THE DEVELOPMENT ASSISTANCE COMMITTEE:
ENABLING EFFECTIVE DEVELOPMENT

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The New Development Finance Landscape: emerging and preliminary perspectives from the cases of Ghana, Senegal and Timor-Leste

This document has been jointly developed by staff of the OECD DAC Secretariat and the Overseas Development Institute (ODI). The analysis and conclusions in the text are those of the authors.

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Executive summary

Major shifts in the international development finance landscape have created new opportunities and options for developing countries to access external finance for their development priorities. These shifts have also created new challenges and risks for managing such flows. In anticipation of a post-2015 development finance framework, the Development Assistance Committee (DAC) 2012 High Level Meeting (HLM) tasked the DAC Secretariat to better capture this changing landscape from the perspective of developing countries, including all officially supported resource flows.

As a first step, the DAC Secretariat has undertaken three case studies in Ghana, Senegal and Timor-Leste. The case studies were designed to explore what the new development finance landscape means from a partner country perspective, with four main objectives:

- **to measure development finance flows beyond ODA at country level**, their evolution over the last decade, and how loan concessionality is assessed from the perspective of the recipient country
- **to understand governments' priorities and preferences for the type of development finance flows they wish to receive** and whether they are successful in achieving these objectives
- **to identify whether partner countries' governments have a strategic approach to using different sources of development finance:** do they on balance welcome greater choice, or find management of the new landscape challenging?
- **to investigate how governments seek to engage with less traditional providers of development finance**, and the effectiveness and inclusiveness of aid co-ordination mechanisms at country level.

The evidence from the case studies is intended to inform the debate on the architecture and governance of development finance flows. Understanding the architecture from a developing country perspective would help these countries develop strategies for attracting and managing resource flows beyond concessional financing. It would also feed into ongoing conceptual thinking regarding a possible new measure for tracking resource inflows that – in the context of the emerging post-2015 financing strategy – would enhance country oversight and transparency of external finance.

While the case studies are illustrative and not necessarily applicable to different economic, political and governance contexts, the preliminary findings can be grouped as follows:

- **More options and more finance are welcome.** Greater choice is welcome: it is not perceived as a burden in these countries. Additional resources to finance development are a key priority for governments.

- **Countries may not (yet) have a strategic approach to managing development finance, and there is limited interest in involving non-traditional development partners in co-ordination mechanisms.** While Timor-Leste is relatively assertive in choosing among the financing sources on offer, Ghana and Senegal are less selective, given also their much tighter fiscal position. Furthermore, strengthening co-ordination mechanisms and/or involving non-DAC development partners in these mechanisms are not a high priority for any of the three governments.

- **Governments have similar preferences regarding the characteristics of development finance flows, but different approaches to concessionality.** They value flexibility and the use of country systems (e.g. budget support, Eurobonds), speed of delivery, and alignment to their national strategies. When considering the financial terms for debt resources, a minimum grant element of 35% of the nominal value of the loan (the IMF benchmark for low-income countries) would be the prevailing criterion for the Ministries of Finance in Ghana and Senegal. Timor-Leste sets the return on its offshore reserves as a ceiling.

- **Little is known about philanthropic assistance, and climate finance is demand-constrained**. Most of the assistance from philanthropic organisations does not transit via government systems: information is scarce and anecdotal. Volumes of climate-related finance are mostly delivered through ODA channels and considered modest. There is high demand for strengthening local capacity to prepare and implement funding proposals.

Introduction

The development finance landscape has changed dramatically in the last ten years, with the range of development finance options beyond ODA flows expanding. New actors and sources of development finance are becoming increasingly significant. They include non-DAC sovereign donors, philanthropic organisations, non-governmental organisations (NGOs) and special purpose funds (e.g. vertical health and climate funds).

It is less clear what these changes mean for partner countries' management of aid and other development finance resources. Evidence about opportunities and challenges that partner country governments have to take into account while assessing their financing options is limited.

To inform the policy debate in international fora, attention should be rebalanced from the global level to include a recipient countries' perspective regarding the different components of total official and private finance for development. The post-Busan debate on development effectiveness is taking place increasingly at country level through "country compacts". The Busan High Level Forum on Aid Effectiveness and the Global Partnership for Effective Development Co-operation have also made progress in bringing new development finance actors, either sovereign or private, into these discussions, and the upcoming Ministerial Meeting of the Global Partnership in Mexico is expected to spur further action in this area.

Against that backdrop, this study aims to inform the DAC HLM mandate to "explore ways of representing both 'donor effort' and 'recipient benefit' of development finance". By adopting the point of view of partner countries in regard to accessing, managing and using different sources of development finance, the study is meant to inform the debate on measuring resources from the recipient's perspective. It has four main objectives:

- **to measure development finance flows beyond ODA at country level**, their evolution over the last decade, and how loan concessionality is assessed from the perspective of the recipient country
- **to understand governments' priorities and preferences for the type of development finance flows they would like to receive** and whether they are successful in achieving these objectives
- **to identify whether partner countries' governments have a strategic approach to using different sources:** do they on balance welcome greater choice, or find management of the new landscape challenging?
- **to investigate how governments seek to engage with less traditional providers of development finance,** and the effectiveness and inclusiveness of aid co-ordination mechanisms at country level.

