite this changing geography of poverty, however, it is in many of the poorest and most fragile states that least progress is made. Within five years, most extremely poor people will be living in fragile states. ODA remains of vital importance to the least developed countries and fragile states because they have limited...
Foreign direct investments are much needed to realize an incredible USD 1,650 for every US dollar invested. A project assisting Kenya’s tax administration returned Borders – to improve tax revenue generation. A project assisting Kenya’s tax administration returned an incredible USD 1,650 for every US dollar invested. Tax for Development and Tax Inspectors Without Borders – to improve tax revenue generation. A project assisting Kenya’s tax administration returned an incredible USD 1,650 for every US dollar invested. Development assistance can help unleash private investment and improve the investment climate. At USD 351 billion in 2012, the flow of remittances sent home to developing countries by migrant workers was higher than development assistance and foreign direct investment combined. In fact, this is by far the largest source of external finance for many countries. Yet charges for sending remittances home are as much as 10%, adding up to USD 35 billion a year in transaction fees. Work is in progress at the World Bank to halve these transfer costs – which would mobilise billions and make a huge difference in people’s lives.

In addition, there are many more resources available beyond ODA that can finance the Sustainable Development Goals. Southern providers of development co-operation are increasingly important. China is now an important provider of development assistance and accounts for 20% of all foreign direct investment in developing countries. Turkey’s development programme is ambitious and expanding – it has the greatest presence on the ground in Somalia and has been incredibly generous to Syrian refugees. Arab nations are becoming world leaders in generosity towards others. Brazil and Mexico use their resources and their own development experience to assist Latin American neighbours. Foundations are also important players – the Bill & Melinda Gates Foundation now provides more money for development than many large European countries.

The way we measure and define development co-operation in the future should reflect the changing world in which we live. ODA as a metric has served us well, but we need a measure that will take account of the broader financial flows for development and encourage smarter development co-operation – one that supports closer co-operation between new and old providers of development finance. This new metric will complement the ODA measure, not replace it.

### Countries are in charge of their own development

Countries must be in charge of their own development priorities. Used “smartly”, development assistance can help them maximise the available public and private sources of development finance. Countries’ own domestic resources, such as taxes, are the most important source of revenue, even in the poorest countries. The OECD has rolled out two programmes – Tax for Development and Tax Inspectors Without Borders – to improve tax revenue generation. A project assisting Kenya’s tax administration returned an incredible USD 1,650 for every US dollar invested. Foreign direct investments are much needed to build roads, ports and railways, and to create jobs. Development assistance can help unleash private investment and improve the investment climate. At USD 351 billion in 2012, the flow of remittances sent home to developing countries by migrant workers was higher than development assistance and foreign direct investment combined. In fact, this is by far the largest source of external finance for many countries. Yet charges for sending remittances home are as much as 10%, adding up to USD 35 billion a year in transaction fees. Work is in progress at the World Bank to halve these transfer costs – which would mobilise billions and make a huge difference in people’s lives.

Developing countries are also losing billions of dollars every year to corruption, money laundering and tax evasion. These billions fund crime and lavish lifestyles rather than schools and hospitals. Outward or lost flows like these can be stopped by sharing information, streamlining regulations and improving the capacity to investigate and prosecute financial criminals in developed and developing countries alike.

### Green finance is development finance

All green investments are good for development. There are 1.3 billion people in the world without access to electricity. Any investment in renewable energy in a developing country would add to existing electricity production capacity while also stimulating development. Climate adaptation measures make sense for development too. Managing rivers and controlling floods saves lives and money. The right decisions can mean that the human and economic costs of floods, cyclones and other extreme weather events can be reduced, even as climate change exacerbates these events’ frequency and size. For example, the monsoon floods that killed hundreds of thousands in Bangladesh a few decades ago would have caused much fewer casualties today, as the government’s ability to evacuate people and control infectious diseases have improved.

It is indeed possible to protect the environment while reducing poverty and developing strong economies. Brazil has reduced deforestation in the Amazon by 80% alongside rapid economic growth. Ethiopia aims to become a middle-income country without increasing its greenhouse gas emissions. If they can do it, others can too.

There are many sources of financing available to eradicate poverty and spur sustainable growth. All we have to do is grab them. This report contains a wealth of ideas on how to do so.
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...but only if ODA is made “smart”

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Policy reform and coherence

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The Millennium Development Goals come of age in 2015, yet many development challenges remain and others are emerging. The post-2015 goals currently being discussed by the international community under the auspices of the United Nations General Assembly will integrate social, environmental and economic concerns into a single set of Sustainable Development Goals.

This Development Co-operation Report (the second in a trilogy on the post-2015 goals) asks what can be done to mobilise the resources needed to finance the achievement of these goals?

How to fund sustainable development?

Official development assistance (ODA) has, until recently, been seen as the main source of funding for development (Chapter 1). Many more resources will be needed, however, to finance a broader set of global Sustainable Development Goals. At the same time, ODA is only one part of flows targeted to support development: at nearly USD 135 billion in 2013, ODA represented only 28% of all official and private flows from the 29 member countries of the OECD’s Development Assistance Committee (DAC). Overall in 2012, developing countries received USD 474 billion from DAC countries, including ODA as well as “other official flows”: finance provided by public bodies at close to market terms and/or with a commercial motive (Chapter 4); private finance at market terms, such as foreign direct investment (Chapter 5); and private grants from philanthropic foundations and non-governmental organisations (NGOs) (Chapters 8 and 9). This reflects the growing diversity in financial options available to developing countries – options that are becoming increasingly innovative, and that have great potential for leveraging even more finance (Chapters 6, 11 and 15).

The wealth of ideas contained in this Development Co-operation Report bears witness to a new era of opportunity in development finance. Developing countries are supporting each other through South-South co-operation (Chapter 3); foundations, direct giving (Chapter 8) and social business (Chapter 16) are offering new options; and remittances from migrant workers hold huge potential. Yet not all these types of finance may be founded on the same core principles as ODA – nor may they all have sustainable development as their goal.

All this calls for taking a fresh look at the role of ODA relative to other resources.

There are also other reasons – beyond financial ones – for reviewing the role of development co-operation in the context of efforts to attain sustainable global development:

• Sustainable development is no longer a matter of the “North” giving “aid” to the “South”; it is a question of balanced sharing of opportunities, responsibilities and options.

• More and more developing countries are fuelling their own development, and are providing development co-operation themselves (Chapter 2).

• Poverty reduction and sustainable development increasingly hinge on progress towards resolving “problems without passports” – war and conflict (Chapter 19), environmental and climate challenges (Chapter 18), a precarious financial environment, unfair trade terms (Chapter 21) and infectious diseases – problems that traditional development approaches are not equipped to tackle (Chapter 17).

Addressing such global challenges requires the contribution of all actors – each of whom needs to take responsibility for individual and collective action.

ODA still matters

In the context of these widening windows of opportunity and growing challenges, ODA remains vital for sustainable development, especially when used strategically and “smartly”. For example:

• ODA can provide crucial funds and backing for the fragile and least developed countries, which find it hard to attract or raise other resources (Chapter 19).

• ODA can be used to make investment attractive in high-risk situations by spreading and sharing risk, and by creating incentives (Chapters 11, 12 and 15).

• ODA can help countries raise and manage their own domestic resources through capacity building and sharing of good practice (Chapters 7 and 14).

