

# The New Development Finance Landscape: Developing Countries' Perspective

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## List of acronyms

AfDB	African Development Bank
AfDF	African Development Fund
AIMS	Aid Information Management System
ASEAN	Association of South-East Asian Nations
BNDES	Brazilian Development Bank
CDB	China Development Bank
CGD	Centre for Global Development
CPA	Country Programmable Aid
CPI	Climate Policy Initiative
CPI	Corruption Perceptions Index
CPIA	Country Policy and Institutional Assessment
CSO	Civil society organisation
DAC	Development Assistance Committee
DFAT	Department of Foreign Affairs and Trade
DFI	Development finance institution
DP	Development Partners
DPCM	Development Policy Co-ordination Mechanism
DSA	Debt Sustainability
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
EITI	Extractive Industries Transparency Initiative
FDI	Foreign direct investment
GBS	General budget support
GDP	Gross domestic product
GEF	Global Environment Facilities Trust Fund
GNI	Gross national income
GoG	Government of Ghana
HIPC	Heavily indebted poor country
HLM	High Level Meeting
IAD	Institutional Analysis and Development
IDA	International Development Association
IBRD	International Bank for Reconstruction and Development
IFC	International Finance Corporation
IMF	International Monetary Fund
IsDB	Islamic Development Bank
LDCF	Least Developed Countries Fund
LIC	Low-income country
LMIC	Low-middle income country
MDB	Multilateral development bank

MDBS	Multi-donor budget support
MDRI	Multilateral Debt Relief Initiative
MIC	Middle-Income country
MoF	Ministry of Finance
MoFEP	Ministry of Finance and Economic Planning
MTNDPF	Medium-Term National Development Policy Framework
NAPA	National Adaptation Programme of Action for Climate Change
NGO	Non-governmental organisation
ODA	Official Development Assistance
ODI	Overseas Development Institute
OOFs	Other official flows
PD	Paris Declaration
PFM	Public financial management
PIU	Project implementation unit
PPP	Public-private partnership
SBS	Sectoral budget support
SSA	Sub-Saharan Africa
SWG	Sector Working Group
TOSD	Total Official Support for Development
UNDP	United Nations Development Programme
UNCTAD	United Nations Conference on Trade and Development
UNFCCC	United Nations Framework Convention on Climate Change
USAID	United States Agency for International Development
WAEMU	West African Economic and Monetary Union
WGI	World Governance Indicators
WRI	World Resources Institute

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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 undertook 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 assess the extent to which partner countries access development finance flows beyond ODA at country level**, which type of flows these are, and their evolution over the last decade
- **to understand governments' priorities and preferences regarding the type of development finance flows they would like to receive** and whether they are successful in achieving these objectives, as well as **to review when a loan is defined as concessional** from the perspective of the recipient country
- **to identify whether governments welcome greater choice on balance and whether they 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 political economy analysis was applied to answer these questions. The framework adopted sees 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. It focuses heavily on the importance of economic and political context in shaping country and donor negotiating capital and hence negotiation outcomes. An Overseas Development Institute (ODI)/OECD team interviewed government officials, development partners and representatives of civil society organisations (CSOs) during two-week missions in each country.

The evidence from the case studies is intended to inform the debate on possible future approaches by different development actors to sourcing development finance flows. This could help developing countries devise strategies to attract and manage resource flows beyond concessional financing. A "user" perspective could also feed into ongoing conceptual thinking regarding a possible new measure for tracking resource inflows that would enhance country oversight and transparency of external finance in the context of the emerging post-2015 financing strategy.

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

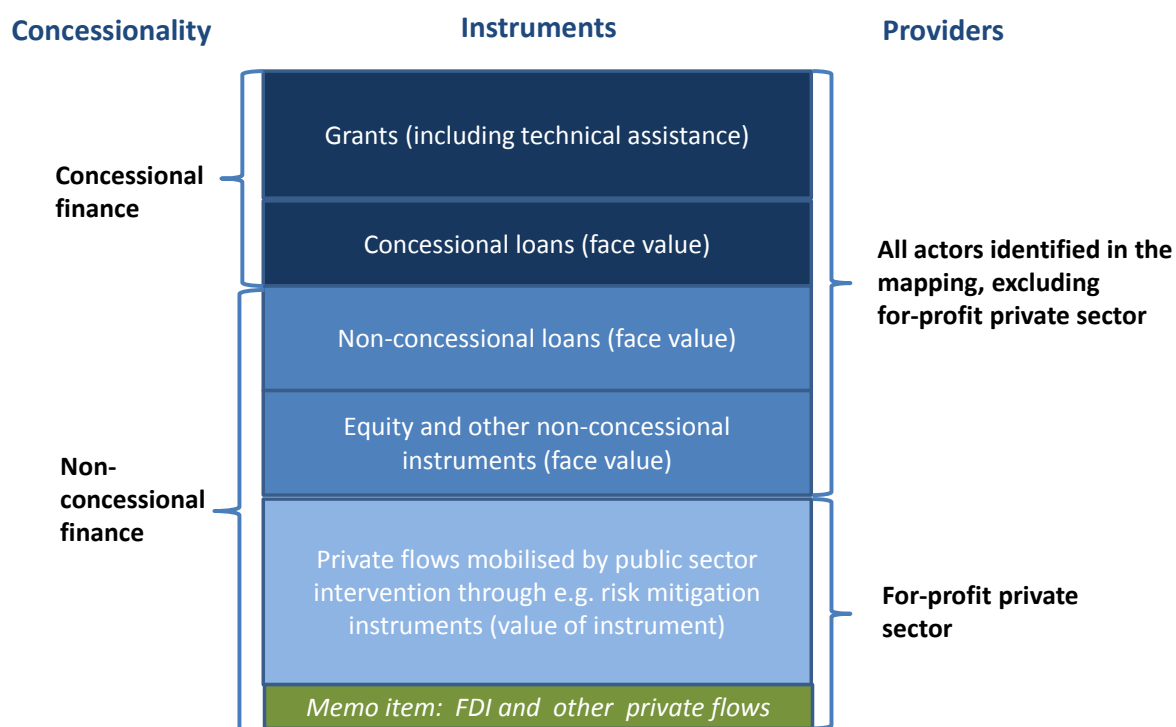
- **In the last ten years countries have had more funding options and more policy space.** Greater choice is welcome, with the benefits of more funding options seen as outweighing the complexity of managing these new resources. Seeking additional funds from a range of sources is a priority for governments, particularly where resource-intensive infrastructure development is a pillar of national development strategies.
- **Countries expressed similar views on the most desirable attributes of external development finance, especially official grants and loans.** They value flexibility and the use of country systems, 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 when seeking project-type finance. However, both countries chose to pay significantly more for Eurobond issues and syndicated regional loans offering much larger volume and flexibility. Timor-Leste sets the return on its offshore reserves as a ceiling on borrowing rates.
- **Strategic management of these choices is still lacking: multiple government actors face different trade-offs.** 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 high priorities for any of the three governments, which generally prefer bilateral channels of dialogue and negotiations.
- **Little is known about philanthropic assistance, and international public climate change finance appears to be demand-constrained.** While it is not surprising that most of the assistance from philanthropic organisations does not transit via government systems, government actors do not see themselves as engaged and have limited information, which is scarce and anecdotal. Volumes of climate-related finance are mostly delivered through ODA channels and are considered modest. There is high demand for strengthening local capacity to prepare and implement funding proposals.

While these findings cannot be generalised to partner countries more broadly, they provide useful insights to be factored into the definition of the components of a possible statistical measure of **Resource Inflows for Development**. This measure is expected to:

- enable partner countries to have a more strategic approach towards financing their development priorities, for example by identifying under-funded sectors
- create incentives for new and existing providers to increase their contribution to Resource Inflows for Development
- form the basis for better assessment of the impact and effectiveness of different sources and instruments of development finance
- make a positive contribution to forthcoming discussions on how a post-2015 measurement system can best provide comprehensive and transparent information on external resource flows for development from developing countries' perspectives.



**Resource Inflows for Development: emerging taxonomy for a statistical measure of development finance from developing countries' perspective<sup>1</sup>**



Source: OECD/DAC Secretariat.

A proposal is represented in the figure above, based on the following principles (and also informed by the case study findings).

- **Only cross-border flows would be relevant.** In-donor/provider costs (e.g. administrative expenditure, support provided to refugees and imputed student costs) and debt relief (as proposed recently by the DAC Secretariat<sup>1</sup>) would be excluded from the measure. This approach is similar to that adopted in the DAC's well-established Country Programmable Aid (CPA) measure, which only covers concessional flows.<sup>2</sup> The three countries that were

<sup>1</sup> See, for example, Hynes and Scott (2013).

<sup>2</sup> Country Programmable Aid (CPA) is a subset of gross bilateral ODA. 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.

studied value the importance of technical assistance as an important resource for development. Therefore, technical assistance would be included even if does not directly carry financial cross-border flows.

- **Flows would be measured on a gross basis.** This approach would ensure that the statistical measure captures the total monetary value of finance extended and received. Receiving countries could then evaluate the relative importance of the various sources of finance and the instruments or channels utilised.
- **Official flows, private flows mobilised by external public sector interventions and flows from private philanthropy** would be included.
- **Loans would be recorded at face value and classified as either concessional or non-concessional.** For low-income countries the concessionality of loans is generally assessed on the basis of the IMF definition, with a minimum grant element of 35% calculated using a discount rate of 5%, while to middle-income countries concessionality generally means terms more favourable than they would obtain from the market. However, countries are now moving to a more consolidated approach under IMF guidance, assessing their aggregate external debt position rather than assessing individual loan operations for the purpose of debt sustainability. In the context of the case studies, countries still adopted a case-by-case approach to assess eligibility of loans. However, in order to develop an international tracking system it will be important to ensure comparability across countries on this dimension.
- **Measures are based on instruments, not on actors.** The task in a post-2015 framework will be to ensure sufficient coverage from all sources combined.

Going forward, much can be done to support developing countries in making the most of the financing options available to them for financing their development priorities. Increasing the availability and transparency of information on external resources is a key step in this respect – one that will require active engagement of a broad set of actors.

- **Partner countries** will need to be in the driver's seat in defining a statistical measure of Resource Inflows for Development, so that it responds to their information needs. The measure introduced in this paper is a first attempt to delineate the set of relevant information. It will need to be validated or modified through inclusive consultations with partner countries. In particular, an effort will need to be made to ensure that developing countries' perspectives on development finance feature in the post-2015 development finance measurement system.
- The **international development community** should invest to support partner countries in enhancing their understanding of the changing development finance landscape and their capacities to assess trade-offs and manage risks.

- **Providers**, whether sovereign or not, should commit to providing the necessary information to fill the current information gap. Further collaborative work with institutions and actors across the international system will be needed to identify data sources and processes that could be used to inform this measure. A strong role for the United Nations will be key, alongside the provision of specific expertise by a number of other international organisations.

The OECD has initiated a dialogue with developing countries on this topic. The workshop it is hosting in Paris on 25 June 2014 will be an important milestone in this dialogue, with representatives from 25 developing countries attending, as well as international finance institutions, multilateral organisations, sovereign donors and others. Once greater clarity and consensus are reached on the information relevant from a partner country perspective, further collaborative work with institutions and actors across the international system will identify data sources and processes that could be used to inform the measure. Recommendations gathered during the workshop will feed into the final version of this report.

## 1. Introduction

**The development finance landscape has changed in the last ten years, with an expanding number of development finance options available beyond Official Development Assistance (ODA).** New actors and sources of development finance are becoming more and more significant, including non-DAC sovereign donors philanthropic organisations, non-governmental organisations (NGOs), special purpose funds (e.g. vertical health and climate funds), climate finance and development finance institutions (DFIs).

**The macroeconomic context has also evolved.** Some developing country governments – particularly those of recently graduated middle-income countries – are now able to access international financial markets successfully by issuing Eurobonds.<sup>3</sup> This is the result of better macroeconomic conditions (greater fiscal buffers, sustained economic growth even in non-resource rich countries, low inflation rates), improved domestic policy frameworks and implementation, and greater appetite for risk from international investors.<sup>4</sup> Partner countries are attracting more inflows of foreign direct investment (FDI), again even in countries that are not resource-rich. For example, in 2010 emerging and developing economies received more than 50% of FDI.<sup>5</sup> Personal remittances are rising as well, proving to be quite resilient in the face of different macroeconomic shocks sustained over the last few years: they fell to USD 282 billion in 2009 (total flows were USD 296 billion in 2008) and rapidly recovered to USD 312 billion in 2010.<sup>6</sup> Furthermore, several low-income countries (LICs)<sup>7</sup> have recently graduated to middle-income country (MIC) status. This will result in a decline of concessional financing from soft windows of multilateral development banks, as well as the phasing out of some development partners as they divert more budget resources towards the poorer and more fragile countries. In other words, graduation to MIC status will mean that financing becomes more expensive for these governments, which will have to rely more extensively on non-concessional (or less concessional) public and private financing sources.

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<sup>3</sup> See Hou et al. (2014).

<sup>4</sup> Prizzon and Greenhill (2012); UNCTAD (2012), WRI.

<sup>5</sup> World Bank (2014).

<sup>6</sup> Sirkeci et al. (2012) and World Bank (2014).

<sup>7</sup> Since 2008 countries such as Ghana, Lao PDR, Mauritania, Nigeria, Pakistan, Papua New Guinea, Sao Tome and Principe, Senegal, Solomon Islands, Timor-Leste, Yemen and Zambia, among others, have graduated from low-income to lower-middle income status.

**While several authors have investigated these issues at global level,<sup>8</sup> it is less clear what the changes mean for partner countries' management of aid and other development finance resources.**

Empirical evidence identifying and assessing the opportunities and challenges that partner country governments need to take into account when considering financing options is limited (Johnson and Martin, 2004; DRI, 2009; Grimm et al., 2010; Greenhill et al., 2013). Some case study research has been carried out, particularly on aid effectiveness and climate finance, but there are no studies which examine across-the-board countries' experience in managing a wide range of finance flows. Most of the literature is focused on single groups of providers (e.g. non-DACs or climate finance) or even on a single provider (e.g. China). There is a limited systematic evidence base that goes beyond case studies, with Grimm et al. (2010) and Greenhill et al. (2013) being the only exceptions so far.

**To inform the policy debate in international fora, attention should be rebalanced from the global level to include a recipient country's perspective regarding the different components of total official and private finance for development.** The recent High Level Meeting of the Global Partnership for Effective Development Co-operation highlighted the need to enhance accountability by providing better information on all available resources and on innovative approaches, as knowing the real size of various sources of spending for development will be key to achieve the sustainable development goals. 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, sovereign and private, into these discussions.

Against this backdrop, **the study aims to inform the DAC 2012 HLM mandate to “explore ways of representing both ‘donor effort’ and ‘recipient benefit’ of development finance”.**<sup>9</sup> By adopting the point of view of partner countries with respect to accessing, managing and deploying different sources of development finance, the study is meant to inform the debate on how best to measure resources from the perspective of developing countries themselves. It addresses four research objectives:

- **to assess the extent to which partner countries access development finance flows beyond ODA at country level and how they are captured and monitored at country level**, which type of flows these are, and their evolution over the last decade

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<sup>8</sup> Among others, see: Severino, J.-M. and O. Ray (2009), “The End of ODA: Death and Rebirth of a Global Public Policy”. Working Paper 167 CGD, Washington, DC; Shafik, N. (2011), “The Future of Development Finance”, Working Paper 250, CGD, Washington, D.C; Kharas, H. (2007), *The New Reality of Aid*, Brookings, Washington, D.C.; Kharas, H. and A. Rogerson (2012), “Horizon 2025: Creative Destruction in the Aid Industry”, Research Report, ODI, London;. Greenhill, R. and A. Prizzon (2012), “What new trends in development finance mean for the post-MDGs”, Working Paper, ODI, London.