A case study approach was adopted to answer those questions by looking at the experiences of three countries: Ghana, Senegal and Timor-Leste.[2] Emerging and preliminary findings from these case studies – conducted between mid-November 2013 and early February 2014 – are merely illustrative and cannot be extrapolated to all developing countries. They provide an initial readout to describe relevant country-specific experiences and inform discussions focused on development financing issues more broadly.

[2] Details on the methodology adopted, the criteria for case study selection, and country-specific economic, political and governance contexts are included in Annexes 1 and 2.

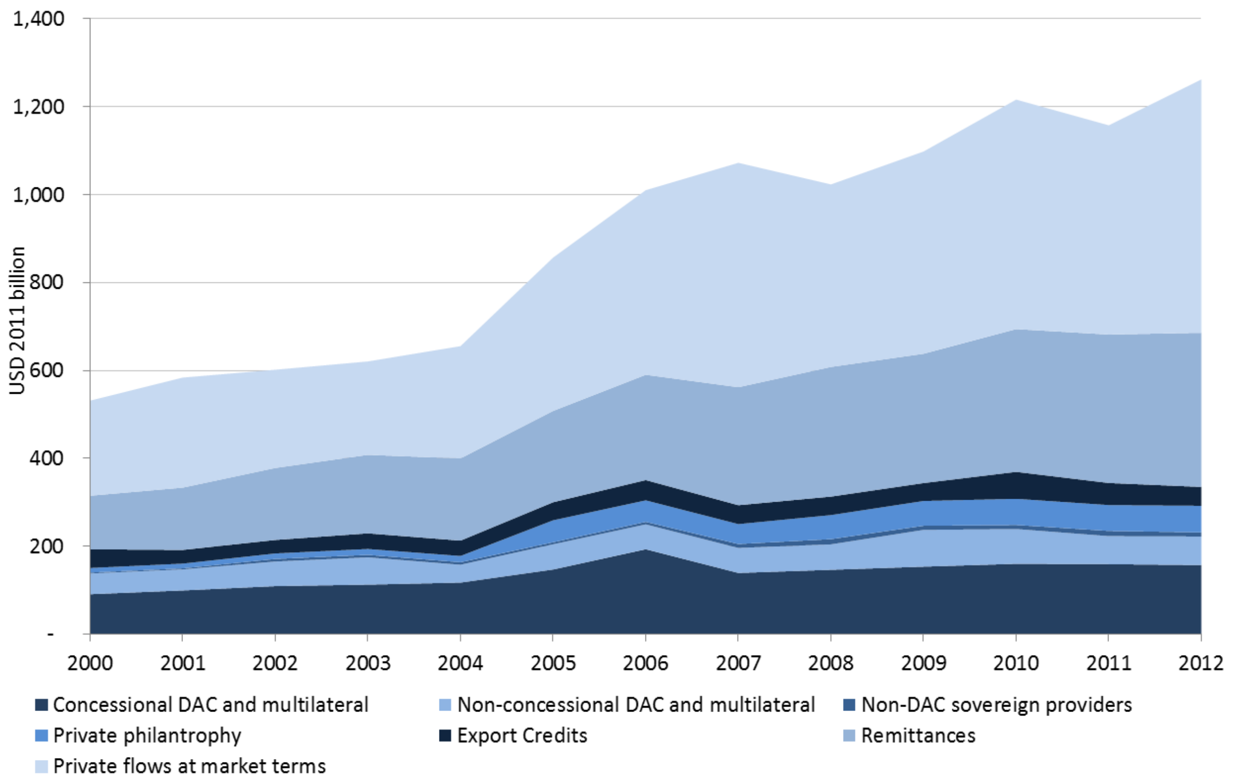
This briefing paper presents an initial taxonomy of (cross-border) development finance flows that identifies the various sources of development finance reviewed, and sets the stage for assessing and measuring the resource flow composition from partner country perspectives. It presents and discusses emerging and preliminary findings from the three case studies. These findings spark a series of policy relevant questions for donor governments, multilateral development agencies and partner countries' governments in regard to strengthening local capacities to access, use and manage different sources of development finance.

The development finance landscape from a recipient's perspective

A shifting development finance landscape – towards resources beyond ODA

That the development finance landscape has changed in terms of actors, motives and instruments is far from being newsworthy.[3] The landscape of development finance flows to developing countries (i.e. low-income and middle-income countries) has evolved in volume terms. External resources transferred to developing countries in the form of either development assistance or private flows more than doubled from 2000 to 2012 (Figure 1).

Figure 1 Developing countries' external resources 2000-2012



Sources: OECD, World Bank, Hudson Institute, UNCTAD.