• ODA can support the creation of a positive development and investment environment through policy reform in areas such as investment and trade (Chapters 12 and 21).
Development will increasingly be sustained from within

Developing countries are increasingly using their potential to fuel their own development and move out of “aid” dependency. They are doing so, for example, by:

- Building the capacity of their tax systems. In absolute numbers, tax revenues dwarf ODA: the total collected in 2012 in Africa was ten times the volume of development assistance provided to the continent (Chapters 1, 7 and 14).
- Finding creative ways of harnessing the expanding pool of remittances sent home by migrants working overseas. Remittances are the largest source of external finance for many developing countries, reaching USD 351 billion in 2012 – higher than both ODA and foreign direct investment (Chapter 10).
- Creating the policies and environment required to attract investment by businesses in other countries, including other developing countries (Chapter 12).
- Tackling corruption and the loss of money through illicit financial flows (Chapter 13).

Next steps

The world can fund sustainable development: the resources are out there. The challenge for the global community is to take stock of the funding options available and to harness, co-ordinate and track them to achieve the post-2015 goals. Some key actions highlighted in this report include:

- Target ODA where it is needed most – the least developed countries and fragile states – and use it to mobilise other resources.
- Re-engineer the ODA concept to ensure it is fit for purpose in the current financial environment.
- Make innovative use of all sources of finance with potential for achieving the global post-2015 Sustainable Development Goals.
- Improve co-operation and mutual reinforcement among all financial providers on efforts targeted at achieving the post-2015 Sustainable Development Goals.
- Support local and global policy reform in the areas of tax, finance, investment and trade, and ensure coherence among domestic and international policies.
- Step up the legislation and co-operation needed to stem illicit international flows.
- Be politically courageous and innovative in financing global goods such as a stable climate or peace and security and start developing the structures and mechanisms needed to deliver them.
In my view...

The Development Co-operation Report 2014 includes a series of opinion pieces by leading thinkers on a variety of development finance topics:

**Half of all ODA should go to the least developed countries**
Gyan Chandra Acharya, United Nations Under-Secretary-General and High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (Chapter 2)

**The full potential of trade for development is yet to be tapped**
Roberto Azevêdo, Director-General, World Trade Organization (Chapter 21)

**The Structural Gap approach offers a new model for co-operation with middle-income countries**
Alicia Bárcena, Executive Secretary of the Economic Commission for Latin America and the Caribbean (Chapter 2)

**Returns for success are the best means of stimulating private investment**
Owen Barder, Center for Global Development (Chapter 11)

**Korea’s use of ODA can guide other countries in their development**
Yun Byung-se, Minister of Foreign Affairs, Republic of Korea (Chapter 1)

**Innovative financing can put the world’s wealth to work for all people**
Philippe Douste-Blazy, United Nations Under-Secretary-General and Special Advisor on Innovative Financing for Development (Chapter 15)

**Africa can fund its own sustainable development**
Abdalla Hamdok, Deputy Executive Secretary, United Nations Economic Commission for Africa (Chapter 7)

**ODA should be used to enhance risk sharing between the private and public sectors**
Pierre Jacquet, President of the Global Development Network (Chapter 11)

**The OECD must take charge of promoting long-term investment in developing country infrastructure**
Sony Kapoor, Managing Director, Re-Define International Think Tank (Chapter 6)

**We need to harness the potential of remittances in Africa**
Mthuli Ncube, Chief Economist and Vice President, African Development Bank (Chapter 10)

**Development depends on realising the potential of taxation**
Ngozi Okonjo-Iweala, Co-ordinating Minister for the Economy and Minister of Finance, Nigeria (Chapter 14)

**Well-financed climate change action must be central to the post-2015 goals**
Manuel Pulgar Vidal, Minister of Environment, Peru (Chapter 18)

**Any developing country can undergo dynamic structural transformation, starting now**
Justin Yifu Lin, Honorary Dean at the National School of Development, Peking University, and former Chief Economist of The World Bank (Chapter 12)

**Development without sustainability is meaningless**
Muhammad Yunus, Nobel Peace Prize-winning founder of Grameen Bank (Chapter 16)
Chapter 1
Overview: How to better mobilise resources for sustainable development
by Raundi Halvorson-Quevedo, Hildegard Lingnau and Julia Sattelberger, Development Co-operation Directorate, OECD

Time is nearly up for realising the world’s first internationally agreed vision for reducing poverty – the Millennium Development Goals (MDGs). The international community is currently engaged in wide-ranging discussions and analysis to determine the scope, underlying principles, priorities and means of implementation of the follow-up set of goals, slated for achievement by 2030. Although negotiations about this post-2015 development agenda just began in September 2014 at the United Nations General Assembly (UNGA), the signs are that it will be a single and universal agenda. While retaining the poverty reduction and social development focus of the MDGs, it will integrate social, environmental and economic goals into a single set of global Sustainable Development Goals. This represents a much broader approach than the MDGs, applying to developed and developing countries alike and embodying new concepts and ways of viewing development (see Box). The new agenda will also aim at securing the global enabling conditions for sustainable development, such as lasting, inclusive and sustainable economic growth; resilient infrastructure; a stable environment and climate; peace and security; and a fair and equal trading system.

The changing development lexicon...

The new global agenda will require buy-in and support from all countries. It is no longer only a question of the “North” giving “aid” to the “South”. The landscape has shifted and new realities need to be reflected in new ways of thinking about – and acting upon – development:

- **From aid to development co-operation**: The North-to-South approach is developing into a universal “we are all in this together” vision, where problems are no longer perceived as being located in the South and solutions in the North; rather, problems as well as solutions can be found everywhere. OECD Development Assistance Committee (DAC) members will continue to provide development co-operation, but they are not the only ones. Today, the single biggest provider of official development assistance (ODA) in relative terms (as a share of its gross national income) is the United Arab Emirates, which is not a DAC member country. Many other forms of co-operation also are on the rise, such as South-South co-operation, triangular development co-operation and new multilateral initiatives such as the new BRICS Development Bank (Chapter 3).

- **From donor to provider**: In the same vein, providers of development co-operation are no longer seen as charitable “donors”, but rather as providers of diverse types of support (from technical co-operation to concessional funding and many other means of implementing global goals). Such solutions should ultimately benefit the world at large.

- **From recipient to partner**: Many of the countries that used to be called “recipient countries” are today simultaneously providers and hosts of development co-operation. The post-2015 agenda will call upon all countries to achieve the global goals through a partnership based on common interests but differentiated responsibilities reflecting countries’ capacities.

A broader agenda will require broader finance

Such a holistic and ambitious agenda will require financing to match. In particular, to finance poverty reduction and sustainable development, more resources are needed. It is difficult to estimate the financing that will be needed to achieve the new goals before they have even been agreed, but recent analytical work carried out by the European Union (EU) gives an idea of the magnitude of finance available to developing countries to underwrite their development expenditures. It is estimated that in 2010, public and private resources available to developing countries amounted to approximately USD 7 129 billion. Taking this as a reference point, it becomes clear that official development assistance (ODA) – currently at around USD 135 billion a year – can only make a small, albeit vital, contribution to international development.

The money is there – according to the April 2014 IMF World Economic Outlook report, world savings were estimated to be over USD 22 trillion in 2013. This Development Co-operation Report 2014 explores many resources beyond ODA that can and should be tapped and channelled to finance sustainable development. The world now faces the challenge of mobilising and directing these resources to achieve global goals, while keeping ODA focused on where it can make the greatest difference.