<sup>9</sup> OECD, 2012 (HLM communiqué).

- **to understand governments’ priorities and preferences regarding the type of development finance flows they would like to receive**, and whether they are successful in achieving these objectives, as well as **to review when a loan is defined as concessional** from the perspective of the recipient country
- **to identify whether governments welcome greater choice on balance, and whether they 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.

While the findings of the case studies cannot be generalised to partner countries more broadly, they are meant to provide insights to be factored into the framing of an international development finance taxonomy from the perspective of a partner country. Such a taxonomy is aimed at helping partner countries access the information required to formulate an appropriate strategy for financing their development priorities. An international commitment to such a taxonomy would contribute to enhancing transparency and ultimately to assessing the impact and effectiveness of the different development finance sources and instruments.<sup>10</sup>

The political economy analysis framework informing the case study analysis is based on Greenhill et al. (2013), which adapted two different methodologies from Fraser and Whitfield (2008) and Ostrom et al. (2001), respectively. First, the key insight from Fraser and Whitfield (2008) 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, which is based on principal-agency theory. Governments and providers are assumed to have a possibly divergent set of objectives that they seek to negotiate in order to reconcile. Fraser and Whitfield (2008) also focus heavily on the importance of context, both economic and political, in shaping country and donor negotiating capital and hence negotiation outcomes.

Unlike Fraser and Whitfield, however, one of the research questions was to understand country priorities when it comes to the “terms and conditions” of development finance – and not assuming them to be given and aligned to the Paris Declaration Principles on Aid Effectiveness. “Terms and conditions” are here considered to be quality aspects of development finance such as concessionality, predictability and speed of delivery. Second, the research framework of this paper draws on the Institutional Analysis and Development (IAD) framework (Ostrom et al., 2001), which emphasises the importance of identifying the arenas in which countries and providers negotiate, and especially whether governments seek to negotiate with donors and other providers in the same arenas or in different ones (see Box 1 for further details).

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<sup>10</sup> A preliminary taxonomy was discussed at a special briefing session in the margins of the DAC Senior Level Meeting in March 2014. It was welcomed as a way forward to enhancing transparency.

**The analysis was conducted in three countries: Ghana, Senegal and Timor-Leste.** These countries were selected on the basis of their access to development finance flows, in principle receiving all the development finance flows illustrated in the Annex, albeit sometimes in proportionately small amounts. Preference was given to countries which were not either highly dependent on aid or under-aided, but which represented a *typical case study* – such that findings could be evaluated and compared across a larger spectrum of partner countries. An effort was made to ensure country selection represented a mix of regions, income classifications, fragility and natural resource endowment. Pragmatic considerations also guided the final selection (notably ODI network, ease of access to information, and the timing of the project).

**A mixed-method approach was considered for the case study analyses.** The three case studies consisted of a desk-based analysis of relevant documents and data, as well as a two-week country visit (between mid-November 2013 and early February 2014) to conduct semi-structured interviews with government officials, development partners, providers of less traditional flows (or flows beyond ODA), civil society organisations and the private sector (see the Annex).

**This paper is structured as follows.** Section 2 summarises the economic, political and governance aspects shaping the context where development finance flows are negotiated in the three selected countries. Section 3 traces and discusses the findings from the three case studies. It highlights that more options and more finance are welcomed, but that countries are still gearing up to elaborate comprehensive strategies for managing this complexity. Section 4 outlines a taxonomy of (cross-border) development finance resources that would enhance transparency and enable strategic management. Section 5 summarises key messages and presents questions for discussion. Factsheets for country case studies and a comparison between the three countries (mapping of development finance flows and analysis of the economic, political and governance contexts) are included in the Annex.<sup>11</sup>

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<sup>11</sup> Note that the focus here is on government priorities rather than those of civil society, citizens or other stakeholders. A number of non-governmental stakeholders were nonetheless interviewed for this research. At the same time, the analysis in this report concentrates on cross-border flows only: domestic resource mobilisation (either taxation or financial sector deepening) is omitted from the main analysis in Section 3, although it is taken into account in the context (Section 2) as one of the elements of the negotiating capital of the recipient country (see Box 1).

### Box 1. A political economy framework

**The theoretical framework used for the three case studies leverages the political economy analysis developed by Greenhill et al. (2013).** This study combines two frameworks to analyse the interactions between governments and providers: that of Fraser and Whitfield in their 2008 study “The Politics of Aid: African Strategies for Dealing with Donors” and the Institutional Analysis and Development (IAD) framework developed by Ostrom et al. (2001).

The relationship between donors and recipients is usually examined following the principal-agent theory of donor countries (principals), contractors and donor agencies (agents), and potentially ultimate recipients (also principals) (Bertens et al., 2001), where donors and recipients have a shared set of objectives such as poverty reduction. In contrast, Fraser and Whitfield (2008) see the **process of engagement between partner countries’ governments and donors (or less traditional partners) as one of negotiation where both sides have a set of (potentially divergent) interests and priorities that they need to negotiate in order to reconcile.**

**This model attributes a large role to context (economic, political and governance) in shaping the negotiating capital of partner countries’ governments and donors.** For this analysis, the following variables are examined:

- (i) **economic context**, notably growth performance and macroeconomic indicators, aid flows, external debt, fiscal balances, natural resource wealth, trends in private flows such as sovereign bond issuances, foreign direct investments(FDI) and workers’ remittances
- (ii) **political context**, including the ideological position of a country’s government and any regional geostrategic interests of traditional and less traditional partners
- (iii) **governance context**, such as the level of corruption and transparency and the effectiveness of government institutions (including aid management systems and progress towards meeting the Paris Declaration target).

For example, partner countries’ governments that do not extensively rely on foreign assistance to finance their national budgets are likely to have a stronger position in negotiating with development assistance providers than those that are heavily dependent on external resources to guarantee service provision or capital expenditure (economic context). Countries whose position is strategically relevant or that are influential in international fora can be more attractive recipients of aid, all other things being equal (political context). A country whose institutions are weak may not be in a position to negotiate with development partners effectively (governance or institutional context).

The context should be interpreted as a set of constraints the government needs to take into account when negotiating with development partners (traditional and less traditional providers of development finance), but the context does not determine negotiation outcomes per se.

**In this framework, recipient negotiating capital (derived from context) leads to certain negotiating strategies (derived from perceptions of relative negotiating capital and policy preferences) and ultimately to negotiation outcomes.** Development finance providers also have negotiating capital, derived from the same set of prior conditions, which lead in turn to provider negotiating strategies. Furthermore, the framework analyses whether governments seek to negotiate, or at least engage, with different kinds of providers together or separately. It does not consider all development partners and/or providers of development finance as a uniform block, as is the case in Whitfield and Fraser (2008)’s analysis. The analysis delves into the evolution of these contextual elements since the early 2000s, as any shifts prior to this are expected to have a limited influence on current negotiation capital.



**A key element of the analysis is the identification of arenas as the “loci” where negotiations take place and of the interaction between arenas and context, ultimately affecting negotiation capital.** Like Fraser and Whitfield, IAD (Ostrom et al. 2001) stresses the importance of context in shaping behavioural interactions. The IAD framework goes further to identify the units of analysis that must be examined in assessing any situation, which include context, action arena, incentives, interactions and outcomes. These interact with each other: the context shapes the arena in which negotiations take place and incentives guide the positions different actors take within that arena, leading to behavioural interactions and thus outcomes.

Arenas are not taken as given: the analysis investigated whether governments seek to engage with different kinds of development assistance providers in the same fora, particularly those linked to aid co-ordination in country (e.g. sectoral or technical working groups, regular high level donor-government meetings), as these are often key fora in which donors and government engage in discussion of sectoral strategies, project identification, policy dialogue and conditionalities, as well as of (public) flows beyond ODA.

**One of the key research questions for the study is understanding government priorities when it comes to the volume, purpose and “terms and conditions” of the development finance they receive, and how successful they are in achieving those priorities.** Compared to Fraser and Whitfield, the research framework does not assume priorities as given or overlapping with the Paris Declaration Principles on Aid Effectiveness. Instead, the analysis aims to identify “terms and conditions” of development finance, as outlined by each government, as meaning a set of quality elements such as conditionality, alignment, concessionality and speed, as well as their level of priority.

## 2. Development finance at country level: the economic, political and governance context in Ghana, Senegal and Timor-Leste

This section captures key elements of the (i) economic context (e.g. growth performance, reliance on natural resources, trends in aid flows, debt trajectories); (ii) political context (e.g. geostrategic relevance for development partners); and (iii) governance context. In the case studies of Ghana, Senegal and Timor-Leste, these elements influence capacity to access and manage the different sources of development finance. The findings of the three case studies are summarised in Section 3. The Annex provides a snapshot of key features of the economic, political and governance context across the three countries.

### 2.1 Economic context

**All three countries are lower-middle income countries (LMICs), and graduation out of the soft window of multilateral development bank (MDB) financing is looming.** Yet their graduation to lower-middle income status is relatively recent (Ghana in 2010 following a rebase of its GDP in 2010 with a 70% adjustment, Senegal in 2010 and Timor-Leste in 2011). Furthermore, the income per capita level is either only slightly above the threshold for income graduation (Ghana and Senegal) and/or the incidence of absolute poverty (USD 1.25/day), although declining, is still over 40% (Timor-Leste).

The forthcoming shift from International Development Association (IDA) and blend status to International Bank for Reconstruction and Development (IBRD) only, from African Development Fund (AfDF) to AfDB windows, and from the Asian Development Fund to ordinary capital resources (OCR) will progressively imply harder financial terms (interest rates above service charge, and shorter maturity and grace periods). Moreover, some development partners may consider phasing out the country and divert their programmes to low-income and/or fragile countries. At the time of writing, Ghana borrows at blend terms (i.e. it can access IDA financing only on blend credit terms). Timor-Leste is a blend country (IDA-eligible, but also creditworthy for some IBRD borrowing) and took out concessional and partly concessional (IBRD and IDA or equivalent terms) financing for the first time in 2012/2013 to fund large infrastructure projects. In the case of Senegal, there is no indication of a shift from IDA into blend status in the near future, as income per capita is still approximately USD 100 lower than the threshold for IDA graduation.

**The three countries grew at very different rates over the last decade.** The Timorese economy has achieved remarkable growth performance, averaging 11% in the past three years, fuelled by oil extraction. (Nonetheless, its sustainability and inclusivity are of concern as, for instance, more than 50% of urban youth are unemployed.) Ghana sits in the middle, recording average growth rates between 2002 and 2010 in line with the average for lower-middle income countries and most of the Sub-Saharan African countries (6.5% GDP growth rate) (IMF, 2013a) At the other end of the

spectrum, Senegal finds itself in a low-growth trap (IMF, 2013b) with an average GDP growth rate of 3% over the last decade (which translated into negative per capita growth in 2009).<sup>12</sup>

**Overall ODA volumes are constant, but their share of gross national income (GNI) is declining in all three countries, albeit at different speeds.** The Timorese economy was initially heavily aid dependent at independence in 2002, but the contribution of ODA flows to government budget and the economy is declining rapidly. While volumes of ODA flows have stabilised in nominal terms in the last few years (around USD 250 million), as a percentage of GDP and/or the country's state budget ratios have been falling rapidly. In 2002 grants were 86% of the budget, but in 2012 they contributed only 16% due to the influx of oil revenues since 2006. The ODA/GNI ratio in Ghana has also been falling, more than halving from 7.8% GNI in 2000 to less than 3% in 2011 (see OECD Aggregate Aid figures) because of faster growth of the denominator (GNI, including the 70% one-time rebasing effect in 2010).<sup>13</sup> The ODA/GNI ratio in Senegal declined from 10% in 2000 (twice as high as the average for Sub-Saharan Africa) to 7.4% in 2011. ODA flows to Senegal were stable in constant terms. Again, the decline is attributed to the "denominator effect" (i.e. faster growth of GNI than of ODA flows). However, ODA flows still contribute one-quarter of the total budget or 40% of the total investment budget (AfDB et al., 2013).

**Again, all three countries receive budget support, but with very different relevance for government budgets.** In Ghana the multi-donor budget support (MDBS) programme represents the cornerstone of aid co-ordination and policy dialogue with development partners. The contribution of development partners to the government budget is currently around 2-3% . It was 25% of government spending when the programme started in 2003 and had already fallen to 10% by 2005 (Killick and Lawson, 2007), representing approximately one-third of total ODA to Ghana at that time.<sup>14</sup> However, weak macroeconomic performance is currently threatening donors' disbursement of budget support. Only a few donors finance the Senegalese government via budget support, with a contribution of 10% of the total budget (corresponding to 40% of the investment budget). In Timor-Leste, a fragile state, there has been only limited and recent experimentation with budget support.<sup>15</sup>

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<sup>12</sup> Hence crossing the threshold for IBRD loans eligibility is not of immediate concern.

<sup>13</sup> Volumes of ODA flows have tripled in nominal terms in the last decade (up to USD 1.8 billion in 2011 from USD 600 million in 2000). See OECD/DAC (2013).

<sup>14</sup> Evaluation of the implementation of the Paris Declaration on Aid Effectiveness – Phase II.

<sup>15</sup> Based on discussions with government and development partners, it was reported that there is direct budget support to the Ministry of Finance for improvement of public financial management (PFM) via the European Union (EU) and the Department of Foreign Affairs and Trade (DFAT) (USD 5 million per year, with USD 3 million variable on performance, over four years) and a direct government-to-government grant from the United States Agency for International Development (USAID) in the sector of Justice/Human Rights (USD 117 000 over 1.5 years). However, the amounts are a very small fraction of total ODA (approximately 2%).

**Ghana and Timor-Leste are both resource-rich countries, although the contribution to the government budget is quite diverse. Senegal's natural resource endowment is limited.** In Timor-Leste oil and gas exports account for more than 78% of GDP (95% of exports) and the oil boom has allowed fiscal policy to be expansionary in recent years. Oil production has peaked, however, and uncertainties remain over the development of new fields, with proven reserves under existing agreements likely ending in 2024. Ghana is also classified as a resource-rich country (IMF, 2012).<sup>16</sup> In 2010 the mining sector contributed more than one-quarter of fiscal revenues or 6% of GDP. Ghana is the second largest gold producer in Sub-Saharan Africa (SSA), and in 2010 oil and gas fields were discovered. The share of exports originating in the oil and mining sector skyrocketed to 56% of total exports in 2011 from 12% in 2010 (AfDB et al., 2013), but greater fiscal revenues from oil and gas extraction are yet to materialize. Compared with Ghana and Timor-Leste, Senegal cannot be classified as a resource-rich country (with the exception of phosphate). Against this backdrop, only a small share of FDI inflows to Senegal is driven by the mining industry, with scope to expand fiscal revenues in this sector inevitably limited. Senegal's main asset is related to human resources and tourism.

**Ghana and Senegal are among former highly indebted countries now accessing international financial markets.** Ghana belongs to the group of SSA countries recently issuing Eurobonds in international financial markets (Hou et al., 2014). Following a first issuance in 2007 – it was the first heavily indebted poor country (HIPC) to do so – Ghana raised USD 1 billion in international capital markets in August 2013, a few months before the ODI/OECD mission. The Eurobonds were oversubscribed (ten-year maturity at an annual rate of approximately 9%). Senegal issued Eurobonds in both 2009 and 2010 for USD 200 million and USD 500 million, respectively for the Dakar-Diamniadio toll road and investments in the energy sector (IMF, 2013, Article IV). Plans for another issuance of USD 500 million in 2013 were shelved in favour of a less expensive (6% instead of the 8.75% estimated rate for Eurobonds) regional syndicated loan within the West African Economic and Monetary Union (WAEMU) that year.