Not only has the total envelope of external resources flows increased, but its composition has evolved. Private inflows – either profit-driven, as in the case of foreign direct investment (FDI) and portfolio equity flows, or for personal motives, as in the case of remittances – represented 64%of total flows to developing countries in 2000. Concessional resources from DAC members and

[3] See, among others: Development Initiatives (2013); Greenhill and Prizzon (2012); Greenhill, Prizzon and Rogerson (2013); Kharas and Rogerson (2012), and Severino and Ray (2009).

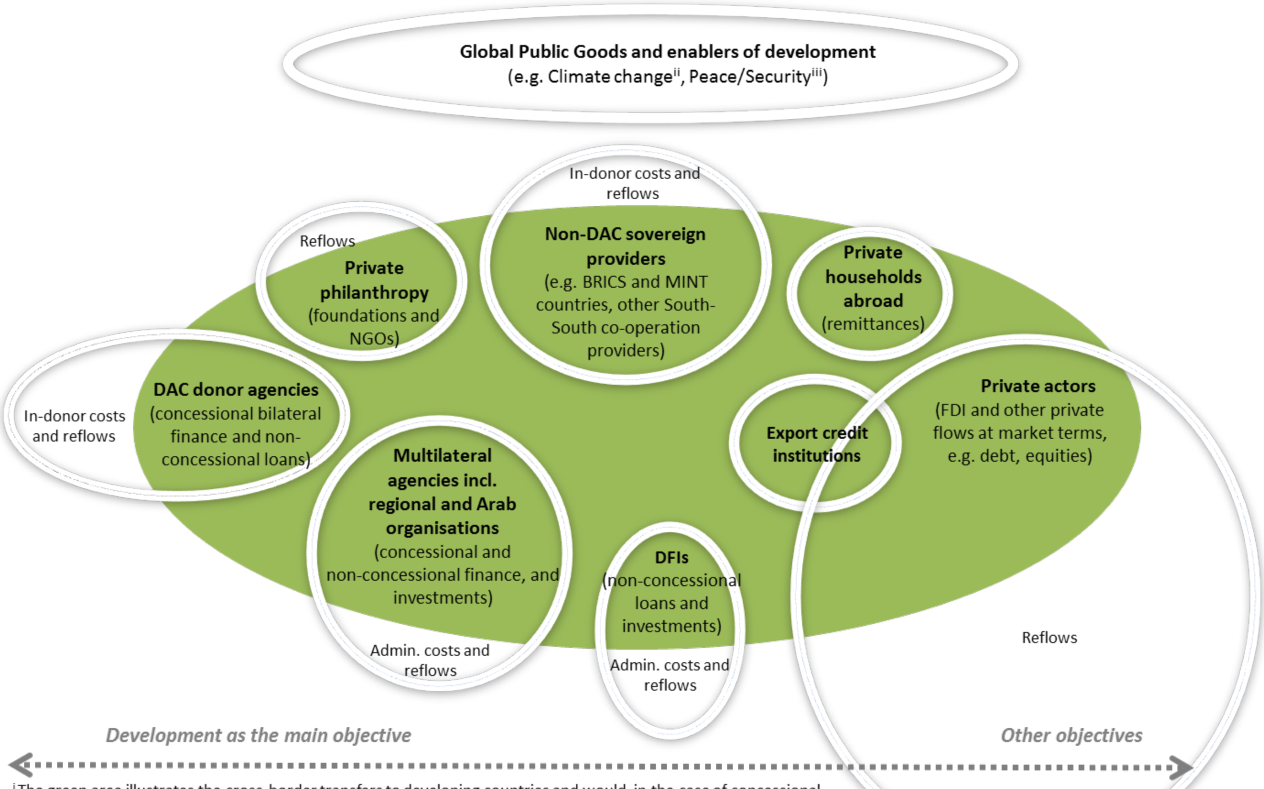
multilateral organisations represented only 17% of total flows. Looking at the picture in 2012, the contribution of concessional financing[4] declined to approximately 13% of total flows, while private inflows reached a share of 75%. Given the motivation of private finance, the outflows (e.g. loan repayments, profit repatriation, divestment) are significant.[5]

There were similar trends at country level. For instance, since 2008 FDI inflows have been exceeding ODA flows in Ghana. Senegal receives large inflows of personal remittances (10% GDP) currently well above ODA flows (7.4% GDP).

A taxonomy of external financing: initial considerations

The DAC HLM in December 2012 mandated the DAC Secretariat to explore new ways to represent both "donor effort" and "recipient benefit" of development finance. By adopting the point of view of partner countries in regard to understanding, accessing and using different sources of development finance, this study is meant to inform the debate on tracking resources from the perspective of developing countries.