A first step will be to get a handle on the relative weights of savings across the public and private sectors, both internationally and domestically, in developing countries. The EU study suggests that public finance from developing country domestic markets – 98% of which was tax receipts – amounted to almost half of the resources on hand.
Private investment — from both domestic and international sources — accounted for 51% of the total, with almost three-quarters of this being provided by domestic sources, including private households and businesses. Altogether, public and private resources from developing countries themselves accounted for 84% of total available development finance in 2010. On the other hand, public international finance — grants, concessional and non-concessional funding from the development assistance community — amounted to approximately 2%.

Where will the financing for the global Sustainable Development Goals come from?

Among the important sources of finance available to developing countries today, some have played an important financing role for many years, including ODA (Chapter 2) and other official finance (Chapter 4); foreign direct investment (Chapter 5); and finance raised and managed by the non-governmental sector (Chapter 9). Other more recent sources are providing important and complementary financial and technical support that can be harnessed for development. These include South-South co-operation (Chapter 3); institutional investors, such as pension funds (Chapter 6); developing countries’ own revenues raised through taxation (Chapter 7); funds raised by philanthropic foundations (Chapter 8); and remittances sent home by migrants working overseas (Chapter 10). Each of these sources of finance has distinctive attributes and motivations that determine their suitability for different purposes. The overall sense is of a new, exciting but complex landscape, whose contours are still to be fully fleshed out. Our challenge now — and the challenge of the international community as a whole — is to explore their possibilities and harness them creatively to the full. This report aims to clarify them in as clear terms as possible.

A decade of strong growth across the developing world has generated increased liquidity and a large pool of assets (especially through domestic savings) that is being invested in national development priorities. The MDGs have driven strong growth in national expenditures and concessional funding in the social sectors — such as education and health — over the past 15 years. Massive public and private investment in productive capacity in emerging economies has quickened the pace of globalisation and fuelled a transformative shift in global manufacturing output from the North to the South. This accelerated economic expansion has seen developing countries’ share in global savings rise to 46%, nearly double the level of the mid-1960s. Many developing countries — particularly in the middle-income grouping — have been able to tap international capital markets thanks to their dynamic growth, stronger governance capacity and improved creditworthiness. Foreign direct investment has also risen strongly — in part due to burgeoning South-South trade and investment flows. Today, approximately 30% of outward foreign direct investment is from developing countries (Chapter 5).

All this means that development finance will increasingly come from developing countries themselves — through greater efforts at collecting taxes and spending them effectively (Chapters 7 and 14); by stemming illicit financial outflows (Chapter 13); and by continuing the recent upward trends in South-South foreign direct investment (Chapter 5) and trade (Chapter 21). South-South co-operation — the exchange of resources, technology and knowledge among developing countries — is also growing in importance; the BRICS are becoming especially active development financiers for other developing countries (Chapter 3).

The chapters in this report present an array of creative new ways of raising money for sustainable development and the emerging global goals. Some are already in operation — others need more political support to get off the ground. From crowdfunding to vaccine bonds, advance market commitments and international levies; from a carbon tax to green bonds and redirection of fossil fuel subsidies — the potential outlined in this report is huge. It is estimated that innovative financing mechanisms can raise over USD 600 billion every year — five times as much as ODA in 2012 (Chapter 15).

But these resources need to be better co-ordinated to serve global goals and the amounts mobilised need to be measured and tracked. Above all, developing countries need to be ensured full access to these diverse sources of finance.

A globalising world characterised by closer inter-linkages among countries, institutions, companies and people creates problems that know no borders. Solutions will only be readily found through international collective action to deliver much-needed global public goods such as stable and efficient international financial markets, peace and security, a healthy environment and climate, fair international trade (Chapter 21) and global knowledge for development. International consensus and concrete collective action on global public goods have been elusive up to now (Chapter 17).

1. The remainder of available finance came from international private sources, including foreign direct and portfolio investment, bank lending, remittances and philanthropies.
Smart ODA can have a multiplier effect

ODA remains an important source of finance to promote sustainable development in a post-2015 world. In order to live up to current challenges, ODA can also be used to mobilise more resources (especially from the private sector) for sustainable development. Such smart approaches include:

- using ODA better to support developing countries – and especially fragile states – in mobilising their own domestic revenue through tax assistance, capacity development, partnership/twinning arrangements and tailored tax advice (Chapters 14 and 20)
- using ODA to help support countries create a conducive environment for investment, including the long-term financing required for infrastructure development (Chapters 6, 11 and 12)
- using ODA to support developing countries in making their growth green and inclusive (Chapter 18)
- agreeing on a target for international co-operation – such as 2% of GDP to fund global public goods, global sustainable development and welfare – and on a mechanism for monitoring progress (Chapter 17)
- developing a global tracking and co-ordination mechanism for new and emerging sources of development finance (Chapter 15)
- using ODA to leverage resources from the private sector by diversifying and sharing risk (Chapters 11, 12 and 15).

ODA providers also need to make a firm commitment to a concrete target for support to the least developed countries and fragile states. The DAC is considering upgrading the ambition of the current United Nations target for all development co-operation providers of giving 0.15-0.20% of their gross national income as ODA for the least developed countries. There is certainly room to improve, as collectively DAC members only reached 0.09% in 2012. One suggestion supported by the DAC Chair would be to set a voluntary target of giving a significant share of ODA (e.g. 50%) to countries most in need.

This Development Co-operation Report complements current OECD work on devising a new, broader measure of official support for development to reflect the major changes in the development finance landscape (see Box).

The DAC’s work on new measures of development finance

At its 4-5 December 2012 High Level Meeting, the DAC acknowledged the need to modernise its development finance framework to better reflect the new global development landscape, agreeing on the following mandate.

Mandate

- Develop a proposal for a new measure of total official support for development – to complement, not replace ODA – in order to better capture the full extent of official “donor efforts” and recipient resource receipts.
- Investigate ways of representing both “donor effort” and recipient benefit of development finance.
- Establish, at the latest by 2015, a clear, quantitative definition of “concessional in character” for ODA loans to address recent concerns regarding ODA loans that, in the context of today’s historically low international interest rate structures, can be provided at preferential rates to developing countries – but on terms that permit donors to receive net income on the operation.
- In light of the above, put forward proposals to modernise the ODA concept.

Objective

The main objective of modernising the DAC development finance framework is to adapt to today’s realities of global development finance. This includes capturing new financial instruments and providers, better valuing providers’ efforts and recipients’ perspectives, and ensuring that incentives promote the most efficient uses of financial resources. Another objective is to strengthen the credibility of the system to address growing criticism of the ODA measure over the past decade, including members’ differing reporting practices on how to calculate the subsidy component of ODA loans, which have cast doubt on ODA as a reliable indicator of provider effort.

(continued...)
**HIGHLIGHTS**

**Work up to now**

In order to modernise ODA, the work of the OECD Development Co-operation Directorate (DCD) up to now has focused on (Chapter 2):

- Investigating a shift from recording net financial flows as ODA to scoring only the grant element (concessional or subsidy component) of loans and other financial instruments as ODA, as opposed to their full face value.

- Using a more appropriate discount rate for calculating the grant element (as opposed to the current 10% rate); this would align with prevailing financial market conditions.