**All three countries are classified as at either low or moderate risk of debt distress, but debt ratios are rising.** The external debt/GDP ratio of Ghana, a former HIPC, was close to 130% in 2000. Ghana reached its completion point under the HIPC initiative in 2004 and benefited from the Multilateral Debt Relief Initiative (MDRI) in 2006, when the external debt to GDP ratio plummeted to 22% of GDP. However, the expansionary fiscal policy in 2012 and the growing current account deficit (IMF, 2013) are such that debt ratios are rising again (nearly 30% for both external and domestic ratios) with the domestic borrowing component growing fastest (GoG, 2010). As a result, the latest DSA (Debt Sustainability Analysis) (IMF, 2013 Article IV) classified Ghana at a moderate risk of debt distress. At the time of the country visit, to avoid further debt accumulation, the government had imposed a temporary moratorium on new external loans (including concessional loans) with the exception of

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<sup>16</sup> Ghana is also an Extractive Industries Transparency Initiative (EITI) complaint country since October 2010.

those already negotiated in framework agreements, such as with the Brazilian Development Bank (BNDES) and the China Development Bank (CDB). With this policy, the government aimed to clear projects in the pipeline before embarking on new projects.

Senegal also benefited from the HIPC initiative and is now classified by the World Bank and the IMF as a country with a low risk of debt distress. While debt may be considered sustainable, debt indicators are rising: the debt service ratio rose from 1.7% of GDP in 2007 to 2.5% in 2011, and the external debt/GNI from 21% in 2008 to 31% in 2011. Senegal sought assistance from the IMF under its Policy Support Instrument programme, which is foreseen to be in place until the end of 2014. The programme also means that the Government of Senegal faces a series of limits on new liabilities, depending on the level of concessionality of the loan (AfDB et al., 2013).

Timor-Leste currently has minimal debt (the first-ever sovereign loans on semi-concessional terms was signed in 2012). However, debt ratios are projected to rise as it continues to take out such loans, increasingly from market-related windows as described above.

**Development finance flows with primary motives other than development have been rising and, in some cases, exceed official development assistance.** Ghana is characterised by a thriving private sector and increasing FDI. The discovery of off-shore oil and gas, whose extraction started in 2010 (Jubilee field), boosted FDI inflows. (Ghana is the third largest recipient of FDI inflows in Africa after South Africa and Nigeria, also attracting investment from new development partners, particularly China). FDI inflows were less than 2% of GDP until the mid-2000s, but they rose to an average of 8% in the second half of the last decade. Since 2008 they have been exceeding ODA flows.

In Senegal, workers' remittances are the largest source of development finance. Remittances doubled in relative terms over the last decade (from 5% of GDP in 2010 to 10.2% in 2011); at four times the average for SSA, remittances now exceed ODA flows, providing a sizable amount of foreign exchange. On the other hand, FDI inflows are concentrated in a few sectors and the investment climate is perceived as a barrier to further expansion, with Senegal ranking near the bottom of the International Finance Corporation (IFC) Ease of Doing Business Indicator.

FDI inflows were minimal in Timor-Leste in 2006 (2% of GDP), but they began an upward trend in 2008 (up to 6% of GDP in 2008 and 2009) (World Bank World Development Indicators), reflecting investments by foreign firms in exploring and developing offshore oil and gas deposits. Remittances are another important source of private financial flows to Timor-Leste: from 3% of GDP until 2009, workers' remittances received oscillated between 9% and 14% over the period 2010-12 (World Bank, World Development Indicators).

## 2.2 Political context

**Ghana is perceived as a stable country in a turbulent region.** It has a multi-party system and has seen changes in the ruling party, very much similarly to Zambia (Prizzon, 2013). Ghana successfully and peacefully managed the transition to a new government after the election in late 2012, with election results disputed and validated only in August 2013.

Ghana was a donor darling for most of its history following independence, first for historical and geopolitical considerations and then for its willingness to pursue reforms and structural adjustments, including i) successful democratic transition; ii) the government's commitment to the rule of law, democratic governance, poverty reduction and growth; iii) improvements in corporate governance; and iv) measures to stimulate private sector led-growth (Whitfield, 2006).

China is the largest investor by number of projects in Ghana, while Ghana is the second largest investment partner for China in West Africa after Nigeria. Chinese interest in Ghana is largely associated with the extractive industries (mainly recently discovered gas and oil), but also with the potential size of the Ghanaian market and its access to other West African markets.

**Senegal is also a geostrategically relevant country, thanks to its location on the western edge of Africa,** its stability compared to more volatile neighbours (USAID/Senegal, 2012), its accessibility to WAEMU markets and its proximity to North African countries. The Senegalese government maintains good relations with Western countries (including France and the United States), participating actively in regional and international fora. Senegal is seen as a leader in the region.

Between 1996 and 2005, Senegal recognised Chinese Taipei. China broke diplomatic relations due to the "One China" policy, under which a government could only maintain official relations with either China or Chinese Taipei. According to Gehrold and Tietze (2011), the government perceived Chinese Taipei as having greater potential for large-scale project support than China. Despite substantial funds disbursed by Chinese Taipei, the Wade government resumed diplomatic relations with China in October 2005 in an attempt to gain a temporary seat on the UN Security Council and not miss the opportunities offered by the expansion of China on the continent.

**Timor-Leste** enjoys strong support from regional allies (particularly Australia, China and Japan) and from Portugal, which ruled the country until 1975. While Timor-Leste is geopolitically important to Australia in regard to migration and national security, commercial issues currently dominate bilateral relations between the two countries, particularly the debate on how to proceed with exploitation of oil in the Greater Sunrise field.

China's presence in Timor-Leste has been very visible and symbolic. Just two days after Timor-Leste's independence, China became the first country to establish diplomatic ties with it (Horta, 2009). China's policy is likely driven by Timor-Leste's geopolitical importance in the region, including its oil and gas reserves, relations with Chinese Taipei, and membership in the Association of South-East Asian Nations (ASEAN).

## 2.3 Governance context

**Mixed performance on governance indicators.** With the exception of control of corruption and government effectiveness (see below), Ghana has improved with respect to most of the governance indicators (based on the World Governance Indicators, 2013) over the last decade, particularly the dimensions linked to voice and accountability and political stability. Ghana has a multi-party system and has seen changes in the ruling party (very much similar to the case of Zambia; see Prizzon, 2013). It successfully and peacefully managed the transition to a new government after the election in late 2012, with election results disputed and validated by the Supreme Court only in August 2013. On the other hand, mixed results were found for both Senegal and Timor-Leste. In Senegal between 2005 and 2012, measurements of control of corruption, government effectiveness and rule of law worsened while regulatory quality and political stability improved. Lastly, the World Governance Indicators (WGI) show mixed results for Timor-Leste's governance, with deterioration in control of corruption, rule of law and government effectiveness, and voice and accountability from 2005 to 2012. On the other hand, the WGI data set shows improvements in regulatory quality and political stability.

**Overall improvement in the Country Policy and Institutional Assessment (CPIA).**<sup>17</sup> Ghana performed well against the CPIA (World Bank, 2013), with average evaluation of policies rated 4 (the maximum is 5) or close to it. Only the assessment of fiscal policy has visibly fallen, from 4.5 in 2005 (exceeding the average for SSA) to 3 in 2012 (see also Section 2.1). It is the only indicator worsening since 2005, being well below the SSA average. In Senegal, since 2005 all the indicators remain fairly stable (it improved for the cluster of structural policies) with both economic management and structural policies rated 4 (higher than the SSA average, 3.4 since 2005) and 3.5 for both policies for social inclusion and equity and public sector management and institutions (again higher than the SSA average, 3.1 and 3 respectively). Timor-Leste's CPIA score has slightly increased, to 2.83 in 2012 from 2.5 in 2006. While public sector management and institutions is one of the weakest performing clusters (2.5), scores for quality of budgetary and financial management have remained consistent in the last seven years (3.0).

**Mixed performance for Ease of Doing Business.**<sup>18</sup> In 2013 Ghana ranked 62<sup>nd</sup> out of 185 countries, with this outcome driven by good ratings in terms of getting credit, protecting investors and enforcing contracts. However, in Senegal the investment climate is far from being conducive to

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<sup>17</sup> The CPIA is used by the World Bank to determine IDA allocations. It rates countries against 16 criteria in four clusters: i) economic management; ii) structural policies; iii) policies for social inclusion and equity; and iv) public sector management and institutions.

<sup>18</sup> The Ease Of Doing Business Index ranks economies from 1 to 185. For each economy the ranking is calculated as the simple average of the percentile rankings on each of the ten dimensions: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency.

private sector development. The Ease of Doing Business index ranks Senegal near the bottom of the classifications (178<sup>th</sup>) (World Bank, 2013), mainly due to slow administrative processes, expensive and unstable energy supply, and difficulty in accessing land. Timor-Leste was ranked 167<sup>th</sup> with major issues identified around resolving solvency, enforcing contracts, registering property and getting credit.

**Perceived corruption indices have improved in all three countries.** In 2012, Transparency International's Corruption Perception Index (CPI) ranked Ghana 64<sup>th</sup> out of 176 countries, similar to its rankings in previous years. Only Namibia and South Africa scored higher than Ghana in SSA.<sup>19</sup> Senegal's ranking improved from 94<sup>th</sup> (out of 176 countries) in 2012 to 77<sup>th</sup> (out of 177 countries) in 2013, with a higher score (41) than the SSA average (33). Despite these positive statistics, corruption and governance issues are considered major obstacles to boosting economic development and attracting new sources of development finance in both Ghana and Senegal. Timor-Leste ranked 119<sup>th</sup> out of 177 countries in 2013. While this was an improvement on its 2009 ranking (146<sup>th</sup> out of 180 countries), it was a decline from 2012, when it was 113<sup>th</sup> out of 176. Although Transparency International warns that its rankings are not strictly comparable from year to year, perceptions of corruption measured by the CPI have changed significantly in Timor-Leste in the last few years.

## 2.4 Management of concessional resources and performance indicators

To inform the discussion in Section 3, this section briefly outlines salient features of the main development management systems in place at the time of country visits in the three case studies analysed.

### Existing systems for managing concessional resources

#### Ghana

MoFEP (Ministry of Finance and Economic Planning) is at the heart of the coordination mechanisms with development partners, leading on the aid effectiveness agenda (GoG, 2010). It is responsible for co-ordinating all activities leading to the contracting of concessional loans and receipt of grants. Co-ordination takes place at four different levels:

- Multi-donor budget support is the main forum for co-ordination. Observer status is extended to donors such as USAID and the UN system, although they do not contribute directly to the government budget.
- The government-development partners (DP) group. This is the highest intended level of aid co-ordination. It is responsible for oversight of the implementation of aid effectiveness principles. The Government of Ghana (GoG) will lead the secretariat, which is still to be implemented.

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<sup>19</sup> Evolution over time of the Transparency International's Corruption Perception index (CPI) cannot be analysed due to a rebalanced index in 2012.



- During the annual progress review of the Medium-Term National Development Policy Framework (MTNDPF) and the Consultative Group/Annual Partnership Meeting, participants review development co-operation programmes and agree on new areas of intervention.
- Sector Working Groups (SWGs) are expected to be led by the government. According to the Country Evaluation of the Paris Declaration (2011),<sup>20</sup> there are approximately 20 SWGs involving both the GoG and DPs, with some quite active in sectors such as Agriculture, Health, HIV/AIDs, Education, Roads, and Public Sector Reform.

## Senegal

Aid co-ordination takes place in different fora, most of which are led by technical and financial development partners with ministries and agencies being invited. These include:

- **Grouppe élargi de concertation des Partenaires Techniques et Financiers or the Group of 50 (G50) technical and financial partners (TFPs).** The G50 is an open and semi-formal group – 50 is only a reference number. This group of bilateral and multilateral official organisations currently includes more than 50 TFPs, which are represented at either Ambassadorial or Head of Co-operation level. The only condition for membership is being active in development co-operation programmes with the Senegalese government. The G50 meetings are mostly intended as a platform to exchange information. There have been occasions when the G50 met with the aim of taking joint decisions to be communicated to the government in “one voice”.
- **Comité de concertation des Partenaires Techniques et Financiers (TFPs) or Group of 12 (G12).** The G12 acts as Secretariat for the G50. It co-ordinates G50 members and organises their meetings (e.g. setting the agenda and sending out invitations). The G12 is made up of 12 TFPs who join on a voluntary and rotating basis.
- **Groupes sectoriels or thematic groups.** These groups focus on specific thematic areas. Their compositions vary in line with the TFP sectors of intervention.

Furthermore, co-ordination between TFPs and the government (central agencies and line ministries) may take place in the annual sectoral reviews with the TFPs supporting the sector. Co-ordination takes place in some but not all ministries. The private sector is involved in the Conseil présidentiel de l’investissement or Presidential Investment Council.

## Timor-Leste

While there is no formal aid policy at the present time, grants are managed by the Development Partners Management Unit within the Ministry of Finance and tracked through its annual report. Concessional loans are managed by the Major Projects Secretariat. The government also established the Development Policy Co-ordination Mechanism (DPCM) in March 2013 to co-ordinate

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<sup>20</sup> Evaluation of implementation of the Paris Declaration on Aid Effectiveness: Phase II. Available at <http://www.oecd.org/countries/ghana/47651795.pdf>.

implementation of the Strategic Development Plan. The DPCM has four strategic sectors aligned with the four pillars of the Strategic Development Plan: social, infrastructure, economic and governance/institutional. Each sector working group is chaired by relevant ministries and supported by one designated development partner. While the mechanism is country-owned and government-led in order to improve inter-governmental co-ordination, it is expected to have positive spill-over effects on donor co-ordination by serving as a forum for the government and development partners.

The government is currently drafting a new aid policy reported to be inspired by the principles of the New Deal for fragile states.<sup>21</sup> It is also developing a “Compact” to outline a future strategy and agreement with donors about alignment on these terms.

### Performance indicators

**Progress against Paris Declaration (PD) principles was mixed in all three countries in 2010, but improvements are recorded for some indicators in the 2014 Monitoring Report for Timor-Leste and Senegal.<sup>22</sup>**

In the case of Ghana, several targets were met: for ownership, mutual accountability, project implementation units (PIUs), co-ordinated support and untied aid. Two target indicators were improved: use of public financial management (PFM) systems and joint analytical work. Setbacks were recorded for other targets: predictability (which declined from 92% to 67% between 2005 and 2010), use of country systems, and alignment with national priorities (including a decline to 93% of aid reported on budget).

Senegal reached 2010 targets for three indicators: capacity building, untied aid and mutual accountability. It achieved significant progress for five indicators (use of country and procurement systems,<sup>23</sup> reduction in PIUs, joint missions and analytical work). However, limited progress, stagnation or setbacks were observed for the other indicators, including alignment of aid with national priorities (67% in 2010 compared with 88% in 2007) and aid predictability (62% in 2010 compared with 61% in 2007). The 2014 Monitoring Survey reported significant improvement in aid predictability (93%). However, limited progress on the latter point often emerged in the round of interviews with government officials.

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<sup>21</sup> <http://www.newdeal4peace.org/wp-content/uploads/2013/01/new-deal-for-engagement-in-fragile-states-en.pdf>.

<sup>22</sup> Ghana was not part of the 2014 Monitoring Report. Data were based on 2011 figures for Senegal and 2012 data for Timor-Leste.

<sup>23</sup> However, setbacks on the use of country public financial management and procurement systems were recorded in the 2014 Monitoring Report.

In Timor-Leste, the Fragile States Monitoring Survey reported that there has been progress towards establishing co-ordination mechanisms (e.g. planning frameworks, sector-wide approaches, multi-donor trust funds and an aid strategy). The main barriers to progress that remain appear to be the lack of a clear division of labour among development partners and fragmentation of donor-funded activities. The survey encouraged donors to identify areas of comparative advantage, pool resources, and increase use of country systems in order to reduce the administrative burden on the government. Compared to the 2010 assessment, the 2014 Monitoring Survey measured large improvements in aid predictability (from 69% in 2010 to 92% as a share of assistance “scheduled”), but setbacks in the aid recorded on budget (from 61% to 54% again of assistance “scheduled”). There were also setbacks in the use of country PFM and procurement systems.