Figure 2 The emerging architecture/taxonomy of external financing: developing countries' perspective[i]



[i] The green area illustrates the cross-border transfers to developing countries and would, in the case of concessional finance, approximate the Country Programmable Aid measure (covering both grants and concessional loans).
[ii] Climate change activities carried out at country level would be captured as cross-border transfers.
[iii] Peace-keeping and peace-building activities would be generally captured at regional levels, and therefore difficult to capture as cross-border flows at country level.

Source: DAC Secretariat.

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[4] Concessional financing in this document includes concessional outflows from bilateral sources (i.e. bilateral gross ODA by DAC countries), as well as gross multilateral concessional outflows to developing countries. Such concessional outflows would include grants, soft loans, concessional equity and mixed credits.

[5] It is estimated that outflows of profits made on FDI were equivalent to almost 90% of new FDI in 2011 (Griffiths et al., 2014).

Figure 2 illustrates current thinking within the DAC Secretariat regarding the architecture of external finance flows from a partner country perspective, which could be considered a starting point for future debate on this topic.

The architecture is a map to help identify different actors that each provide a wide array of financial instruments, where the objective of the resource flows can be seen as a continuum ranging from purely developmentally motivated to commercially motivated. The proposed clustering reflects the various groups of actors that exhibit similar traits as to motivation, modes of operation, financing instruments, etc. From a developing country's perspective, the following architecture of actors emerges:

- **DAC donors**, which are often referred to as so-called "traditional" donors that conform to DAC norms and rules
- **multilateral agencies, including regional and Arab multilateral organisations**, combining the soft windows and the hard windows of such entities
- **development finance institutions (DFIs) of bilateral donors**, which operate distinctly from the so-called "aid agencies" and often develop joint financing packages with multilateral development banks (MDBs) and private actors
- **non-DAC sovereign providers,** regrouping the wide array of South-South co-operation actors often referred to as "non-traditional" donors
- **private philanthropic organisations,** including foundations and international NGOs
- **export credit agencies and the private sector** (banks and enterprises), which are motivated by commercial interests as opposed to other actors that can be considered as development finance actors
- **private household remittances**, which would also not be considered as development finance, but constitute in many cases important external resource flows, usually captured in the current account in the balance of payments statistics.

These actors, in turn, employ financial instruments[6] ranging from pure grants to pure commercial operations from both public and private/commercial sources, including:

- **grants**
- **concessional loans** provided to low-income countries with concessionality from country perspective assessed based on the IMF definition (a minimum grant element of 35% calculated using a discount of 5%) and to middle-income countries, for which concessionality generally means terms more favourable than they would obtain from the market
- **non-concessional loans** including to the private sector
- **equity and other market-like instruments** from the public sector
- **FDI and portfolio investment** by the private sector (debt, bonds, equity and other securities).

From the perspective of developing countries, such a mapping could constitute a useful way to understand the taxonomy of external financing and provide greater visibility regarding the totality of the potential sources and mechanisms countries can tap into to finance their development agenda. This understanding could, in turn, pave the way for discussions on how a post-2015 measurement system could best provide comprehensive and transparent information on external resource flows,

[6] From developing countries' perspectives, it would not make sense to track risk mitigation instruments, as the receipts originating from such operations would be captured through various financial instruments.

including development finance from developing countries' perspectives. The various components of a possible measure capturing these flows could be monitored by the OECD in conjunction with other international bodies.[7]

Three broad conceptual approaches underpin current thinking on measuring "recipient receipts":

- Only cross-border flows are relevant (hence domestic resource mobilisation is excluded from the framework).
- It is also useful to consider gross flows in defining a taxonomy of external resource flows. This reflects the amounts extended and received, and is hence a good entry point for accessing the relative importance of the various actors and financing. However, any future measurement of the broad range of development finance sources from a developing country perspective should consider, in addition to the amounts received, the amounts paid back (the so-called "reflows", including, for example, capital and interest repayments on loans and profit repatriation).
- The recipient view should also, as recent Secretariat proposals suggest,[8] strip out i) in-donor costs (administration costs, refugee costs, student costs) and ii) debt relief (debt flows are treated gross but discounted for risk of default), along the lines of the approach adopted in the DAC's well-established Country Programmable Aid (CPA) measure.[9]

Climate finance for adaptation and mitigation purposes is provided by both public and private sector actors[10] and is embedded in Figure 2. It is cross-cutting across the different actors and sources. Climate finance can be considered both in broad terms, including international and domestic public climate change expenditure and the total landscape of private finance flows towards climate-related activities, as well as in more narrow terms in the context of the UN Framework Convention on Climate Change, where there is yet an not internationally agreed definition of what "counts" towards the international finance goal.[11]

Contributions to enablers of development (such as security and peace-building expenditure) whose benefits are not restricted to the recipient country are considered separately from this framework. They would have a regional if not a global dimension, rather than a country-level dimension.