- Examining how to standardise the reporting of “in-donor” components of ODA (i.e. expenditures in the providers’ own countries, such as first-year refugee costs, administrative costs, student costs) to improve their legitimacy, transparency and comparability, thereby addressing criticisms of “phantom ODA” (i.e. ODA that does not flow to developing countries).

- Looking at how to channel an increased share of ODA to the countries most in need, to counter the trend of declining ODA levels to least developed countries.

In carrying out this work, the DAC has consulted with a range of international experts through an Expert Reference Group on Development Finance; a recent report summarises the group’s final conclusions and recommendations.

A new headline statistical measure, total official support for development, is also being considered. This new measure could include the non-concessional component of official development finance as well as expenditures on peace and security, climate and other global challenges. It could help meet the needs of the international community in monitoring the broader sustainable development agenda after 2015. There is a consensus that the new measure should distinguish between official flows and private flows mobilised by official action.

**Partner countries’ perspectives**

In close collaboration with the UN system, the OECD has also started a number of consultations to better capture flows of development finance from partner countries’ perspectives. This could contribute to a more comprehensive and transparent post-2015 statistical information and monitoring system and help partner countries take a more strategic approach to financing their development priorities.

Proposals for modernising the DAC statistical system will be presented for approval at the DAC High Level Meeting in December 2014.

**The time for ideas is now**

This is an exciting and challenging time for the global community. The details of the post-2015 development agenda and the financing strategy underpinning it will be fleshed out over the coming year. The new financing strategy will likely build on the financing for development agenda agreed at Monterrey in 2002 and Doha in 2008, but will be a broader, more complex and innovative plan setting out where the global development finance agenda is headed over the next 15 years. Together these frameworks will shape the scope and focus of global progress for the next generation and identify where and how the necessary finance will be mobilised and allocated.

The time for generating ideas and proposals is now. This report demonstrates that the resources are there, but they need to be tapped and channelled to finance sustainable development and the provision of global goods. To make this happen political leadership as well as incentives for mobilising and channelling resources for sustainable development are needed.

The *Development Co-operation Report 2014* provides key recommendations on how to get started, move on and make progress in this journey which is a challenge to all countries and all actors around the world.
As the international community works towards a new global sustainable development framework to replace the Millennium Development Goals, one of the main questions is how it will be financed. The relative importance of official development assistance (ODA) is declining for many developing countries – especially middle-income ones – in comparison to other sources of external finance (low-interest loans, direct foreign investment, official export credits, private grants, remittances, etc.). This chapter argues that while 148 developing countries are eligible to receive ODA, they are not all at the same in terms of their needs and relative access to ODA and other sources of external finance. By categorising these countries into five groups according to their degree of fragility and income levels, the authors find that ODA growth is slowing in those countries which need it most – fragile states and least developed countries. They call for more to be done to target ODA where it is needed most. The United Nation’s target of allocating 0.15-0.20% of gross national income as ODA to least developed countries needs to be more closely monitored. In middle-income countries, ODA can be better used for eliminating stubborn pockets of poverty and inequality and leveraging other types of development finance, while being careful that the increasing use of loans does not create unsustainable debt for these countries.

The relative weight of ODA in external financing to developing countries, 2000-11

Notes: Total external financial resources include bilateral ODA, other official flows (OOF), private grants, private flows at market terms and remittances from DAC countries, and concessional and non-concessional outflows from multilateral agencies. From 2005 onwards, private grants are based on estimates from the Hudson Institute’s Centre for Global Prosperity, which uses a more generous definition than DAC statistics, including, for example, the imputed value of volunteer time.

Key recommendations

- Use the post-2015 process to refocus ODA levels, modalities and distribution, targeting ODA where it is most needed so as to increase its effectiveness.
- Monitor more attentively the target of allocating 0.15-0.20% of GNI as ODA to least developed countries.
- Do more to increase the catalytic effect of official development finance, including by supporting the provision of global public goods (Chapter 17) and helping middle-income countries face their sustainability, poverty and inequality challenges.
- Improve monitoring of how much, and in what form, ODA actually reaches developing countries and how effective it is in different country contexts, such as fragile states and middle-income countries. At a minimum, such analysis should include assessments of: the sectoral composition of ODA allocations, their modalities (grants/loans) and the proportion of ODA that actually reaches developing countries.
- Gain a more comprehensive understanding of how the entire palette of external financial resources contributes to development, including financial instruments that are not ODA and concessional development finance provided by countries that are not DAC members.
- Continue to monitor developing countries’ external debt to ensure that the increase in lending to developing countries does not endanger debt sustainability.
Chapter 3
Growing dynamism in South-South co-operation
by Sachin Chaturvedi, Research and Information System for Developing Countries, India

South-South co-operation – the exchange of resources, technology and knowledge among developing countries – is increasingly significant for promoting development. While traditional forms of South-South co-operation (trade, investment and technology sharing) are still relevant and growing, new approaches are also emerging that are helping to remodel the development finance landscape. The search for options that can help to end dependence on long-established financial mechanisms is in full swing, including bilateral currency swaps, South-South trust funds and new financial institutions. Such promising developments point to a new era for South-South co-operation involving deeper engagement, especially in the international finance domain, which can only strengthen the ability to deliver sustainable development in the future.

Growth in South-South foreign direct investment, 1990-2009


Key recommendations
- Continue to embrace the partnership principles of egalitarianism and mutual benefit in spreading and sustaining South-South co-operation.
- Support trade among developing countries as a key way to provide new opportunities for economic growth.
- Enable more developing countries to diversify their production base away from traditional primary exports to manufacturing and services-based industries.
- Recognise the key role of civil society organisations in South-South development.

Chapter 4
The growing development potential of other official flows
by Alexander Klein, Cécile Sangaré and Giovanni Maria Semeraro, Development Co-operation Directorate, OECD

The development finance landscape has changed dramatically over the past two decades, with the relative importance of official development assistance (ODA) declining in comparison to other external finance available to many developing countries. Since 2008, “other official flows” (beyond ODA) – provided at close to market terms and/or with a commercial motive – from public bodies in OECD Development Assistance Committee member countries and multilateral institutions have made up, on average, one-third of all official flows to developing countries. This chapter outlines recent trends in these other official flows, their development potential and impact. International financial institutions are the largest providers of non-concessional development finance, representing almost two-thirds of their operations in 2012; more than 95% went to middle-income countries. Officially supported export credits, although commercially motivated, can also help finance large projects in developing countries. These flows deserve greater consideration in developing countries’ search for external financial resources.
Share of non-concessional financing in international financial institutions’ total operations, 2000-12

Gross disbursements, USD billion, constant 2012 prices


Key recommendations

- Give greater attention to other official flows in countries’ development co-operation strategies as a relevant alternative and complement to ODA.
- Prioritise the effective use of other official flows in emerging economies to free up ODA for the poorest countries.
- Do more to exploit the potential of other official flows for engaging the private sector for development, in particular:
  - Development finance institutions’ non-concessional financing, while avoiding market distortions in developing countries.
  - Official funds extended with a clear commercial motive and close to or at market conditions, such as export credits, for financing productive sectors and large infrastructure projects.