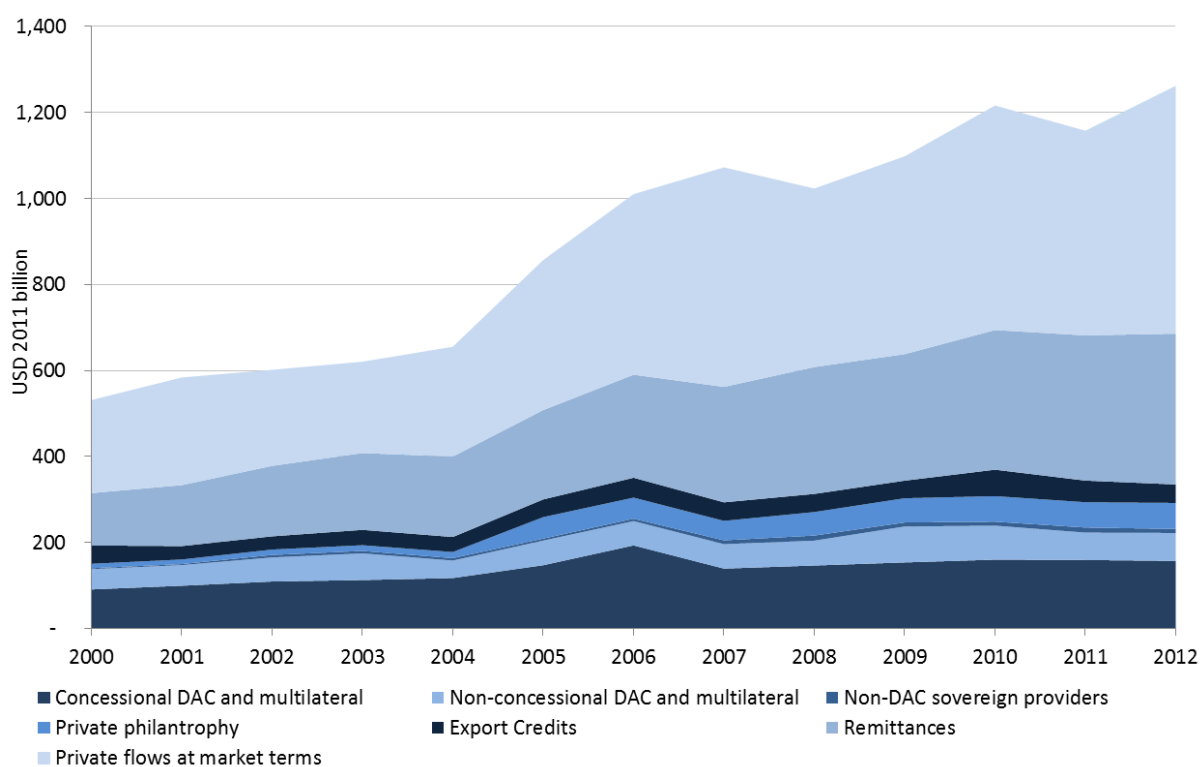
### 3. Findings from the three case studies

The three case studies are illustrative: their findings are not necessarily extendable to other developing countries or even to other countries in the lower-middle income group. More detailed data on development finance flows outlined in this section are included in the Annex to this report.

#### 3.1 Countries have more funding options and more policy space

That the development finance landscape has changed in terms of actors, motives and instruments is far from being newsworthy.<sup>24</sup> Development finance flows to developing countries (i.e. low-income and middle-income countries) have increased in volume. 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 2000-12



Sources: OECD, based on data from OECD, World Bank, Hudson Institute, UNCTAD.

<sup>24</sup> See, among others: Development Initiatives (2013), Greenhill and Prizzon (2012), Greenhill, Prizzon and Rogerson (2013), Rogerson and Kharas (2012) and Severino and Ray (2009).

Not only has the total envelope of external resource 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 three-quarters of total flows to developing countries in 2000. Concessional resources from DAC members and multilateral organisations represented only 17% of total flows. Looking at the picture in 2011, the contribution of concessional financing<sup>25</sup> declined to approximately 12% of total flows, with private inflows reaching a share of 81% (the rest is represented by official development finance, which does not meet the ODA concessionality criteria). Given the motivation of private finance, the outflows (e.g. loan repayments, profit repatriation, divestment) are important.<sup>26</sup>

The three countries clearly benefit in different ways from a substantial diversification of the funding sources available to them now compared to even a few years ago (see the Annex). They have more choice over how they can finance domestic spending priorities, both directly (thanks to improved access to tax and natural resource revenues, to financial markets and to a growing array of official and philanthropic partners) and indirectly, because this wider spread in turn affords them more policy space in negotiations with their traditional international gatekeepers such as the IFIs and their former colonial powers. For example, rules on foreign borrowing from the IMF have become less constraining, even for countries such as Senegal, which still has an active IMF programme while Timor-Leste is only subject to Article 4 surveillance now.

These countries' share of aid is falling (markedly in Ghana and especially Timor-Leste, but also, to a lesser extent, in Senegal) relative to both national output and government revenues. This reduced dependency is mainly due to rapid domestic growth, but also to recent slowdowns in ODA volumes. This last inflection point has been found to be pronounced (Knack et al., 2014) for most countries which “graduate” from LIC into LMIC status: the three cases are unlikely to prove exceptions, especially as two of the three are already also in “blend” status with the MDBs (see below). Meanwhile, access to market and quasi-market sources (including officially supported project finance and export credits, commercial loans, FDI and remittances) has also expanded, albeit with considerable volatility over the recent global economic and financial crisis.

Securing additional resources to finance development, especially infrastructure investments, is a priority for all three governments. As outlined in Section 2.1, Ghana and Senegal have had two successful rounds of sovereign Eurobond issues and Senegal issued bonds on regional markets last year: in Ghana, despite the substantial premium paid on Eurobonds (nearly 9% coupon on USD funds at the time of issuances) relative to financially cheaper offers from official lenders, government

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<sup>25</sup> 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.

<sup>26</sup> It is estimated that outflows of profits made on FDI were equivalent to almost 90% of new FDI in 2011 (Griffiths et al., 2014).

respondents still favoured the bond route, reportedly on the grounds of its higher volume, greater flexibility in use (also to refinance previous bonds) and the absence of conditionality relative to the next best alternative. Some also emphasised the signalling effect inherent in this window, i.e. the need to tap markets periodically to show the country retains their confidence. This effect is analogous to, but arguably stronger than, the signal given by borrowing repeatedly on hard-window terms from the IFIs.

Successful bond issuances in international capital markets were the result of a combination of both push and pull factors. First, Ghana and Senegal improved their creditworthiness following HIPC and MDRI debt relief in the mid-2000s and their macroeconomic fundamentals were more favourable for most of last decade. Second, initially favourable financial terms and conditions of Eurobonds were the result of appetite by international investors (as a result of low interest rates in advanced economies) and an interest rate – also adjusted by the exchange rate risk – lower than the rates of domestic bonds (which could reach an annual rate of 25% in the case of Ghana).

As reviewed in Section 2.1, Timor-Leste has rapidly become a “dollarized” petro-economy, reducing budgetary aid dependence from over 90% of government expenditure a decade ago to some 20% today. Returns on its offshore financial reserves set the benchmark for evaluating loan offers.

All three countries are recent graduates to lower-middle income status. Ghana and Timor-Leste also have “blend” status (e.g. Ghana borrows from IDA at somewhat harder so-called blend terms, Timor-Leste from IBRD), which progressively allows them to start tapping into the harder windows of the multilateral development banks. These, by accounting convention, do not qualify as ODA, but in current market conditions cost only marginally more than the so-called “soft windows”. There is a clear emphasis on infrastructure when using this source. No timeline for Senegal to gain such future access has yet been agreed (see Section 2.1).

All three countries have a history of relations with non-DAC providers, with different trajectories. Senegal has long-standing connections with Arab donors. The Islamic Development Bank plans to increase its annual finance programme to Senegal to USD 200 million between 2012 and 2015, mainly to finance ports, airports and energy infrastructure projects (IsDB, 2012). Senegal had limited relations with China until 2006, when they accelerated. Since 2011, Ghana has had major access to Chinese credit lines (two lines of credit totalling USD 1.5 billion each from the China Development Bank), but their utilisation has been slow. Timor-Leste has had a wide range of non-DAC partners (notably Brazil, China and Cuba) since it gained independence in 2002, but these partners’ share in external public financing has not risen significantly. China, which does not yet provide official loans to Timor-Leste, is also present as a major contractor and bidder on multilateral infrastructure projects, as has long been the case in Ghana and Senegal.

Ghana and Timor-Leste have longer-term strategies for progressive graduation to private sector-led, upper middle income country status. In February 2014, Senegal presented 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, although declining in relative terms, will still be needed for a substantial transition period.

### **3.2 Countries expressed similar views on the most desirable attributes of external development finance, especially official grants and loans**

All three countries argue first and foremost for un-earmarked funding in the form of general or sectoral budget support (GBS-SBS), and for the use of the national financial and procurement systems that such instruments reinforce. This desire is legitimate and understandable, but flies in the face of facts: this form of aid is actually falling continuously as a share of the total in the two larger countries. It was only recently applied at all in Timor-Leste, on a very small scale. Timor-Leste, a strong champion of the New Deal for fragile states, argues that country systems can and should be used more in such contexts as well.

Aid to Timor-Leste is currently both overwhelmingly project-based and heavily fragmented, although its own budget resources are starting to dwarf external ones in all major sectors, making 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 most value, in order of priority next to un-earmarked support: (i) favourable financial terms, i.e. a very high grant element; (ii) speed and reliability of implementation; (iii) few conditions beyond those intrinsic to project feasibility; and (iv) greater attention to capacity building of national staff (in contrast to “turnkey” technical assistance approaches). Perhaps surprisingly, non-DAC providers do not seem to rate consistently better than DAC donors in any of these dimensions, including (ii) and (iii), where their global reputation tends to be higher, although evidence for this is necessarily patchy in these and other countries reviewed (Greenhill et al., 2013).

With respect to the terms of external loans, whether counted as ODA, other official flows (OOFs) or neither, Timor-Leste has a unique framework for assessing offers from public, semi-concessional sources because of its exceptionally strong liquidity position. While not formal or explicit government policy, the starting point is that it borrows only at rates below the average portfolio return on its offshore financial assets, currently just over 4% p.a. Timor-Leste also prefers lenders, such as multilateral development banks, that bundle free capacity building or external quality assurance (e.g. on investment appraisal standards and international procurement) with their funding operations. Moreover, it considers only bilateral loans 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 much 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, let alone OOF loans.

However, Senegal, whose access 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, within the volume ceiling determined by the IMF Policy Support Instrument programme. This allows more flexibility in constructing financing packages for large infrastructure – flexibility that may expand as Senegal’s debt management capacity improves. Ghana, on the other hand, has recently and temporarily set a unilateral moratorium in regard to taking on new external loans, including concessional ones. The moratorium does not apply to borrowing on domestic markets or Eurobonds to the best of our knowledge.

While some sources, including DAC donors, are experimenting with blending (e.g. bilateral ODA-eligible grants paired with bilateral loans with harder terms), these blended grants are typically treated by the national authorities not as aid but as a larger overall loan amount, carrying a lower effective interest rate. Senegal and Ghana are two cases in point.

### **3.3 Strategic management of these choices is still lacking**

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

These countries indicated in general that they most value the volume, flexibility and responsiveness of different sources of finance to their priorities. In an appropriate debt sustainability context, partner countries may therefore choose less concessional funding for advantages such as speed and reliability. In addition, partner countries do not distinguish between funding for an investment that is primarily motivated by commercial motives and funding that is “developmental”, nor do they tend to distinguish between flows on the basis of whether they are classified as ODA.

Indeed, borrowing strategies hinge on fiscal space. In particular, as seen in Section 2, Senegal is under an IMF Policy Support Instrument programme which limits the amount of both non-concessional (below 15% grant element) and semi-concessional borrowing (between 15% and 35% grant element).

In all three countries, co-ordination across government around external funding and its use remains difficult: the Ministry of Finance (or equivalent) negotiates loans and monitors financing flows, often systematically and transparently (the Ministry of Finance-run development partnership website in Timor-Leste is exemplary in this regard). However, partners generally discuss and agree on 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.



Public administrations, however well run, are also not monolithic in other respects. Diversification of funding options, especially in relation to investment packages with private or philanthropic components, may well be in the general public interest but at the same time escape the control, influence or even knowledge of some otherwise powerful central departments which may have been accustomed to formal processes of official negotiations falling under their primary or even exclusive responsibility. They may therefore have mixed feelings about greater “choice”, beyond its obvious strategic benefits. In interviews they sometimes expressed concern at the lack of transparency, high transaction costs and inadequate regulation associated with some classes of development finance, or with some partners.

Much thematic co-ordination across partners is organised at the initiative of the traditional development partners, often led by a MDBs or the UN. In both Senegal and Timor-Leste some co-ordination mechanisms occur, surprisingly, without the regular participation of the national administration. In Ghana, which has a large number of traditional partners, the Ministry of Finance works through the MDDBS programme to try to co-ordinate donors: the multi-donor budget support programme remains the main vehicle for donor-government co-ordination and policy dialogue.

In all three countries, the government officials interviewed were generally not interested in investing further efforts in multi-partner co-ordination mechanisms. They preferred to deal with non-DAC providers on a bilateral basis (apart from inviting them to set piece, high-visibility “diplomatic” meetings); and they had little inclination to urge them to join existing frameworks. It would not be surprising if the non-DAC providers took their cue from these governments. Indeed, it would be unusual if they did not. 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.

### **3.4 Little is known about philanthropic assistance; and international public climate change finance appears to be demand-constrained**

There is little information at country level about the much-discussed global boom in “impact philanthropy”. This potentially includes, for example, investment in social enterprises (using business models to deliver development impact), as well as corporate, foundation and other private support to civil society-led development efforts, as distinct from funding channelled by traditional DAC donors to civil society organisations (CSOs), already long embedded in the ODA numbers.

This lack of evidence is partially attributed to the admitted lack of information on the part of the central authorities that are more familiar with official assistance.<sup>27</sup> This finding mirrors those of earlier studies (Greenhill et al., 2013). To the extent that there were illustrations (mostly anecdotal)

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<sup>27</sup> Although there are some efforts to track flows from philanthropic organisations, as in the case mentioned by the Direction de la Planification et de la Réforme de l'Éducation (DPRE) at the Ministry of Education in Senegal.

of such philanthropy, those collected in these case studies were related mainly to the corporate social responsibility portfolios of major operators of FDI (e.g. oil companies in Timor-Leste and mining concerns in Ghana).

Based on Foundation Centre data (2014), Ghana received about USD 11 million on average each year between 2003 and 2012 from United States-based foundations. To give a sense of their magnitude, these figures correspond to 0.6% of ODA in 2012. The figures for Senegal are very similar. These figures heavily contrast with those on international philanthropic assistance provided by the Hudson Institute (2013), which totalled about USD 60 billion in 2011 at the global level. In Timor-Leste there is no evidence of major philanthropic contributions, with amounts from the Foundation Centre only in the thousands.

The Bill & Melinda Gates Foundation, like other foundations, supports multiple grantees that in turn have country programmes. These include, for example, the large vertical health funds such as GAVI (formerly the Global Alliance for Vaccines and Immunisation) and the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) that operate at scale in all three countries. However, beneficiary country governments rightly see these health funds as their primary interlocutors and as multilateral, overwhelmingly public organisations in their own right. Philanthropic organisations do not usually transfer funds directly to governments, hence the challenge in tracking their flows. This is also the case of assistance directly transferred to NGOs and CSOs by development partners, trust funds and multilateral organisations, as mentioned above.