One clear finding in taking the recipient perspective is that the *concessionality of a loan* is not assessed against the current DAC definition of concessionality (with a grant element above 25% at 10% discount rate). At country level, resources are considered concessional when benchmarked against the market terms the country faces or against relevant IMF rules in the case of low-income countries. Therefore, it is entirely possible for a loan to be offered at little or no budgetary cost to

[7] The OECD is currently undertaking a study to map authoritative sources of data on development finance.
[8] See, for example, Hynes and Scott (2013).
[9] Donors' contributions to country-level development programmes are best captured by the concept of Country Programmable Aid (CPA), a subset of gross bilateral ODA critical for the support of the Millennium Development Goals. CPA tracks the proportion of ODA over which recipient countries have, or could have, a significant say. It reflects the amount of aid that involves a cross-border flow and is subject to multi-year planning at country/regional level. Several studies have also shown that CPA is a good proxy of aid recorded at the country level (excluding humanitarian aid). CPA from multilateral agencies is measured using a similar methodology.
[10] See CPI (2012).
[11] UNFCCC Decision 1/CP.16 "developed country Parties commit, in the context of meaningful mitigation actions and transparency on implementation, to a goal of mobilizing jointly USD 100 billion per year by 2020 to address the needs of developing countries"

the official lender (whose credit rating is superior to that of the borrower) and even fully cover administrative margins, yet to be on better terms to the borrower than could be obtained from private lenders and bond markets.

Obviously there should be some check on the risk of unsustainable debt accumulation. It was found that two of the three countries, for example, observed IMF disciplines restricting their borrowing to grant elements above 35% at a lower discount rate (5% at present), but with case-by-case exceptions possible in the band 35-15%. One country then chose to place a moratorium on all new external borrowing, given its current debt framework. The third country uses the rate of return on its offshore sovereign Petroleum Fund as the ceiling rate for borrowing purposes.

In terms of the future architecture of development finance, and a possible measure capturing resources flows from developing countries' perspective, it would seem pragmatic to offer both non-DAC and DAC providers of finance the incentive of counting – outside ODA, but as part of the total recipient-level contribution made by each source – the gross (nominal) value of loan disbursements meeting a test such as the IMF's lower bound, at least for countries in the low- and lower-middle-income groups. A comprehensive reporting system should accommodate both provider and recipient perspectives in assessing the concessionality level of loans.

Strategy and management of development finance flows from a partner country perspective: preliminary findings from the cases of Ghana, Senegal and Timor-Leste

The three case studies are illustrative, and their findings are not applicable to other developing countries. Annex 2 summarizes key elements of the *economic, political and governance context* for the cases of Ghana, Senegal and Timor-Leste, as this context shapes countries' capacity to access and manage the different sources of development finance.

Countries have more options and more finance.

The three countries clearly benefit in different ways from greater funding diversification. Additional resources to finance development are a key priority for governments. Ghana and Senegal have had two successful rounds of sovereign Eurobond access. They have also been issuing bonds on regional markets (as in the case of Senegal). In the case of Ghana, despite the cost of Eurobonds (e.g. a 9% coupon on USD funds) vis-à-vis marginally less costly offers from official lenders, the government favours this source of development finance given relative volumes, flexibility in use and the absence of conditionality.

Timor-Leste has rapidly become a petro-economy, reducing budgetary aid dependence from over 90% a decade ago to some 20% today. Returns on its offshore financial reserves totalling USD 14 billion set the benchmark for evaluating offers of loans (also see below the attributes of development finance resources).

All three countries are recent graduates to lower-middle income status. Ghana and Timor-Leste have "blend" status, which allows them to start tapping into the harder windows of the multilateral development banks. There is a clear sectoral emphasis on infrastructure when using this source.

All three countries also have a history of relations with non-DAC providers, with different trajectories. Senegal has longstanding connections with Arab donors; it had limited relations with China until 2006, when these relations accelerated. Ghana has had major access to Chinese credit lines for some time, but take-up has been slow. Timor-Leste has had a wide range of non-DAC partners since it gained independence in 2002, but these partners' share in external public financing has not risen significantly.

Ghana and Timor-Leste have longer-term strategies for progressive graduation to private sector-led, upper-middle-income country status. Senegal is about to present a new development strategy in which the contribution of the private sector (especially in the form of Public-Private Partnerships) is expected to play a key role. External public flows, though declining in relative terms, will still be needed for a substantial transition period. Senegal remains a relatively aid-dependant country, with proportionally less confirmed natural resource endowments than the other two, and no clear timeline yet for transition towards market-based finance.

Strategic management of these choices is still lacking. Further, there is limited interest in co-ordination mechanisms for development finance, or in involving non-DAC providers and other actors from the private sector.

None of the three countries bases its decisions on an overall development finance framework that links national investment priorities to the perceived comparative advantage of different external sources, e.g. in terms of financial cost, speed of delivery and conditionality.[12] All three effectively welcome all sources, with a non-exclusive preference for those without conditions or strong earmarks (e.g. budget support, see below).

Ghana and Senegal are mainly guided by IMF disciplines in setting bounds for financial terms on loans. Ghana has now set a temporary moratorium on new loans, given its relatively high debt profile. Timor-Leste, which starts with a negligible debt burden, has a policy of accepting only loans charging less than the return on its offshore Petroleum Fund investment portfolio (for details, see below).