Chapter 5
Putting foreign direct investment to work for development
by Michael Gestrin, Directorate for Financial and Enterprise Affairs, OECD

Foreign direct investment in developing countries can create jobs, develop technology and new productive capacity, and help local firms access new international markets. Over the past two decades, developing countries have steadily increased their share of global foreign direct investment. In 2012 for the first time, their share exceeded that of developed countries, making foreign direct investment by far the biggest source of international capital flows to developing countries (60% on average). This chapter reviews the trends in foreign direct investment in developing countries, and their implications. Foreign direct investment has displayed volatility at the global level, although developing countries have been cushioned to some extent by the increase in South-South investment, especially by the People’s Republic of China. In 2012, China was the fifth largest outward investor in the world, accounting for 5% of global flows. Regional shares are uneven, however, with Africa receiving the lowest share by far of global investment flows. There is also an increase in the phenomenon of “investment de-globalisation”, which is weakening the economic linkages between developed countries and the rest of the world.
Developing countries need long-term investors to help finance activities that support sustainable growth such as infrastructure, including low-carbon infrastructure. With USD 83.2 trillion in assets in 2012 in OECD countries alone, institutional investors – pension funds, insurers and sovereign wealth funds – represent a potentially major source of long-term financing for developing countries. Despite the recent financial crisis, the prospect for future growth for institutional investors is unabated, especially in developing countries. But although interest is growing, the overall level of institutional investment in infrastructure remains modest and major barriers to investment still exist. Greater growth will depend on policy and structural reforms to create a more favourable investment climate, build private sector confidence and ensure that global savings are channelled into productive and sustainable investments.
Key recommendations

- Ensure a stable and transparent regulatory environment for infrastructure projects in developing countries.
- Develop a national, long-term strategy for the infrastructure sector in developing countries that lasts beyond the political cycle. A specific pipeline of projects also needs to be developed, ensuring a steady flow of investments opportunities.
- Promote appropriate financial risk transfer in infrastructure projects and investments.
- Create a policy environment that is conducive to institutional investment in low-carbon infrastructure projects.
- Develop appropriate financing vehicles. After careful analysis of the most efficient ways to use public funds to leverage private sector finance, governments can issue or support instruments with appropriate risk-return profiles and can provide risk mitigation and credit enhancement tools.
- Investigate regulatory barriers. Governments may encourage further investigation to ascertain whether regulatory and other instruments (such as some accounting and solvency rules) are unintentionally and unnecessarily preventing pension fund investment in infrastructure.
- Foster collaborative mechanisms between investors. Governments can facilitate the establishment of joint ventures between public and private pension funds to pool their resources and facilitate investments in infrastructure and green projects.
- Collect international, official, accurate and comparable data on alternative investments and their returns.
Chapter 7
Tax revenues as a motor for sustainable development
by Gregory De Paepe and Ben Dickinson, Development Co-operation Directorate and Centre for Tax Policy and Administration, OECD

Tax revenues are critical to sustainable development because they provide governments with independent revenue for investing in development, reducing poverty and delivering public services as well as increasing state capacity, accountability and responsiveness to their citizens. Yet, while OECD countries collect on average 34% of their gross domestic product as tax, developing countries achieve only half this rate. This chapter reflects on the potential within many developing countries to increase tax income and outlines the challenges to doing so, such as weak administrations, corruption, poor governance, low tax “morale” and poor compliance, compounded by difficulties in taxing multinational enterprises.

Official development assistance for tax-related activities, 2004-12

Key recommendations
- Build the capacity of tax administrations on international tax policy, transfer pricing and exchange of information to face the emerging challenges from globalisation, including the taxation of multinational enterprises and international tax evasion.
- Confront tax base erosion by improving transparency and clarity in the provision, administration and governance of tax incentives and preferential tax treatments.
- Involve civil society and business associations in effective tax bargaining to increase tax compliance and clarify the links between tax and expenditure.
- Make consistent and detailed data sets on domestic revenue collection publicly available to inform policy discussions and reform.

Chapter 8
Foundations as development partners
by Bathylle Missika and Emilie Romon, Development Centre, OECD

Philanthropic foundations play an important role in sustainable development – not only in mobilising financial resources, but also as development actors in their own right. Until recently, however, official development agencies and foundations have followed parallel paths without much collaboration. Yet, including foundations more strategically in development policy processes can reinforce their role as partners, rather than solely as financiers. Foundations have advantages over official development co-operation providers that include greater operating freedom, capacity for innovation and risk-taking, and ability to leverage additional funding. This chapter outlines some ways forward for enhancing collaboration and joint funding, building on each other’s comparative advantages and shared thematic interests.
Philanthropy: A small slice of the external finance pie

Total net resource flows from DAC donors to developing countries, 2012 (net disbursements, USD billion)

Private grants composed of philanthropic flows from foundations and NGO's own grants
6%
Official development assistance
27%
Other official flows
2%
Private flows at market terms, including foreign direct investment
65%

Key recommendations

• Use joint initiatives to help the development community and foundations become better acquainted, such as the recently developed “Guidelines for Effective Philanthropic Engagement”.

• Draw on the comparative advantages of each to increase funding opportunities and impact, with foundations providing activities with seed capital and official development co-operation helping to scale them up.

• Build concrete partnerships around specific issues or countries rather than on abstract agreements.

Chapter 9
The changing role of NGOs and civil society in financing sustainable development

by Sarah Hénon, Judith Randel and Chloé Stirk, Development Initiatives

The role of non-governmental organisations (NGOs) and civil society in financing sustainable development is important, but it is changing. While domestic resource mobilisation and international commercial flows are growing very rapidly, they are not equally available to all. NGO finance, capacity and expertise are critical for populations at risk of being left behind. This chapter outlines the scale and trends in resources raised and mobilised by NGOs and civil society, and identifies a rise in direct giving by the public. It finds that the classifications of countries into “developed” and “developing”, and models based on raising money in the “North” and spending it in the “South” do not fit well with the distribution of poverty across and within countries. New business models are needed. To achieve the post-2015 global goals, civil society finance and expertise are needed, along with new cross-border partnerships between organisations working on similar issues, supported by increased transparency and civil society space.

Sources of private giving to NGOs, 2006-11

Key recommendations

- Promote and support civil society engagement, funding and advocacy for addressing common factors linked to extreme poverty in all countries – whether nutrition, disability or financial inclusion.

- Ensure NGOs and civil society have political space and a key voice in discussing development priorities as well as data and information about delivery on the ground and impacts on target populations.

- Support joined-up working between NGOs, governments, the private sector and others through greater transparency and accountability.

Chapter 10
What place for remittances in the post-2015 framework?
by Kathryn Nwajiaku, Jolanda Profos, Cécile Sangaré and Giovanni Maria Semeraro, Development Co-operation Directorate, OECD

In 2012, developing countries received at least USD 351 billion in remittances (funds sent by people living and working abroad to their home countries). Remittances represent one of the largest, and fastest growing, sources of external income for these countries. While the motivation for sending remittances, and their impact, can vary, their development potential is increasingly acknowledged and scrutinised. This chapter explores how remittances can be tracked better, analyses the extent to which they promote development, and outlines the main steps and obstacles to realising their developmental potential. It also shares a range of innovative ways to catalyse and optimise the use of remittances, including matching them to achieve greater development impact and gain the confidence of international capital markets.

Key recommendations

Remittances: A major source of external finance for developing countries, 2000 and 2012
USD billion, constant 2012 prices

- Give more attention to remittances when analysing the bigger picture of developing countries’ external resources, even if remittances are not technically development finance.