None of the case studies found evidence of direct participation by the ultimate non-governmental funders in country co-ordination mechanisms, either at high or sectoral level, at least on a formal basis. Most of these organisations rarely have representatives at country level that might be able to attend relevant meetings.

There are still surprisingly low disbursements to any of the three countries from the suite of global climate-change related funds, in proportion to their populations and/or degree of vulnerability. For instance, Senegal is a country prone to floods, droughts and climate shocks which affect growth in the agriculture sector (AfDB et al., 2013) and tourism.<sup>28</sup>

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<sup>28</sup> Part of these results are motivated by the pool of countries selected, which are not among the top recipients of climate change-related financing (see Nakhooda et al. 2013). This study has confirmed earlier findings in Greenhill et al. (2013) that climate finance reaching the countries analysed is quite limited. These results may either be because of (i) the case study selection (larger middle-income countries tend to be the largest recipients of climate finance; see Nakhooda et al., 2013 for the case of fast-start finance) or (ii) lags between pledges, commitments and disbursements which have yet to materialise (the mapping of development finance flows privileged disbursed funds); or simply because (iii) most climate finance flows are also ODA eligible (the countries investigated for this study have limited access to private sources of climate finance).

There is definite interest by all three countries in tapping into such resources to a greater extent. Senegal was among the first countries to create a National Entity for management of the Adaptation Fund and Ghana is planning to do so. Again, Ghana has a seat on the Adaptation Fund board as an alternate member and has been in the forefront of the global change debate, both at a technical and a political level. As such, Ghana is shaping the new adaptation finance mechanism and is one of the first countries submitting its programme under the Copenhagen accord (MEST, 2012; Cameron, 2011).

Timor-Leste's projects are approved to support activities from the National Adaptation Programme of Action for Climate Change (NAPA), which it completed in 2009. Nevertheless, there is widespread admission that national capacity for proposal formulation is lacking, thereby restricting effective access. Therefore, there is understandably a clear preference for projects accompanied by technical assistance/capacity building. Institutional responsibilities are typically also fragmented within administrations, making it difficult to track and improve on progress. In the same vein, some interviewees mentioned that the size of projects – and the probability of scaling them up – is perceived to be too small to achieve visible results. Unsurprisingly, as essentially provided by DAC members and multilateral donors, priorities for terms and conditions for climate finance do not diverge from those expressed in traditional development assistance (see Section 3.2) except for the preference for project-financing rather than budget support expressed by line agencies involved in the climate change policy.

Finally, 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 climate policy framework, but the specific division of labour among ministries for its implementation is still unclear. In Timor-Leste there is currently a Global Environment Facility (GEF) Trust Fund focal point sitting within the Secretary of State for Environment, but co-ordination is in its early stages. Until recently, Timor-Leste was receiving mostly regional rather than country-specific climate funds. It has yet to tap climate finance beyond the formal GEF and Least Developed Countries Fund (LDCF) funded projects.

#### 4. A proposal for an international development finance taxonomy, viewed from the recipient perspective – Resource Inflows for Development

The country case studies suggest that, over the past few years, there has been a substantial diversification of funding sources and instruments available to the three countries considered. However, although more funding options are available, the governments of the three countries have piecemeal information about them. There is clearly an information gap to be filled, particularly when it comes to resources beyond concessional finance.<sup>29</sup> This hinders countries in having a comprehensive and strategic approach to the financing of their development priorities. Although it is hard to generalise from the findings of three countries alone, it seems reasonable that other developing countries are facing, or will soon face, a similar situation.

In response to the HLM mandate, the DAC Secretariat developed a first blueprint of the architecture of external finance flows from a partner country perspective (Figure 2), which provides a comprehensive view of the wide array of actors and financing instruments that populate the development finance landscape. In light of the case study findings, this blueprint was further refined to develop a taxonomy detailing instruments that partner countries can use to finance their development agenda. This taxonomy (Figure 3) identifies the components of a possible statistical measure of **Resource Inflows for Development**. By providing information on the array of sources and instruments available to partner countries, such a measure could provide the following advantages:

- enable partner countries to have a more strategic approach towards financing their development priorities (e.g. it could be helpful for identifying under-funded sectors)
- create an incentive for a variety of new and existing providers to increase their contribution to Resource Inflows for Development
- form the basis for better assessment of the impact and effectiveness of different sources and instruments of development finance
- positively contribute to forthcoming discussions on how a post-2015 measurement system can best provide comprehensive and transparent information on external resource flows for development, as perceived by developing countries.

Confirmation of the usefulness of such a taxonomy and statistical measure can only come from the developing countries themselves. The OECD has initiated a dialogue with developing countries on this topic: the workshop that the OECD is hosting in Paris on 25 June 2014 will be an important milestone in this dialogue, with representatives from 25 developing countries attending as well as DFIs, multilateral organisations, sovereign donors, etc. Once greater clarity and consensus are

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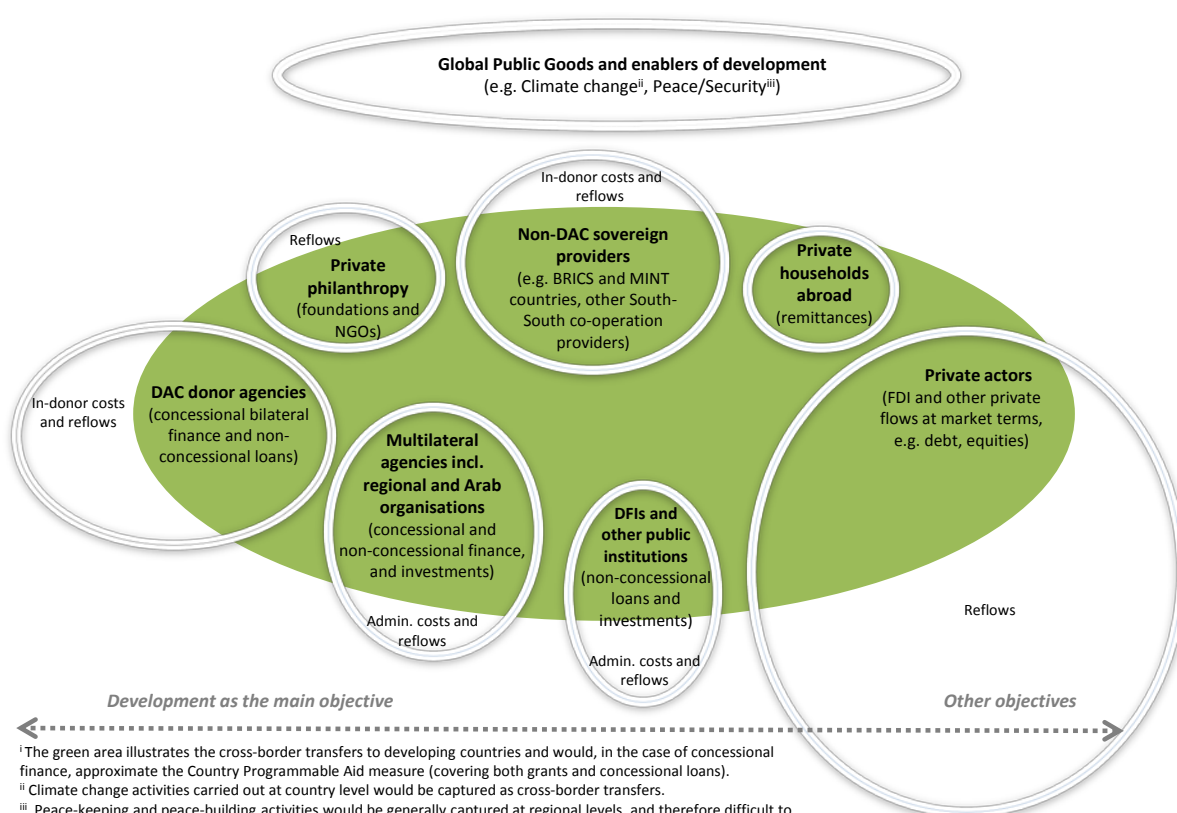
<sup>29</sup> Other studies on development finance at country level have also identified information gaps regarding concessional finance (see, for example, ODI's *Age of Choice*, 2013).

reached on the information that is relevant from a partner country perspective, further collaborative work with institutions and actors across the international system will identify data sources and processes that could be used to inform the measure.

#### 4.1 Mapping the development finance architecture at country level

The schematic diagram in Figure 2 identifies different actors, some of whom provide a wide array of financial instruments. These different sources of finance are situated on the horizontal axis according to the main objective or motivation underpinning their provision, ranging from purely developmental considerations (on the left) to commercial, for profit, or personal considerations (on the right).

Figure 2. A blueprint of the external financing architecture from developing countries' perspective<sup>1</sup>



<sup>1</sup>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).  
<sup>ii</sup> Climate change activities carried out at country level would be captured as cross-border transfers.  
<sup>iii</sup> 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: OECD/DAC Secretariat.

Sources and their specific features are detailed as follows:

- **DAC donor agencies**, which are often referred to as so-called “traditional” donors that conform to DAC norms and rules
- **multilateral agencies, including regional and Arab agencies and multilateral development banks (MDBs)** combining the soft windows and 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/or private actors (these actors may not in all cases maintain a country-level presence, relying instead on intermediaries operating locally)
- **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
- **private sector** entities (banks and enterprises), which are motivated by commercial interests – not developmental aims
- **migrants** (workers’ remittances constitute another source of external resource flows in many countries).

Climate finance for adaptation and mitigation purposes is provided by both public and private sector actors.<sup>30</sup> In view of its unique “global public good” character, it cuts across the diagram (see upper part of Figure 2). Climate finance can be considered both in broad terms (i.e. including international and domestic public climate change expenditure and private finance flows towards climate-related activities) and in more narrow terms, such as in the context of the UN Framework Convention on Climate Change (UNFCCC).<sup>31</sup>

Contributions to other global public goods or “development enablers” -- such as external contributions to sustain peace, security and justice -- should also be part of a Resource Inflows for Development measure at country level. Currently most available information on this funding covers concessional finance. However, at this stage it has proven difficult to map the resource inflows beyond aid regarding peace, security and justice. It is proposed to assess the relevance of including this dimension, once the work to enhance transparency on these types of expenditures from the providers’ perspective has been completed.

The actors identified in the architecture commonly use the following instruments:

- **grants**
- **concessional loans**
- **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)
- **non-flow instruments with a mobilisation effect**, such as guarantees, insurance, etc.

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<sup>30</sup> See CPI (2012).

<sup>31</sup> Under UNFCCC Decision 1/CP.16, “developed country Parties commit, in the context of meaningful mitigation actions and transparency on implementation, to a goal of mobilising jointly USD 100 billion per year by 2020 to address the needs of developing countries”.

## 4.2 A taxonomy of resources and instruments that are meaningful from a developing country perspective

While Figure 2 depicts the “universe” of sources of all external finance potentially reaching a developing country, the case studies helped clarify the subset of resources/instruments that are relevant to consider for countries developing comprehensive financing strategies; this subset, therefore, could constitute a useful statistical measure of development resources.

These resources can be official or private, as long as they are either subjected to direct negotiation between a partner country government and its partners or mobilised from external public sector intervention, and could therefore in principle fall within the scope of influence by partner country governments.

The scope of the measure would include all concessional flows (grants and concessional loans), as they are external resources directly accessible and negotiated. Furthermore, the public sector in provider countries can extend or mobilise non-concessional resources at market terms, including to the private sector (e.g. DFIs working only with the private sector). The degree of influence on such operations by partner country governments will vary but it remains important to measure and monitor these flows for strategic planning purposes.

Risk mitigation instruments (such as guarantees) that crowd in private capital or loan subsidies that soften terms would doubtless be of interest to public authorities developing strategic financing plans even if they do not necessarily constitute cross-border flows in themselves. These would implicitly be captured through the individual loans operations (e.g. the items concessional and non-concessional loans) and/or through the item “Private flows mobilised by public sector intervention through e.g. risk mitigation instruments”.

Case study findings confirmed a long-standing information gap in developing countries as regards private philanthropic assistance. While mainly concessional and developmental in purpose, resources from private philanthropy – unlike other developmental concessional finance – do not generally fall within the purview of governments. To a large extent, these resources are channelled through other agents (e.g. foundations, research institutions, local NGOs, trust funds managed by multilaterals). Governments surveyed in the study have clearly indicated the importance of tracking these resources for development.

Although there is a wide range of policies governments may put in place to create an environment that is attractive to foreign investors,<sup>32</sup> most private inflows do not come under the ambit of developing country governments. These are, however, essential resources that should be leveraged and monitored by governments; therefore FDI and other private flows could be recorded as memo items of the statistical measure.

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<sup>32</sup> See, for example, OECD (2006).

Despite constituting an important flow for many developing countries, workers' remittances cannot be directly tapped by governments, although governments are increasingly considering how to better channel these resources towards productive investments. For the time being however it is proposed that these resources fall outside the proposed statistical measure of Resource Inflows for Development.

Lastly, while the mapping of the architecture of development finance in Figure 2 distinguishes between DAC and non-DAC providers, this distinction may not be applied explicitly at country level. At least in the cases of Ghana and Senegal, development co-operation management units in the Ministry of Finance (or equivalent) tend to cluster donors on a regional basis (America, Asia and Europe) rather than based on whether a donor is a DAC member or a "less traditional" sovereign donor.

In line with these considerations, below are a number of principles which might be considered as guidelines, or functional parameters, for identifying and quantifying external development finance that is most relevant from a developing country perspective – and which could govern the approach underpinning a new statistical measure of Resource Inflows for Development (the components of the measure are illustrated in **Error! Reference source not found.**):

- **Only cross-border flows would be relevant.** Hence resources mobilised domestically, albeit key resources for development, are excluded, given the fact that these do not enter into the negotiation arena between providers and governments. In-donor/provider costs of official concessional and non-concessional finance (e.g. administrative expenditure, support provided to refugees and imputed student costs) and debt relief (as proposed recently by the DAC Secretariat proposal<sup>33</sup>) would also be excluded. This approach is similar to that adopted in the DAC's well-established Country Programmable Aid (CPA) measure, which only covers concessional flows.<sup>34</sup> The three countries studied value the importance of technical assistance as an important resource for development; therefore, technical assistance would be included even if not directly a cross border flow.
- **Flows would be measured on a gross basis.** This approach would ensure that the statistical measure captures the total monetary value of finance extended and received. Receiving countries could then evaluate the relative importance of the various sources of finance and the instruments or channels utilised. At the same time, any future measurement of the broad range of development finance sources from a developing country perspective should

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<sup>33</sup> See, for example, Hynes and Scott (2013).

