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Better managing graduation from ODA eligibility: a transition finance study of Chile



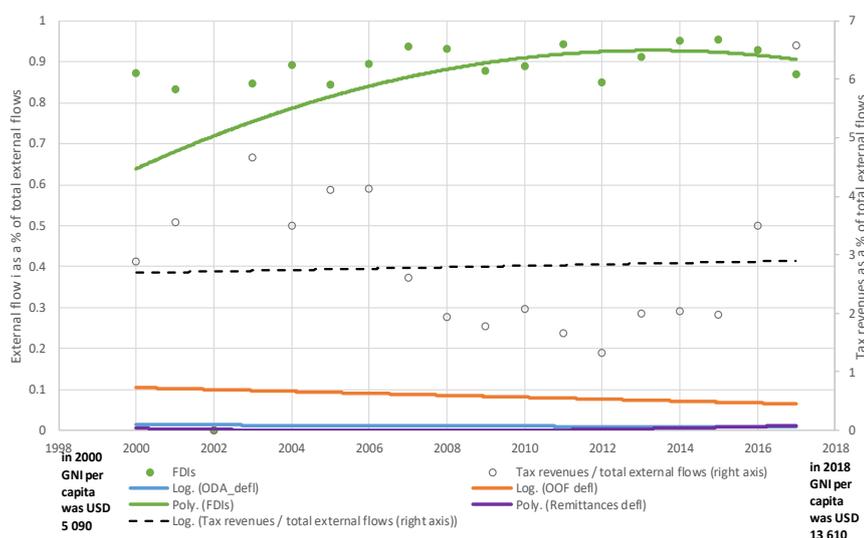
As part of its Transition Finance work stream and through its new “Assessing, Benchmarking and Counselling” (ABC) approach, the DAC/OECD is carrying out several pilot studies in countries facing different transition challenges as they move through the development continuum. The Chile pilot looks particularly at the transition challenges faced by a country having recently graduated from the DAC list of ODA recipients.

ASSESSING

Chile transitioned from the upper-middle-income (UMIC) to the high-income (HIC) category in 2011 and graduated from the DAC list of Official Development Assistance (ODA) recipients in 2018¹. Nevertheless, ODA has not played a major role in the impressive growth shown by this economy over the last three decades. In quantitative terms, ODA flows to Chile could be considered as significant only in the 1960s (over USD 100 per capita, when the country had a GNI per capita of approximately USD 600). They decreased in the beginning of the 1970s and almost disappeared during the dictatorship (1973-1989). The latest figures (2017) show that ODA by inhabitant represented USD 3.9 or 0.03% of the GNI per capita. In this sense, the loss of Chile’s ODA eligibility did not create major funding gaps.

Private inflows (FDIs) have been the main external source of transition financing to Chile in recent decades, representing almost 90% of all external flows to the country. They are followed by a regular and stable level of non-concessional flows of a public origin (mostly OOF loans from multilateral agencies); ODA and remittances having been almost absent from this external equation. (Figure 1). The main particularity of the Chilean financing mix remained its comparably low level of domestic resources mobilised. This issue raises a number of questions with regard to the financing of a sustainable growth path when contrasting with high inequalities in the country.

Figure 1. Chile’s main source of external financing is FDIs



What does Figure 1 tell us?

There is an omnipresence of private flows as an external source of financing over nearly two decades.

There is a near-total absence of remittances and ODA resources.

There is a regular and flat presence of official non-concessional flows (OOF), representing on average 10% of all external flows over the period.

Domestic tax revenues did not increase at the same pace as in other countries at a similar level of development.

Even if ODA flows were relatively low, the qualitative dimensions of co-operation with donors were particularly valued, calling for a continuation of technical assistance and peer-to-peer learning (e.g. through triangular co-operation, with OECD and beyond).

¹ The DAC graduation rules stipulate that to be removed from its list of ODA recipients a country must exceed the high-income threshold (as measured by GNI per capita) for three consecutive years at the time of the review. This review happened in 2017, when Chile was notified it would be removed from this list beginning 2018.

BENCHMARKING

Chile differs structurally from previous ODA graduates, which could be classified as resource-rich countries, SIDS and countries in the European neighbourhood.

- **A comparison sample with Hungary and Poland, countries at similar levels of income per capita, returns strikingly similar performance in achieving the SDGs** (with the exception of inequalities).
- **While a number of similarities exists with Uruguay's finance mix², Chile relies more heavily on private sector finance**, raising the question of quality of FDIs and their development footprint.
- **Korea, having left the DAC list of ODA recipients in 2000, was taken as an aspirational peer for Chile.** Its investment in a solid educational sector could inspire Chile in ensuring a successful transition after graduation, allowing the country to build a sustainable, modern and fairer economy.

COUNSELLING:

Chile still faces a number of challenges that jeopardise the inclusiveness and sustainability of its economic success. Inequalities and the socio-economic background strongly affect students' educational performance. Additionally, Chile is vulnerable to natural disasters and exposed to the effects of climate change.

After graduation from ODA, DAC members could support Chile's transition through other means. A new multi-level partnership could be put in place in order to:

- Boost domestic resource mobilisation, e.g. through peer-learning on impact investment and the use of pension funds for it, tax policy co-operation and reform of public services (health);
- Share experiences to identify the right forums and partners for financing global public goods or providing peer-to-peer technical assistance on key issues such as education or innovation;
- Build on trade and investment relations to improve standards, share technologies and build innovation; and
- Develop/reform new channels of communications and dialogue among governments to help Chile grow as a provider of development co-operation.

More broadly, among the key lessons for the DAC on better managing ODA graduation in the future, the report concludes with three main recommendations:

1. **The DAC, together with the partner country scheduled to graduate, should build a specific financing plan to prepare for this circumstance.** DAC members should review and adjust their financing portfolios in order to build resilience of co-operation and avoid socio-economic setbacks (e.g., renewable energy, education and inequalities). The DAC should develop an adequate phasing-out financing plan to secure inclusive growth (invest in domestic resource mobilisation, increase quality of trade, start implementing triangular co-operation). The DAC could identify and use warning indicators to monitor 'quality' growth and build tailored-made strategies before and after ODA graduation. In line of development's multidimensionality, it could also deploy special technical assistance funds/methods and produce principles/recommendations on how to execute this kind of assistance.
2. **The DAC should create a mechanism allowing for continuous dialogue and peer learning after graduation from ODA.** A "Graduates Club" could be an answer to monitor and track non-ODA flows after graduation, to share experiences and to advise recent and future graduates.
3. **The DAC should develop new channels for technical co-operation and peer-to-peer learning.** This includes a better use of multilateral and regional financing to support inclusive growth; the identification of new institutional partners for preserving budgetary allocations in favour of jointly identified priorities (e.g., climate change); and the reform of former channels of co-operation to harness new tasks, such as triangular co-operation.

² Uruguay, like Chile, also graduated from the ODA recipients list in 2017.