- Accelerate international efforts to lower the costs of sending remittances.

- Learn from the experiences and good practices of countries sending and receiving large amounts of remittances about how to leverage these flows to achieve greater development impact and gain the confidence of international capital markets (e.g. by supporting and subsidising remittances).
Chapter 11
Using financial instruments to mobilise private investment for development
by Mariana Mirabile, Cécile Sangaré and Claudia Schmerler, Development Co-operation Directorate, OECD

This chapter describes a range of financial instruments increasingly used by public development finance providers to mobilise resources or investments in developing countries. It focuses on the functioning of pooling mechanisms, guarantees and equity investments, and their potential to mobilise private investments in key sectors such as infrastructure.

Key recommendations

- Expand the use of different financial instruments beyond grants and concessional loans where market conditions allow (e.g. in productive sectors) to complement and save scarce concessional funds for interventions that do not generate (enough) financial returns to support the use of market-based instruments but require more concessional finance instead. These include investments in the social sector or in high-risk environments.

- Support policy reform to create a conducive business environment for public and private investment, including sound regulatory and legislative frameworks, reliable payment mechanisms, clear underlying tariffs and transparent bidding processes (the subject of Chapter 12). This will maximise the mobilisation potential of the instruments described in this chapter.

Chapter 12
Creating an environment for investment and sustainable development
by Carole Blau and Mike Pfister, Directorate for Financial and Enterprise Affairs, OECD

The increasing share of global foreign direct investment to developing countries is not evenly spread, with Africa receiving the lowest portion despite its plentiful investment opportunities. This chapter explores the obstacles to investment in developing countries and analyses the ingredients of a conducive investment climate. These include creating regulatory and legal capacity for managing investment inflows, promoting and facilitating investment, attracting private investment in infrastructure, strengthening the links between investment and trade, and promoting responsible business conduct by multinational enterprises. However, attracting investment is not the end of the story: sustainable development depends as much on the quality of investment as on the quantity. Policy makers in host countries must therefore harness investment inflows so they generate maximum development benefits through employment, technology transfer, competitiveness and growth of domestic enterprises and industries.

Key recommendations

- Promote investment for development by addressing “push” and “pull” factors simultaneously: unlocking the supply of finance (from institutional investors, domestic capital markets, as well as innovative forms of concessional and non-concessional financing from bilateral providers and development finance institutions) while creating the conditions that will attract investors to developing country markets.

- Follow the Policy Framework for Investment to create a conducive environment for attracting foreign direct as well as domestic investment, by ensuring effective and transparent regulations on (among others): investment restrictions, access to land, core...
standards of investor protection and the administration of tax incentives for investment. These regulations must be accompanied by sound enforcement capacity within the public sector.

- Enhance the potential of infrastructure markets in developing countries, not merely as enablers of investment in other sectors of the economy, but as investment opportunities in their own right. Infrastructure markets can be made more attractive to private investors by improving the efficiency and governance of state-owned infrastructure providers, and more generally creating a level playing field between public and private infrastructure operators.

- Make sure that foreign investment works for development by promoting linkages between foreign affiliates and local enterprises, and creating investment and local employment opportunities within export-oriented industries.

- Improve responsible business conduct, especially by multinational enterprises, by adhering to and implementing the OECD Guidelines for Multinational Enterprises.

Chapter 13
Fighting corruption and illicit financial flows
by Alessandra Fontana, Development Co-operation Directorate, OECD

Corruption and the illicit transfer of funds out of developing countries can undermine sustainable development by reducing the resources available for essential public services, undermining a country’s capacity to attract investors and fuel the economy, and weakening the trust between citizen and state. As illicit flows are often transnational problems, all countries involved – whether developing or OECD – need to work together. This chapter reviews OECD country performance in tackling money laundering and bribery and in repatriating stolen assets. It looks at what could be done to close legal loopholes, strengthen political will and enforce more serious penalties for non-compliance. Development co-operation can also do more to help developing countries fulfil their own responsibilities, such as strengthening governance systems for detecting and reducing corruption; requesting asset repatriation; and bringing to justice those found guilty of corruption, theft of public resources and money laundering.

Total number of individuals and legal persons sanctioned or acquitted for foreign bribery, 1992-2012

United States

Germany

Hungary

Korea

Italy

Japan

France

Norway

Switzerland

Canada

Canada

Notes: DPA: deferred prosecution agreements; NPA: non-prosecution arrangements.
Key recommendations

- Fighting money laundering: OECD countries should enforce the standards set by the Financial Action Task Force more strictly, particularly in conducting due diligence of politically exposed persons and establishing the real ownership of companies and trusts.

- Fighting international bribery payments: OECD countries should put in place systems that more actively and effectively sanction overseas bribery payments. They should also provide better protection for whistleblowers.

- Improving asset recovery: OECD countries should establish legal and operational frameworks, supported by dedicated staff, to investigate and prosecute offenders and to respond rapidly to a developing country’s requests for mutual legal assistance or to an urgent request to freeze assets. They should also improve information sharing among jurisdictions and institutions and encourage and support developing countries in investigating corruption and managing returned assets.

- Making better use of development co-operation: Development co-operation agencies should promote stronger political commitment to tackling illicit financial flows and the stricter implementation of standards among OECD countries, while helping developing countries implement their responsibilities through capacity development and good governance support.

Chapter 14
Supporting countries in growing their tax base
by Gregory De Paepe and Ben Dickinson, Development Co-operation Directorate and Centre for Tax Policy and Administration, OECD

Countries’ capacity to raise sufficient revenue of their own is critical for sustainable development. Yet developing countries face many hurdles in increasing their tax-to-GDP ratios. This chapter illustrates how development co-operation offers large, but largely untapped, potential for supporting tax system reform. A range of well-designed and co-ordinated development co-operation approaches, from budget support to technical assistance, have had positive results, including in the most challenging of contexts, such as Afghanistan. Technical assistance is becoming more innovative, as the Tax Inspectors Without Borders initiative, currently being piloted by the OECD shows. International co-operation is also key in ensuring that developing countries do not lose much-needed revenue to emerging global challenges, such as the taxation of multinational enterprises.

Key recommendations

- Step up efforts for more and better development co-operation support to tax matters, in line with best practice, as set out in the OECD “Draft Principles for International Engagement in Supporting Developing Countries in Revenue Matters”.

- Customise support to fit country conditions; there is no “one-size-fits-all” approach to tax reform.

- Ensure host-country ownership and leadership; concessional finance alone cannot “buy” effective and lasting reforms.

- Support developing countries in becoming parties to the “Multilateral Convention on Administrative Assistance in Tax Matters” to tackle tax evasion and avoidance.

- Remember that how revenue gets collected is as important as how much gets collected.

- Provide assistance to developing countries to ensure they can participate in and benefit from the OECD/G20 BEPS Project.

- Provide assistance to developing countries to identify their need for capacity building in order to participate in and benefit from the new standard in automatic exchange of information for tax purposes.

- Strengthen linkages between taxation and governance by supporting institutions and organisations outside the revenue system, such as the justice system, parliament and civil society.

- Ensure that providers lead by example by being transparent about their tax exemptions for ODA-funded staff salaries, goods and services.