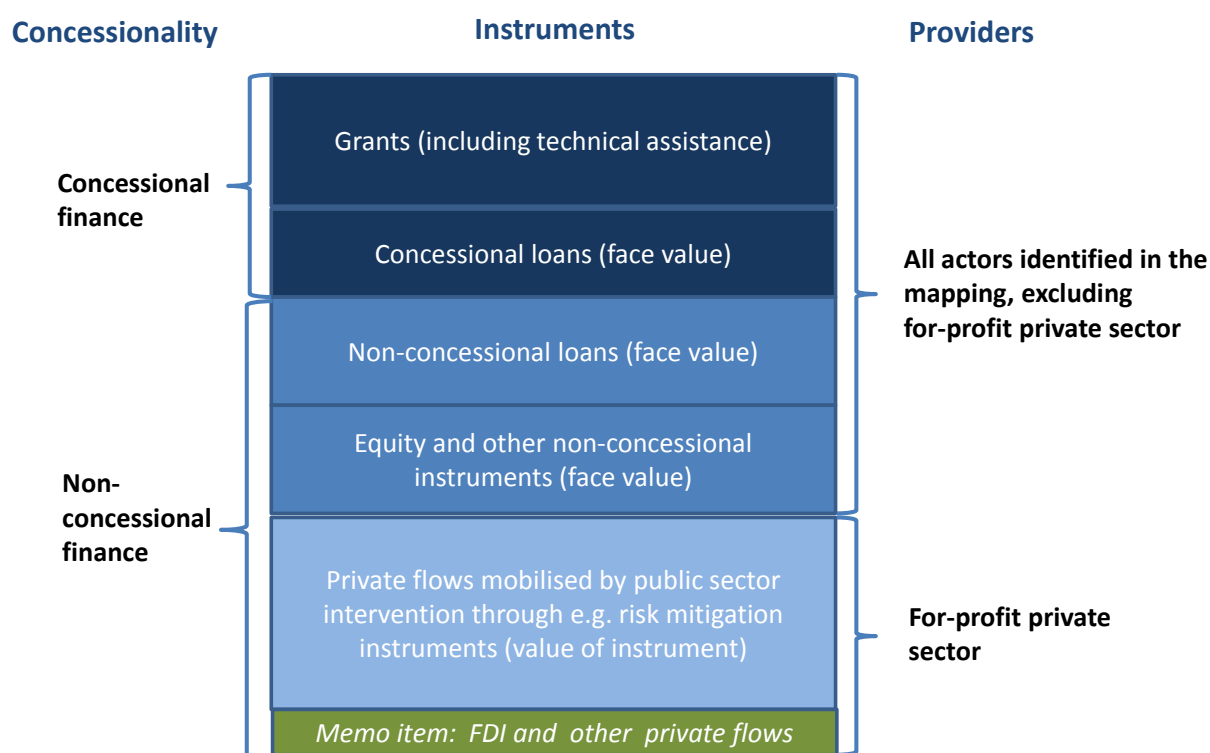
<sup>34</sup> Country Programmable Aid (CPA) is a subset of gross bilateral ODA. CPA tracks the proportion of ODA over which recipient countries have, or could have, a significant say. It reflects the amount of aid that involves a cross-border flow and is subject to multi-year planning at country/regional 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.



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).

- **Official flows, private flows mobilised by external public sector interventions and flows from private philanthropy** would be included.
- **Loans would be recorded at face value and classified as either concessional or non-concessional.** For low-income countries the concessional nature of loans is generally assessed on the basis of the IMF definition, with a minimum grant element of 35% calculated using a discount rate of 5%, while to middle-income countries concessional nature generally means terms more favourable than they would obtain from the market. However, countries are now moving to a more consolidated approach under IMF guidance, assessing their aggregate external debt position rather than assessing individual loan operations for the purpose of debt sustainability. In the context of the case studies, countries still adopted a case-by-case approach to assess eligibility of loans. However, in order to develop an international tracking system it will be important to ensure comparability across countries on this dimension.
- **Measures are based on instruments, not on actors.** The task in a post-2015 framework will be to ensure sufficient coverage from all sources combined.

Figure 3. Resource Inflows for Development: emerging taxonomy for a statistical measure of development finance from a developing country perspective<sup>1</sup>



Source: OECD/DAC Secretariat.

The use of complex financing packages comprising two or more of the instruments (e.g. blended finance) and from different sources is increasing and should be better tracked. Financing packages can be used, for example, to fund public-private partnerships (PPPs), which are long-term agreements between the government and a private partner whereby the private partner invests in, and delivers, public services. Section 4.1 mentions the case of Senegal, which in February 2014 launched a new development strategy whereby the contribution of the private sector – especially in the form of PPPs – is expected to play a key role in financing it. The recent creation of the *Division des Partenariats Public-Privé* (Division of Public-Private Partnerships) in Senegal, within the newly established Ministry for Investment Promotion and Partnerships, signals the importance attributed to this financing modality and the government’s intention to leverage private sector resources by developing a coherent framework for attracting and managing these resources.

Financing packages (illustrative examples are set out in **Error! Reference source not found.**) will be part of a statistical measure on **Resource Inflows for Development**. While their components would to a large extent be recorded separately there might be a need to enable a consolidated picture the use of these mechanisms. Providing a statistical tracking of how countries are putting together financing for PPPs will also help governments tap into the experiences of other countries and understand better their options.

### Box 2. Examples of uses of multiple financing instruments for PPPs

The EU-Africa Infrastructure Trust Fund blends grants from EU member states and the European Commission (EC) with long-term loans and equity by eligible public and private financiers. In 2012, it committed approximately USD 113 million for 17 projects, primarily in the energy and transport sectors, leveraging approximately USD 1.6 billion of investment.

Belgium’s Office National du Ducroire (ONDD) provided a guarantee covering 75% of the bond issue, worth USD 50 million, that helped finance a Safaricom telecommunications venture in Kenya.

The New Zealand Export Credit Office is supporting a New Zealand enterprise in connecting Pacific island countries to a submarine fiber optic cable linking the United States and Australasia.

Korea’s KEXIM and K-Sure guaranteed loans of USD 350 million by the European Investment Bank (EIB), USD 150 million by the European Bank for Reconstruction and Development (EBRD) and several commercial banks to a Turkish-Korean venture to finance the underwater tunnel connecting Istanbul’s European and Asian sides.

Source: OECD (2014), “Official Support for Private Sector Participation in Developing Country Infrastructure).

### 4.3 The way forward to increase transparency on Resource Inflows for Development

The benefits of increased transparency vis-à-vis Resource Inflows for Development are potentially quite considerable for both developing countries and the development community overall. Greater transparency can lead to a more effective choice of funding instruments and better allocation of resources. However, achieving greater transparency will require more disciplined and sustained efforts by all development actors to measure, track and report resource flows and financing details.

First, the new measure would require a significant step up in partnerships for data collection and quality control, as data currently available covers only some of the components proposed for a statistical measure. Figure 4 highlights broad categories of data gaps, including flows from non-DAC sovereign providers, private philanthropy, and the private sector. These data gaps call for a stronger engagement from these providers to make available the information needed to enhance transparency of development finance and help partner countries make informed decisions about how and where to source and evaluate the development finance they need. In a future framework, it will be paramount to provide the right level of granularity of information (e.g. by project level, sectoral breakdown, terms and conditions) so that an analysis of the comparative advantages of the different instruments/sources for different purposes/sectors could inform governments' financing strategies. For DAC members, relevant data can easily be derived from existing ODA figures and the broader measure of Total Official Support for Development (TOSD) that the DAC is currently developing.<sup>35</sup>

Second, the accessibility and usefulness of the statistical data collected through the measure will hinge heavily on how partner countries organise themselves to manage the new diversity of funding sources and relevant statistical data. Currently, depending on the partner country, data on concessional finance sits either with central agencies (Finance, Treasury and/or Planning) or with line ministries, but in some cases data may not be systematically shared among different national ministries and institutions. This remains the case even in countries where significant efforts have been made to create "Development Finance Databases".<sup>36</sup> For example, in Ghana and Senegal data

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<sup>35</sup> The TOSD measure is intended to provide a more comprehensive measure of donor contributions. In addition to ODA, it includes contributions to addressing global challenges and enablers of development (climate change, peace and security) and valorises market-like financial instruments.

<sup>36</sup> The Development Assistance Database (DAD) is an Aid Information Management System (AIMS) developed for Aid Management, Public Investment and National Budgeting, which has been established in more than 30 countries worldwide in close co-operation with the United Nations Development Programme (UNDP) and respective governments to promote transparency and accountability of funds, results-driven decision-making and aid effectiveness. It is a web-based tool for information collection, tracking, analysis and planning for use by national governments and the broader assistance community, including bilateral donors, international organizations and NGOs.

on concessional funds financing projects are provided to line ministries while the Ministry of Finance is often not notified.

When it comes to development finance beyond concessional flows, data on inflows are even more scattered across national ministries and institutions. Of course, the balance of payments provides a record of all cross-border transactions,<sup>37</sup> including on concessional resources and beyond, but the nature of the information and the level of detail are insufficient for partner countries' planning purposes. In addition, country case studies revealed that none of the three countries considered had established an inter-ministerial committee tasked to oversee and provide strategic direction for managing both private and public resources, or to assess the comparative advantages of each flow for funding different sectors and purposes over different timeframes. The only partial exception in this respect was Senegal with its *Guide sur les sources de financement* (Guide to sources of finance) published by the Ministère de l'Économie et des Finances (Ministry of Economy and Finance), which distinguishes each financing source by sector of intervention, eligibility and modality.

Figure 4. Data availability of the taxonomy's components

Categories of actors	Instruments	Actors						
		DAC donor agencies	DFIs	Other public institutions	Non-DAC sovereign providers	Multilateral agencies	Private Philanthropy	Private Sector
All actors identified in the mapping, excluding for-profit private sector	Grants (including TA)							
	Concessional loans							
	Non-concessional loans							
	Equity and other non-concessional instruments							
For-profit private sector	Private flows mobilised by public sector intervention	work in progress	work in progress	work in progress	work in progress	work in progress		work in progress
	Memo: FDI and other private flows at market terms							

= Not applicable

<sup>37</sup> For example, in the balance of payments both current and capital transfers are classified into only two categories: “general government” and “other sectors”. Both portfolio investment (cross-border investment in equity and debt securities other than direct investment) and other investment are classified according to four sectors: monetary authorities, general government, banks, and other sectors. For details, see the IMF’s Balance of Payment Manual (1993).

## 5. Conclusions and ways forward

While the case studies are illustrative and not necessarily applicable to different economic, political and governance contexts, common to all of them is the fact that in the last ten years countries have accessed more funding options and more policy space. Study findings also 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. This outweighs the complexity of managing these new resources. Seeking a diversified array of additional finance is a priority for governments where resource-intensive infrastructure development is a pillar of national development strategies. Nevertheless, there is little evidence that these governments 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.

Going forward, much can be done to help developing countries make the most of the financing options available to them for financing their development priorities. Increasing the availability and transparency of information on external resources is a key step in this regard, one that will require active engagement of a broad set of actors.

First of all, partner countries will need to be in the driver's seat in the definition of a statistical measure of Resource Inflows for Development, so that it responds to their information needs. The measure introduced in this paper is a first attempt to delineate the set of relevant information, and will need to be validated or modified through inclusive consultations with partner countries. In particular, an effort will need to be made to ensure that developing countries' perspectives on development finance feature in the post-2015 development finance measurement system.

Second, the international development community should invest to help partner countries enhance their understanding of the changing development finance landscape and their capacities to assess trade-offs and manage risks.

Third, there is a need for more robust efforts at international level -- from traditional and non-traditional providers, the philanthropic community, civil society and private sector actors -- to record and share meaningful information about resources that are provided to countries. Providers, whether sovereign or not, should commit to providing the necessary information to fill the current information gap. Further collaborative work with institutions and actors across the international system will be needed to identify data sources and processes that could be used to inform the measure. A strong role for the UN will be key in this, alongside the provision of specific expertise from a number of other international organisations.

Fourth, at the global level, increasing the transparency of Resource Inflows for Development could foster further analytical work that would guide better allocation of resources for development. For instance, it could help answer important questions about whether countries' improved access to

market-based finance is enough to achieve/maintain sustained growth, whether countries graduating to MIC status struggle to substitute concessional with less concessional resources, and how the role, instruments and co-ordination efforts of providers should change in light of the new landscape of international development finance. There is an important information gap regarding quantity and quality of data for analytical purposes to inform national planning and financing strategies. In this regard, the generation of statistical records, of capital inflows and relevant capacity at country level should also be strengthened.

The findings from the three country case studies spark a series of policy-relevant questions for the emerging post-2015 development partnership – partner country governments, donor governments, bilateral and multilateral development institutions, civil society and the private sector – which will be important to address in order to shape an accountable post-2015 development financing framework.

The OECD has initiated a dialogue with developing countries on this topic. The workshop it is hosting in Paris on 25 June 2014 will be an important milestone in this dialogue, with representatives from 25 developing countries attending, as well as international finance institutions, multilateral organisations, sovereign donors and others. Once greater clarity and consensus are reached on the information relevant from a partner country perspective, further collaborative work with institutions and actors across the international system will identify data sources and processes that could be used to inform the measure. Recommendations gathered during the workshop will feed into the final version of this report. Participants of the OECD workshop discussions will address the following questions:

#### **Country capacity to access, use and manage different sources of development finance**

- How can developing countries best plan for, and manage, the increasing range of financial resources that are on offer?
- To what extent do partner countries access less traditional sources of development finance, and what are their preferences as well as challenges and opportunities in managing the new complexity?
- How can the international system best facilitate this, in terms of strengthening national capacity to maximise choice and manage risks and trade-offs, including managing debt in a sustainable way?

#### **A proposed architecture and taxonomy of development financing from a country perspective – and a proposed new measure for Resource Inflows for Development**

- Is the proposed architecture describing external development finance from a partner country perspective helpful? Does it reflect current realities?
- Would the proposed taxonomy – 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?

- What are the implications of having a new measure in terms of the transparency and accountability that stakeholders, development actors and political leadership will require for the post-2015 world?

**A responsible and accountable financing framework from a partner country perspective: data and statistical information and capacity**

- How can a post-2015 monitoring framework be designed and the necessary data sourced to ensure coverage of resources secured, including from non-traditional providers?
- How should the international community assist in enhancing awareness and understanding of the changing development finance landscape for partner countries?
- How can the international system mobilise political will across the post-2015 partnership to record and report resources provided to partner countries?

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## ANNEX

### A. Case study selection

After reviewing key elements of the political economy framework here adopted for the case study analysis, this section describes the criteria applied to identify the three countries under investigation. The case study selection followed a two-step approach:

- **First, a quantitative analysis identified a long list of candidate countries.**<sup>38</sup> Although the sample of countries here analysed is very small and there are limitations in inferring results from such a narrow number of case studies, selection criteria were meant to identify countries (as minimum requirements) which have accessed “a large array, albeit small volumes, of development finance flows”<sup>39</sup> to allow for the analysis to factor in interactions between the different providers. Countries should not be “outliers” (i.e. highly aid dependent or under-aided countries) or, in other words, are “typical” in a way that the analysis could be used as a reference point for several partner countries.<sup>40</sup>
- **Second, a qualitative analysis was used to identify a short list,** to ensure balanced representation across the small sample and to manage pragmatic consideration in terms of actual case study planning, feasibility and execution. The selection excluded countries whose governments had been in place for less than a year (or without a first budget already approved) at the time of the case study selection and excluded countries where substantial changes in aid modalities had taken place in the previous year. Preference was then attributed to governments having an explicit aid policy strategy (or equivalent) in place or at least under advanced preparation: written aid policy provides the basis to test whether the government has been able to achieve its stated priorities for the terms and conditions of aid and development finance flows. Countries recently exiting conflicts or facing severe

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<sup>38</sup> All low- and lower-middle-income countries as per World Bank FY2013 classification were the population for the analysis.

<sup>39</sup> Data for 13 development finance flows were reviewed, notably bilateral ODA, multilateral ODA, other official flows, private giving (NGOs, philanthropic organisations), climate finance, vertical health funds (Global Fund and GAVI, respectively), non-DAC donors (development assistance disbursements from non-DAC donors, Chinese ODA-equivalent and Chinese OOF-equivalent), workers’ remittances, export credits, foreign direct investment, portfolio equity flows.

<sup>40</sup> For each country and for each flow, the average value between 2009 and 2011 to smooth for fluctuations over this period was calculated. It was expressed as a share of GNI/GDP to account for the different sizes of the economies under analysis. A score of 1 was assigned for each development finance flow when the country found itself within the interval denoted by the mean of the distribution of that variable +/- 0.5 its standard deviation. Each variable would have required a separate analysis of its distribution, which may be not normal. The exercise is meant to help narrow the number of candidates for the case studies.

macroeconomic management challenges were also excluded. Case studies were selected in order to be representative (to the extent possible for this small sample) of different regions (Africa and Asia) and income classifications (recently graduated to lower-middle income country status), to include at least one country classified as fragile, and to include a combination of resource-rich and less resource-rich countries. Pragmatic considerations also influenced the short list of candidates (e.g. degree of prior ODI contact and timing of the country missions between November 2013 and January 2014).

Based on these criteria, Ghana, Senegal and Timor-Leste were selected for this analysis.

## B. Methodology

Based on the research framework outlined in Section 2.1, **the methodology for case study research consisted of two steps: a desk-based analysis, and semi-structured interviews with key stakeholders during a two-week visit in each country.**

First, **the desk based analysis** consisted of a review of key documentation (including Paris Declaration survey chapters, country evaluation of the Paris Declaration, aid management strategies and country assistance strategies of main development assistance providers, national development strategies and plans, recent budget documents, investment policies).<sup>41</sup> Data collection and analysis allowed researchers to map volumes of development finance resources at the country level based on international sources such as the World Bank, IMF, OECD CRS, UNCTAD, the Foundation Centre, Climate Funds Update and AidData, including updates of the data sets compiled for the Age of Choice project (Greenhill et al. 2013). It also helped identify key stakeholders for the interviews; and facilitated the context analysis (see Section 2).

Second, **the main research methodology consisted of a round of consultations (semi-structured interviews) with key stakeholders during two-week research trips to each country.** These country visits took place in Ghana in November 2013, Timor-Leste in December 2013 and Senegal in January 2014.<sup>42</sup> Approximately 50 stakeholders for each case study were interviewed. They included senior government officials and staff from central agencies (e.g. units responsible for aid management, macroeconomic/debt and risk management, public investment, national plan implementation, and climate finance management). Some interviewees were based in planning and resource mobilisation units of line agencies where most of the flows beyond-ODA are concentrated, such as infrastructure,

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<sup>41</sup> Background reading included articles reviewing recent developments in the macroeconomic context (World Bank country note, IMF Article IV, IMF research papers, ADB/AfDB country note), public finance analysis (Public Expenditure and Financial Accountability, PEFA, and World Bank Public Expenditure Review) and other sources on development finance (e.g. UNCTAD World Investment Report, GAVI/GFATM country notes, World Bank Remittances and Migration Database).

<sup>42</sup> Missions were organised and led by ODI staff, with staff of the DAC Secretariat accompanying the missions in the second week.

education, health and agriculture. Central bank officials, heads of co-operation from DAC donors, multilateral donors, IMF Resident representatives, UN staff and non-DAC donors were also interviewed, along with stakeholders such as those from the Secretariat of the Country Co-ordination Mechanism (CCM) of the GFATM, philanthropic organisations based in the country and civil society organisations. Representatives of private sector organisations (investment promotion agencies, unions, chambers of commerce and industry, etc.) were also included.<sup>43</sup>

In Ghana and Timor-Leste, half-day consultation workshops were organised at the end of the country visits in which approximately 10 to 15 relevant stakeholders participated, with the aim of presenting early findings of the desk-based review and the semi-structured interviews as well as validating and receiving feedback on the taxonomy of development finance flows (see Section 4). The ODI/OECD mission teamed up with national consultants in each country, who provided research support and advice on the local context, identified relevant stakeholders for the analysis, and managed the interview scheduling.

### C. Mapping development finance flows to Ghana, Senegal and Timor-Leste

Variable	Ghana	Senegal	Timor-Leste
Trend in total development finance flows <sup>44</sup>	USD 766 million in 2000, tripling to USD 2.3 billion in 2012	USD 443 million in 2000, almost tripling to USD 1.2 billion in 2012	Mostly stagnant with USD 231 million in 2002 and USD 293.7 million in 2012, hovering between USD 163 and USD 314
Net ODA received (% of GNI)	12.4% in 2000 4.7% in 2012	9.4% in 2000 7.8% in 2012	42% in 2002 5.8% in 2012
Net ODA received per capita (current USD)	USD 31.8 in 2000 USD 71.2 in 2012	USD 43.7 in 2000 USD 78.7 in 2012	USD 274.3 in 2002 USD 233.9 in 2012

<sup>43</sup> The list of interviewees (who agreed to have their names published) is included in the country case study reports (forthcoming).

<sup>44</sup> Please refer to Section 2.4 on the taxonomy of development finance flows. As development finance flows, the report considers the sum of FDI, workers' remittances, development assistance from DAC members and multilateral organisations, other official flows, ODA-equivalent and OOF-equivalent flows from non-DAC members, philanthropic assistance, climate finance, assistance from vertical health funds (ODA flows are net of the two latter flows), non-bank gross export credits. Development assistance includes flows with either a public or philanthropic motive (i.e. not purely for profit such as FDI inflows, or with a personal motive such as workers' remittances); that is, ODA flows or equivalent from non-DAC donors, philanthropic assistance, vertical health funds and climate finance (ODA flows are net of the two latter flows).

ODA as a % of total development assistance	77% in 2000 74% in 2012	98% in 2000 93% in 2012	94% in 2002 96% in 2012
ODA as a % of total development finance	29.7% in 2012	72% in 2012	66% in 2012
Largest traditional DPs (in order of volume of aid)	World Bank, United States, AfDB, United Kingdom	France, World Bank, United States, EU	Australia, Portugal, United States, Japan and EU
Largest non-traditional DPs	China, Brazil, India	Islamic Development Bank Group, China	China, Brazil, Cuba and Indonesia.
Climate finance	Pledges totalled over USD 40 million from 2008 to 2012, half of it disbursed so far, mostly in grant format, with the majority targeting mitigation objectives.	Pledges totalled over USD 32 million, with about 60% disbursed so far.	Allocations through 2013 totalled a little over USD 3 million. Several recently approved projects close to USD 20 million will begin implementation in 2014.
Vertical health funds	Between 2003 and 2012 flows from The Global Fund were USD 367.5 million. Between 2007 and 2012, GAVI disbursed a total amount of USD 100 million.	Assistance from the Global Fund was USD 1.4 million in 2003, rising to USD 36.7 million in 2012. Data are available on assistance from GAVI since 2007 (USD 7.3 million, rising to USD 10.7 million in 2012).	Disbursements of over USD 36 million were made from the Global Fund between 2003 and 2013. GAVI disbursed USD 262 000 to Timor-Leste in 2012, the first year in which support was received.
Philanthropic assistance (Based on Foundation Center Data for US foundations)	Ghana received an average of USD 11 million of philanthropic assistance flows each year between 2003 and 2012.	More than USD 67 million was disbursed from organisations in the United States between 2003 and 2013.	Timor-Leste received USD 94 800 or less than 0.1% of total development finance in the last few years.

## D. Summary of the Ghana case study

### Introduction

Ghana was chosen as a case study because it is currently transitioning from low- to middle-income status, affecting its access to and management of less traditional sources of development finance. Moreover, the composition of its development finance portfolio is expected to switch more generally from ODA-type flows to private non-concessional or commercial financing due to the phasing out of some development partners, combined with access to international financial markets (Eurobonds) both in 2007 and 2013. Research was carried out in Ghana over a two-week period in November

2013. A summary is presented here of the economic and government context in which development finance negotiations take place (see Section 2.1), the evolution of development finance flows since the early 2000s, and the case study findings.

### **Economic and governance context in Ghana**

The contextual information reviewed for the study suggests that the following main factors have shaped both Ghana's behaviour and its negotiating ability when it comes to dealing with traditional and non-traditional donors.

- In the last decade, Ghana achieved sustained economic growth with an average annual rate of 6.5%. However, with inflation above 13% and a large fiscal deficit (12% of GDP), its macroeconomic performance is becoming more fragile.
- Ghana successfully issued bonds in the international financial markets, in 2007 and again in 2013. The last Eurobond coupon was at nearly 9% in USD. While the financial terms were less favourable than those of other official lenders, these resources do offer flexibility in use and non-conditionality.
- Ghana recently graduated into lower middle-income status in 2010 as a result of the rebasing of its GDP. While this transition signals greater creditworthiness, the forthcoming shift from blend status to concessional loans will imply harder financial terms (higher interest rates and shorter maturity) as well as some development partners phasing out from the country.
- At the time of the country visit, the government had imposed a moratorium on new loans, as debt accumulation is on the rise again. While Ghana successfully reduced its debt ratio to 22% of GDP in 2006, after benefiting from the HIPC initiative and MDRI, the ratio has since risen to nearly 30% of GDP due to the country's expansionary fiscal policy.
- Ghana is a democratic and stable country within a turbulent region (West Africa). It has a multi-party system and has seen smooth transition of the ruling party.
- Ghana was a donor darling following independence, first for historical and geopolitical considerations and then for its willingness to pursue reforms, structural adjustments and a successful democratic transition. However, weak macroeconomic performance is currently threatening donors' disbursement of budget support.
- Ghana has a thriving private sector and increasing foreign direct investment. Since the discovery of offshore oil and gas reserves in 2010, it has been attracting investment from new development partners, particularly China. Ghana is the third largest recipient of FDI inflows in Africa after South Africa and Nigeria.

## Development finance<sup>45</sup>

Development finance flows to Ghana have expanded nearly six-fold since 2000, from USD 966 million in 2000 to USD 5.7 billion in 2012. Volumes of ODA flows have also increased in nominal terms in the last decade (up to USD 1.8 billion in 2011, from USD 600 million in 2000). However, the relative contribution of ODA to the total development finance landscape is declining. FDI inflows have exceeded ODA flows since 2008 and workers' remittances, albeit small, are expanding rapidly as well.

There is a positive overall trend for official non-concessional flows from DAC members and MDBs, with a peak of nearly USD 150 million in 2009. However, OOFs represent a small share of total resources. With the graduation from IDA in the near future, the volume of OOFs is expected to expand.

Flows from non-DAC donors have also been on the rise, although they remain small in comparison to traditional ODA flows. Several non-traditional donors are active in Ghana, with Brazil, China and India the most important partners. China's presence has expanded over time, with a diversified set of instruments including interest free loans, resource-backed loans, export buyer's credit, grants, debt relief, and cultural and education exchanges, and they have recently been shifting from interest-free to concessional and non-concessional loans. Ghana has had major access to Chinese credit lines for some time, but take-up has been slow. Brazil's presence in Ghana is modest, with agriculture the main area of collaboration (both financial and technical assistance) between the two countries.

With respect to other non-traditional development assistance flows, the volume remains low but trends have been increasing. There is limited information available on philanthropic assistance at the country level. Based on Foundation Center Data for United States foundations, Ghana received an average of USD 11 million of philanthropic assistance flows each year between 2003 and 2012, corresponding to only 0.6% of ODA in 2011. Flows from the Global Fund amount to about 5% of ODA flows each year (on average). GAVI disbursed an average of USD 20 million each year, corresponding to approximately 1% of annual ODA flows. Climate finance pledges to Ghana totalled over USD 40 million from 2008-12, half of them disbursed so far, most in grant format, with the majority targeting mitigation objectives.

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<sup>45</sup> Please refer to Section 2.4 on the taxonomy of development finance flows. By development finance flows the report considers the sum of FDI, workers' remittances, development assistance from DAC members and multilateral organisations, other official flows, ODA-equivalent and OOF-equivalent flows from non-DAC members, philanthropic assistance, climate finance, assistance from vertical health funds (ODA flows are net of the two latter flows) and non-bank gross export credits. Development assistance includes flows with either a public or philanthropic motive (i.e. not purely for profit such as FDI inflows, or with a personal motive such as workers' remittances); that is, ODA flows or equivalent from non-DAC donors, philanthropic assistance, vertical health funds and climate finance (ODA flows are net of the two latter flows).

## Case study findings

The main messages to emerge from the case study are as follows:

- Ghana developed an Aid Policy and Strategy in 2010, which is expected to become an official document soon. The strategy is quite articulate and sophisticated when it comes to the elaboration of objectives and priorities, preferred aid modalities, debt management and level of concessionality.
- With respect to accessing new finance, Ghanaian government officials value access to more and diversified financing resources, which outweigh perceived greater complexity in the management of these flows. In the short to medium term, budget support is specified as the preferred aid modality. However, some development partners are phasing out of the country and/or have stopped their general budget support on the basis of weak macroeconomic performance. With regard to concessionality, Ghana is mainly guided by IMF disciplines (concessional loans containing a minimum grant element of 35%).
- There is currently no explicit division of labour between development partners; however, informal internal co-ordination does take place among donors. The aid policy provides guidelines to improve dialogue between donors and the government. However, from the interviews it emerged that government officials prefer bilateral channels of negotiation, both with traditional and non-traditional development partners. There is insufficient capacity at both the central and sectoral levels to co-ordinate between the Ministry of Finance and Economic Planning (MoFEP) and the line agencies. Priorities between central agencies and MDA (Ministries, Departments and Agencies) also differ.
- Participation of non-DAC donors in high-level forums appears to be the result of pressure from traditional partners to foster policy dialogue rather than of specific interest by the government. Philanthropic organisations and the private sector do not participate in these co-ordination groups, either at high-level or sectoral level.
- Until recently, the negotiation power of the government vis-à-vis development partners has strengthened due to the country's long-standing relations with donors and the evolution of Ghana's economic performance and democratic transition. The government's bargaining power vis-à-vis traditional donors has also strengthened due to the country's access to new sources of financing from China and the international financial markets. In fact, several government officials stressed their preference for market sources because the amount raised is much larger compared to what traditional development partners are able to provide, and they also come with no policy conditionality attached.



## E. Summary of the Senegal case study

### Introduction

Senegal was selected as a case study because of the variety of development finance resources the country has leveraged, ranging from development assistance to international financial markets. Furthermore, the country's dependency on aid flows from DAC donors has been declining over time. The research was carried out in Senegal over a two-week period in January 2014. This Annex provides a summary of the economic and government context in which development finance negotiations take place (see Section 2.1), the evolution of development finance flows since the early 2000s and the case study findings.

### Economic and governance context in Senegal

The contextual analysis reviewed for the study suggests that the following main factors shaped Senegal's negotiating strategies and outcomes in relation to development partners.

- Compared with the other two countries assessed in this project (Ghana and Timor-Leste), Senegal has been characterised by a low-growth trap with growth rates averaging 3% in the second half of the last decade.
- The IMF assessed Senegal to be at low risk of debt distress; however, its debt stock is increasing. The debt service ratio rose from 1.7% of GDP in 2007 to 2.5 % in 2011, and the external debt to GNI from 21% in 2008 to 31% in 2011. Senegal sought assistance from the IMF under its Policy Support Instrument (PSI) programme, which is foreseen to be in place until the end of 2014. As a result of the programme, the government faces a series of limits to new liabilities, depending on the level of concessionality of the loan.
- Senegal issued Eurobonds in 2009 and 2010 and regional syndicated loans within UEMOA at a lower borrowing rate (6% instead of the 8.75% annual rate for Eurobonds) in 2013.
- FDI flows are still small (2% of GDP) as the investment climate is far from being conducive to private sector development. The Ease of Doing Business index ranks Senegal at the bottom of the classification (178th) (World Bank, 2013), mainly due to slow administration processes, expensive and unstable energy supply, as well as difficulty in accessing land.
- Workers' remittances are the largest source of development finance in Senegal. Remittances doubled in relative terms during the past decade (from 5% of GDP in 2000 to over 10% in 2011); at four times the average for SSA, it now exceeds ODA flows, providing a sizable amount of foreign exchange.
- Senegal is a geostrategically relevant country due to its stability within the West Africa region. Senegal is considered to be dynamic on the international diplomatic scene and maintains good relations with Arab, Western, and emerging countries. It has easy market access to WAEMU and North African, notably Morocco, countries, and actively participates in regional and international forums and is seen as a leader in the region. Relations with China were only restored in October 2005.

## Development finance<sup>46</sup>

The landscape of development finance in Senegal has gone through major changes over the last decade, both in volume and composition, shifting from ODA flows to less traditional sources of development assistance and private flows.

Senegal is becoming less aid dependent. The ODA/GNI ratio was close to 10% in 2000 (twice as much as the SSA average) but now is 7.4% of GNI. While ODA flows are declining their contribution to the government budget still matters (one quarter of the total budget). The dominant aid modality is project aid (74% of total ODA flows) and grants are the prevailing form of assistance (65% of total ODA).

Development assistance from non-DAC donors is still small compared to more traditional development partners, but is growing in volume. Several Arab donors, in particular the Islamic Development Bank Group, are active in the country. Over 70% of IsDB projects are related to the infrastructure sector (ports, airports and energy) and the rest to the social sector (mainly social infrastructure in the education sector), both via semi-concessional loans (50% grant elements). Chinese assistance is marginal and mostly come in the form of grants targeting social infrastructure (schools and hospitals). ODA-like flows from China between 2006 and 2010 were equivalent to roughly 2% of total ODA. Interest-free loans have also been negotiated in the infrastructure sector (national power company, Kaolack airport, and the expansion of Dakar's and suburbs' networks).

Classified as a lower-middle income country, Senegal is still an IDA-only country, i.e. it has not yet shifted into blend status or IBRD funding. Other official flows to Senegal over the last decade have been small, an average of USD 31.5 million each year between 2002 and 2011 (equivalent to only 2.8% of ODA). France accounted for roughly 85% of total OOFs over the period 2002-2011.

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<sup>46</sup> Please refer to Section 2.4 on the taxonomy of development finance flows. By development finance flows the report considers the sum of foreign direct investment, workers' remittances, development assistance from DAC members and multilateral organisations, other official flows, ODA-equivalent and OOF-equivalent flows from non-DAC members, philanthropic assistance, climate finance, assistance from vertical health funds (ODA flows are net of the two latter flows), non-bank gross export credits. Development assistance includes flows with either a public or philanthropic motive (i.e. not purely for profit such as FDI inflows or with a personal motive such as workers' remittances), i.e. ODA flows or equivalent from non-DAC donors, philanthropic assistance, vertical health funds and climate finance (ODA flows are net of the two latter flows).

Philanthropic assistance flows are small and gathering accurate information is a challenge as most of their assistance target NGOs or international organisations and bypasses the government. However, Foundation Centre records more than USD 67 million was disbursed to Senegalese organisations from US organizations between 2003 and 2013. Climate finance flows are still small, but there are efforts to tap these resources. Since 2004, climate finance grant pledges to Senegal totalled over USD 32 million, with approximately 60% disbursed so far. Senegal was the first country to create a National Entity for the management of the Adaptation Fund.

### Case study findings

The main findings concerning priorities and preferences with regard to traditional and non-traditional development assistance that emerged from the case study are as follows:

- The current government is looking into additional resources to fund its new national development strategy. It is reaching out to less traditional sovereign donors, as well as international capital markets. With regards to aid modality and conditions, the government prefers budget support and grants absent of policy conditionality. However, budget support has been declining due to a combination of greater fiscal revenues and donors scaling down or withdrawing their programs. They also prefer projects that are larger in size to reduce transaction costs and increase effectiveness. While the government also expressed interest for development finance that can be delivered quickly in order to boost investment, most government officials stressed that the preference was first and foremost for good financial terms.
- The ability to mobilize additional resources, however, is constrained by both a cap on semi-concessional financing imposed by the PSI program under IMF surveillance as well as the government's limited absorptive capacity. To keep debt levels manageable, the government can neither contract nor guarantee external loans on non-concessional terms without the advice and the evaluation of the IMF. Furthermore, the absorption capacity in the country is limited. While there is a high level of execution when it comes to the government budget (90% of the national budget), this is not the case for assistance from development partners (approximately 60%) due to the use of parallel systems and limited reliance on country systems.
- Bilateral channels are the preferred method for negotiations with donors, especially emerging ones like China, with discussion and negotiations taking place at diplomatic level and the office of the Presidency. It is often the case that development partners negotiate directly with line agencies as well, involving the Ministry of Economy and Finance only at the final stage, when counterpart funding must be identified.
- The government is only marginally involved in aid co-ordination mechanisms as the development partners themselves are leading most of the efforts. Emerging non-traditional donors are not active in the aid co-ordination mechanisms. Some of them attend the high level meetings and thematic groups, but they tend to have a passive role. Although government has not established an explicit division of labour among donors, the government does seem to have a good knowledge of the comparative advantage of the different actors present in Senegal.

## F. Summary of the Timor-Leste case study

### Introduction

Timor-Leste was selected for this study because of its current shift from traditional ODA grants assistance to concessional and non-concessional debt finance as it transitions to middle-income status. Furthermore, the country has seen a recent decline in external assistance as a percentage of overall funding due to its endowment of natural resources. Research was carried out over a two-week period in December 2013. This section provides a summary of the economic and government context in which development finance negotiations take place (see Section 2.1), the evolution of development finance flows since the early 2000s and the case study findings.

### Economic and governance context in Timor-Leste

The contextual information reviewed for the study suggests that the following factors have shaped both Timor-Leste's behaviour and its negotiating ability with respect to dealing with traditional and non-traditional donors.

- Timor-Leste is one of the newest countries in the world, having formalised independence in 2002. Instability and violence marked the early years of its history, but the country has made significant progress in the last few years.
- Timor-Leste's economy is small but growing, particularly due to its endowment of natural resources. Supported by an oil boom and a number of international donors, the economy is growing fast, averaging 11% per annum over the past three years. Timor-Leste achieved low-middle-income status in 2011.
- The current government has dramatically expanded its fiscal policy, with a focus on major infrastructure projects. State spending has become unsustainable, however, requiring high levels of excess withdrawals from the country's Petroleum Fund. This high spending has also resulted in inflation in the double digits.
- While largely reliant at independence in 2002, aid has declined rapidly as a source of public finance for Timor-Leste. In 2002 grants were 86% of the budget, but in 2012 they contributed only 16%.
- Timor-Leste recently began taking out loans for the first time (in 2012) to fund major infrastructure projects, with some disbursements beginning in 2013. Current levels of borrowing still remain low, with most loan agreements on highly concessional terms. As Timor-Leste shifts to middle-income country status, however, it will face harder terms including higher rates, variable rates, and shorter maturity schedules from the development banks.
- Debt risk is now low. However, debt sustainability is contingent on both the authorities' commitment to scale back expenditures to sustainable levels (as they rose to amounts beyond the committed ESI, Estimated Sustainable Income, limits) as well as the development of new oil fields. The future of Timor-Leste's oil reserves is uncertain, with known reserves ending between 2021 and 2024.

- Timor-Leste has increased ownership of its development agenda in recent years, particularly through developing the Strategic Development Plan. However, this plan is primarily visionary in nature and remains to be translated into operational content for donors and sector strategies.
- Capacity remains weak and the administration is highly fragmented, especially as regards strategic oversight and planning activities. There is high reliance on external advisors. Inter-ministerial co-ordination is also weak due to the multitude of line ministries and agencies that can be involved in one sector.

### Development finance<sup>47</sup>

ODA constitutes the largest single development finance inflow to Timor-Leste. ODA represented 92% of official development finance flows to Timor-Leste in 2011 (USD 243 million in bilateral ODA, USD 40 million in multilateral ODA) as compared to assistance from non-DAC or non-traditional partners, which contributed only about USD 23 million or 8% of total development finance.

Timor-Leste's largest bilateral development partners are Australia, Portugal, the United States and Japan. These four development partners contributed USD 195 million or 64% of total development finance in 2011. Australia has been Timor-Leste's largest development partner, with ODA disbursements totalling USD 107.4 million or 36% of total ODA.

The largest non-traditional donor providing development finance to Timor-Leste is China. China's presence in Timor-Leste has not been high in financial terms compared to its engagement globally, but it has funded construction of major and very visible infrastructure projects including the Ministry of Foreign Affairs and Ministry of Defence buildings. Unlike other case study countries in this project, Timor-Leste has not yet drawn on Chinese export finance on semi-concessional or non-concessional terms (although one such loan has been under discussion for an extended period for the water and sanitation sector).

Several other countries also engage in South-South co-operation. Despite its cultural connection (e.g. language, arts, etc.), Brazil has provided marginal support to Timor-Leste, mostly in the field of education and vocational training. Cuban aid focuses on investments in human capital and emphasises social solidarity, as well as improvements to rural health systems. Indonesia is by far the largest trading partner of Timor-Leste and one of the largest contributors to FDI. Indonesia is

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<sup>47</sup> Please refer to Section 2.4 on the taxonomy of development finance flows. As development finance flows the report considers the sum of FDI, workers' remittances, development assistance from DAC members and multilateral organisations, other official flows, ODA-equivalent and OOF-equivalent flows from non-DAC members, philanthropic assistance, climate finance, assistance from vertical health funds (ODA flows are net of the two latter flows) and non-bank gross export credits. Development assistance includes flows with either a public or philanthropic motive (i.e. not purely for profit such as FDI inflows, or with a personal motive such as workers' remittances); that is, ODA flows or equivalent from non-DAC donors, philanthropic assistance, vertical health funds and climate finance (ODA flows are net of the two latter flows).

becoming a more robust partner for providing effective South-South co-operation, including technical assistance and government-funded scholarships to Timorese students. Indonesia is also involved in several Triangular Co-operation projects in Timor-Leste.

Trends in the individual components of other non-traditional development assistance are as follows. Climate finance is still low in Timor-Leste, but there is an increasing trend with new funding from GEF/LDCF. Total allocations through 2013 have totalled a little over USD 3 million, but it is expected that several recently approved projects amounting to close to USD 20 million will begin implementation in 2014. Vertical health funds, while less than 0.1% of total development finance in 2003, have also increased slightly to more than 3% in 2012. Disbursements of over USD 36 million were made from the Global Fund up to 2013. There is no evidence of major philanthropic contributions in Timor-Leste, with piecemeal data totalling USD 94 800 or less than 0.1% of total development finance.

### Case study findings

The case study report identifies four main messages from Timor-Leste in regard to managing development finance from traditional and non-traditional providers.

- Timor-Leste is no longer financially aid-dependent, and therefore has a stronger position in negotiating external finance compared to countries that are heavily aid-dependent. The Petroleum Fund provides some independence from donor-driven priorities and the freedom to spend without going into debt. Therefore, the government's main priority for engagement with the development partners is not financially motivated, but rather is to address its low technical capacity.
- The government has recently shifted to borrowing from bilateral and multilateral donors, as it finds it less costly to take out loans than to withdraw additional funds from the Petroleum Funds. The concessionality criterion for Timor-Leste is informally based on the annual rate of return generated by the Petroleum Fund. Currently, the rates of interests for borrowing from the multilateral banks and bilateral donors are lower than the current and forecasted yields from the Petroleum Fund investments (0.7% to 2.0% for loans, compared to yields of 4.1% in 2013 and 5.7% in the long term). The government remains selective in its choice of lenders. It reportedly turned down a loan from Portugal due to strict conditionality on the source of materials and/or labour, and it has been negotiating with China for almost two years on an export credit line for the sanitation sector.
- The Timorese government does not engage with non-traditional providers for a different to those in which it engages with traditional DAC donors. Apart from China, which has targeted large projects, the style of operations by the non-traditional donors appears to be typically people-to-people, i.e. scholarships, vocational training, and technical assistance. The traditional bilateral DAC donors, on the other hand, appear to focus mostly on social sectors such as education and health, while the multilateral banks are moving towards the infrastructure sector through concessional loans.

- Despite the government’s commitment to improve aid effectiveness, layers of donor co-ordination mechanisms have yet to materialise into harmonisation. Furthermore, the local aid architecture is mostly project-based finance and remains highly fragmented. Current donor co-ordination has mostly been informal and among like-minded bilateral donors. The non-DAC partners, although formally invited, do not actively participate in the existing donor co-ordination platforms, nor have they engaged with the new Development Policy Co-ordination Mechanism (DPCM). Development partners have often reported that weak donor co-ordination is partially due to lack of co-ordination from and within the government itself.

## G. Comparing Economic, Governance and Aid Context in Ghana, Senegal and Timor-Leste

### Economic and governance context

Variable	Ghana	Senegal	Timor-Leste
Current income group	LMIC since 2010	LMIC since 2009	LMIC since 2011
Middle-income target?	Yes, by 2020	Not available	Yes, by 2030
Gross Debt (% of GDP)	123.3% in 2000 51.2% in 2012	73.7% in 2000 43.3% in 2012	0 in 2002 0 in 2012 (43.6 projected in 2013)
Risk of debt distress	Moderate	Low	Low
Foreign direct investment (% of GDP)	3.3% in 2000 8.1% in 2012	1.34% in 2000 2.4% in 2012	--- in 2002 1.46% in 2012
Personal remittances, received (% of GDP)	0.7% in 2000 0.3% in 2012	5.0% in 2000 10.2% in 2010	---- in 2002 11.6% in 2011
Natural Resource Endowment (total natural resources rents as % of GDP) <sup>48</sup>	8.2% in 2000 19.2% in 2012	2.5% in 2000 5.4% in 2012	1.9% in 2002 62.9% in 2012

<sup>48</sup> Data for Ghana and Senegal are from the World Bank Development Indicators, while data for Timor-Leste is from the 2013 IMF Article IV report and IMF Staff Tables due to differences in reporting as a percent of oil vs. non-oil GDP.

Variable	Ghana	Senegal	Timor-Leste
Human development (out of 187 countries)	Index: 0.558; Rank 135	Index: 0.47; Rank 154	Index 0.576; Rank 134
CPIA (2006 vs. 2011) - overall	3.9 vs. 3.9	3.7 vs. 3.8	2.7 vs. 3.0
<i>Economic Management</i>	4.2 vs. 3.8	4.0 vs. 4.0	3.0 vs. 3.8
<i>Structural Policies</i>	3.8 vs. 4.2	3.7 vs. 4.0	2.5 vs. 2.8
<i>Policies for Social Inclusion/Equity</i>	3.9 vs. 3.9	3.4 vs. 3.5	2.6 vs. 2.9
<i>Public Sector Management/Institutions</i>	3.9 vs. 3.7	3.6 vs. 3.6	2.6 vs. 2.5
CPI (Transparency International)	Score: 45; Rank: 64	Score: 36; Rank 94	Score: 33; Rank 113
Geostrategic relevance	Not strategically relevant, but considered a stable country in the West Africa region.	Senegal is a geostrategically relevant country due to its location on the western edge of Africa (close to the newly radicalised areas of the Islamic Maghreb and some chronically conflict-prone neighbours) and its proximity to North African countries.	Timor-Leste is mostly geopolitically important in the region (Australia, Japan, Indonesia, China). but its oil revenues make it more relevant globally.



## Aid Context

Variable	Ghana	Senegal	Timor-Leste
Net ODA received (% of GNI)	4.7 in 2012	7.8 in 2012	5.8 in 2012
Net ODA received per capita (current USD )	USD 71.2 in 2012	USD 78.7 in 2012	USD 233.9 in 2012
ODA as a % of total development assistance	74% in 2012	93% in 2012	96% in 2012
ODA as a % of total development finance	29.7% in 2012	72% in 2012	66% in 2012
Does the country have a written aid policy strategy?	Not yet an official document, but the Ministry of Finance and Economic Planning developed an explicit Aid Policy and Strategy in 2010, which was amended and submitted to the Cabinet early 2013.	The <i>politique nationale de l'aide extérieure</i> (PAES, the national external aid policy) has been validated on a technical level and is still awaiting Cabinet approval.	No, but the government is currently drafting an aid policy.
Does the country have an aid target and an aid exit strategy, either formal or informal?	Yes, there is an explicit government strategy to end aid dependency. The Aid and Policy Strategy explicitly mentions the need to reduce dependence on aid in the medium-to the long term with increasing efforts to mobilise non-aid resources to fund its development objectives.	No	No