While all three countries host periodic formal co-ordination meetings at ministerial or ambassadorial level, opportunities for systematic interaction at professional or thematic level are patchier, or (at least in the case of Timor-Leste) still largely untested.

In all three countries, co-ordination across government remains difficult: the Ministry of Finance monitors financing flows (and negotiates loans), often very systematically and transparently (the Ministry of Finance development partnership website in Timor-Leste is exemplary in this regard.an example). However, partners generally discuss and agree the substance of programmes, particularly grants (which are often off-budget), directly with line ministries and/or the Ministry of Foreign Affairs. Reporting back to the Ministry of Finance remains partial and irregular, particularly by non-traditional partners.

Much sectoral co-ordination across partners is organised at the initiative of the traditional development partners, often led by a multilateral development bank (MDB) or the UN, and in Senegal and Timor-Leste proceeds without regular participation of the administration. In Ghana, which has a large number of traditional partners, the Ministry of Finance works through the MDBs to try to co-ordinate donors: the multi-donor budget support programme is the main vehicle for donor-government co-ordination and policy dialogue.

In all three countries, it emerged that government officials were not particularly interested in multi-partner co-ordination mechanisms, perhaps stemming from the lack of capacity and strategic

[12] Such a framework, albeit informal, is in place in Ethiopia (see Prizzon and Rogerson, 2013).

management. They preferred to deal with non-DAC providers on a bilateral basis (apart from inviting them to the set-piece, high-visibility “diplomatic” meetings as indicated above); and they had little inclination to urge these providers to join existing “Development Partners”-initiated frameworks. It would not be surprising if the non-DAC providers took their cue from governments. Indeed, it would be unusual if they did not.[13] This situation could potentially change in the case of Timor-Leste, as and when its new national co-ordination process (chaired by the government and organised along the four pillars of the national strategy) gets off the ground.

When it comes to actors such as DFIs providing non-concessional financing, there was very little evidence of any co-ordination attempts by either the governments or the institutions themselves. DFIs often take part in joint financing schemes together with multilateral development banks.

Countries had similar views vis-à-vis preferred instruments and attributes of development finance, but different approaches for measuring loan concessionality from a partner country perspective.

All three countries argue first and foremost for general or sectoral budget support (GBS-SBS), and the use of country financial and procurement systems that such instruments reinforce. However, this “modality” is no longer rising and indeed is now falling as a share of aid in the two larger countries. It was only recently applied at all, on a pilot scale, for Timor-Leste, a fragile state.

Timor-Leste, a strong champion of the New Deal for such states, argues that country systems can and should be used more in those contexts. For the time being, however, aid to Timor-Leste is overwhelmingly project-based and heavily fragmented, though its own budget resources are starting to dwarf external ones, making such aid effectively fungible. The other two countries have experienced a wider mix of programmatic and project-based approaches for many years, with project approaches still dominant.

Unsurprisingly, all three administrations generally say they also value (next in order of priority): favourable financial terms (see below: e.g. cost, maturity, grace period), preferably grants; speed and reliability of implementation; few conditions beyond those intrinsic to project feasibility; and greater capacity building of national staff (in contrast to “turnkey” technical assistance approaches). Perhaps surprisingly, non-DAC providers do not seem to score consistently better than DAC donors on any of these dimensions, though evidence for this is necessarily patchy (Greenhill et al., 2013).

With respect to the financial terms of external resources, among the three countries only Timor-Leste has an explicit framework for considering loan finance offers from public, semi-concessional sources. It can enforce this framework because of its exceptionally strong liquidity position. Its common-sense starting point is that it will borrow only at rates below the average portfolio return on its offshore financial assets, currently just over 4% p.a. It also prefers to deal with lenders (such as the multilateral development banks) that bundle free capacity building/international standards (e.g. on investment appraisal and international procurement) with their funding operations. It considers only bilateral lenders that are either untied to their national suppliers, or can demonstrate the latter’s cost-competitiveness in the East Asian infrastructure context.

Ghana and Senegal apply the IMF guideline of accepting, as a general rule, only concessional loans containing a minimum grant element of 35%, using the IMF benchmark discount rate (currently 5%). This is a tougher test than the one used to determine ODA eligibility (25% minimum at 10% discount rate) and could theoretically lead to rejection of some ODA loans. However, Senegal, whose access

[13] This is consistent with the findings of earlier case studies (see Greenhill et al., 2013).

to market-based project finance and IFI hard windows is still limited, is also able to justify loans with grant elements between 15% and 35% on a case-by-case basis, *provided* they finance investments with sufficient financial and economic returns, under the ceiling determined by the IMF Policy Support Instrument. This allows more flexibility in constructing financing packages for large infrastructure, and it may further expand as debt management capacity is improved. Ghana, on the other hand, has recently and temporarily set a moratorium in regard to taking on new external loans, including semi-concessional ones. However, the moratorium does not apply to domestic borrowing.