- Prioritise fragile states for urgent support to tax reform.
Chapter 15
Innovating to finance development
by Julia Benn and Mariana Mirabile, Development Co-operation Directorate, OECD

Innovative financing for development initiatives aim to narrow the gap between the resources needed to achieve the Millennium Development Goals and the resources actually available. While there is no agreed definition of innovative financing for development, existing initiatives can be broadly classified as those aiming to raise new funds for development (“innovative sourcing”) and those which optimise the use of traditional funding sources (“innovative spending”). Innovative financing for development initiatives have so far mobilised only part of the shortfall they aim to eliminate. However, their potential is still to be exploited. An array of mechanisms with large fundraising potential has been proposed over the past decade. Out of these initiatives, a tax on transactions in the financial markets has gained new political momentum and is already being implemented in a few countries. It is estimated that this mechanism, if implemented in G20 countries, could make available over USD 50 billion for development every year.

Potential of “innovative sourcing and spending” mechanisms
USD billion

- Proposed innovative financing for development mechanisms: Potentially USD 635 billion per year
- Existing innovative financing for development mechanisms: USD 1.9 billion per year
- Official development assistance: USD 127 billion in 2012


Key recommendations
- Agree on an international definition of innovative financing for development to facilitate discussions and estimations of the amount of resources these initiatives may be able to mobilise.
- Classify innovative financing for development initiatives into those aiming to raise new funds for development (“innovative sourcing”) and those aiming to optimise the use of traditional funding sources (“innovative spending”). While innovative spending is important, more innovative sourcing initiatives are needed to increase the resources available to fund global Sustainable Development Goals.
- Focus on and prioritise those initiatives that can be realistically scaled up and that are proven, such as the financial transaction tax.
- Continue to explore other options for how international financing for development initiatives could be used to fund action in priority areas such as climate change.

Chapter 16
Enhancing the contribution of social business to sustainable development
by Kerstin Humberg, engagement manager, international business consultancy and Linda Kleemann, Kiel Institute for the World Economy, Germany

Social business is receiving increasing international attention, but what exactly is it? What can it contribute to poverty reduction, and how does it foster human development? This chapter illustrates how social businesses can create new sources of income, raise productivity, reduce “aid” dependency and provide low-income consumers with access to products and services for their basic needs. Yet they are not a panacea: establishing a commercially viable business that contributes to human development is a complex task involving a number...
of risks, which are exacerbated by a lack of start-up finance and favourable policies. Some of the limitations and risks could be mitigated through cross-sector partnerships, the creation of an enabling environment by development partners, a deliberate regulatory framework and rigorous monitoring and evaluation.

**Key recommendations**

- Adopt universal definitions of social business and social entrepreneurship.
- Use development co-operation to create an enabling business environment by supporting the adaptation of financing mechanisms, improvement of skills and infrastructure, provision of business advisory services, establishment of government programmes and incubators, and simplification of legislation and administrative burdens.
- Explore the unintended consequences related to the respective roles of development co-operation and private initiatives and learn from them.
- Use public policy to support social business, including enabling legal, regulatory and fiscal frameworks.
- Use education as a key strategy for developing a culture of social business.
- Encourage businesses that address particularly pressing social issues through social business competitions and targeted financing.
- Establish a strong impact measurement and reporting system to monitor and adjust policies and support as necessary.
- Foster international learning and sharing of best policies to support social businesses in both developed and developing countries.

**Chapter 17**

How can development co-operation address global challenges?

*by Age Bakker, Vrije Universiteit, Amsterdam, Netherlands and Chairman of the Netherlands’s Working Group on the Future of ODA*

Poverty reduction is increasingly dependent on the equal distribution and provision of global public goods, such as a stable climate, a solid financial environment, fair trade and freedom from infectious disease. This chapter asks how official development assistance (ODA) can respond to these global challenges. A new concept of international development is proposed, with clear targets for global public goods; targeting of ODA to support the least developed countries and fragile states; and a view of development co-operation as part of a broader and more complex global agenda, involving both the public and the private sector, including civil society. The post-2015 goals offer an important opportunity to better align the policy agendas of developing and developed countries and to signal a refreshed commitment to finding new financing sources to fund shared goals. Achieving them will require greater solidarity among all nations and coherence of both domestic and foreign policies.

**Key recommendations**

- Estimate the price tag for supporting global goals.
- Reach international agreement on a broader definition and standardisation of contributions to global public goods and take shared responsibility for achieving results.
- Agree on a target for international co-operation, such as 2% of GDP, as well as a concrete target for ODA to least developed countries and fragile states (e.g. 0.25% of GDP).
- Find new methods for funding global goals, including global taxation.
- Ensure developing countries’ voice in multilateral organisations and international coalitions.
- Promote stronger co-operation between the public and private sectors.
- Establish a framework for registering all contributions to international co-operation within the UN context with input from other relevant organisations, including the OECD DAC.
Chapter 18
Finding synergies for environment and development finance
by Jan Corfee-Morlot and Stephanie Ockenden, Development Co-operation Directorate, OECD

Environment and development are inextricably linked: without further policy action, local and global environmental risks threaten to reverse development gains made to date by raising water, food and other resource scarcity risks as well as extreme weather disaster risks. Recognition of the two-way relationship between the environment and development is a foundation for the design of the Sustainable Development Goals, which are to replace the Millennium Development Goals post-2015. Development finance for the environment – and especially climate change – is on the increase, largely driven by international commitments and financial mechanisms under the Rio conventions. Effective responses to global environmental issues necessitate international co-operation and co-ordinated global level action. This chapter outlines this complex financial landscape and the potential for countries to take action to tap the potential synergies among growing new sources of environment finance and traditional sources of development finance. Transitioning to low-carbon, climate-resilient and sustainable development pathways requires a holistic approach to finance and investment, shifting public and private finance from “brown” to “green” investments, scaling-up “green” finance, and integrating environmental considerations into all relevant investments and government activities.

Key recommendations

- Shift, scale-up and mobilise financial resources and investment from both public and private sources to secure future global and local environmental sustainability, development and growth.
- Implement innovative financing arrangements and mechanisms coupled with domestic policy to price and regulate “environmental bads” to shift the private sector and individual behaviour towards environmentally sustainable action.
- Ensure that initiatives under the sustainability agenda emerging from the Rio+20 Summit, the post-2015 development goals, the three Rio conventions, and the global climate deal expected in 2015 are compatible, tightly inter-linked and mutually reinforcing.
- Promote international co-operation and co-ordination across institutions and actors; integrate development considerations into environmental initiatives and mainstream environmental considerations into national plans, strategies and development co-operation.
- Support developing countries in making their growth green and inclusive, while ensuring that countries’ own development plans, programmes and policies lead the way for targeted and effective use of external development finance.

ODA to the environment, 2004-12
Three-year annual averages, bilateral commitments, USD billion, constant 2012 prices

Notes: “Total environment aid” includes biodiversity, climate and desertification development co-operation identified by the Rio markers, and environment-related development co-operation based on the environment marker. Many activities target multiple objectives; the total environmental development co-operation adjusts for this to ensure there is no double counting. “Climate-related aid” covers development co-operation to both climate mitigation and adaptation from 2010 onwards, but only mitigation pre-2010. Reported figures for 2004 to 2009 may appear lower than in practice, and may reflect a break in the series, given that pre-2010 adaptation spending is not marked.