While some sources, including DAC bilaterals, are experimenting with "blending" (e.g. bilateral ODA-eligible grants paired with bilateral loans with harder terms), these additional grants are typically treated by the national authorities not as aid but as a larger overall loan amount, carrying a lower effective rate. Senegal is a case in point.

Little is known about philanthropic assistance and climate change finance is demand-constrained.

There is little evidence at country level of the global boom in "impact philanthropy": for example, investment in social enterprises (using business models to deliver development impact), much discussed at international level, or simply corporate, foundation and/or private support to civil society-led development efforts as distinct from funding channelled by traditional DAC donors to civil society organisations (CSOs) and already long embedded in the ODA numbers.

This lack of evidence – and readily admitted lack of information on the part of the authorities most familiar with governmental assistance – mirrors findings of earlier studies.[14] To the extent that there were illustrations (mostly anecdotal) of such philanthropy, they tended to be related to relatively small-scale corporate social responsibility portfolios of major sources or operators of FDI (e.g. oil companies in Timor-Leste and mining concerns in Ghana).

The Bill and Melinda Gates Foundation also, of course, supports multiple grantees that in turn have country programmes, including the large vertical health funds. However, they are rightly seen by the authorities as their prime interlocutors and as multilateral, overwhelmingly public organisations in their own right. None of the case studies found evidence of direct participation by the ultimate non-governmental funders in "development partner" country co-ordination mechanisms.

There are still surprisingly low disbursements to any of the three countries from the suite of global climate-change related funds, proportional to, for example, their population and vulnerability.

There is definite interest in all three countries in tapping such resources. Nevertheless, there is widespread admission that capabilities for proposal formulation are lacking, which restricts effective access. Institutional responsibilities are typically also fragmented within administrations, which can make it difficult to track and improve on progress. Senegal, like Ethiopia and Mali, plans to create a national fund for climate change as a focal point for external assistance. Ghana has a new national policy framework, but the specific division of labour among ministries for its implementation is still unclear.

[14] See Greenhill et al. (2013).

Conclusions and questions for consideration

Study findings clearly show that developing countries value the increasing options they have for sourcing development finance from an expanding range of actors, institutions and markets using a variety of instruments and financing arrangements. Nevertheless, there is little evidence that they have a well-informed understanding of the totality of cross-border resource flows, or a strategic approach through which they could assess the comparative advantages, risks and best use options of each financing option.

These emerging and preliminary findings from the three countries spark a series of policy-relevant questions for donor governments, multilateral development agencies and partner country governments as regards strengthening local capacity to access, use and manage the different sources of development finance. The pre-SLM discussions are expected to shed light of the way forward, in particular as regards how to shape the post-2015 measurement system that will provide comprehensive and transparent information on external resource flows – including development finance from developing countries' perspectives. Questions for consideration in this regard include:

- **Is the proposed architecture describing external development finance from a partner country perspective helpful? Does it reflect current realities?**
- **Would the proposed architecture – and a possible derivative statistical measure – enable enhanced transparency of resource flows and their terms and conditions and empower developing countries to better manage the diversity of actors/instruments at their disposal?**
- **How can the international community assist in enhancing information and understanding regarding the changing development finance landscape for partner countries, and for strengthening capacity to maximise choice and manage risks and trade-offs?**

Future work will focus on "unpacking" the conceptual framework, the taxonomy, and the proposed new statistical measure by initiating discussions with developing countries and actors beyond the DAC community, in an effort to ensure that developing countries' perspectives on development finance feature in the post-2015 development finance measurement system.

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Annex 1: Political economy framework, case study selection and methodology

Political economy framework
The framework informing the case study analysis is adapted from Fraser and Whitfield (2008) and Ostrom et al. (2001). The key insight from Fraser and Whitfield lies in seeing the process of engagement between governments and donors or other providers as one of negotiation, in contrast to much of the literature on the political economy of aid. Governments and providers are assumed to have a – possibly divergent – set of objectives that they seek to negotiate in order to reconcile them. Fraser and Whitfield also focus heavily on the importance of context, both economic and political, in shaping country and donor negotiating capital and hence negotiation outcomes.

In addition, the study draws on the Institutional Analysis and Development framework in Ostrom et al. (2001), which emphasises the importance of identifying the arenas in which countries and providers negotiate. However, the arenas are not taken as a given. Instead, the question is asked whether governments seek to negotiate with donors and other providers in the same arenas or in different ones.

Case study selection
Countries were selected which have accessed *a large array of development finance flows* over the last decade and are *not outliers* (i.e. other "donor darlings" or under-aided countries). While some pragmatic considerations also guided the final selection (notably the ODI network, ease of access to information, and the timing of this project between mid-November 2013 and early February 2014), there was an effort to select countries representing a mix of regions, income classification, fragility and natural resource endowment. This led to the selection of Ghana, Senegal and Timor-Leste.

Methodology
The methodology for case study research consisted in two steps:

- First, there was a review of key documentation[15] and a quantitative analysis of development finance resources flows at country level[16] in order to identify key stakeholders for the interviews and complete the context analysis.
- Second, there was a two-week country visit to conduct interviews with key stakeholders. Country visits took place in Ghana in November 2013, Timor-Leste in December 2013 and Senegal in January 2014.

An average of 50 stakeholders were interviewed for each case study. They included senior government officials from central and line agencies, representatives of development partners (both DAC and non-DAC members, the IMF and the UN system), civil society organisations, and representatives of private sector organisations (e.g. unions, Chambers of Commerce and Industry). The list of interviewees, who agreed that their names could be published, will be included in the country case study reports.

[15] Background reading included Paris Declaration survey chapters, country evaluations of the Paris Declaration, aid management strategies and country assistance strategies of the main development assistance providers, national development strategies and plans, recent budget documents and FDI policies; also articles reviewing recent developments in the macroeconomic context (World Bank country notes, IMF Article IV, IMF research papers, ADB/AfDB country notes), public finance analysis (PEFA and World Bank Public Expenditure Review) and other sources of development finance, e.g. the UNCTAD *World Investment Report*, GAVI/GFATM country notes, and the World Bank Remittances and Migration Database.
[16] Data analysis is based on international sources: OECD, World Bank, Hudson Institute, UNCTAD.

Annex 2: Economic, political and governance context shaping the development finance landscape: the cases of Ghana, Senegal and Timor-Leste

Economic, political and governance contexts shape the negotiating capital of both partner countries and donors, and hence negotiation outcomes.[17] This section captures key elements of:

- the **economic context**, such as growth performance, reliance on natural resources, trends in aid flows, debt trajectories
- the **political context,** e.g. geostrategic relevance for development partners
- the **governance context** in Ghana, Senegal and Timor-Leste, as it shapes their capacity to access and manage the different sources of development finance.

Ghana graduated into lower-middle-income country status in 2010, partly as a result of the rebalancing of its GDP. Economic growth was sustained between 2002 and 2010 (an annual average of 6.5%, equivalent to the average for lower-middle-income countries and most Sub-Saharan African countries (IMF, 2013a). The upcoming shift from blend status to IBRD-only and from AfDF to AfDB windows will imply harder financial terms (interest rates above service charge, and shorter maturity) as well as some development partners phasing out of the country. The discovery of off-shore oil and gas, whose extraction started in 2010 (the Jubilee field), boosted FDI inflows. Ghana is the third largest recipient of FDI inflows in Africa after South Africa and Nigeria. Nevertheless, greater fiscal revenues from this sector have yet to materialize.

Ghana has been a "donor darling" for most of its history since independence, first for historical and geopolitical reasons and subsequently due to its willingness to pursue reforms and structural adjustments including successful democratic transition, the government's commitment to the rule of law, democratic governance, poverty reduction and growth, improvements in corporate governance and measures to stimulate private sector-led growth (Whitfield, 2006). However, weak macroeconomic performance currently threatens donors' disbursement of budget support (representing 2% of total government revenues).

Senegal, which graduated into lower-middle-income status in 2009, finds itself in a low-growth trap (IMF, 2013b). Its average GDP growth of 3% over the last decade translated into negative per capita growth in 2009. Compared to Ghana, however, there is no indication of a shift from IDA into blend status yet. The Senegalese government maintains good relations with Western countries (including France and the United States). It participates actively in regional and international fora and is seen as a leader in the region.

Only a few donors finance the Senegalese government via budget support, with a contribution of 10% of the total budget (corresponding to a 40% of the investment budget). Senegal's main asset is related to human resources and tourism rather than natural resources (except phosphate). FDI inflows are concentrated in a few sectors, and the investment climate is perceived as a barrier to further expansion.

[17] For instance, countries with strong improvement in human development indicators or with a geostrategic position may find themselves more attractive recipients of aid, strengthening their bargaining power. Governments that are less dependent on aid flows are likely to have a stronger position in negotiating with providers of development assistance than those heavily reliant on aid. Governments with weaker governance environments may find it more difficult to negotiate financing.

Timor-Leste is one of the newest countries in the world. Oil and gas exports account for more than 90% of its GDP. It was initially heavily aid-dependant, but a large number of development partners have provided more than USD 2.29 billion in official development assistance since it gained independence in 2002 (30% of total GDP over the same period). While Timor-Leste's economy remains small, it experienced average growth of 12% in the last three years due to its natural resource endowment. The petroleum boom has been responsible for its extraordinarily rapid shift out of aid dependency. The government set up a special Petroleum Fund in 2005 to facilitate sustainable use of oil revenues.

Oil production has peaked, however, and uncertainties remain over the development of new fields. The Timorese government recently began taking out concessional and non-concessional loans in order to scale up major infrastructure investments to diversify the economy away from the oil sector.