For technical reasons, data collection on Rio markers for the United States was not yet available at the time of this publication. The United States is working to review its data collection methodology and will supply data for 2011 and 2012 in the coming months.


StatLink® http://dx.doi.org/10.1787/888933121905
• Seek synergies between global environmental and local sustainable development benefits. Learn from development co-operation experience in managing inevitable trade-offs so as to achieve multiple development and environmental objectives simultaneously.

• Robust frameworks to support the measurement and monitoring of future international “green” finance commitments will be necessary to support greater transparency, accountability and trust; the DAC statistical framework, and in particular the system of “Rio markers”, can provide a solid basis for international monitoring of environment-related flows.

Chapter 19
Financing peace and security for sustainable development
by Tilman Brück and Gary Milante, Stockholm International Peace Research Institute (SIPRI), Sweden

There is growing recognition that peace and security are fundamental for socio-economic development, yet these public goods were not explicitly targeted by the Millennium Development Goals (MDGs). Pursuing them in the post-MDG development framework will require indicators to measure them as well as a global funding mechanism. This chapter explores these challenges, as well as the moral hazard issues associated with identifying and supporting activities to build peace and security. It considers collective mechanisms for financing security and development, such as a global tax and “peace bonds”, and finds that action should prioritise preventing conflict rather than trying to end existing wars, which is the most costly and risky form of intervention. Critically, traditional development actors will need to be more involved in the provision of peace and security. This public good is too important to be left to the security policy community alone.

Key recommendations
• Ensure that peace and security feature in the post-2015 goals.
• Agree on norms for measuring non-military spending on security.
• Establish a global system of security accounts and task international organisations with collecting and publishing global information on security.
• Create and update specific indicators to measure public goods in the area of peace and security.
• Focus action on preventing conflict rather than trying to resolve existing wars, which is the most costly and risky form of intervention.
• Involve traditional development actors in the provision of peace and security.
• Put in place innovative solutions to fund peace and security, such as global taxes or peace bonds.
• Establish and fund global networks for diplomacy and justice to strengthen peacebuilding.

Chapter 20
Backing recovery in fragile states
by Kathryn Nwajaku and Jolanda Profos, Development Co-operation Directorate, OECD

By 2018, most of the world’s poor will be living in fragile states – countries marked by conflict, instability and poor governance. These developing countries find it much harder than others to access resources to finance their development. Official development assistance (ODA) to fragile states is declining, foreign investment is volatile and reluctant because of the associated risks, and remittances sent home by migrants – though offering potential for development – are not always used to finance public goods. This chapter asks how the urgent tasks of recovery and development in fragile states can be financed. It highlights the need to focus more on domestic revenue generation – revenue raised within the country – as a source of social spending, and also as a cornerstone of statebuilding. While the focus on domestic revenue is not new in the development community, much more and better support will be needed in order to deliver on its promises.
Key recommendations

- Improve both the quantity and quality of development co-operation to fragile states, especially in the least developed fragile states which depend upon it the most.

- Support revenue mobilisation in fragile states by following emerging guiding principles in areas such as: broadening the tax base, managing revenues from natural resources, striking better deals with multinational enterprises, promoting transparency and boosting tax morale.

- Seek opportunities to harness remittances as a source of development – for instance by making financial services for remittances cheaper and easier to access, “securitising” future remittance receipts and providing matching funds for remittance-backed local development projects.

Chapter 21
Supporting a fair and equal trading system
by William Hynes, Development Co-operation Directorate, OECD

Throughout history, trade has helped to transform economies, reshaping the division of wealth and power. More recently, fragmented production chains offer developing countries the opportunity to enter international markets through specialisation in specific tasks and intermediate products. In addition, the international community has taken steps to make the world trading system more equitable and expanded World Trade Organization (WTO) membership to include most developing countries, most recently Yemen. The WTO Bali Ministerial in December 2013 concluded with several decisions which will further accelerate the integration of poorer countries into the world economy. The Aid-for-Trade Initiative helps to underwrite this progress by assisting developing countries to analyse, implement and adjust to trade agreements and to build their supply-side capacity and infrastructure to compete internationally.

Key recommendations

- Ensure that the World Trade Organization’s members implement the Bali Agreement on Trade Facilitation and provide the necessary technical assistance to help poorer countries to streamline their customs procedures.

- Make progress on the remaining items of the Doha Development Round, especially agriculture, in order to further integrate developing countries into the world trading systems.

- Ensure that G20 providers of trade-related assistance meet their pledge to maintain aid-for-trade flows beyond 2011.
Part IV (extracts)

Trends in Development Assistance Committee members' development co-operation: A synthesis of peer reviews, 2012-14

This section was prepared by Rahul Malhotra of the Development Co-operation Directorate, OECD

This chapter synthesises key findings and emerging trends in development co-operation from DAC peer reviews. It covers both mid-term reviews and full peer reviews completed between January 2012 and April 2014. In identifying trends in the strategic orientations, organisation and operations of DAC members’ development co-operation emerging from recent peer reviews, the aim of this chapter is to identify areas of collective progress and collective challenge, with a view to establishing an agenda for future learning from peer reviews. The chapter begins with a set of key messages, followed by further detail against the core dimensions contained within the OECD “DAC Peer Review Reference Guide”.

Composition of DAC countries’ bilateral ODA, 2012, gross disbursements

Developed Assistance Committee members’ ODA performance in 2013

This section was prepared by Yasmin Ahmad of the Development Co-operation Directorate, OECD

According to preliminary data, in 2013 member countries of the Development Assistance Committee provided USD 134.8 billion in net official development assistance (ODA), representing 0.30% of their combined gross national income (GNI). Despite continued pressure on budgets in OECD countries, ODA rose by 6.1% in real terms compared to 2012, marking a rebound after two years of falling volumes, as a number of governments stepped up their ODA spending. Aid to developing countries grew steadily from 1997 to a first peak in 2010, but fell in 2011 and 2012 as many governments took austerity measures and trimmed their aid budgets.

Bilateral ODA by income group, 2003-12, gross disbursements

StatLink: http://dx.doi.org/10.1787/888933122019

StatLink: http://dx.doi.org/10.1787/888933122038
Profiles of development co-operation providers
This section was prepared by Ida McDonnell and Julie Seghers of the Development Co-operation Directorate, OECD

The profiles of DAC members and other development co-operation providers give key data on the resources they mobilise for sustainable development. They include an overview of official development assistance as well as other official flows, private flows at market terms and private grants – resources mobilised by NGOs and foundations. The 2014 profiles are directly aligned with the thematic focus of this report: Mobilising resources for sustainable development. They look at the catalysing role of ODA, particularly in relation to private sector development strategies, tax and development, aid for trade, and remittances. Using the latest data from OECD statistics, the profiles also show the channels DAC members and others use to allocate their ODA, as well as how ODA is allocated by geography and sectors.

Trends and profiles of other providers’ development co-operation
This section was prepared by Willem Luijkx of the Development Co-operation Directorate, OECD

This chapter presents information on the volume and key features of the development co-operation by providers beyond the Development Assistance Committee (DAC) membership. Eighteen of these providers report to the OECD on their development co-operation programmes. For another ten providers, the OECD makes estimates based on official government reports, complemented by web-based research (mainly on contributions to multilateral organisations). The Bill & Melinda Gates Foundation, the only private funding entity reporting to the OECD, is also included in this chapter.

For more information and to access the Development Co-operation Report 2014:
