Development Co-operation Report 2014

MOBILISING RESOURCES FOR SUSTAINABLE DEVELOPMENT



The Development Assistance Committee: Enabling effective development

OECD

Development Co-operation Report 2014

MOBILISING RESOURCES FOR SUSTAINABLE DEVELOPMENT



BETTER POLICIES FOR BETTER LIVES

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

Please cite this publication as:
OECD (2014), *Development Co-operation Report 2014: Mobilising Resources for Sustainable Development*, OECD Publishing.
http://dx.doi.org/10.1787/dcr-2014-en

ISBN 978-92-64-21091-2 (print)
ISBN 978-92-64-21601-3 (PDF)
ISBN 978-92-64-22075-1 (HTML)

Annual: Development Co-operation Report
ISSN 2074-773X (print)
ISSN 2074-7721 (online)

Revised version, November 2014
Details of revisions available at: *www.oecd.org/about/publishing/Corrigendum-DCR-2014.pdf*.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Corrigenda to OECD publications may be found on line at: *www.oecd.org/about/publishing/corrigenda.htm*.

© OECD 2014
Except for content in Box 11.2 on page 139 under Copyright [2014] International Finance Corporation.

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of the source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to *rights@oecd.org*. Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at *info@copyright.com* or the Centre français d'exploitation du droit de copie (CFC) at *contact@cfcopies.com*.

Foreword

by
Angel Gurría, OECD Secretary-General

The OECD has been working on the definition and monitoring of official development assistance (ODA) and other official flows for development. Most recently, we have been leading global efforts to ensure that official development finance is fit-for-purpose in today's quickly evolving development landscape: we are modernising our development finance statistical systems and revising the definition of what qualifies as ODA.

Although ODA has recently reached record levels – despite budgetary constraints in many OECD countries – its relative importance is shrinking in comparison to other flows and resources. Nowadays, developing countries have more access to alternative sources of finance than ever before, including through private investment and co-operation among developing countries. It is fundamental to ensure that public funds are spent in a smart and strategic manner, and that they are used to mobilise other sources of finance to cover the increasingly complex demands of sustainable global development.

At the OECD, we are using our wide range of expertise to mobilise resources for sustainable development. Two years ago we put in place an ambitious Strategy on Development to leverage our cumulative experience and expertise. Among many concrete initiatives, we are playing an important role in promoting foreign direct investment in infrastructure, which is desperately needed in many developing countries and completely left out of the Millennium Development Goals (MDGs). We also continue to look for new ways of capturing green investment and promoting relevant policy frameworks to ensure that growth and environment goals go hand in hand. Likewise, we are helping developing countries to finance their own development by improving their taxation systems and practices through initiatives like Tax Inspectors Without Borders, as well as by avoiding the loss of funds due to corruption and illicit financial flows. And we are contributing to global efforts to explore how remittances, social business and philanthropic initiatives can support sustainable development in the most effective way.

Yet, we recognise that for many countries – particularly those beset by conflict and fragility – ODA will continue to play a vital role, and we are looking at how to channel an increased share of ODA to the countries most in need. This is particularly important given the trend we have seen over the past three years of declining levels of ODA going to the countries most in need, including sub-Saharan Africa and many fragile states.

Ending poverty, preserving the environment, combatting climate change, ensuring peace and security, increasing resilience, and establishing a fair and equal trading system are no longer national issues. They are challenges that must be addressed and supported at the global level.

The United Nations is leading the effort to establish the new set of Sustainable Development Goals that will guide us beyond 2015, the deadline for the present set of MDGs. Mobilising a broad mix of resources is crucial for the post-2015 world, where development goals will overcome the development-environment divide, merging into a single global framework for sustainable development. Funding these new goals will require inputs from across the board – from public and private sources and from all communities and countries.

The OECD will continue to be central to this endeavour, by monitoring and tracking the resources needed to realise these goals. Perhaps more important, we will also apply our expertise to support the policies that will make change happen. This Development Co-operation Report (DCR) 2014 *illustrates our commitment to these objectives.*



Angel Gurría
OECD Secretary-General

Credits

Report by Erik Solheim, DAC Chair

Conceptual and project leader

Hildegard Lingnau

Lead analyst

Julia Sattelberger

Part IV analysts

Ida Mc Donnell (lead analyst)
Yasmin Ahmad
Willem Luijkx
Rahul Malhotra
Julie Seghers

Statistical annex lead analyst

Yasmin Ahmad

Managing editor

Christine Graves

Copy editor

Fiona Hinchcliffe

Proof reader

Jennifer Allain

Production manager

Elizabeth Del Bourgo

Co-ordination for the DAC Chair's Office

Erlend Haugen

Cover design

Stephanie Coïc

The team wishes to thank all others who played a part in producing the DCR 2014 and regrets any omissions.

Table of contents

Acronyms and abbreviations 17

Editorial: More and better financing for development 19
by Erik Solheim

Executive summary 23

Chapter 1. **How to better mobilise resources for sustainable development** 27
by Raundi Halvorson-Quevedo, Hildegard Lingnau and Julia Sattelberger

A broader agenda will require broader finance 29
Where will the financing for the global Sustainable Development Goals come from? 29
In my view: *Korea's use of ODA can guide other countries in their development, by Yun Byung-se* 30
Smart ODA can have a multiplier effect 32
The time for ideas is now 34
Notes 34
References 34

Part I

Existing sources of financing for sustainable development

Chapter 2. **Keeping ODA focused in a shifting world** 39
by Suzanne Steensen

There are large differences in developing countries' needs and access to finance 40
The relative importance of ODA is diminishing, but not everywhere 44
Least developed countries are the most dependent on ODA 44
Middle-income countries still face many development challenges 44
In my view: *The Structural Gap approach offers a new model for co-operation with middle-income countries, by Alicia Bárcena* 45
ODA growth is slowing in those countries that need it most 46
In my view: *Half of all ODA should go to the least developed countries, by Gyan Chandra Acharya* 47
Official finance must be used to its greatest potential 48
Key recommendations 49
Notes 49
References 49

Chapter 3. **Growing dynamism in South-South co-operation** 51
by Sachin Chaturvedi

South-South co-operation is remodelling the development finance landscape 52
South-South co-operation is founded on equity and mutual benefit 56
Key recommendations 57

Notes 57
References 57

Chapter 4. **The growing development potential of other official flows** 59
by Alexander Klein, Cécile Sangaré and Giovanni Maria Semeraro

Other official flows are gaining importance in the development finance landscape 60
International financial institutions are by far the largest providers of other official flows . . . 62
Development finance institutions help fill the gap between public aid and private investment 64
Officially supported export credits can be critical for financing large projects in developing countries 66
Key recommendations 68

Notes 68
References 69

Chapter 5. **Putting foreign direct investment to work for development** 71
by Michael Gestrin

Foreign direct investment to developing countries is on the rise 72
China accounts for a large share of both inward and outward foreign direct investment 74
Africa receives the lowest share of foreign direct investment 74
Investment appears to be "de-globalising" 75
How can the positive aspects of foreign direct investment be harnessed? 78
Key recommendations 78

Notes 78

Chapter 6. **Are institutional investors the answer for long-term development financing?** 79
by Raffaele Della Croce

Institutional investment is on the rise 81
Policy reform can remove barriers to institutional investment 84
In my view: *The OECD must take charge of promoting long-term investment in developing country infrastructure, by Sony Kapoor* 85
Key recommendations 88

Notes 88
References 88

Chapter 7. **Tax revenues as a motor for sustainable development** 91
by Gregory De Paepe and Ben Dickinson

Taxation plays a central role in promoting sustainable development 92
Developing countries face "taxing" challenges 93
In my view: *Africa can fund its own sustainable development, by Abdalla Hamdok* 95
The development community could do more to support tax systems 96
Key recommendations 97

Notes 97
References 97

Chapter 8. **Foundations as development partners** 99
by Bathylle Missika and Emilie Romon

Foundations are increasingly prominent in development co-operation 100
Foundations have important qualities as development actors 102
Two myths undermine effective co-operation between foundations and the development community 104
Collaboration can be strengthened in several ways 106
Key recommendations 106

Notes 107
References 107

Chapter 9. **The changing role of NGOs and civil society in financing sustainable development** 109
by Sarah Hénon, Judith Randel and Chloe Stirk

Estimates of how much NGOs mobilise directly from the public differ 110
Direct giving is growing fast 113
NGOs manage and mobilise more than they raise 115
Transparency and accountability are crucial 115
New business models are needed for the new global goals 117
Key recommendations 118

Notes 118
References 118

Chapter 10. **What place for remittances in the post-2015 framework?** 121
by Kathryn Nwajiaku, Jolanda Profos, Cécile Sangaré and Giovanni Maria Semeraro

Remittances are on the rise, but their full scale is uncertain 123
Remittances make up a large share of developing countries' gross domestic product 124
The links between remittances and development are complex 124
There are several obstacles to the use of remittances for financing development 126
In my view: *We need to harness the potential of remittances in Africa, by Mthuli Ncube* 128
Countries are already taking steps to harness their remittances for development 129
Key recommendations 129

Notes 129
References 130

Part II

Mechanisms for increasing resources for sustainable development

Chapter 11. **Using financial instruments to mobilise private investment for development** 135
by Mariana Mirabile, Cécile Sangaré and Claudia Schmerler

Pooling resources allows for large-scale investment 136
Guarantee schemes reduce investor risk 138
In my view: *ODA should be used to enhance risk sharing between the private and public sectors, by Pierre Jacquet* 140
Public sector investment in risk capital mobilises additional finance 141
In my view: *Returns for success are the best means of stimulating private investment, by Owen Barder* 142
Key recommendations 143

Notes 144
References 144

Chapter 12. **Creating an environment for investment and sustainable development** 145
by Carole Biau and Mike Pfister

Regulations and good legal capacity can encourage investors 148
Good laws, and the capacity to enforce them, are fundamental 149
Attracting investment is one thing, making it work for development is another 149
Creating fertile ground for infrastructure investment is a priority 152
It is important to tap the synergies between trade and investment 153
In my view: *Any developing country can undergo dynamic structural transformation, starting now, by Justin Yifu Lin* 154
Responsible business conduct is essential to the international investment climate 155
Key recommendations 155

Notes 156
References 156

Chapter 13. **Fighting corruption and illicit financial flows** 157
by Alessandra Fontana

Many OECD countries are susceptible to money laundering 158
Progress on fighting foreign bribery is mixed 159
Greater political will is needed for recovering illicit assets 161
"Smarter" development co-operation can help developing countries reduce corruption 162
Developing countries need to strengthen their own governance systems 163
Key recommendations 164

Notes 164
References 165

Chapter 14. **Supporting countries in growing their tax base** 167
by Gregory De Paepe and Ben Dickinson

Support to tax systems can take many forms 168
In my view: *Development depends on realising the potential of taxation, by Ngozi Okonjo-Iweala* . . 171
Global processes are needed to address international tax matters 172
How tax support is delivered is also important 173
A few basic principles can guide effective support to tax reform 173
Development agencies need to set a good governance example 174
Supporting tax systems in fragile states is especially urgent 174
Key recommendations 175

Notes 175
References 175

Chapter 15. **Innovating to finance development** 177
by Julia Benn and Mariana Mirabile

Innovative financing for development is an evolving concept 178
Innovative development finance is already in action 180
The potential of innovative financing is still largely untapped 181
In my view: *Innovative financing can put the world's wealth to work for all people, by Philippe Douste-Blazy* 183
Key recommendations 184

Notes 185
References 185

Chapter 16. **Enhancing the contribution of social business to sustainable development** 187
by Kerstin Humberg and Linda Kleemann

Social entrepreneurship is widespread and varied in developing countries 189
Social business has some advantages over conventional development co-operation 189
In my view: *Development without sustainability is meaningless, by Muhammad Yunus* 190
Creating a viable social business is complicated 192
Social business is not risk-free 192
Is social business a promising development approach? 194
Key recommendations 195

Notes 195
References 195

Part III

Development finance post-2015 and the provision of global goods

Chapter 17. **How can development co-operation address global challenges?** 199
by Age Bakker

Official development assistance needs to respond to global challenges 200
A global public goods approach calls for wide political buy-in 201
Financing the new global agenda will require innovation 201
International co-operation will need to be governed coherently 202
Key recommendations 204

Notes 204
References 204

Chapter 18. **Finding synergies for environment and development finance** 207
by Jan Corfee-Morlot and Stephanie Ockenden

Financing global and local environmental sustainability 209
External financing for the environment and development 211
Careful management will be needed to make the most of environment and development synergies 213
In my view: *Well-financed climate change action must be central to the post-2015 goals, by Manuel Pulgar Vidal* 214
Key recommendations 215

Notes 216
References 216

Chapter 19. **Financing peace and security for sustainable development** 219
by Tilman Brück and Gary Milante

We need better data on peace and security 220
Financing peace and security is a political challenge 222
Prevention is better than cure 224
Financing peace and security requires innovative thinking 224
Funding global diplomacy and justice is a must 225
Key recommendations 226

Notes 226
References 226

Chapter 20. **Backing recovery in fragile states** . . . 229
by Kathryn Nwajiaku and Jolanda Profos

Least developed fragile states depend heavily on development co-operation . . . 230
Remittances are an important resource for fragile states . . . 231
Foreign direct investment in fragile states is volatile . . . 232
Raising domestic revenue offers both potential and challenges . . . 233
Appropriate risk management can promote investment in fragile states . . . 234
Key recommendations . . . 235

Notes . . . 235
References . . . 236

Chapter 21. **Supporting a fair and equal trading system** . . . 237
by William Hynes

The nature of world trade is changing . . . 238
There are still impediments to equitable world trade . . . 239
Aid for trade can help countries meet their development goals . . . 239
The WTO Bali Agreement promises to facilitate trade . . . 241
In my view: *The full potential of trade for development is yet to be tapped, by Roberto Azevêdo* . . . 243
Key recommendations . . . 244

Notes . . . 244
References . . . 244

Part IV

Profiles of development co-operation providers

Trends in Development Assistance Committee members' development co-operation: A synthesis of peer reviews, 2012-14 . . . 249
Strategic orientations . . . 251
Allocations . . . 252
Organisation and management . . . 253
Operations and delivery . . . 253
Results, transparency and accountability . . . 254
Humanitarian assistance . . . 255

References . . . 255

Annex 22.A1. Status of peer review recommendations . . . 256

Development Assistance Committee members' ODA performance in 2013 . . . 257
Overall aid trends . . . 258
Aggregate aid trends by aid types and channels . . . 259

Notes . . . 265
References . . . 265

Profiles of Development Assistance Committee members . . . 267
Australia . . . 268
Austria . . . 272
Belgium . . . 276
Canada . . . 280
Czech Republic . . . 284
Denmark . . . 288

European Union institutions . . . 292
Finland . . . 296
France . . . 300
Germany . . . 304
Greece . . . 308
Iceland . . . 312
Ireland . . . 316
Italy . . . 320
Japan . . . 324
Korea . . . 328
Luxembourg . . . 332
Netherlands . . . 336
New Zealand . . . 340
Norway . . . 344
Poland . . . 348
Portugal . . . 351
Slovak Republic . . . 355
Slovenia . . . 358
Spain . . . 361
Sweden . . . 365
Switzerland . . . 369
United Kingdom . . . 373
United States . . . 377

Trends and profiles of other providers' development co-operation . . . 381
Estimated global concessional development finance ("ODA-like" flows) . . . 382
Providers of development co-operation that report to the OECD . . . 383
Overview of other providers that report to the OECD . . . 388
Non-reporting countries . . . 388
Private development flows . . . 395

Notes . . . 395
References . . . 396

Annex A. **Statistical annex** . . . 397
Annex B. **Methodological notes on the Profiles of Development Assistance Committee members** . . . 414
Annex C. **Technical notes on definitions and measurement** . . . 416

Glossary . . . 420

Tables

3.1. Some recent South-South currency swap arrangements . . . 54
4.1. Non-concessional financing by international financial institutions, 2012 . . . 64
10.1. Remittances as a share of developing countries' gross domestic product, 2005-12 . . . 123
10.2. Top 10 recipients of personal remittances, 2005-12 . . . 123
15.1. Proposed innovative financing mechanisms for development . . . 182
17.1. From an official development assistance target to a target for international co-operation . . . 203
53.1. Estimates of gross concessional flows for development co-operation from OECD Key Partners . . . 389
53.2. Estimated development-oriented contributions to and through multilateral organisations by OECD Key Partners, 2012 . . . 390

A.1. DAC members' net official development assistance in 2013 . . . 399
A.2. Total net flows from DAC countries by type of flow . . . 400
A.3. Total net flows by DAC country . . . 401
A.4. Net official development assistance by DAC country . . . 402
A.5. Total net private flows by DAC country . . . 403
A.6. Official development finance to developing countries . . . 403
A.7. ODA by individual DAC country at 2012 prices and exchange rates . . . 404
A.8. ODA from DAC countries to multilateral organisations in 2012 . . . 405
A.9. Aid by major purposes in 2012 . . . 406
A.10. Distribution of ODA by income group . . . 407
A.11. Regional distribution of ODA by individual DAC donors . . . 408
A.12. Concessional flows for development from non-DAC providers of development co-operation . . . 409
A.13. Concessional and non-concessional flows by multilateral organisations . . . 410
A.14. Deflators for resource flows from DAC donors (2012 = 100) . . . 411
A.15. Annual average dollar exchange rates for DAC members . . . 412
A.16. Gross national income and population of DAC member countries . . . 413
C.1. DAC List of ODA Recipients . . . 418
C.2. Debt forgiveness of non-ODA claims . . . 419

Figures

2.1. The relative weight of ODA in external financing to developing countries, 2000-11 . . . 41
2.2. Sub-groupings of ODA-eligible countries . . . 42
2.3. ODA-eligible sub-groups at a glance: Characteristics and finance flows . . . 43
2.4. External finance to developing countries, 2000 and 2011 . . . 44
2.5. How is ODA growing across the country groups? . . . 46
3.1. Growth in South-South foreign direct investment, 1990-2009 . . . 55
4.1. Share of non-concessional financing in international financial institutions' total operations, 2000-12 . . . 62
4.2. Geographical allocation of international financial institutions' operations, 2012 . . . 63
4.3. International financial institutions' operations by sector, 2012 . . . 64
4.4. International financial institutions' non-concessional operations with the private sector, 2012 . . . 66
4.5. Which sectors benefit from export credits in developing countries? . . . 67
4.6. Main DAC providers of export credit financing, 2010-12 . . . 67
4.7. Top 10 beneficiaries of export credits, 2011 and 2012 . . . 68
5.1. Inward FDI into developing economies, 1990-2012 . . . 73
5.2. The BRICS' share of G20 inward foreign direct investment . . . 74
5.3. The BRICS' share of G20 outward foreign direct investment . . . 74
5.4. Regional shares of inward foreign direct investment, 1990-2012 . . . 75
5.5. International mergers and acquisitions versus international divestment in developing countries, 2004-13 . . . 76
5.6. China's net inward international mergers and acquisitions, 1996-2013 . . . 77
5.7. China's net outward international mergers and acquisitions and divestment, 2003-13 . . . 77
6.1. Total assets by type of institutional investor in the OECD, 2001-12 . . . 82
6.2. The growing importance of pension funds, 2008 and 2012 . . . 83
6.3. Importance of pension funds relative to the size of the economy in selected non-OECD countries, 2012 . . . 84
7.1. Official development assistance for tax-related activities, 2004-12 . . . 96
8.1. Philanthropy: A small slice of the external finance pie . . . 102

9.1. Funds raised from private sources by NGOs based in DAC member countries, 2008-12 . . 112
9.2. Sources of private giving to NGOs, 2006-11 112
9.3. Kiva lending volume and total number of active lenders, 2011 versus 2012 113
9.4. WaterAid's international funded activities by country and implementing organisation . . 116
10.1. Remittances: A major source of external finance for developing countries, 2000 and 2012 122
10.2. The cost of sending USD 200 from G20 countries is falling 127
11.1. Risk levels of structured capital 141
12.1. Share of foreign direct investment in gross fixed capital formation in China and Viet Nam 150
13.1. Total number of individuals and legal persons sanctioned or acquitted for foreign bribery, 1992-2012 160
13.2. Recovered stolen assets, 2006-12 161
15.1. Varying definitions of innovative financing for development 179
15.2. Potential of "innovative sourcing and spending" mechanisms 182
15.3. Annual mobilisation potential of financial transaction taxes 184
18.1. ODA to the environment, 2004-12 211
18.2. The multiple objectives of environmental development co-operation, 2010-12 212
20.1. Development co-operation to fragile states is falling 231
20.2. Major inflows in fragile states: Remittances, aid and foreign direct investment 232
22.A1.1. Status of peer review recommendations by reviewed member, January 2012-April 2014 256
22.A1.2. Status of peer review recommendations by chapter, January 2012-April 2014 256
23.1. Composition of DAC countries' bilateral ODA, 2012, gross disbursements 259
23.2. Bilateral ODA by income group, 2003-12, gross disbursements 260
23.3. DAC countries' net ODA to least developed countries as a % of GNI, 1960-2012 260
23.4. Untying status of DAC countries' bilateral aid, 2012 261
23.5. DAC countries' share of ODA channelled to and through the multilateral system, two year averages, gross disbursements 262
23.6. Bilateral ODA to and through CSOs, total DAC countries, two year averages, gross disbursements 262
23.7. Total DAC countries' ODA for gender equality and women's empowerment, 2002-12, commitments 263

24-52. Official development assistance figures by country, when available

Net resource flows to developing countries
Net ODA: Trends in volume and as a share of GNI
Share of ODA channelled to and through the multilateral system, gross disbursements
Composition of bilateral ODA, gross disbursements
Bilateral ODA to and through CSOs, gross disbursements
Share of bilateral ODA by region, gross disbursements
Bilateral country-allocable ODA to top recipients, gross disbursements
Bilateral ODA by income group, gross disbursements
Share of bilateral ODA by sector, commitments
Share of bilateral ODA in support of gender equality by sector, commitments
Bilateral ODA in support of global and local environment objectives, commitments

Australia 268
Austria 272
Belgium 276

Canada . . . 280
Czech Republic . . . 284
Denmark . . . 288
European Union institutions . . . 292
Finland . . . 296
France . . . 300
Germany . . . 304
Greece . . . 308
Iceland . . . 312
Ireland . . . 316
Italy . . . 320
Japan . . . 324
Korea . . . 328
Luxembourg . . . 332
Netherlands . . . 336
New Zealand . . . 340
Norway . . . 344
Poland . . . 348
Portugal . . . 351
Slovak Republic . . . 355
Slovenia . . . 358
Spain . . . 361
Sweden . . . 365
Switzerland . . . 369
United Kingdom . . . 373
United States . . . 377

53.1. Gross concessional financing for development ("ODA-like" flows) . . . 383
53.2. ODA key statistics: Turkey . . . 386
53.3. ODA key statistics: United Arab Emirates . . . 387
A.1. DAC members' total net resource flows to developing countries, 1970-2012 . . . 397
A.2. Net official development assistance, 1960-2013 . . . 397
A.3. Donor shares of net official development assistance, 1970-2012 . . . 398
A.4. Trends in sector-specific aid, 1973-2012 . . . 398

This book has...



StatLinks

A service that delivers Excel® files from the printed page!

Look for the *StatLinks* at the bottom right-hand corner of the tables or graphs in this book. To download the matching Excel® spreadsheet, just type the link into your Internet browser, starting with the ***http://dx.doi.org*** prefix.
If you're reading the PDF e-book edition, and your PC is connected to the Internet, simply click on the link. You'll find *StatLinks* appearing in more OECD books.

Acronyms and abbreviations

ADB	Asian Development Bank
AfDB	African Development Bank
BEPS	Base erosion and profit shifting
Bn	Billion
BRICS	Brazil, the Russian Federation, India, China and South Africa
CBD	Convention on Biological Diversity
CDP	United Nations Committee on Development Policy
CO_2	Carbon dioxide
CPA	Country programmable aid
CRS	Creditor Reporting System
CSO	Civil society organisation
DAC	OECD Development Assistance Committee
DCR	Development Co-operation Report
DFI	Development finance institution
DFID	Department for International Development (United Kingdom)
DRC	Democratic Republic of Congo
EBRD	European Bank for Reconstruction and Development
ECG	Export Credit Group
EDF	European Development Fund
EDFI	European Development Finance Institutions
EFP	European Financing Partners
EU	European Union
EUR	Euro (currency)
FATF	Financial Action Task Force (on money laundering)
FDI	Foreign direct investment
FYROM	Former Yugoslav Republic of Macedonia
GDP	Gross domestic product
GEF	Global Environment Facility
GFTAM	Global Fund to Fight AIDS, Tuberculosis and Malaria
GNI	Gross national income
GPEDC	Global Partnership for Effective Development Co-operation
HLP	High-Level Panel of Eminent Persons on the Post-2015 Development Agenda
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDB	Inter-American Development Bank Group
IDB	Islamic Development Bank
IEA	International Energy Agency
IFC	International Finance Corporation
IFD	Innovative financing for development
IFF	Illicit financial flows

IFFIm	International Finance Facility for Immunization
IMF	International Monetary Fund
INR	Indian rupee (currency)
IPCC	Intergovernmental Panel on Climate Change
LDC	Least developed country
LG	Leading Group on Innovative Financing for Development
LIC	Low-income country
LMIC	Lower middle-income country
MDG	Millennium Development Goal
MENA	Middle East and North Africa
MIC	Middle-income country
MNE	Multinational enterprise
netFWD	Global Network of Foundations Working for Development
NGO	Non-governmental organisation
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
OOF	Other official flows
PPP	Purchasing power parity
StAR	World Bank Stolen Asset Recovery Initiative
RMB	Chinese renminbi (currency)
TIWB	Tax Inspectors Without Borders
Tn	Trillion
UAE	United Arab Emirates
UMIC	Upper middle-income country
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change
USAID	United States Agency for International Development
USD	United States dollar (currency)
WHO	World Health Organization
WTO	World Trade Organization

Editorial: More and better financing for development

by
Erik Solheim, Chair of the OECD Development Assistance Committee

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

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

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

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

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

The world is changing and so must development co-operation

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

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

Despite this changing geography of poverty, however, it is in many of the poorest and most fragile states that least progress is made. Within five years, most extremely poor people will be living in fragile states. ODA remains of vital importance to the least developed countries and fragile states because they have limited capacity to access other forms of financing, for instance to fund infrastructure, basic health services and education. Yet many of these countries still do not receive enough external support, and are even faced with declining assistance. Providers of development co-operation must find a way to increase assistance to these countries. The existing UN target of providing 0.15-0.20% of national income to the least developed countries is difficult to reach for providers whose total ODA budgets are less than this. A different target, for example of 50% of ODA directed to the poorest and most fragile countries, might make more sense.

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

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

Countries are in charge of their own development

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

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

Green finance is development finance

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

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

There are many sources of financing available to eradicate poverty and spur sustainable growth. All we have to do is grab them. This report contains a wealth of ideas on how to do so.

Executive summary

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

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

How to fund sustainable development?

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

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

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

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

- Sustainable development is no longer a matter of the "North" giving "aid" to the "South"; it is a question of balanced sharing of opportunities, responsibilities and options.
- More and more developing countries are fuelling their own development, and are providing development co-operation themselves (Chapter 2).
- Poverty reduction and sustainable development increasingly hinge on progress towards resolving "problems without passports" – war and conflict (Chapter 19), environmental and climate challenges (Chapter 18), a precarious financial environment, unfair trade terms (Chapter 21) and infectious diseases – problems that traditional development approaches are not equipped to tackle (Chapter 17).

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

ODA still matters

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

- ODA can provide crucial funds and backing for the fragile and least developed countries, which find it hard to attract or raise other resources (Chapter 19).
- ODA can be used to make investment attractive in high-risk situations by spreading and sharing risk, and by creating incentives (Chapters 11, 12 and 15).
- ODA can help countries raise and manage their own domestic resources through capacity building and sharing of good practice (Chapters 7 and 14).
- ODA can support the creation of a positive development and investment environment through policy reform in areas such as investment and trade (Chapters 12 and 21).

Development will increasingly be sustained from within

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

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

Next steps

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

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

ODA has often been seen as the principal source of funding for development…



But today, the environment has changed



Developing countries' circumstances, needs and options are evolving



There are new providers and many other resources for development…



…and much potential still to be tapped…



…including countries' mobilisation of their own resources

If the world is to meet its post-2015 goals for sustainable development…



Global issues require global solutions



Greater resources are needed



Co-operation and policy coherence are key

ODA can play a key role…



Supporting countries that find it hard to attract other resources



Making investment attractive in high-risk situations



Leveraging other resources



Helping countries mobilise domestic resources



Promoting policy reform

…but only if ODA is made "smart"



Fit-for-purpose in the current financial environment



Effective in mobilising other resources



Targeted where it is needed most



Potential sources of finance and knowledge



"Smart" ODA levers

Domestic resources

Policy reform and coherence

© OECD 2014

Chapter 1

How to better mobilise resources for sustainable development

by
Raundi Halvorson-Quevedo, Hildegard Lingnau *and* Julia Sattelberger,
Development Co-operation Directorate, OECD

This is an exciting, and challenging, time for the global community as the details of the post-2015 development agenda begin to crystallise. The signs are that it will be a much broader approach than the Millennium Development Goals, applying to developed and developing countries alike and embodying new concepts and ways of viewing development. Such a holistic and ambitious agenda will require financing to match. This first chapter of the Development Co-operation Report 2014 *outlines the financing context and gives an overview of the many resources beyond official development assistance (ODA) that can and should be tapped and channelled to finance sustainable development. The world now faces the challenge of mobilising and directing these resources to achieve global goals while keeping ODA focused on where it can make the greatest difference. The OECD is currently working to devise new measures of development finance to reflect these major changes in the development finance landscape and to create the right incentives for ODA to be used in a smart way to mobilise additional resources to finance sustainable development.*

This chapter also includes an opinion piece by Yun Byung-se, Minister of Foreign Affairs, Republic of Korea, on how Korea's use of ODA can guide other countries in their development.

Time is nearly up for realising the world's first internationally agreed vision for reducing poverty – the Millennium Development Goals (MDGs). The international community is currently engaged in wide-ranging discussions and analysis to determine the scope, underlying principles, priorities and means of implementation of the follow-up set of goals, slated for achievement by 2030. Although negotiations about this post-2015 development agenda just began in September 2014 at the United Nations General Assembly (UNGA), the signs are that it will be a single and universal agenda (HLP, 2013; UNGA, 2013a; UNGA, 2013b; UN OWG, 2014). While retaining the poverty reduction and social development focus of the MDGs, it will integrate social, environmental and economic goals into a single set of global Sustainable Development Goals. This represents a much broader approach than the MDGs, applying to developed and developing countries alike and embodying new concepts and ways of viewing development (Box 1.1). The new agenda will also aim at securing the global enabling conditions for sustainable development, such as lasting, inclusive and sustainable economic growth; resilient infrastructure; a stable environment and climate; peace and security; and a fair and equal trading system.

Box 1.1. **The changing development lexicon…**

The new global agenda will require buy-in and support from all countries. It is no longer only a question of the "North" giving "aid" to the "South". The landscape has shifted and new realities need to be reflected in new ways of thinking about – and acting upon – development:[1]

- **From aid to development co-operation:** The North-to-South approach is developing into a universal "we are all in this together" vision, where problems are no longer perceived as being located in the South and solutions in the North; rather, problems as well as solutions can be found everywhere. OECD Development Assistance Committee (DAC) members will continue to provide development co-operation, but they are not the only ones. Today, the single biggest provider of official development assistance (ODA) in relative terms (as a share of its gross national income) is the United Arab Emirates, which is not a DAC member country.[2] Many other forms of co-operation also are on the rise, such as South-South co-operation, triangular development co-operation and new multilateral initiatives such as the new BRICS[3] Development Bank (see Chapter 3).
- **From donor to provider:** In the same vein, providers of development co-operation are no longer seen as charitable "donors", but rather as providers of diverse types of support (from technical co-operation to concessional funding and many other means of implementing global goals). Such solutions should ultimately benefit the world at large.
- **From recipient to partner:** Many of the countries that used to be called "recipient countries" are today simultaneously providers and hosts of development co-operation. The post-2015 agenda will call upon all countries to achieve the global goals through a partnership based on common interests but differentiated responsibilities reflecting countries' capacities.

1. For more information about the changing realities and how to live up to them see: Kaul and Conceicao (2006); OECD (2007); Severino and Ray (2009); Severino and Ray (2010); ECDPM (2012); Greenhill and Prizzon (2012); Kharas and Rogerson (2012); Greenhill and Ali (2013); World Bank (2013); UNGA (2013c); GPEDC (2011); WEF (2013); WEF (2014).
2. The United Arab Emirates became the first formal Participant in the OECD Development Assistance Committee (DAC) on 1 July 2014 (*www.oecd.org/dac/dac-global-relations/uae.htm*).
3. The BRICS refers to the country grouping of Brazil, the Russian Federation, India, China and South Africa.

A broader agenda will require broader finance

Such a holistic and ambitious agenda will require financing to match. In particular, to finance poverty reduction and sustainable development, more resources are needed (UN ICESDF, 2014). It is difficult to estimate the financing that will be needed to achieve the new goals before they have even been agreed, but recent analytical work carried out by the European Union (EU) gives an idea of the magnitude of finance available to developing countries to underwrite their development expenditures. It is estimated that in 2010, public and private resources available to developing countries amounted to approximately USD 7 129 billion (European Commission, 2013). Taking this as a reference point, it becomes clear that official development assistance (ODA) – currently at around USD 135 billion a year – can only make a small, albeit vital, contribution to international development finance (OECD, 2014a).

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

A first step will be to get a handle on the relative weights of savings across the public and private sectors, both internationally and domestically, in developing countries. The EU study suggests that public finance from developing country domestic markets – 98% of which was tax receipts – amounted to almost half of the resources on hand. Private investment – from both domestic and international sources – accounted for 51% of the total, with almost three-quarters of this being provided by domestic sources, including private households and businesses. Altogether, public and private resources from developing countries themselves accounted for 84% of total available development finance in 2010 (European Commission, 2013). This emphasises the importance of efficient and effective tax systems, financial markets and public administration in the developing world. On the other hand, public international finance – grants, concessional and non-concessional funding from the development assistance community – amounted to approximately 2% (European Commission, 2013).[1]

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

Among the important sources of finance available to developing countries today, some have played an important financing role for many years, including ODA (Chapter 2) and other official finance (Chapter 4); foreign direct investment (Chapter 5); and finance raised and managed by the non-governmental sector (Chapter 9). Other more recent sources are providing important and complementary financial and technical support that can be harnessed for development. These include South-South co-operation (Chapter 3); institutional investors, such as pension funds (Chapter 6); developing countries' own revenues raised through taxation (Chapter 7); funds raised by philanthropic foundations (Chapter 8); and remittances sent home by migrants working overseas (Chapter 10). Each of these sources of finance has distinctive attributes and motivations that determine their suitability for different purposes. The overall sense is of a new, exciting but complex landscape, whose contours are still to be fully fleshed out. Our challenge now – and the challenge of the international community as a whole – is to explore their possibilities and harness them creatively to the full (UN OWG, 2014: target 17.3 and UN ICESDF, 2014). This report aims to clarify them in as clear terms as possible.

In my view: Korea's use of ODA can guide other countries in their development

Yun Byung-se,
Minister of Foreign Affairs, Republic of Korea

Many countries have expressed great interest in Korea's transition out of extreme poverty by using ODA effectively to stimulate national development and sustainable growth. Of course, the global development landscape continues to evolve and each country has its own unique historical, geopolitical and socio-economic background. Nevertheless, I believe Korea's development experience offers some key insights.

First, the Korean government channelled ODA to rebuild the war-torn country and establish social infrastructure for economic growth, while making efforts to mobilise other sources of development finance and to achieve fiscal independence. For example, it created an enabling environment for foreign private investment and also established a solid framework for the sustainable mobilisation of domestic resources through a series of tax reforms.

Second, the government introduced policies to promote private investment and also systematically built human capital by establishing private universities and public policy research institutions.

Third, Korea focused on the effective use of development resources. The government's five-year national economic development plans, initiated in the mid-1960s, effectively aligned ODA and other development resources to Korea's national priorities for economic development, enabling the country to overcome abject poverty and build a strong foundation for sustainable development.

Lastly, Korea placed renewed emphasis on its historical and cultural values of learning and education. This ensured the consistent development of human capital, even during the periods of colonisation and the Korean War, thereby facilitating rapid reconstruction and economic take-off in the post-war period. Indeed, this enabled Korea to overcome its development constraints, such as its relatively small size and its lack of natural resources.

Between 1945 and the late 1990s, the total amount of ODA received by Korea reached approximately USD 12.7 billion. Over the same period, Korea recorded an impressive 390-fold increase in its per capita income, from USD 67 in 1953 to USD 26 205 in 2013. In other words, from use of grants for post-war reconstruction in the 1950s to industrialisation founded on social and economic assistance in the 1960s and 1970s, Korea's experience was indeed the embodiment of the vision, "beyond aid, towards development".

The diversification of development resources, placing ODA at the core but with a limited timeframe, and the sustainable mobilisation of domestic resources, were key prerequisites for the success of these efforts.

In my view, Korea's experience – taking ownership and successfully mobilising development resources through the catalytic use of ODA – offers useful policy reference points for developing countries' implementation of the post-2015 development agenda. Development should be led by developing countries themselves, taking a practical approach tailored to their own specific situations and needs. Each country needs to strengthen its own capacity to establish effective policies and institutions in support of its strategic vision for development on the ground. As a member of the OECD Development Assistance Committee, Korea will continue to share its experience with the international community when and where it can be useful.

A decade of strong growth across the developing world has generated increased liquidity and a large pool of assets (especially through domestic savings) that is being invested in national development priorities. The MDGs have driven strong growth in national expenditures and concessional funding in the social sectors – such as education and health – over the past 15 years. Massive public and private investment in productive capacity in emerging economies has quickened the pace of globalisation and fuelled a transformative shift in global manufacturing output from the North to the South. This accelerated economic expansion has seen developing countries' share in global savings rise to 46%, nearly double the level of the mid-1960s (Bussolo and Dailami, 2013). Many developing countries – particularly in the middle-income grouping – have been able to tap international capital markets thanks to their dynamic growth, stronger governance capacity and improved creditworthiness. Foreign direct investment has also risen strongly – in part due to burgeoning South-South trade and investment flows. Today, approximately 30% of outward foreign direct investment is from developing countries (Chapter 5).

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

Today, approximately 30% of outward foreign direct investment is from developing countries.

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

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

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

Smart ODA can have a multiplier effect

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

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

ODA providers also need to make a firm commitment to a concrete target for support to the least developed countries and fragile states. The DAC is considering upgrading the ambition of the current United Nations target for all development co-operation providers of giving 0.15-0.20% of their gross national income as ODA for the least developed countries (see also UN OWG, 2014, target 17.2). There is certainly room to improve, as collectively DAC members only reached 0.09% in 2012 (OECD, 2014b). One suggestion supported by the DAC Chair would be to set a voluntary target of giving a significant share of ODA (e.g. 50%) to countries most in need.

This *Development Co-operation Report* complements current OECD work on devising a new broader measure of official support for development to reflect the major changes in the development finance landscape (Box 1.2).

Box 1.2. **The DAC's work on new measures of development finance**

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

Mandate

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

Box 1.2. **The DAC's work on new measures of development finance** *(cont.)*

Objective

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

Work up to now

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

- Investigating a shift from recording net financial flows as ODA to scoring only the grant element (concessional or subsidy component) of loans and other financial instruments as ODA, as opposed to their full face value.
- Using a more appropriate discount rate for calculating the grant element (as opposed to the current 10% rate); this would align with prevailing financial market conditions.
- Examining how to standardise the reporting of "in-donor" components of ODA (i.e. expenditures in the providers' own countries, such as first-year refugee costs, administrative costs, student costs) to improve their legitimacy, transparency and comparability, thereby addressing criticisms of "phantom ODA" (i.e. ODA that does not flow to developing countries).
- Looking at how to channel an increased share of ODA to the countries most in need, to counter the trend of declining ODA levels to least developed countries.

In carrying out this work, the DAC has consulted with a range of international experts through an Expert Reference Group on Development Finance; a recent report summarises the group's final conclusions and recommendations (OECD, 2014c).

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

Partner countries' perspectives

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

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

* See the Glossary for definitions.

Sources: OECD (2014b), "Modernising the DAC's development finance statistics", OECD, Paris, *www.oecd.org/dac/externalfinancingfordevelopment/documentupload/SLM%20Dev%20Fin%20DAC(2014)9.pdf*; OECD (2014d), "Scoping the new measure of total official support for development (TOSD)", OECD, Paris, *www.oecd.org/dac/stats/documentupload/DCD-DAC(2014)35-ENG.pdf*; OECD (2012), "2012 DAC HLM communique", OECD, Paris, *www.oecd.org/dac/HLM%20Communique%202012%20final%20ENGLISH.pdf*.

The time for ideas is now

This is an exciting and challenging time for the global community. The details of the post-2015 development agenda and the financing strategy underpinning it will be fleshed out over the coming year. The new financing strategy will likely build on the financing for development agenda agreed at Monterrey in 2002[2] and Doha in 2008,[3] but will be a broader, more complex and innovative plan setting out where the global development finance agenda is headed over the next 15 years. Together these frameworks will shape the scope and focus of global progress for the next generation and identify where and how the necessary finance will be mobilised and allocated.

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

The *Development Co-operation Report 2014* provides key recommendations on how to get started, move on and make progress in this journey which is a challenge to all countries and all actors around the world.

Notes

1. The remainder of available finance came from international private sources, including foreign direct and portfolio investment, bank lending, remittances and philanthropies.
2. The Monterrey Consensus on Financing for Development (2002), details in the Glossary.
3. The Doha Declaration on Financing for Development (2008), details in the Glossary.

References

Bussolo, M. and M. Dailami (2013), *Capital for the Future: Saving and Investment in an Interdependent World*, Global Development Horizons, The World Bank, Washington, DC.

ECDPM (2012), *Reporting on Development: ODA and Financing for Development*, European Centre for Development Policy and Management, Maastricht.

European Commission (2013), *Beyond 2015: Towards a Comprehensive and Integrated Approach to Financing Poverty Eradication and Sustainable Development*, European Commission, Brussels, *http://ec.europa.eu/transparency/regdoc/rep/1/2013/EN/1-2013-531-EN-F1-1.Pdf*.

GPEDC (2011), *Busan Partnership for Effective Development Co-operation*, Global Partnership for Effective Development Co-operation, *www.oecd.org/dac/effectiveness/49650173.pdf*.

Greenhill, R. and A. Ali (2013), "Paying for progress: How will emerging post-2015 goals be financed in the new aid landscape?", *ODI Working Paper*, No. 366, Overseas Development Institute, London, *www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/8319.pdf*.

Greenhill, R. and A. Prizzon (2012), "Who foots the bill after 2015? What new trends in development finance mean for the post-MDGs", *ODI Working Paper*, No. 360, Overseas Development Institute, London.

HLP (2013), *A New Global Partnership: Eradicate Poverty and Transform Economies Through Sustainable Development*, The Report of the High-Level Panel of Eminent Persons on the Post-2015 Development Agenda, High-Level Panel, United Nations, New York, *www.post2015hlp.org/wp-content/uploads/2013/05/UN-Report.pdf*.

IMF (2014), *World Economic Outlook – Recovery Strengthens, Remains Uneven*, International Monetary Fund, Washington, DC, *www.imf.org/external/Pubs/ft/weo/2014/01*.

Kaul, I. and P. Conceicao (2006), *The New Public Finance – Responding to Global Challenges*, Oxford University Press, Oxford.

Kharas, H. and A. Rogerson (2012), *Horizon 2025: Creative Destruction in the Aid Industry*, Overseas Development Institute, London.

OECD (2014a), "Total DAC flows at a glance", *www.oecd.org/dac/stats/totaldacflowsataglance.htm*.

OECD (2014b), "Modernising the DAC's development finance statistics", OECD, Paris, *www.oecd.org/dac/externalfinancingfordevelopment/documentupload/SLM%20Dev%20Fin%20DAC(2014)9.pdf*.

OECD (2014c), "Expert Reference Group on Development Finance: Final conclusions and recommendations", OECD, Paris, *www.oecd.org/dac/stats/ERG%20Recommendations%202014%2008%2007%20Final.pdf*.

OECD (2014d), "Scoping the new measure of total official support for development (TOSD)", OECD, Paris, *www.oecd.org/dac/stats/documentupload/DCD-DAC(2014)35-ENG.pdf*.

OECD (2012), "2012 DAC HLM communique", OECD, Paris, *www.oecd.org/dac/HLM%20Communique%202012%20final%20ENGLISH.pdf*.

OECD (2007), *Financing Development: Aid and Beyond*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264027596-en*.

Severino, J.M. and O. Ray (2010), "The end of ODA (II): The birth of hypercollective action", *Working Paper*, No. 218, Centre for Global Development, Washington, DC, *www.cgdev.org/sites/default/files/1424253_file_The_End_of_ODA_II_FINAL.pdf*.

Severino, J.M. and O. Ray (2009), "The end of ODA (I): Death and rebirth of a global public policy", *Working Paper*, No. 167, Centre for Global Development, Washington, DC, *www.cgdev.org/files/1421419_file_End_of_ODA_FINAL.pdf*.

UNGA (2013a), "Special event 25 September: Outcome document", United Nations General Assembly, New York, *www.un.org/millenniumgoals/pdf/Outcome%20documentMDG.pdf*.

UNGA (2013b), "A life of dignity for all: Accelerating progress towards the Millennium Development Goals and advancing the United Nations development agenda beyond 2015", United Nations General Assembly, New York, *www.un.org/millenniumgoals/pdf/A%20Life%20of%20Dignity%20for%20All.pdf*.

UNGA (2013c), "Outcome document of the special event to follow up efforts made towards achieving the Millennium Development Goals", United Nations General Assembly, New York, *www.un.org/en/ga/search/view_doc.asp?symbol=A/68/L.4*.

UN ICESDF (2014), "Report of the Intergovernmental Committee of Experts on Sustainable Development Financing", United Nations Intergovernmental Committee of Experts on Sustainable Development Financing, United Nations, New York, *http://sustainabledevelopment.un.org/content/documents/4588FINAL%20REPORT%20ICESDF.pdf*.

UN OWG (2014), Outcome document "Proposal of the Open Working Group for Sustainable Development Goals", United Nations Open Working Group, United Nations, New York, *http://sustainabledevelopment.un.org/content/documents/4518SDGs_FINAL_Proposal%20of%20OWG_19%20July%20at%201320hrsver3.pdf*.

WEF (2014), *Paying For Zero: Global Development Finance and the post-2015 Agenda*, World Economic Forum, Geneva, *www3.weforum.org/docs/GAC/2014/WEF_GAC_PovertySustainableDevelopment_GlobalDevelopmentFinance_Paper_2014.pdf*.

WEF (2013), *Getting to Zero: Finishing the Job the MDGs Started*, World Economic Forum, Geneva, *www3.weforum.org/docs/WEF_GAC_GettingZero_Report_2012.pdf*.

World Bank (2013), *Financing for Development Post-2015*, The World Bank, Washington, DC, *www.worldbank.org/content/dam/Worldbank/document/Poverty%20documents/WB-PREM%20financing-for-development-pub-10-11-13web.pdf*.

PART I

Existing sources of financing for sustainable development

© OECD 2014

PART I

Chapter 2

Keeping ODA focused in a shifting world

by
Suzanne Steensen, Development Co-operation Directorate, OECD[1]

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

This chapter also includes two opinion pieces by: 1) Gyan Chandra Acharya, United Nations Under-Secretary-General, on how half of all ODA should go to the least developed countries; and 2) Alicia Bárcena, Executive Secretary of the Economic Commission for Latin America and the Caribbean, on the structural gap approach as a new model for co-operation with middle-income countries.

The post-2015 Sustainable Development Goals will set a global agenda that holds the potential for putting all developing countries on a path to prosperity and equality, with no country left behind. If the international community wants to fulfil this potential and end poverty by 2030, then official development assistance (ODA; see Box 2.1) needs to be put to the best possible use.

Box 2.1. **The vocabulary of official development assistance**

The OECD's Development Assistance Committee (DAC) currently comprises 28 OECD member countries, as well as the European Union. The DAC monitors and shares statistics and information on the architecture of official development assistance (ODA) and other flows of development finance to help ensure that it is transparent and effective.

The DAC List of ODA Recipients shows all countries and territories eligible to receive ODA. These consist of all low- and middle-income countries based on gross national income per capita as published by the World Bank, with the exception of G8 members, EU members and countries with a firm date for entry into the EU. The list also includes all of the least developed countries as defined by the United Nations. For more information, see *www.oecd.org/dac/stats/daclist*.

ODA describes financial and technical support provided by official agencies, including state and local governments, or by their executive agencies to countries and territories on the DAC's List of ODA Recipients and to multilateral development institutions. This support is administered with the main aim of promoting the economic development and welfare of developing countries and finance is concessional in character (provided at far lower than market rates, for longer terms and with conditions which allow grace periods for payments), including a grant element of at least 25%.

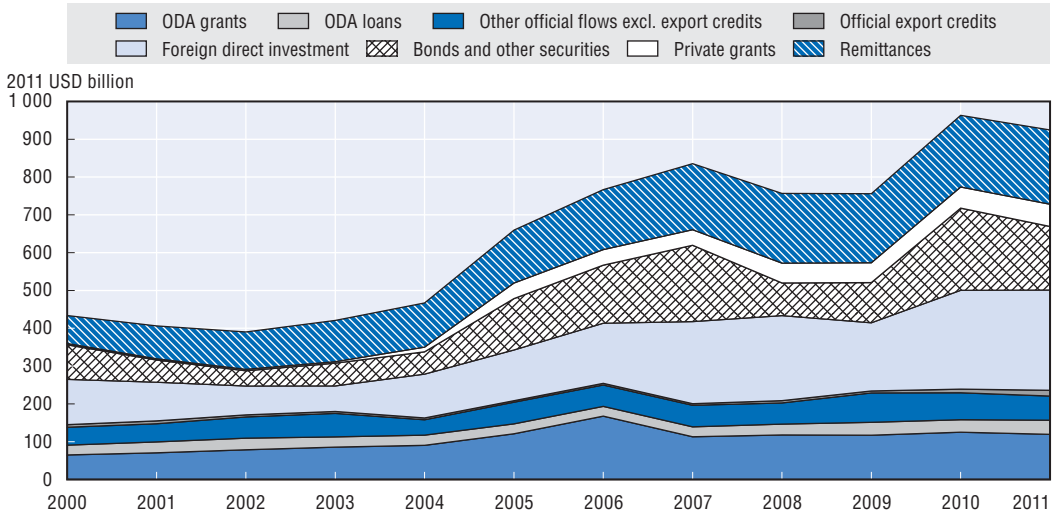
For more details see the Glossary at the end of this report.

Today, the sources of finance for developing countries from beyond their borders – "external finance" – are becoming increasingly varied and many question the continuing role of ODA (see Chapter 1). Over the past decade, overall growth in foreign direct investment, portfolio investment and other forms of private finance has outpaced ODA growth (Figure 2.1). Nonetheless, concessional finance (Box 2.1) is still of vital importance for the world's poorest countries and people. Using it in a smart way, including for mobilising other kinds of finance, is imperative (Lomøy, 2013).

There are large differences in developing countries' needs and access to finance

Better targeted ODA requires an in-depth analysis of which countries depend on it the most – and these cannot be identified based on income per capita alone. Today, there are 148 countries on the OECD's DAC List of ODA Recipients, meaning they are eligible to receive ODA (Box 2.1). Yet, these countries are extremely varied. For example, their annual per capita gross domestic product (GDP) ranges from less than USD 300 to over USD 12 000. While some of these countries are classified by the United Nations as least developed countries, the DAC list also includes lower middle-income and upper middle-income countries as classified by the World Bank.[2]

Figure 2.1. **The relative weight of ODA in external financing to developing countries, 2000-11**



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

StatLink http://dx.doi.org/10.1787/888933121221

The annual GDP per capita of countries eligible for ODA ranges from less than USD 300 to over USD 12 000.

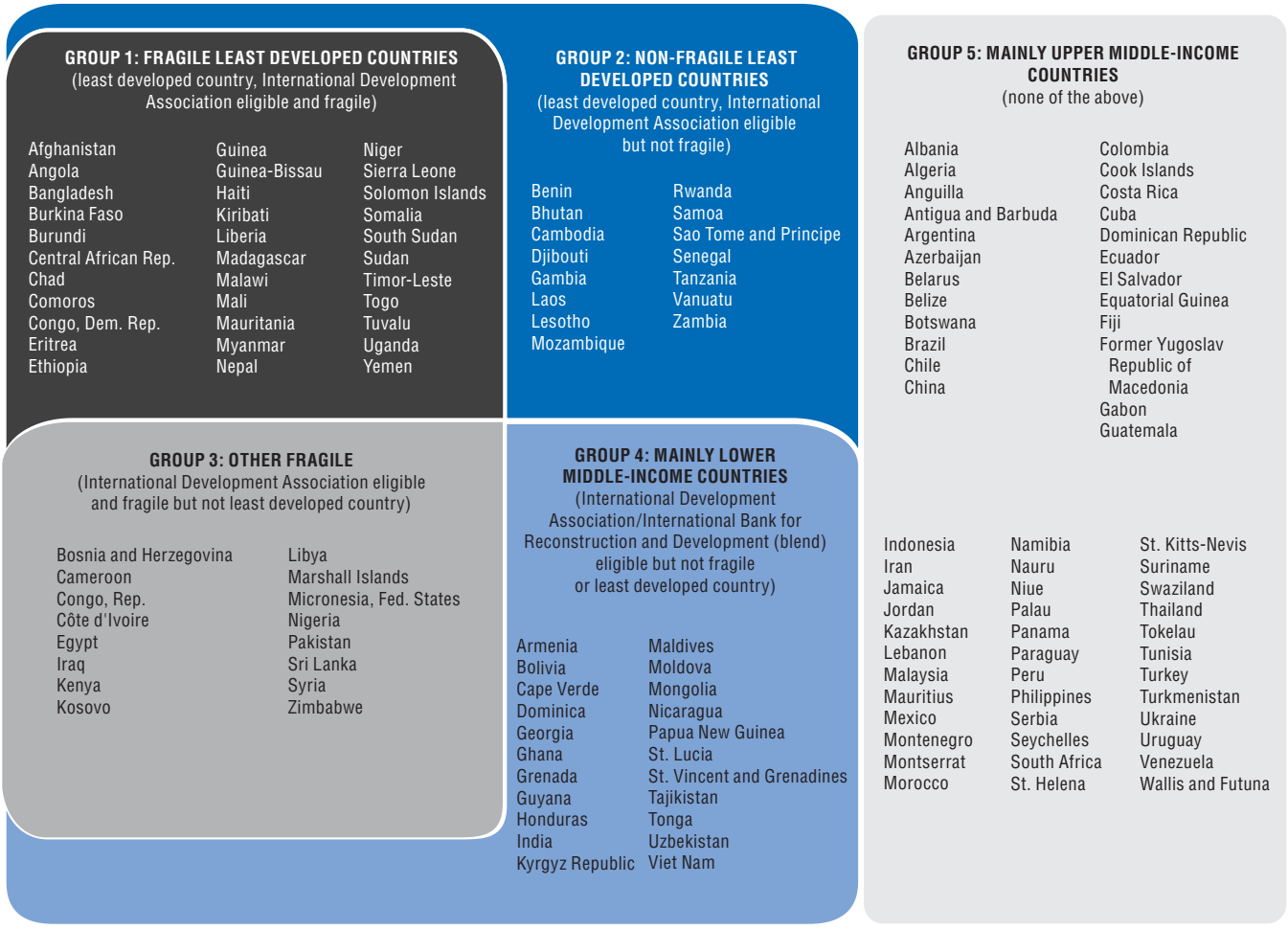
Some of the countries on the DAC List of ODA Recipients are defined as fragile states. These countries are simply less equipped to deal with volatile changes, whether political, environmental or economic (see Chapter 20). The OECD DAC maintains a list of states considered to be fragile, which currently includes 51 countries and economies.[3] While some providers target their concessional funding to fragile states, this is also a very diverse grouping, whose per capita income ranges from USD 216 (Democratic Republic of Congo) to USD 5 620 (Libya).

Another sub-set of countries on the DAC List of ODA Recipients may also receive concessional loans from the International Development Association (IDA).[4] These are mainly countries that are assessed as lacking access to international financial markets.

This chapter examines the composition of external development finance (including ODA) for five groups of countries that result from the overlaps between the various classifications outlined above (Figures 2.2 and 2.3):

- **Group 1 (fragile, least developed countries):** 33 fragile, least developed countries that are eligible to receive concessional lending from the IDA; these are primarily low-income and lower middle-income countries in sub-Saharan Africa and Asia.[5]
- **Group 2 (non-fragile, least developed countries):** the 15 remaining least developed countries, which are not fragile but are eligible to receive concessional lending from the IDA; these countries are primarily concentrated in sub-Saharan Africa.
- **Group 3 (other fragile):** 16 fragile, primarily lower middle-income countries that are eligible to receive concessional lending from the IDA; the countries in this group are scattered across the world.

Figure 2.2. **Sub-groupings of ODA-eligible countries**



Notes: In theory, the overlaps across these lists would allow for eight different groups. However, no country belongs to the group consisting of fragile least developed countries that are not IDA eligible; and in two other cases, the groups are populated by very few countries, which would not allow for a proper statistical analysis of their characteristics or external financial resources. From these two cases, the following countries/economies have been reallocated: 1) Equatorial Guinea is included in the "mostly upper middle-income countries" group despite the fact it is still a least developed country; 2) Egypt, Iraq, Libya and Syria are included in the "other fragile" category, despite the fact that they are not IDA eligible. In addition, the Democratic Republic of Korea and the West Bank and Gaza Strip have been excluded from the analysis because of a lack of data.

- **Group 4 (mainly lower middle-income countries):** 22 countries, primarily lower middle-income countries and upper middle-income countries in Asia or the Americas, that are also on the IDA list.
- **Group 5 (mainly upper middle-income countries):** the remaining 60 countries on the DAC List of ODA Recipients, primarily upper middle-income countries in the Americas and Asia, which are neither fragile nor IDA eligible.

This grouping allows some interesting patterns to emerge (Figure 2.3).

Figure 2.3. **ODA-eligible sub-groups at a glance: Characteristics and finance flows**

GROUP 1

- ☑ LEAST DEVELOPED COUNTRY
- ☑ FRAGILE
- ☑ INTERNATIONAL DEVELOPMENT ASSOCIATION

24% of the world's poor live here.

47% of the population live on less than USD 1.25 a day.

ODA makes up **70%** of external financial flows and is **43%** of the volume of domestic tax revenues.

ODA per capita is USD 51 a year.

ODA increased at an average annual rate of **10%** a year until 2007. The rate is now **6%** (2008-11).

88% of ODA is provided as grants.

GROUP 2

- ☑ LEAST DEVELOPED COUNTRY
- ☒ FRAGILE
- ☑ INTERNATIONAL DEVELOPMENT ASSOCIATION

6% of the world's poor live here.

53% of the population live on less than USD 1.25 a day.

ODA makes up **75%** of external financial flows and is **59%** of the volume of domestic tax revenues.

ODA per capita is USD 79 a year.

ODA is increasing at an average annual rate of **4%**.

81% of ODA is provided as grants.

GROUP 3

- ☒ LEAST DEVELOPED COUNTRY
- ☑ FRAGILE
- ☑ INTERNATIONAL DEVELOPMENT ASSOCIATION

13% of the world's poor live here.

27% of the population live on less than USD 1.25 a day.

ODA makes up **27%** of external financial flows and is **13%** of the volume of domestic tax revenues.

ODA per capita is USD 30 a year.

ODA increased at an average annual rate of **10%** a year until 2007. This rate fell to **4%** from 2008-11.

68% of ODA is provided as grants.

GROUP 4

- ☒ LEAST DEVELOPED COUNTRY
- ☒ FRAGILE
- ☑ INTERNATIONAL DEVELOPMENT ASSOCIATION

35% of the world's poor live here.

31% of the population live on less than USD 1.25 a day.

ODA makes up **18%** of external financial flows and is 5% of the volume of domestic tax revenues.

ODA per capita is USD 13 a year.

ODA increased at an average annual rate of **4%** a year until 2007. Since 2008, this rate has increased to **8%** yearly.

43% of ODA is provided as grants.

GROUP 5

- ☒ LEAST DEVELOPED COUNTRY
- ☒ FRAGILE
- ☒ INTERNATIONAL DEVELOPMENT ASSOCIATION

22% of the world's poor live here.

10% of the population live on less than USD 1.25 a day.

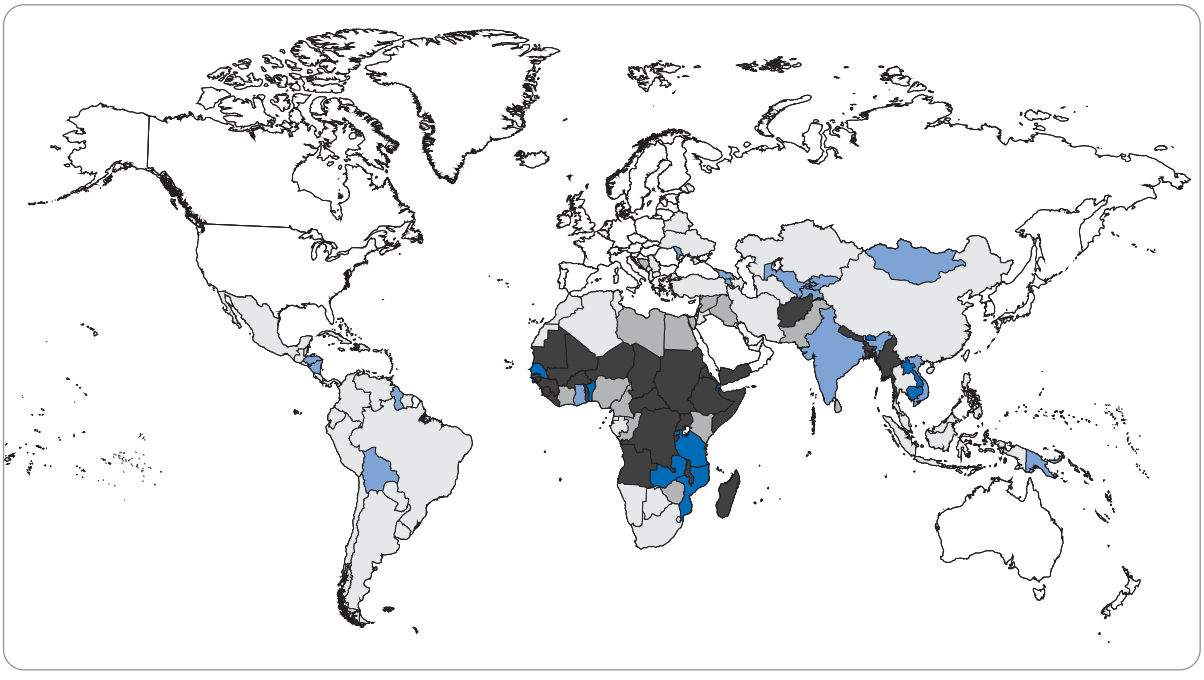
ODA makes up **6%** of external financial flows and is **0.8%** of the volume of domestic tax revenues.

ODA per capita is USD 10 a year.

ODA increased at an average annual rate of **1%** a year until 2007. It is now **3%** on average.

55% of ODA is provided as grants.

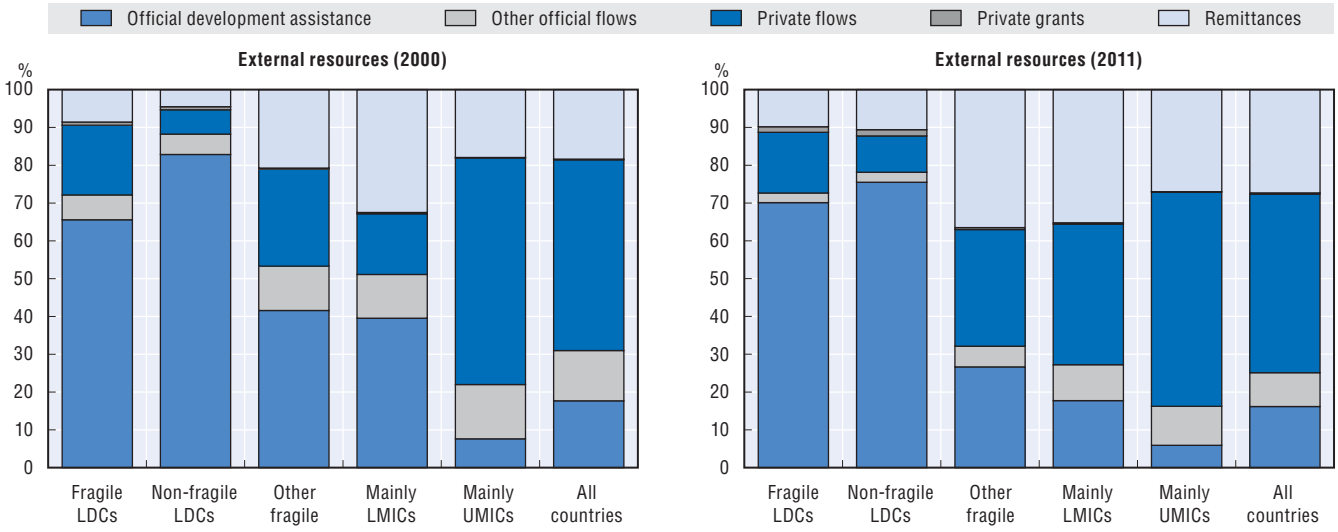
- Group 1 (33 countries)
- Group 2 (15 countries)
- Group 3 (16 countries)
- Group 4 (22 countries)
- Group 5 (60 countries)



The relative importance of ODA is diminishing, but not everywhere

The categorisation in Figure 2.3 gives a more detailed picture of ODA dependence. While it is often argued that the relative importance of ODA is diminishing, in actual fact, this is not true at all in some countries; in others the decline is so small that it is still not enough to break dependence. The uneven distribution of external financial flows across groups of developing countries is shown in Figure 2.4.

Figure 2.4. **External finance to developing countries, 2000 and 2011**



Notes: LDC: least developed country; LMIC: lower middle-income country; UMIC: upper middle-income country.

StatLink http://dx.doi.org/10.1787/888933121278

Least developed countries are the most dependent on ODA

Of all developing countries, least developed countries – both fragile and non-fragile – are the most heavily ODA-dependant. In 2011, ODA still represented over 70% of the USD 70 billion of financial inflows to least developed countries (Figure 2.4). This was well above the average of 16% for all ODA recipients that same year and is explained by least developed countries' low capacity to attract other forms of external finance. In 2011, private market flows still accounted for only 15% of total external finance to least developed countries; remittances accounted for an estimated 10%, while the shares of other official flows[6] (3%) and private grants (1%) were even smaller.

Middle-income countries still face many development challenges

For many middle-income countries – Groups 4 and 5 – the relative importance of ODA has diminished significantly. In 2011, it accounted for only 18% of total external finance for these two groups (Figure 2.4). ODA volumes were also less than 5% of the size of their domestic tax revenues, compared to 46% in least developed countries (Figure 2.3). Nevertheless, these groups of countries are home to most of the world's poor, and therefore poverty reduction and a fairer distribution of wealth remain important development challenges for them. ODA can play an important role, targeting stubborn pockets of poverty in these countries and leveraging other flows (see the "In my view" box contributed by Alicia Bárcena).

> *ODA can play an important role in middle-income countries, targeting stubborn pockets of poverty and leveraging other flows.*

In my view: The Structural Gap approach offers a new model for co-operation with middle-income countries

Alicia Bárcena,
Executive Secretary of the Economic Commission for Latin America and the Caribbean (ECLAC)

Middle-income countries differ widely in their reliance on official development assistance (ODA). While for some, ODA represents less than 1% of their gross national income, for others it is more than 30%. This divergence reflects countries' differing capacity to access financial resources and capital markets.

The DAC List of ODA Recipients (Box 2.1) shows all countries and territories eligible to receive official development assistance. The list includes low- and middle-income countries, as well as the least developed countries, defined according to their gross national income (GNI) per capita. As we review the future of ODA, we need to ask: Is per capita income the best criterion for allocating official development assistance? And how can we deal with the heterogeneity of middle-income countries?

First, the use of income per capita as an allocation criterion relies on two assumptions:

1. That as countries increase their income per capita they will be able to mobilise a larger pool of international and domestic resources to finance their development needs and become less dependent on ODA.
2. That income levels reflect a given stage of social and economic development.

Evidence shows that a country's capacity to access external resources depends on many factors besides income per capita. These include conditions outside their control, such as country risk ratings and perceptions, external demand for the products from that country and country size (i.e. population). Similarly, domestic resource mobilisation depends on numerous factors, including levels of savings, development and strength of financial markets, and the capacity and willingness of the government to levy taxes and collect duties (Chapters 7 and 14). Evidence also shows that despite similar income levels, countries may have different development realities. For example, people may vary widely in their access to social protection mechanisms, formal financial institutions and quality education, as well as in their resilience to economic and social shocks.

Second, far from being a homogeneous category, middle-income countries are a widely heterogeneous social and economic grouping with a large diversity of needs. For example, in 2012 income per capita in these countries ranged from USD 1 006 to USD 12 275.

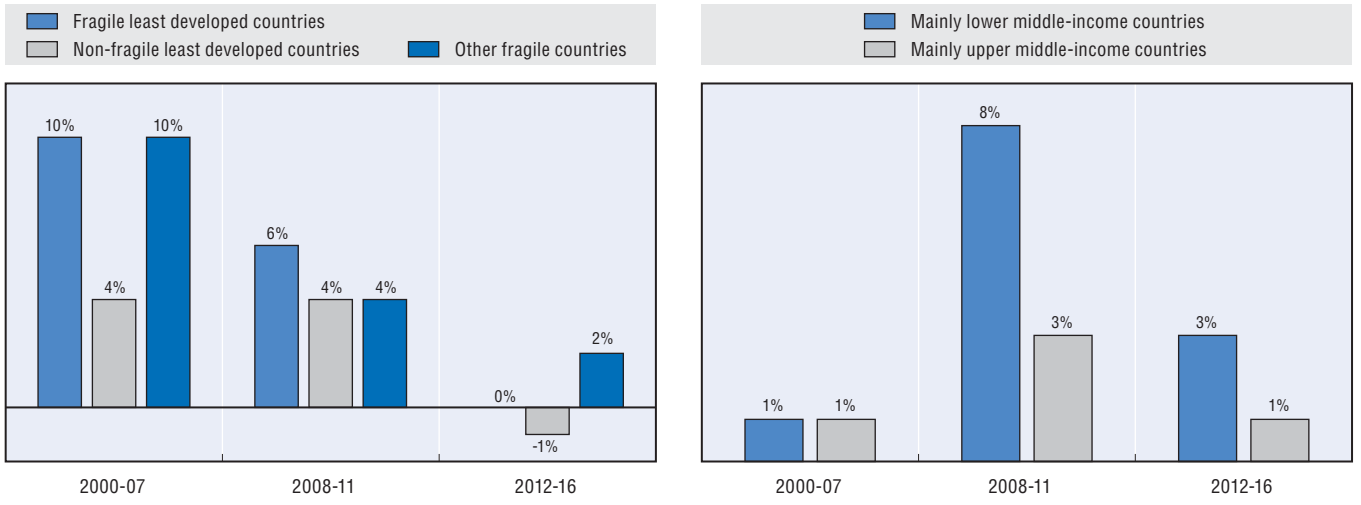
As a way forward, ECLAC proposes the Structural Gap approach as an alternative criterion to that of per capita income (ECLAC, 2012). This approach is based on the premise that there is no single classification criterion applicable to all countries and underscores the fact that income level cannot be equated with development level. It identifies key areas where there are obstacles to sustained, equitable and inclusive growth in middle-income countries (or "gaps"): equality and livelihoods, investment and savings, productivity and innovation, infrastructure, education, health, taxation, gender and the environment. Countries themselves are responsible for identifying the main gaps that hamper their social and economic development.

In my view, the debate on the future of ODA can benefit from the Structural Gap approach, which offers a basis for inclusive and egalitarian co-operation. It should be part of the post-2015 framework, helping to reorient co-operation away from the "donor-recipient" dichotomy towards a new model of co-operation among equals, following the principle of common-but-differentiated responsibilities.

ODA growth is slowing in those countries that need it most

Between 2000 and 2011, ODA grew by 63% overall, but this growth was unevenly distributed across developing countries (Figure 2.5). While ODA increased considerably for fragile states (Groups 1 and 3), its growth was only modest for the non-fragile, least developed countries (Group 2).

Figure 2.5. **How is ODA growing across the country groups?**



StatLink http://dx.doi.org/10.1787/888933121297

Over the past three years, how ODA is prioritised across developing countries has started to shift. ODA growth in least developed and fragile middle-income countries is slowing down (Groups 1, 2 and 3), while it is increasing for other middle-income countries (Groups 4 and 5; Figure 2.5). Projections from the OECD/DAC's Forward Spending Survey indicate that this trend will continue (for example, see OECD, 2013b). Nonetheless, this may run counter to commitments made by ODA providers, such as to the UN target for ODA to least developed countries of 0.15-0.20% of gross national income (GNI) and the DAC 1978 Recommendation on the Terms and Conditions of Aid, under which providers agreed to raise the overall grant element of their ODA/concessional funding to 86%, with special provisions for least developed countries (and see Gyan Chandra Acharya's "In my view" box).

ODA growth in least developed and fragile middle-income countries is slowing down, but increasing in other middle-income countries.

These trends are mainly explained by the low interest rates of recent years, allowing loans from market-raised funds by a few large DAC members to qualify as ODA because they meet the ODA grant element test.[7] This means that ODA loans are growing faster than ODA grants (grants: from 7% in 2000-07 to 3% in 2008-11; loans: from -0.1% in 2000-07 to 9% in 2008-11). Since ODA loans are typically offered to middle-income rather than least developed countries, this explains how, overall, growth in ODA to middle-income countries is surpassing growth in ODA to least developed countries.

Over the past decade, the external debt of several developing countries has diminished considerably, partly thanks to debt forgiveness initiatives. Care is needed to make sure that the surge in loans does not reverse this situation. Vigilance is also needed to ensure that governments' spending on poverty reduction and development is not undermined by their loan repayment obligations.

ODA loans are growing faster than ODA grants: the surge in loans must not endanger debt sustainability.

In my view: Half of all ODA should go to the least developed countries

Gyan Chandra Acharya,
United Nations Under-Secretary-General and High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States

The UN classifies as "least developed countries" those nations that are at the bottom of the development ladder from all perspectives. The category was created in recognition of the deep-seated structural constraints these countries face, resulting in low per capita income, weak human capital and high economic vulnerability. Without help, they are unable to adequately address their development challenges, irrespective of the efforts they may make. Moreover, they are the most exposed to economic shocks and degradation of natural capital, including through climate change. Their need for enhanced and targeted support from the international community is obvious.

Of the 48 least developed countries, 34 are in Africa, 13 in the Asia Pacific region, and 1, Haiti, in Latin America and the Caribbean. Together they are home to about 900 million people, with a relatively high share of young people among their populations. Over the past decade, the least developed countries have made progress in many of the areas targeted by the Millennium Development Goals (MDGs): they have reduced child and maternal mortality, increased enrolment in primary education, and improved gender equality and women's empowerment. Yet they still have a very long way to go, and around 50% of their population remain poor.

These countries hold great potential and are rich in human and natural resources – two inseparable characteristics for their people, who live close to nature. A holistic focus on improving health and education, building productive capacity and protecting natural capital would greatly contribute to transforming their economies, enabling them to leapfrog to green economies with relatively few trade-offs.

The least developed countries are and will continue to be – at least in the short and medium term – among the countries most dependent on ODA. This source of development finance constitutes more than 50% of their inflows and public finances and except in the mineral-rich countries, foreign direct investment in these countries is minimal. While they have been gradually widening their domestic resource base through tax reforms, on average across the least developed countries the ratio of government revenues to GDP stands at about 13% and gross domestic savings reach only 15% of GDP. Yet the investment required for poverty eradication and sustainable development is at least 25-30% of GDP over a long period of time (Commission on Growth and Development, 2008).

In my view – which is also shared by the least developed countries – much of this shortfall must be filled by ODA. From both a moral standpoint, and in the interest of the long-term well-being of the global community, those that are in danger of slipping should be given foremost priority. It is urgent that the level, quality and focus of ODA to the least developed countries be scaled up and consolidated. Channelling 50% of total ODA to the least developed countries will be an important step in that direction. At the same time, ODA can have a strong leveraging impact on other sources of development finance (Chapter 11).

In this day and age it is unacceptable that so many remain below the poverty line in the least developed countries. We have the means to help them. We need to summon the necessary collective will to do so. The alternative is continued deprivation for a large number of people, which also represents a threat to global peace, security and environmental sustainability.

Source: Commission on Growth and Development (2008), *The Growth Report: Strategies for Sustained Growth and Inclusive Development*, International Bank for Reconstruction and Development/The World Bank, Washington, DC, *https://openknowledge.worldbank.org/bitstream/handle/10986/6507/449860PUB0Box3101OFFICIAL0USE0ONLY1.pdf?sequence=1*.

Official finance must be used to its greatest potential

Traditional development co-operation providers are offering more non-concessional lending and market-like financial instruments to developing countries. This provides an opportunity to explore how official financing (whether concessional or non-concessional) can better catalyse resources for development in diverse country contexts. Understanding this better will help shape the priorities for ODA, using it more innovatively by exploring how resources can be better leveraged and allocated (discussed more fully in Chapter 1).

As new sources of development finance emerge, there is scope to target concessional funding better – among and within countries. Developing countries that rely less on concessional finance, such as many middle-income countries, will still need external finance to meet sustainable goals and to reduce poverty and inequalities. At the same time, countries that are not able to attract significant volumes of external flows other than ODA, and for which ODA is the largest and least volatile source of finance – such as the least developed countries and fragile states – will still need to rely on concessional funding for some time. Otherwise, these countries – many of which are already falling behind on global development goals – will fall even further.

Finally, developing countries need better information on the entire palette of financial resources available to them to finance their development agendas. Increasing the detail and comprehensiveness of existing reporting to the OECD would allow for a more complete picture of total global concessional financing for sustainable development (Box 2.2). This increased transparency would also improve accountability and provide the public, policy makers and the academic community with reliable data for their debates, decision making and research. To this end, a new and broader framework for financing for sustainable development, taking into account both providers' and recipients' perspectives, is being developed by the UN and by the DAC (see also Box 1.1 in Chapter 1).

Box 2.2. **Concessional development finance provided by non-DAC countries**

An increasing number of non-DAC member countries provide concessional finance that could be considered eligible for recording as ODA. This includes OECD countries that are not members of the DAC (currently Chile, Estonia, Hungary, Israel, Mexico and Turkey); Arab donors (notably Kuwait, Qatar, Saudi Arabia and the United Arab Emirates); and the "BRICS" (Brazil, the Russian Federation, India, China and South Africa). These countries' development co-operation programmes have very varied objectives, volume and instruments – be they financial flows, exchanges of knowledge and experience, or the provision of goods – but they all aim to foster sustainable development and reduce poverty. (Part IV of this *Development Co-operation Report* provides more information on these countries' development co-operation programmes.)

There are currently no complete or internationally comparable statistics available on the flows of concessional finance from the totality of non-DAC countries, as many of them do not report to any international statistical system. Some of them have national reporting systems that provide useful information, although not in a format that makes it easily comparable with other countries' contributions. For others, only rough and incomplete estimates are available. Only 17 non-DAC member countries report their development finance statistics to the DAC, some at the aggregate level, others in considerable detail. The concessional finance for development from these countries amounted to USD 6.5 billion in 2012, compared to USD 126.9 billion by DAC countries. A cautious estimate by the OECD indicates that concessional finance for development from non-DAC countries that do not report to the OECD DAC amounted to USD 5.1 billion in 2012.

In addition, some of these countries provide other types of finance that are not considered to meet the criteria of ODA – for instance non-concessional loans, co-operation through religious entities or some peace and security expenditures.

Key recommendations

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

Notes

1. The author wishes to thank Piera Tortora and Fredrik Ericsson for their contributions to this chapter. Box 2.2 was contributed by Willem Luijkx and Talita Yamashiro Fordelone of the Development Co-operation Directorate, OECD. This chapter is an excerpt from OECD (2013c). For the full analysis, please refer to that publication.
2. The World Bank country groups are: low income (GNI per capita of USD 1 035 or less); lower middle-income (GNI per capita of USD 1 036-4 085); upper middle-income (GNI per capita of USD 4 086-12 615); and high income (GNI per capita of USD 12 616 or more). See *http://data.worldbank.org/about/country-classifications*.
3. The list of fragile states used by the OECD for its analysis of financial flows in fragile states is neither an official DAC list nor an official definition. In practice, it is the result of a compilation of two lists: the World Bank/African Development Bank/Asian Development Bank Harmonised List of Fragile Situations, and countries in the "alert" and "warning" categories on the Failed States Index, developed by the Fund for Peace (*http://ffp.statesindex.org*).
4. The World Bank's fund for poor countries.
5. Least developed countries (LDCs) can also be classified as lower middle-income as the LDC classification does not take income alone into consideration (see the Glossary).
6. Other official flows, or OOFs, are defined as transactions by the official sector which do not meet the conditions for eligibility as ODA, either because they are not primarily aimed at development or because they are not sufficiently concessional. See Chapter 4 for more details.
7. The grant element is a calculation reflecting the financial terms of a commitment: interest rate, maturity and grace period (interval to first repayment of capital). It measures the concessionality of a loan, expressed as the percentage by which the present value of the expected stream of repayments falls short of the repayments that would have been generated at a given reference rate of interest. Only loans bearing a grant element of at least 25% can qualify as ODA (OECD, 2014).

References

Agarwal, M. (2013), "Reshaping international institutions to achieve the MDGs", in S. Kindornay and H. Besada (eds.), *Multilateral Development Cooperation in a Changing Global Order*, Palgrave McMillan, London.

Commission on Growth and Development (2008), *The Growth Report: Strategies for Sustained Growth and Inclusive Development*, International Bank for Reconstruction and Development/The World Bank, Washington, DC, *https://openknowledge.worldbank.org/bitstream/handle/10986/6507/449860PUB0Box3101OFFICIAL0USE0ONLY1.pdf?sequence=1*.

ECLAC (2012), *Middle-Income Countries: A Structural-Gap Approach*, Economic Commission for Latin America and the Caribbean, Santiago, Chile.

Griffiths, J. (2013), "Development finance – where does it come from?", Eurodad, online article, *www.eurodad.org/Entries/view/1544219/2012/12/13/Development-finance-where-does-it-come-from*.

HLP (2013), *A New Global Partnership: Eradicate Poverty and Transform Economies Through Sustainable Development*, The Report of the High-Level Panel of Eminent Persons on the Post-2015 Development Agenda, High-Level Panel, United Nations, New York, *www.post2015hlp.org/wp-content/uploads/2013/05/UN-Report.pdf*.

IMF (2012), *Macroeconomic Policy Frameworks for Resource-Rich Developing Countries*, International Monetary Fund, Washington, DC.

Lomøy, J. (2013), "Making international development co-operation 'smart' enough to end poverty", in OECD, *Development Co-operation Report 2013: Ending Poverty*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/20747721*.

OECD (2014), "Explanation of concepts used in concessionality and grant element calculations", DCD/DAC/STAT(2012)18/REV1, OECD, Paris, 27 March, *www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DCD/DAC/STAT(2012)18/REV1&docLanguage=En*.

OECD (2013a), "FDI in figures", OECD, Paris, *www.oecd.org/daf/inv/FDI%20in%20figures.pdf*.

OECD (2013b), "Outlook on aid: Survey on donors' forward spending plans 2013-2016", OECD, Paris, *www.oecd.org/dac/aid-architecture/OECD%20Outlook%20on%20Aid%202013.pdf*.

OECD (2013c), "The 'where' of development finance: Towards better targetting of concessional finance", DCD/DAC(2013)29, OECD, Paris, *www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DCD/DAC(2013)29&docLanguage=En*.

OECD (2013d), *African Economic Outlook 2013: Structural Transformation and Natural Resources*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/aeo-2013-en*.

Sumner, A. (2010), *Global Poverty and the New Bottom Billion: What if Three-Quarters of the World's Poor Live in Middle-Income Countries?*, Institute of Development Studies, Brighton, United Kingdom.

UNCTAD (2012), *The Least Developed Countries Report*, United Nations Conference on Trade and Development, New York and Geneva.

World Bank (2013), *Online Country Overviews*, The World Bank, Washington, DC, *www.worldbank.org/en/country*.

© OECD 2014

PART I

Chapter 3

Growing dynamism in South-South co-operation

by
Sachin Chaturvedi, Research and Information System for Developing Countries, India

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

Over recent years South-South co-operation[1] has evolved significantly, with a deepening of engagement across a range of sectors, from trade to investment and technology development. It has also moved beyond traditional government-to-government co-operation to involve the private sector, civil society and other non-state actors. Finally, new approaches to financing are emerging, including currency exchange, South-South trust funds and development banks such as the BRICS[2] Development Bank and the Asian Infrastructure Bank. While the participation of all developing countries in this new wave of opportunity may not be uniform, these initiatives are promoting a growing sense of optimism. This chapter describes the latest trends in South-South co-operation.

South-South co-operation is remodelling the development finance landscape

The rising volume of development assistance from leading "Southern" providers has expanded global development financial flows. For example, Brazil's international development co-operation grew from USD 160 million in 2005 to nearly USD 923 million in 2010 (Milani, 2014; IPEA, 2014). The People's Republic of China operates one of the biggest development co-operation programmes in the South; it has already provided a total of USD 41.08 billion as concessional funding, comprising grants, interest-free loans and concessional loans (Hong, 2011).

China's development co-operation programme is one of the biggest in the South, having already provided a total of USD 41.08 billion in concessional funding.

At the 6th Summit of Heads of State and of Government of BRICS, held in Fortaleza, Brazil in July 2014, the BRICS Development Bank was formally launched as the New Development Bank with initial capital of USD 50 billion.[3] This bank intends to complement other sources of development finance by mobilising resources to support infrastructure and sustainable development projects in the BRICS countries, as well as in other developing countries. The member countries have displayed their willingness to work as a group to promote growth in the South, demonstrating their ability to deliver mutual benefits and collective gains. At present, China and the Russian Federation are the only two BRICS countries able to maintain a healthy current account surplus. Apart from US treasury bonds, they will see the BRICS Development Bank as an option for investing these surpluses. This will not be the case, however, for other countries such as India, which will be investing borrowed resources in the bank (Roy, 2014). The bank's membership and shareholder base will be broad and it will promote equal representation through core principles, such as one-member-one-vote.

The South is not a homogenous group, but comprises countries at different stages of development, moving at varied speeds. For this reason, the structure of the bank will be participatory, encouraging other developing countries to join as equal partners. Each member is expected to hold an equal amount of equity in the bank and if any member invests more of their surpluses, this should be used for lending rather than increasing their stake in the bank. This will also prevent the governance structure from being solely based on the economic weight of its members and maximise the bank's reach, giving it much greater economic influence. Furthermore, the bank will restrict membership to developing countries only – no developed country or multilateral development bank will be admitted as a stakeholder of the institution. Of course, the admittance of developed countries

or multilateral development banks controlled by developed countries could give the BRICS Bank superior leveraging power thanks to their attractive rating profiles, but this would be at the cost of significant interest in and control of the new entity by developed countries, which would seriously dilute the branding of the institution as a bank for, of and by the developing world (Roy, 2014).

The Asian Infrastructure Development Bank will have an initial capital of USD 50 billion.

In parallel, China is laying the groundwork for its Asian Infrastructure Development Bank, whose core focus will be on financing infrastructure to enhance regional connectivity in Asia. The bank will have an initial capital of USD 50 billion (Shan, 2014). China claims the bank will not compete with traditional multilateral institutions such as the World Bank, the International Monetary Fund or the Asian Development Bank. While these institutions also have infrastructure development as their top priority, it is expected that the opening up of another channel for developing countries to finance their infrastructure requirements will offer new options and hopes for bridging resource gaps.

Another novel financial arrangement is the India, Brazil and South Africa Fund (IBSA Fund). This fund was established in 2004 to identify new opportunities for contributing to international efforts to combat poverty and hunger (IBSA, 2004). The fund has accumulated nearly USD 18 million. Working in partnership with the United Nations Development Programme (UNDP), the fund supports projects – mostly in Africa – that address both social and economic inequality. The specific objectives of the three countries are reflected in the fund's priorities, which range from promoting food security to addressing HIV/AIDS and improving access to safe drinking water; all aim to contribute to the Millennium Development Goals (IBSA, 2011).

Currency swaps capture new opportunities for mutual benefits

The recent wave of "currency swap" arrangements (Box 3.1 and Table 3.1) is further strengthening South-South co-operation, enabling developing countries to forge new economic relations. Currency swaps help ensure that bilateral trade is unaffected by global financial conditions.

Box 3.1. **What are currency swaps?**

Developing countries are increasingly entering into currency swap arrangements that allow them to promote trade and investment in local currencies. In most currency swap arrangements, countries do business in their local currencies at predetermined and fixed exchange rates, preventing the erosion of domestic currency as a result of trade imbalances. In this way, currency swaps defend against international liquidity shocks and lower the transaction costs involved in bilateral exchanges among domestic firms.

For example, the Indian Ministry of Commerce has prepared a list of 23 countries with which India can enter into currency swap arrangements. The list includes a mix of oil-exporting and non-oil-exporting countries, among them Angola, Indonesia, Iran, Malaysia, Oman, the Russian Federation, South Africa, Thailand and Venezuela.

India also helped Bhutan overcome a currency crisis in late 2013, when a sudden rise in imports from India led to a severe depletion of Indian rupee reserves in Bhutan (*The Economic Times*, 2013). The government of India provided an INR 10 billion soft loan through its credit-line facility to ease the situation. Bhutan also took advantage of the currency swap arrangement that the two countries signed in 2013 to borrow INR 5 billion (Reserve Bank of India, 2013).

Table 3.1. **Some recent South-South currency swap arrangements**

	Bilateral partners	Monetary arrangement
2011	China-Thailand	CNY 70 billion/THB 320 billion
2011	South Korea-China	KRW 64 trillion/CNY 360 billion
2012	China-Malaysia	CNY 180 billion/MYR 90 billion
2013	China-Brazil	CNY 190 billion/BRL 60 billion
2013	South Korea-Malaysia	KRW 5 trillion/MYR 15 billion
2013	South Korea-the United Arab Emirates	KRW 5.8 trillion/AED 20 billion
2014	South Korea-Indonesia	KRW 10.7 trillion/IDR 115 trillion

Sources: Bank of Thailand (2011), "The establishment of a bilateral local currency swap agreement between the People's Bank of China and the Bank of Thailand", *Press Release*, 22 December, Bank of Thailand; *Financial Times* (2011), "South Korea doubles currency swap deal with China", *Financial Times*, 26 October 2011; Bank Negara Malaysia (2012), "Bilateral currency swap arrangement agreement with the People's Bank of China", *Press Statements*, 8 February, Bank Negara Malaysia; Bank Negara Malaysia (2013), "Bilateral currency swap arrangement with Bank of Korea", *Press Statements*, 20 October, Bank Negara Malaysia; Banco Central do Brasil (2013), "The Central Bank of Brazil and the People's Bank of China establish a currency swap agreement", *Press Release*, 26 March, Banco Central do Brasil; Bank Indonesia (2014), "Bilateral local currency swap arrangement with the Bank of Korea", *Press Release*, 6 March, Bank Indonesia; Bank of Korea (2013), "The Bank of Korea and Central Bank of the United Arab Emirates announce the establishment of a KRW/AED Swap Arrangement", *Press Releases*, 13 October, Bank of Korea.

The growth in currency swaps among Southeast Asian countries is largely seen as an outcome of the Chiang Mai Initiative, set up after the 1997 East Asian crisis. The initiative drew attention to the interdependence of developing country economies (West, 2014). It has since evolved into a multilateral currency swap arrangement among the ten members of the Association of Southeast Asian Nations (ASEAN)[4] plus the People's Republic of China (including Hong Kong, China), Japan and South Korea. It draws on a foreign exchange reserves pool initially worth USD 120 billion, which doubled to reach USD 240 billion in 2012.

Increasing South-South investment flows reflect deeper integration

Historically, foreign direct investment outflows from developing countries have been low in comparison to those of developed countries, although this trend seems to be reversing. The share of developing countries in global foreign direct investment outflows has grown fivefold over the past three decades – from 6% in 1980 to 31% in 2012 (UNCTAD, 2013a; and see Chapter 5).

South-South foreign direct investment is growing at an annual average rate of 21%.

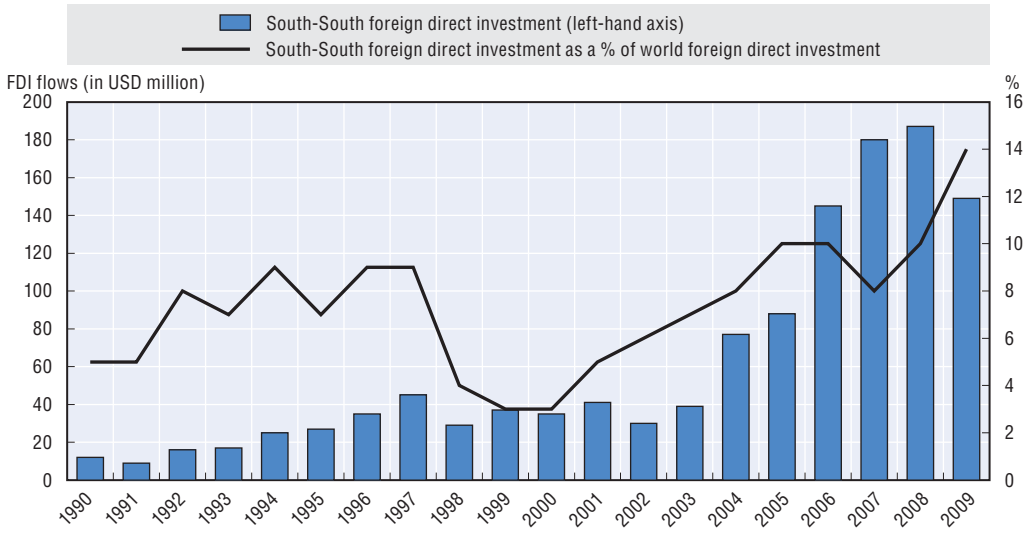
Yet, while the relative volume of foreign direct investment outflows from developing countries remains small, these funds have become increasingly relevant for promoting economic growth in Southern economies. One interesting aspect of foreign direct investment from developing countries is that it is largely destined for other developing countries. In this way, the rapid economic growth experienced by some developing countries has provided opportunities for other Southern countries. South-South foreign direct investment flows are growing at an annual average rate of 21% (Figure 3.1).

The combined value of foreign direct investment outflows from the BRICS skyrocketed from USD 7 billion in 2000 to USD 126 billion in 2012, with nearly 58% being received by developing countries (see Chapter 5). Further, 43% of foreign direct investment from the BRICS to developing economies was intra-regional in character (UNCTAD, 2013b).

South-South co-operation includes skills and trade, not just finance

South-South co-operation takes many forms other than finance. It has helped expand the scale and nature of development co-operation, enabling providers to move beyond concepts of human resource development centred around training programmes alone. In emerging economies such as

Figure 3.1. **Growth in South-South foreign direct investment, 1990-2009**



Source: Author's own calculations based on the United Nations Conference on Trade and Development statistics, *http://unctad.org/en/pages/Statistics.aspx* (accessed 20 May 2014).

StatLink http://dx.doi.org/10.1787/888933121316

Brazil, China, India and South Africa, progress has helped them build their development co-operation efforts, introducing new modalities that have opened up avenues for other developing countries. For instance, in 2008, India announced its Duty Free Tariff Preference for Least Developed Countries, with a tariff reduction spread over five years (2008-12). The scheme is open to 49 of the least developed countries (including 34 in Africa). Both China and India provide preferential buyer's credits to promote investment in the production sectors of their partner countries; these credits create a win-win opportunity for both providers and development partners, as goods, services, machinery and equipment as well as consultancy services are exported to partner countries under agreements based on principles of mutual gain.

This is not to say that programmes for capacity development, training and scholarships are not still important; in fact, they have seen impressive growth. For instance, the Indian Technical & Economic Cooperation Programme (ITEC), India's flagship scholarship and fellowship programme launched in 1964, began by offering 1 400 training slots to students from other developing countries; today it provides more than 10 000 scholarships annually to students from 167 countries. China also provides training to more than 15 000 people from other countries every year. The focus of these programmes – in areas such as computer engineering, statistics, chartered accountancy, industrial surveys, civil aviation, telephone mechanics, fisheries, legislative procedures and textile industrial technology – reflects the new strengths of these countries.

South-South trade grew as a share of world trade from 8% in 1980 to 27% in 2010, while North-South trade was falling.

Trade among developing countries has also helped provide new opportunities for economic growth that bypass trade restrictions imposed by developed countries. South-South trade as a share of world trade grew from 8% in 1980 to 27% in 2010; over the same period, North-South trade fell from 46% to less than 30% (UNDP, 2013).

In the absence of domestic frontiers of innovation similar to those available in developed countries, developing countries previously relied extensively on imported capital goods (e.g. machinery, tools, computers or other equipment used to produce goods for sale). Until the mid-1990s, developed countries were the favoured source for high-skill intensive manufacturing goods; through these imports, developing countries were able to learn and innovate.[5]

Over the years, trade in capital goods among developing countries has climbed steadily (from 35% in 1995 to 54% in 2010).[6] This reflects the strengthening of South-South trade relations since the late 1990s. In particular, developing countries in East and Southeast Asia have substantially strengthened their trade ties with other developing countries, and now import most of their high-tech[7] manufactured goods from this grouping (65% and 55% respectively). Other countries have also reduced their dependence on developed countries for high-tech goods.

In 2010, developing countries exported 62% of their high-tech manufactured goods to other developing countries (see Endnote 6). This rise in South-South high-tech exports can be explained by the combined effect of the technology spillovers from imports of high-tech goods described above, as well as trade liberalisation, lowering of tariffs and removal of quantitative restrictions on imported capital goods. As a result, several developing countries have successfully diversified their production base, reorienting it away from traditional primary exports to manufacturing and services-based industries. This shift, however, is still largely confined to a small group of developing economies.

Civil society is strengthening South-South co-operation

Some Southern civil society organisations (CSOs) are also becoming active players in other developing countries. They have enhanced their expertise in key relevant sectors, ranging from health, water and sanitation, and microfinance to capacity building and training. CSOs work at the grassroots level and often develop innovative approaches that have high impact. The political mobilisation and involvement of civil society in South-South co-operation has increased considerably and Southern countries are now treating civil society as important development actors, not simply as subcontractors.

The emerging Southern providers of development co-operation – including Brazil, China and India – are actively involving their civil society in promoting development for all. For example, India's policy for economic and development co-operation explicitly focuses on bilateral channels, but at the same time recognises the role of civil society as a development actor that should be engaged by the development partner itself (Vaes and Huyse, 2013). In Bangladesh, BRAC (formerly the Bangladeshi Rural Advancement Committee), the largest non-profit organisation in the developing world, places great emphasis on providing medical care to low-income populations. BRAC has evolved a holistic approach to addressing poverty by providing micro-loans, education, health services, jobs and human rights education in countries across the South. Similarly, Brazilian CSOs are increasing their presence and co-operation in Africa. A study of Brazil's international development efforts suggests that "a growing number of Brazilian public national institutions or organi[s]ed civil society, in its diverse categories, have incorporated overseas activities as part of their daily work routines" (Tomlinson, 2013). Brazilian CSOs and social movements also have been important in articulating the demands of smallholders in policy.

South-South co-operation is founded on equity and mutual benefit

South-South co-operation continues to evolve both in terms of magnitude of flows and forms of delivery. Recent improvements in the economies of the emerging economies are allowing them to support the development of other countries and deliver appropriate solutions. In order to spread and sustain this co-operation, partners should continue to embrace the two basic principles of egalitarianism and mutual benefit. Emerging economies, in particular, will need to pay closer

attention to the principle of egalitarianism in order to spread and sustain the spirit of South-South co-operation over the long run. It needs to be ensured that these are balanced, win-win partnerships through which the benefits are shared among all the development partners.

Key recommendations

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

Notes

1. The exchange of resources, technology and knowledge among developing countries, also known as countries of the global South.
2. BRICS: Brazil, the Russian Federation, India, China and South Africa.
3. The decision to set-up a BRICS-led Development Bank was made at the 5th BRICS summit held in Durban, South Africa in March 2013.
4. ASEAN is a political and economic organisation of ten countries in Southeast Asia: Brunei, Cambodia, Indonesia, Laos, Myanmar (Burma), Malaysia, the Philippines, Singapore, Thailand and Viet Nam. Its aims include accelerating economic growth, social progress, socio-cultural evolution, protection of regional peace and stability, and opportunities for member countries to discuss differences peacefully.
5. Prebisch (1959) was one of the first to argue that developing countries could realise large gains by integrating their domestic markets and building competitive manufactured goods.
6. Author's own calculations based on the United Nations Conference on Trade and Development statistics, *http://unctad.org/en/pages/Statistics.aspx* (accessed 20 May 2014).
7. Used in this chapter to refer to high-skilled, technology-intensive manufactured goods.

References

Banco Central do Brasil (2013), "The Central Bank of Brazil and the People's Bank of China establish a currency swap agreement", *Press Release*, 26 March, Banco Central do Brasil.

Bank Indonesia (2014), "Bilateral local currency swap arrangement with the Bank of Korea", *Press Release*, 6 March, Bank Indonesia.

Bank of Korea (2013), "The Bank of Korea and Central Bank of the United Arab Emirates announce the establishment of a KRW/AED Swap Arrangement", *Press Release*, 13 October, Bank of Korea.

Bank Negara Malaysia (2013), "Bilateral currency swap arrangement with Bank of Korea", *Press Statement*, 20 October, Bank Negara Malaysia.

Bank Negara Malaysia (2012), "Bilateral currency swap arrangement agreement with the People's Bank of China", *Press Statement*, 8 February, Bank Negara Malaysia.

Bank of Thailand (2011), "The establishment of a bilateral local currency swap agreement between the People's Bank of China and the Bank of Thailand", *Press Release*, 22 December, Bank of Thailand.

Chaturvedi, S. (2011), "Development cooperation: Contours, evolution and scope", in Chaturvedi et al. (ed.), *Development Cooperation and Emerging Powers: New Patterns or Old Partners?*, Zed Books, London.

Financial Times (2011), "South Korea doubles currency swap deal with China", *Financial Times*, 26 October 2011.

Hong, Z. (2011) "China's evolving aid landscape: Crossing the river by feeling the stones", in Chaturvedi et al. (ed.), *Development Cooperation and Emerging Powers: New Patterns or Old Partners?*, Zed Books, London.

IBSA (2011), *Tshwane Declaration*, Fifth Summit of Heads of State/Government, IBSA Dialogue Forum.

IBSA (2006), *Brasilia Declaration*, First IBSA Summit Meeting, Joint Declaration, IBSA Dialogue Forum.

IBSA (2004), "59th UNGA Meeting Communiqué", *Press Release*, IBSA Dialogue Forum.

IPEA (2014), *Brazilian Cooperation for International Development 2010*, Institute of Applied Economic Research, Brasilia.

Milani, C.R.S. (2014), "Definition, measurement, evaluation and institutional design of international development cooperation: The case of Brazil", *BRICS Academic Forum 2014: Thematic Discussion on BRICS International Development Cooperation*, 17-19 March 2014, Rio de Janeiro.

Prebisch, R. (1959), "Commercial policies in underdeveloped countries", *American Economic Review*, Vol. 49, pp. 251-73.

Reserve Bank of India (2013), "RBI signs Currency Swap Agreement with Royal Monetary Authority of Bhutan", *Press Release*, 8 March 2013, Reserve Bank of India, Mumbai.

RIS (2014), "Features of South-South cooperation and global dynamics", *FIDC Policy Brief*, No. 1, Research and Information System for Developing Countries, New Delhi.

Roy, R. (2014), "India's goals at the BRICS bank", *Livemint*, 7 April 2014, *www.livemint.com/Opinion/53Gua0HycnNekwA703FzfJ/Indias-goals-at-the-BRICS-bank.html*.

Shan, H. (2014), "China-led Asian Infrastructure bank in the making", *China.org.cn*, 11 April 2014, *www.china.org.cn/business/2014-04/11/content_32066259.htm*.

The Economic Times (2013), "Indian support helped Bhutan to overcome its foreign currency reserve crisis", *The Economic Times*, 18 December 2013.

Tomlinson, B. (2013), *Working with Civil Society in Foreign Aid: Possibilities for South-South Cooperation?*, United Nations Development Programme, China.

UNCTAD (2013a), *World Investment Report*, United Nations Commission on Trade and Development, Geneva.

UNCTAD (2013b), *Global Investment Trends Monitor: The Rise of the BRICS*, Special Edition, United Nations Commission on Trade and Development, Geneva.

UNDP (2013), *Human Development Report 2013: The Rise of the South: Human Progress in a Diverse World*, United Nations Development Programme, New York.

Vaes, S. and H. Huyse (2013), *New Voices on South-South Cooperation between Emerging Powers and Africa: African Civil Society Perspectives*, KU Lueven, Belgium.

West, J. (2014), "Chiang Mai initiative: An Asian IMF?", Asian Century Institute website, *http://asiancenturyinstitute.com/economy/248-chiang-mai-initiative-an-asian-imf*.

Development Co-operation Report 2014
Mobilising Resources for Sustainable Development
© OECD 2014

PART I

Chapter 4

The growing development potential of other official flows

by
Alexander Klein, Cécile Sangaré *and* Giovanni Maria Semeraro,
Development Co-operation Directorate, OECD

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

Until recently, the OECD's Development Assistance Committee (DAC) has centred its development co-operation policy recommendations on official development assistance (ODA), with little consideration of other official financial flows[1] to developing countries, despite their potential developmental motivation and impact. Since 2008, other official flows have come to represent, on average, one-third of all official flows (finance extended to developing countries by public institutions from DAC members and multilateral institutions; see Figure 2.1, Chapter 2).

The development potential of other official financial flows has been rather overlooked.

Since the Monterrey Consensus on Financing for Development (see Glossary), discussions on external resources for development have increasingly paid attention to sources of finance other than official development assistance. These discussions have gained new momentum in the light of efforts to design a new set of Sustainable Development Goals to replace the Millennium Development Goals (MDGs) when these expire in 2015. The broadening of the debate on development finance echoes the rapid evolution of the development financing landscape since the MDGs were agreed, and the fact that many countries, especially in the middle-income group, now have access to a much more diverse range of sources of finance – domestic and international, public and private. In addition, the global financial crisis has reduced the volume of private investment in developing countries, resulting in an increasing demand for risk-mitigation instruments to unlock private investment and increase access to finance (see Chapters 11 and 12).

This chapter outlines how other official flows fit into this changing landscape, with a special focus on non-concessional finance from national and international development finance institutions (Box 4.1) to support private sector development. The chapter also gives an overview of officially supported export credits, which can also help finance large projects in key sectors of developing countries' economies.

Other official flows are gaining importance in the development finance landscape

Since the global financial crisis of 2008, non-concessional funding from national and international development finance institutions, as well as from other development co-operation actors focusing on private sector development, has played a critical role in catalysing private investment and helping to fill funding gaps, in particular those affecting infrastructure and trade.

In addition, many development finance institutions are increasingly investing in investment funds in order to support private sector development and compensate for the shortfall of private equity in developing countries.

Official guarantees for development mobilised over USD 15 billion of private financing between 2009 and 2011.

Box 4.1. **What are "development finance institutions"?**

National and international development finance institutions are specialised development banks or subsidiaries set up to support private sector development in developing countries. They are usually majority owned by national governments and source their capital from national or international development funds or benefit from government guarantees. This ensures their creditworthiness, which enables them to raise large amounts of money on international capital markets and provide financing on very competitive terms.

National or bilateral development finance institutions are either independent institutions, such as the Netherlands Development Finance Company (FMO), or part of larger bilateral development banks, such as the German Investment and Development Company (DEG), which is part of the German development bank KfW. They are both among the largest development finance institutions worldwide.

Multilateral development finance institutions are the private sector arms of international financial institutions that have been established by more than one country, and hence are subject to international law. Their shareholders are generally national governments, but could also occasionally include other international or private institutions. These institutions finance projects in support of the private sector through mainly equity investments, long-term loans and guarantees. They usually have a greater financing capacity than bilateral development banks and also act as a forum for close co-operation among governments. The main international financial institutions with a private sector arm are the World Bank Group through the International Finance Corporation (IFC), the European Investment Bank (EIB), the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), the Inter-American Development Bank (IDB), the African Development Bank (AfDB) and the Islamic Development Bank (IDB).

Guarantee schemes[2] (whether developmentally or commercially motivated), have also played a key role in minimising the impact of the crisis on trade finance and the availability of liquidity, thus enabling the launching of development-relevant projects in developing countries. A recent DAC survey has highlighted that guarantees extended with a development motive mobilised over USD 15 billion of private sector flows to/in developing countries between 2009 and 2011 (Mirabile et al., 2013; see also Chapter 11).

Many countries that are not members of the DAC have also been important providers of development co-operation for decades (see Box 2.2 in Chapter 2). These include the BRICS – Brazil, the Russian Federation, India, China and South Africa – as well as countries providing Islamic finance (explained in Chapter 11).[3] Their involvement unlocks an attractive source of finance for many countries (for example, BRICS' financing to developing countries reached over USD 4 billion in 2012). Over the past ten years, these development partners have grown rapidly in number; in some cases their levels of development co-operation now exceed those of individual DAC members. In particular, some of these countries are also helping to transform the development finance landscape through alternative co-operation strategies and modalities, such as South-South co-operation (see Chapter 3).

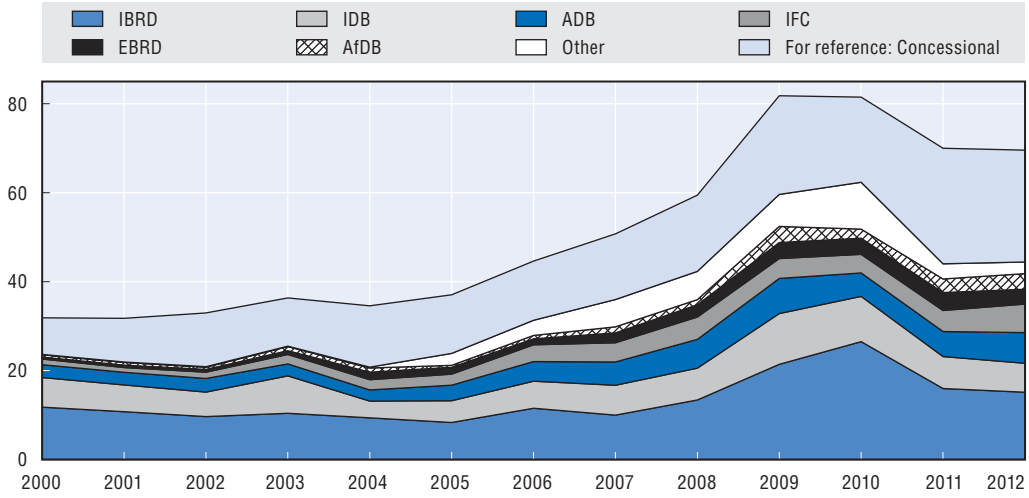
The development community is also increasingly looking at official institutional investors as potential sources of long-term investment in developing countries (see Chapter 6). For instance, sovereign wealth funds are state-owned investment funds that invest globally in real and financial assets such as stocks, bonds, real estate or precious metals, or in alternative investments such as private equity fund or hedge funds. They are created either to ensure that a country's resources are preserved for future generations or to stabilise government fiscal and/or foreign exchange revenues and their macroeconomic balance. Total assets managed by sovereign wealth funds have been growing rapidly over the past few years, reaching a record high of USD 6.1 trillion at the end of 2013.

International financial institutions are by far the largest providers of other official flows

International financial institutions can offer developing countries either concessional or non-concessional finance depending on the country's income group classification (see Chapter 2). In 2012, both types of financing amounted to USD 70 billion (gross disbursements), slightly more than the previous year, following a substantial decrease from peak volumes reached in 2009 and 2010 (Figure 4.1). The World Bank Group[4] and the regional development banks are, in terms of volume, the most prominent providers of multilateral development finance.

Figure 4.1. **Share of non-concessional financing in international financial institutions' total operations, 2000-12**

Gross disbursements, USD billion, constant 2012 prices



Notes: IBRD: International Bank for Reconstruction and Development; IDB: Inter-American Development Bank; ADB: Asian Development Bank; IFC: International Finance Corporation; EBRD: European Bank for Reconstruction and Development; AfDB: African Development Bank. IBRD and the IFC are part of the World Bank Group.

Source: OECD (2011a), "Detailed aid statistics: ODA Official development assistance: Disbursements", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00069-en*; OECD (2011c), "Detailed aid statistics: Other official flows OOF", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00075-en*; OECD (2012), "Creditor Reporting System: Aid activities", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00061-en*.

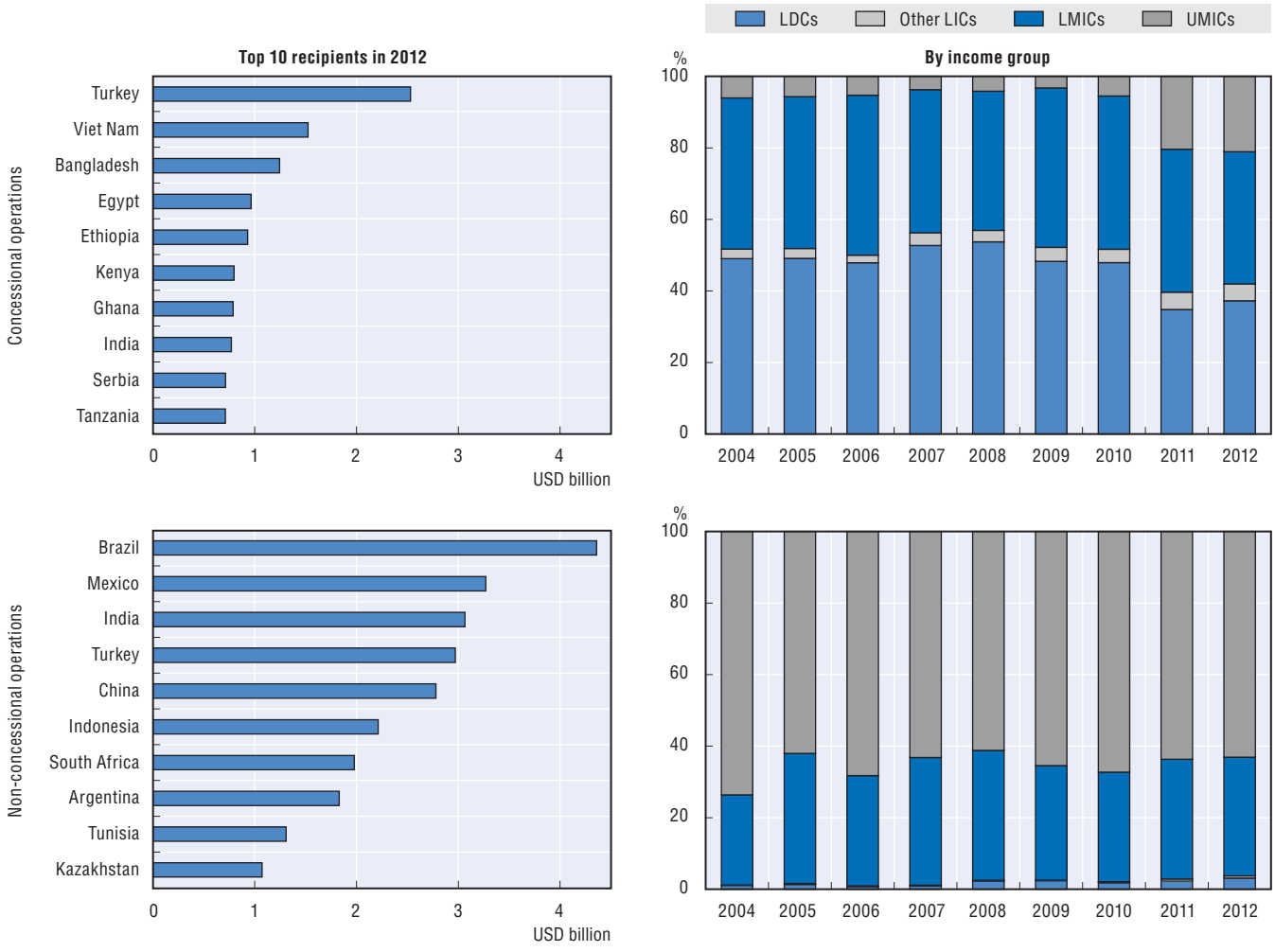
StatLink *http://dx.doi.org/10.1787/888933121335*

International financial institutions' concessional financing (i.e. ODA-like financing) – either grants or highly concessional loans – is mainly allocated to least developed and low-income countries, while their non-concessional operations (or other official flows) tend to target middle-income countries. These institutions use a wide range of financial options for their non-concessional operations, increasing their financial offer beyond traditional development finance to include instruments such as loans at close to market terms (including syndicated loans), mezzanine finance, equity investment, risk-mitigation instruments (e.g. guarantees), trade finance and shares in investment funds (all these terms are explained in Chapter 11 or the Glossary). A third type of finance offered by these providers is called "blended finance". This combines a concessional and a non-concessional component to soften the terms and conditions of the final financial package (e.g. lower interest rate, longer tenor or pay-back period). Blended finance is gaining importance in some international financial institutions' portfolios (e.g. the International Finance Corporation, International Bank for Reconstruction and Development and regional development banks such as the IDB).

In 2012, non-concessional financing represented almost two-thirds of international financial institutions' total financing, and more than 95% of it was extended to middle-income countries. Brazil, Mexico, India, Turkey and the People's Republic of China benefited the most, receiving a total of USD 16.4 billion (Figure 4.2). IBRD and the ADB were the largest multilateral providers of non-concessional finance: USD 15.1 and 6.9 billion respectively in 2012 (Table 4.1). International financial institutions' non-concessional finance was mostly (77%) allocated to infrastructure projects in the economic (e.g. transport, energy) and social (e.g. health, water supply and sanitation) sectors (Figure 4.3).

Figure 4.2. **Geographical allocation of international financial institutions' operations, 2012**

Gross disbursements, USD billion



Notes: LDCs: least developed countries; Other LICs: other low-income countries; LMICs: lower middle-income countries and territories; UMICs: upper middle-income countries and territories.

Source: OECD (2011a), "Detailed aid statistics: ODA Official development assistance: Disbursements", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00069-en*; OECD (2011c), "Detailed aid statistics: Other official flows OOF", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00075-en*; OECD (2012), "Creditor Reporting System: Aid activities", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00061-en*.

Table 4.1. **Non-concessional financing by international financial institutions, 2012**

Gross disbursements

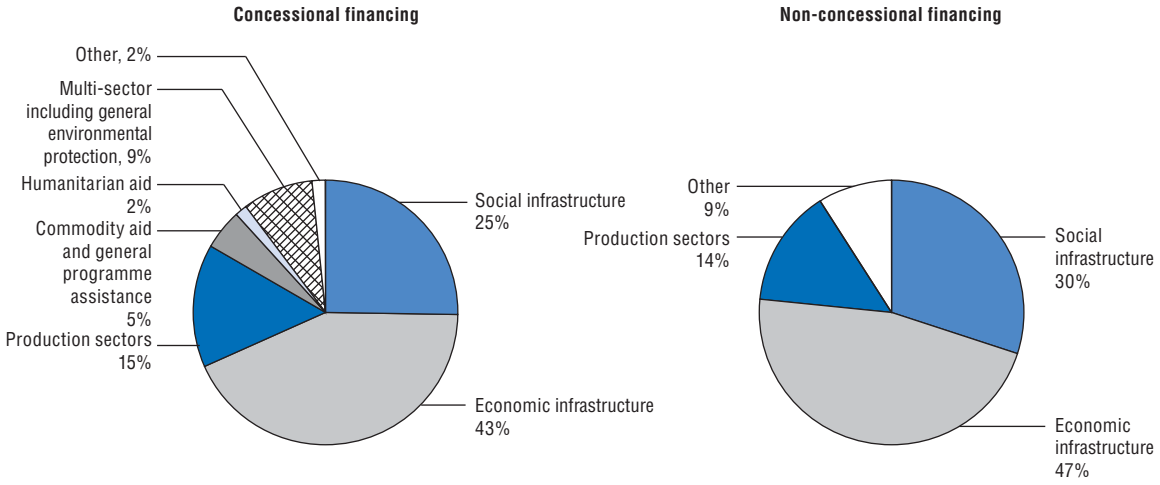
International financial institutions	Non-concessional financing, USD billion	% of total financing
International Bank for Reconstruction and Development/International Development Association	15.14	60
Asian Development Bank	6.90	79
Inter-American Development Bank	6.51	80
International Finance Corporation	6.41	100
African Development Bank	3.51	65
European Bank for Reconstruction and Development	3.34	100
Islamic Development Bank	1.30	82
European Investment Bank	0.76	11
OPEC Fund for Agricultural Development	0.45	60
International Fund for Agricultural Development	0.06	10
Caribbean Development Bank	0.04	36

Source: OECD (2011a), "Detailed aid statistics: ODA Official development assistance: Disbursements", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00069-en*; OECD (2011c), "Detailed aid statistics: Other official flows OOF", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00075-en*; OECD (2012), "Creditor Reporting System: Aid activities", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00061-en*.

StatLink http://dx.doi.org/10.1787/888933133666

Figure 4.3. **International financial institutions' operations by sector, 2012**

Commitments



Source: OECD (2011b), "Detailed aid statistics: Official bilateral commitments by sector", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00073-en*; OECD (2012), "Creditor Reporting System: Aid activities", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00061-en*.

StatLink http://dx.doi.org/10.1787/888933121373

In 2012, more than 95% of the international financial institutions' non-concessional funding went to middle-income countries.

Development finance institutions help fill the gap between public aid and private investment

Economic growth is critical for creating jobs and reducing poverty. Yet the private sector in developing countries is held back by poor access to finance, inadequate infrastructure, a poor investment climate, a large informal sector and a lack of skilled workers. A more enabling environment could allow the private sector to contribute to sustainable development in many ways, from economic growth to environmental sustainability. This is why today private sector growth is targeted across the development agenda (IFC, 2011).

National and international development finance institutions can play a valuable role in stimulating growth directly by addressing employment, poverty reduction and inclusive growth, or indirectly by addressing important challenges such as climate change, food security and environmental sustainability (Box 4.2). Furthermore, support from development finance institutions can be a major ingredient of growth strategies, for instance by mobilising investment, promoting technology transfer, supporting labour market standards, promoting exports and encouraging savings (World Bank, 2008). These institutions can also give firms access to long-term loans as well as equity capital in situations where private financing is discouraged by high risk. The current gradual withdrawal of capital from developing countries, especially the rapidly growing economies, highlights the value of such long-term finance, which can help to stabilise an economy during economic downturns (World Bank, 2014; and see Chapter 6). In high-risk countries and sectors, equity investment or mezzanine finance can bring both development results and commercial viability. Furthermore, it offers the opportunity for these institutions to transfer knowledge in management

Box 4.2. **Africa, energy and the European Development Finance Institutions**

National and international development finance have the potential to enforce compliance with environmental and social standards. They share common environmental and social guidelines, such as the IFC Performance Standards on Environmental and Social Sustainability (IFC, 2012); the World Bank Environmental, Health and Safety Sector Guidelines[1] and the conventions of the International Labour Organization. By following these guidelines, they target job quality and inclusiveness in business activity (IFC, 2011).

For example, the association of European Development Finance Institutions (EDFI) is a group of 15 bilateral institutions operating in developing countries. They are mandated by their governments to finance and invest in profitable private sector enterprises in order to foster growth in sustainable business, help reduce poverty and, to a larger extent, contribute to achieving the MDGs by promoting economically, environmentally and socially sustainable development (EDFI, 2013).

Although investing globally, Africa is a key priority for the EDFI, which in 2013 invested EUR 975 million in the African, Caribbean and Pacific and Middle East and North Africa (MENA) regions. The EDFI member institutions often join forces to finance larger projects, thus increasing their development impact and spreading risk. This is important because many energy infrastructure projects require economies of scale to be bankable, and because long-term funding is scarce, especially in Africa, where the country risks are often considered too high for commercial banks to provide funding.

The European Financing Partners (EFP), established in 2004, is an example of such collaboration involving the European Investment Bank and 12 other development finance institutions. Together they promote private sector development in African, Caribbean and Pacific countries. An independent evaluation of EFP-financed energy projects in sub-Saharan Africa showed that the EDFI provided finance on terms unavailable from commercial lenders, as well as key advisory support (Dalberg, 2012). For example, in Kenya, the EFP invested in Olkaria III – an independent geothermal power producer – and Rabai Power, the most efficient thermal plant in Kenya. The EFP invested in these projects because they were less attractive to commercial lenders (e.g. high perception of risks). The resulting new electricity generation should help support hundreds of thousands of additional jobs and will lead to national cost savings in the tens or even hundreds of millions of dollars. For example, Olkaria III has allowed economic benefits from lower costs and higher reliability: the plant added 3.5% in national capacity, is currently supplying 6% of Kenya's energy consumption and helped reduce load shedding[2] in the country while reducing environmental impacts.

The EDFI's growing portfolios – from EUR 21.7 billion in 2010 to EUR 28.1 billion in 2013 – reflect the increasing importance of private sector support in the development agenda. But they also demonstrate the economically sustainable way these institutions work: the EDFI's profits are retained and reinvested in new development projects, which contribute to increasing its portfolios over long-term profitable periods.

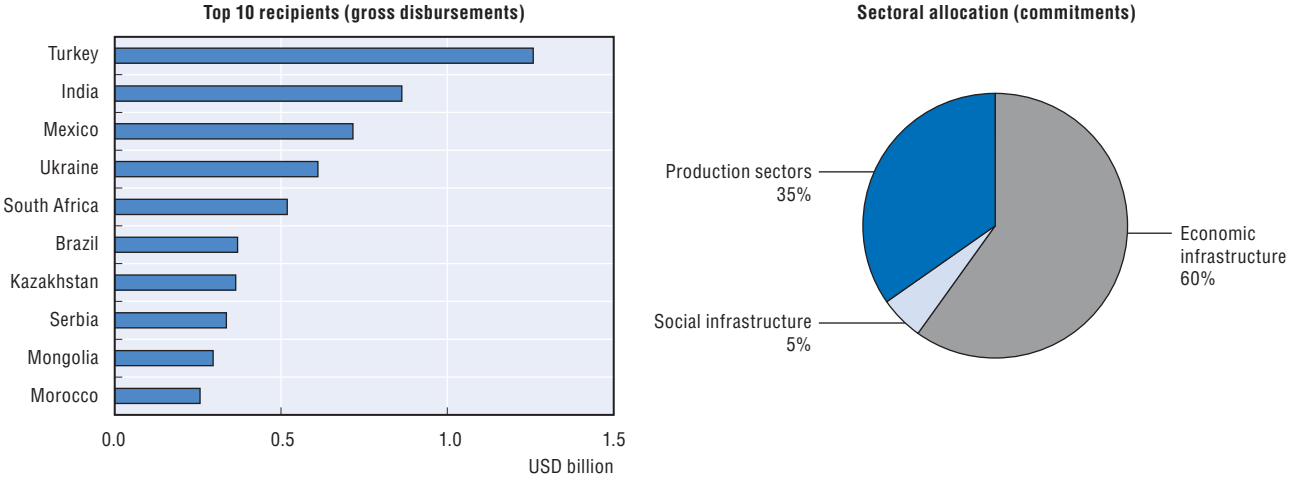
1. Available at *www.ifc.org/ehsguidelines*.
2. Voluntary blackouts to safeguard electricity consumption.

Source: Adapted from Meyer, C. (2012), "EDFI: Africa and energy access – Financing impact", *CFI.Co* online, 26 July, *http://cfi.co/africa/2012/07/edfi-africa-and-energy-access-financing-impact*.

standards, accounting and corporate social responsibility.[5] Finally, in addition to their own funds, development finance institutions help to bring in financing from other investors, who are often reassured by the image of viability that these institutions can lend to a firm, sector or country.

Development finance institutions' support to the private sector represents a significant share of capital flows to developing countries, reaching USD 18.6 billion in commitments in 2012, 68% of which were provided by international financial institutions. These operations represented one-third of international financial institutions' non-concessional operations and were mainly allocated to lower and upper middle-income countries, with Turkey, India and Mexico being the top recipients (Figure 4.4). The share of their private sector operations has followed an upward trend since the global financial crisis. The IFC and EBRD were by far the largest multilateral providers in this domain. The main sectors that benefitted from these operations were economic infrastructure (60%) and production and services (35%).

Figure 4.4. **International financial institutions' non-concessional operations with the private sector, 2012**



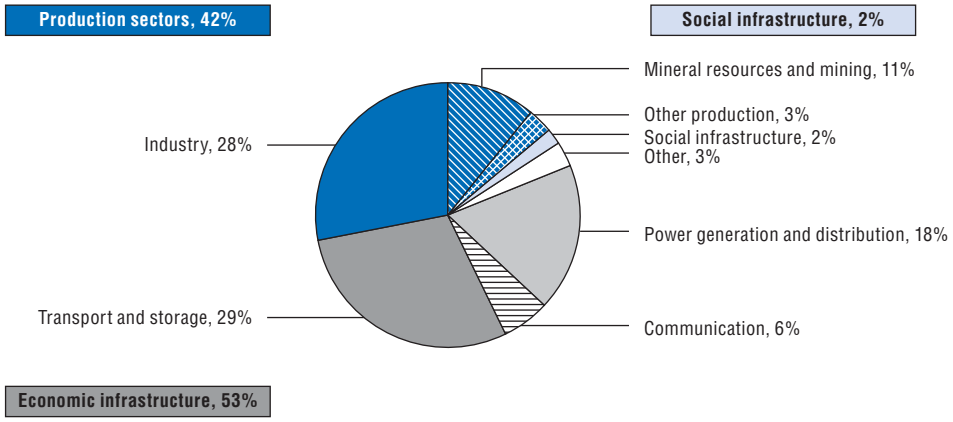
Source: OECD (2011a), "Detailed aid statistics: ODA Official development assistance: Disbursements", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00069-en*; OECD (2011c), "Detailed aid statistics: Other official flows OOF", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00075-en*; OECD (2012), "Creditor Reporting System: Aid activities", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00061-en*; OECD (2011b), "Detailed aid statistics: Official bilateral commitments by sector", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00073-en*.

Officially supported export credits can be critical for financing large projects in developing countries

Projects in developing countries may also be financed through export credits extended by official export credit agencies. Export credit agencies provide government-backed loans, guarantees and insurance to corporations working internationally. These credits are commercially motivated and have no explicit objective of promoting economic development and welfare in host economies. However, by mitigating risks for investors and enabling production and large infrastructure or energy projects (e.g. roads, dams or hydroelectric plants) to evolve, these flows play a critical role in providing access to capital in developing countries (Figure 4.5). For this reason, officially supported export credits deserve more attention in broader analyses of developing countries' external finance – even if they are not official development finance.

Figure 4.5. **Which sectors benefit from export credits in developing countries?**

Commitments 2010-12



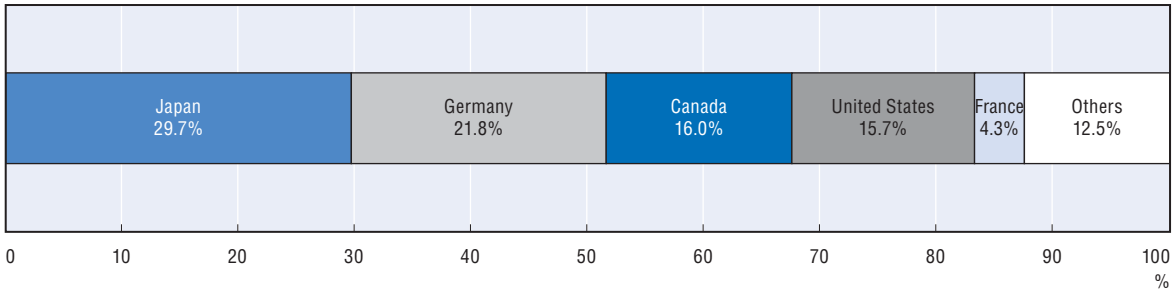
Source: Export Credit Group statistics.

OECD member countries' export credit agencies follow environmental and anti-corruption standards developed by the Working Party on Export Credits and Credit Guarantees,[6] as well as the financing guidelines of the Arrangement on Officially Supported Export Credits which came into existence in 1978 and has been signed by most OECD countries.[7] In order to avoid potential trade distortions (e.g. through the use of financial subsidies), the main purpose of the arrangement is to provide a framework for: 1) the orderly use of officially supported export credits (e.g. minimum interest rates, risk fees and maximum repayment terms); and 2) the orderly use of tied aid (see the Glossary). It also ensures fair competition, based on the price and quality of the exported goods.

In recent years, export credit volumes have been decreasing to developing countries, from USD 75 billion in 2010 to USD 55 billion in 2012 (in terms of gross disbursements), according to DAC statistics. During this period, Japan, followed by Germany, Canada, the United States and France, were the main DAC providers of export credit financing to developing countries (Figure 4.6). Among developing countries, middle-income countries were the main beneficiaries, with Turkey, India, Mexico, Brazil and China being the largest recipients in 2011 and 2012 (receiving a total of USD 31 billion; Figure 4.7).

Figure 4.6. **Main DAC providers of export credit financing, 2010-12**

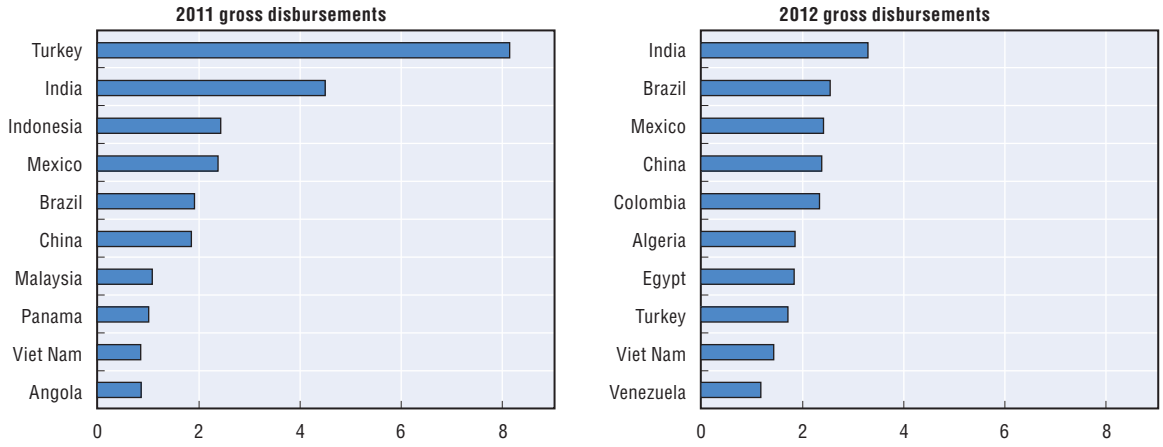
Gross disbursements



Notes: DAC and Export Credit Group (ECG) statistics on officially supported export credits differ to some extent and for some countries. While DAC statistics cover disbursements on operations with a maturity of one year and above, the ECG data represent export credit commitments with a maturity of two years and above.
Source: DAC aggregate geographical tables.

Figure 4.7. **Top 10 beneficiaries of export credits, 2011 and 2012**

USD billion, current prices



Notes: DAC and Export Credit Group (ECG) statistics on officially supported export credits differ to some extent and for some countries. While DAC statistics cover disbursements on operations with a maturity of one year and above, the ECG data represent export credit commitments with a maturity of two years and above.
Source: DAC aggregate geographical tables.

Key recommendations

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

Notes

1. Other official flows are defined as transactions by the official sector which do not meet the conditions for eligibility as ODA, either because they are not primarily aimed at development or because they are not sufficiently concessional. Concessional finance refers to loans provided at lower than market rates for developing countries, for longer terms and with conditions which allow grace periods for payments. For more details see the Glossary.
2. Guarantees act as a type of "insurance policy" against the risks of non-payment, facilitating financial flows to developing countries and high-risk sectors.
3. A set of very specific financial instruments used in the Islamic world.
4. Comprising the International Development Association (IDA), the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC).
5. With equity investments development finance institutions are usually provided a seat on the board of directors.
6. Also known as the Export Credit Group (ECG). All OECD countries, with the exception of Chile and Iceland, are members of this OECD body. For more information, see *www.oecd.org/tad/xcred/ecg.htm*.
7. Available at: *www.oecd.org/tad/xcred/theexportcreditsarrangementtext.htm*.

References

Dalberg (2012), *EDFI Joint Evaluation on EFP Energy Infrastructure Projects*, Dalberg Global Development Advisers, Washington, DC, *www.edfi.be/news/news/28-edfi-joint-evaluation-on-efp-energy-infrastructure-projects.html*.

EDFI (2013), "Welcome to EDFI: The Association of European Development Finance Institutions", European Development Finance Institutions, *www.edfi.be* (accessed 8 April 2014).

IFC (2012), *IFC Performance Standards on Environmental and Social Sustainability*, International Finance Corporation, Washington, DC.

IFC (2011), *IFI and Development Through the Private Sector*, International Finance Corporation, Washington, DC.

Meyer, C. (2012), "EDFI: Africa and energy access – Financing impact", *CFI.Co* online, 26 July, *http://cfi.co/africa/2012/07/edfi-africa-and-energy-access-financing-impact*.

Mirabile, M., J. Benn and C. Sangaré (2013), "Guarantees for development", *OECD Development Co-operation Working Papers*, No. 11, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5k407lx5b8f8-en*.

OECD (2014), *Arrangement on Officially Supported Export Credits*, OECD, Paris, *www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?doclanguage=en&cote=tad/pg(2014)1*.

OECD (2012), "Creditor Reporting System: Aid activities", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00061-en*.

OECD (2011a), "Detailed aid statistics: ODA Official development assistance: Disbursements", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00069-en*.

OECD (2011b), "Detailed aid statistics: Official bilateral commitments by sector", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00073-en*.

OECD (2011c), "Detailed aid statistics: Other official flows OOF", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00075-en*.

World Bank (2014), *Global Economic Prospects: Coping with Policy Normalization in High-Income Countries*, The World Bank, Washington, DC.

World Bank (2013), *Financing for Development Post-2015*, The World Bank, Washington, DC.

World Bank (2008), *The Growth Report: Strategies for Sustained Growth and Inclusive Development*, Commission on Growth and Development, The World Bank, Washington, DC.

© OECD 2014

PART I

Chapter 5

Putting foreign direct investment to work for development

by
Michael Gestrin, Directorate for Financial and Enterprise Affairs, OECD

Foreign direct investment in developing countries can create jobs, develop technology and new productive capacity, and help local firms access new international markets. Over the past two decades, developing countries have steadily increased their share of global foreign direct investment. In 2012 for the first time, their share exceeded that of developed countries, making foreign direct investment by far the biggest source of international capital flows to developing countries (60% on average). This chapter reviews the trends in foreign direct investment in developing countries, and their implications. Foreign direct investment has displayed volatility at the global level, although developing countries have been cushioned to some extent by the increase in South-South investment, especially by the People's Republic of China. In 2012, China was the fifth largest outward investor in the world, accounting for 5% of global flows. Regional shares are uneven, however, with Africa receiving the lowest share by far of global investment flows. There is also an increase in the phenomenon of "investment de-globalisation", which is weakening the economic linkages between developed countries and the rest of the world.

It has long been recognised, including in the 2002 Monterrey Consensus on Financing for Development (see Glossary), that private international investment has a positive role to play in supporting long-term sustainable development. Foreign direct investment[1] (FDI) represents by far the biggest international capital inflow into developing countries (USD 600 billion in 2012 or 60% of all international capital flows to developing countries). It is often viewed as one of the more stable sources of private international investment, as compared to portfolio investment (investment in another country's securities, such as stocks and bonds). At a micro-level, the main reason for this is that foreign direct investment reflects the long-term investment decisions of firms seeking to bolster existing – or to establish new – productive capacity in international markets.

The relatively stable nature of foreign direct investment is one reason that it is viewed as one of the most development-friendly sources of private investment. This, and the fact that it is usually associated with job creation, technology transfer and new productive capacity. When it involves firms with international coverage, it can help local firms access new international markets through the intra-firm trade linkages generated by the operations of multinational enterprises.

However, the past two decades have demonstrated that this type of investment can also be volatile. After reaching a record USD 1.4 trillion in 2000, global foreign direct investment flows fell by 56% over the following two years, due in part to the bursting of the dot-com bubble. Then, after breaching the USD 2 trillion mark in 2007, foreign direct investment fell by 40% during the first two years of the global financial crisis. Six years later, in 2013, it was still down by 30%.

Foreign direct investment is characterised by cycles of boom and bust: after passing USD 2 trillion in 2007, it fell by 40% during the first two years of the global financial crisis. Six years later, in 2013, it was still down by 30%.

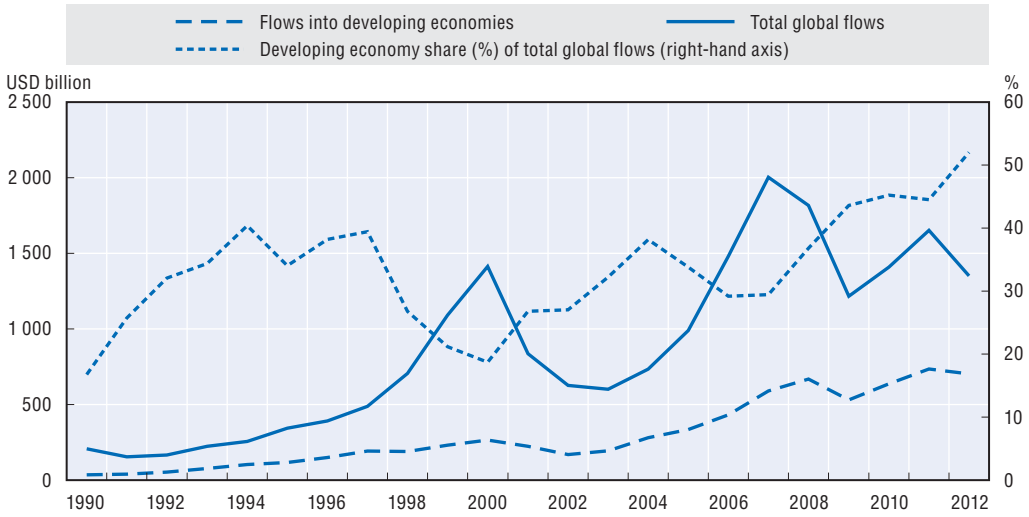
This chapter examines the trends in foreign direct investment in developing countries and the implications of these ups and downs.

Foreign direct investment to developing countries is on the rise

The two boom-and-bust cycles that have characterised global foreign direct investment flows over the past 20 years are shown in Figure 5.1, as well as foreign direct investment inflows into developing countries and their share of the global total between 1990 and 2012.

Figure 5.1 illustrates the counter-cyclical nature of developing countries' share in global foreign direct investment inflows, which tends to shrink during global boom years and grow when global foreign direct investment is declining. In the three years leading up to the peak of global foreign direct investment in 2000, developing countries' share of these global flows was cut in half, from around 40% to 20%. Over the following three years (2000-03), as global flows declined by 57%, developing countries' share again rose to around 40%. The same pattern repeats itself in the years leading up to and following the 2007 peak.

Figure 5.1. **Inward FDI into developing economies, 1990-2012**



Source: OECD (2014), Foreign Direct Investment (FDI) Statistics – OECD Data, Analysis and Forecasts website, *www.oecd.org/investment/statistics*; UNCTAD (2014), UNCTADstat website, *http://unctadstat.unctad.org*.

StatLink *http://dx.doi.org/10.1787/888933121468*

Nevertheless, developing countries have enjoyed more stable foreign direct investment cycles than the developed countries, growing less rapidly during the boom periods but falling less violently during recessions. This finding is encouraging from a development perspective and runs counter to the commonly held assumption that developing countries are the first places where multi-national enterprises cut back when times get tough. For example, Figure 5.1 shows a strong increase in the share of global foreign direct investment received by developing countries during the global financial and economic crisis (2008 onwards). This strong performance occurred as outward foreign direct investment from OECD countries, the source of around 80% of the world's foreign direct investment, declined by almost USD 800 billion. Thus while OECD countries' share dropped 57% below 2007 levels in 2012, foreign direct investment inflows into developing countries were up 19% over the same period – an increase of over USD 100 billion.

The main explanation for this somewhat paradoxical combination is the increase in so-called South-South foreign direct investment over that period – in other words, international investment from developing countries going to other developing countries. Today, approximately 30% of outward foreign direct investment is from developing countries, compared with an average of around 15% over the past two decades, and these flows are more likely to go to developing countries than developed countries. The People's Republic of China alone accounts for around 20% of all foreign direct investment to developing countries. In 2013, 75% of Africa's inward international mergers and acquisitions came from developing countries, with over half of this coming from China (discussed below).

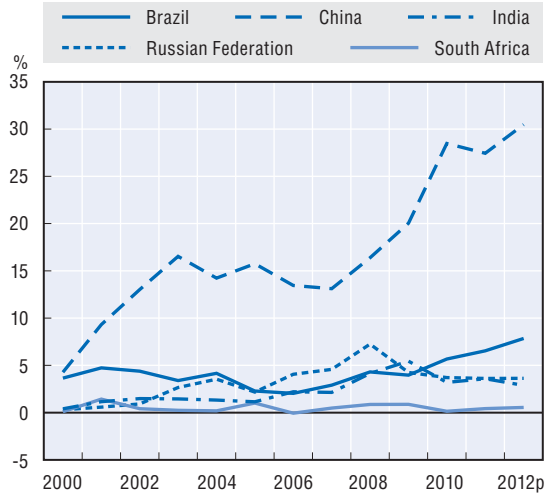
Today, approximately 30% of outward foreign direct investment is from developing countries.

Developing countries' share was also quite high in the mid-1990s, mainly because of the important role of the extractive industries and oil in total foreign direct investment over this period. The more recent growth in the share of foreign direct investment going to developing countries has been driven to a greater extent by investment in manufacturing.

China accounts for a large share of both inward and outward foreign direct investment

The significant increase in both inward and outward foreign direct investment to and from developing countries over the past few years largely reflects the increased activity of China in this sphere. While China has always tended to attract more investment than other emerging countries – such as Brazil, India, the Russian Federation and South Africa (collectively known as the BRICS; Figure 5.2) – its ascendance as the largest outward investor among developing countries began with the global financial crisis (Figure 5.3). Indeed, by 2012 China had become the fifth largest outward investor in the world, accounting for 5% of global flows.

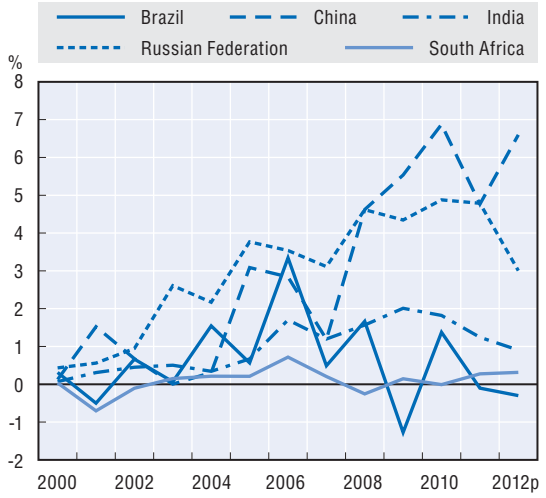
Figure 5.2. **The BRICS' share of G20 inward foreign direct investment**



Notes: BRICS: Brazil, the Russian Federation, India, China and South Africa; G20: a grouping of 20 major economies (19 individual countries – Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Korea, Mexico, the Russian Federation, Saudi Arabia, South Africa, Turkey, the United Kingdom, the United States – and the European Union).
Source: OECD (2014), Foreign Direct Investment (FDI) Statistics – OECD Data, Analysis and Forecasts website, *www.oecd.org/investment/statistics*.

StatLink http://dx.doi.org/10.1787/888933121487

Figure 5.3. **The BRICS' share of G20 outward foreign direct investment**



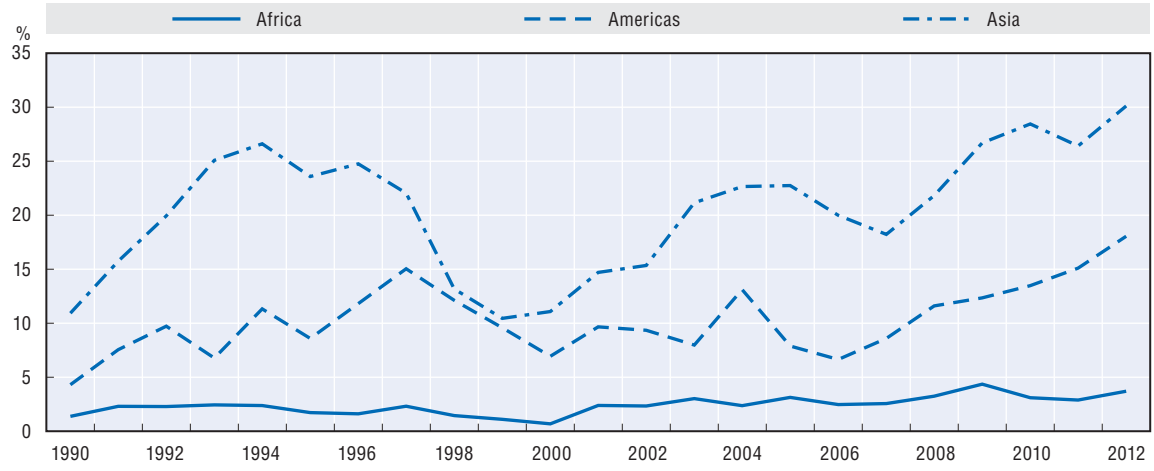
Notes: BRICS: Brazil, the Russian Federation, India, China and South Africa; G20: a grouping of 20 major economies (19 individual countries – Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Korea, Mexico, the Russian Federation, Saudi Arabia, South Africa, Turkey, the United Kingdom, the United States – and the European Union).
Source: OECD (2014), Foreign Direct Investment (FDI) Statistics – OECD Data, Analysis and Forecasts website, *www.oecd.org/investment/statistics*.

StatLink http://dx.doi.org/10.1787/888933121506

Africa receives the lowest share of foreign direct investment

What is the regional picture of FDI? Figure 5.4 shows that in 2012 Asia received the lion's share of global investment flows at 30%, followed by Latin America and the Caribbean at just under 20%. Africa received around 5%.[2] Despite Africa's relatively low share, its FDI-to-GDP ratio of 2.7% shows that its level of flows are proportional to the size of its economy. The FDI-to-GDP ratio for Asia is higher, at 3.8%, while the ratio for Latin America is 2.5%. Seventeen African countries received more than USD 1 billion in foreign direct investment in 2012 (see Chapter 12).

Figure 5.4. **Regional shares of inward foreign direct investment, 1990-2012**



Source: UNCTAD (2014), UNCTADstat website, *http://unctadstat.unctad.org*.

StatLink http://dx.doi.org/10.1787/888933121525

Investment appears to be "de-globalising"

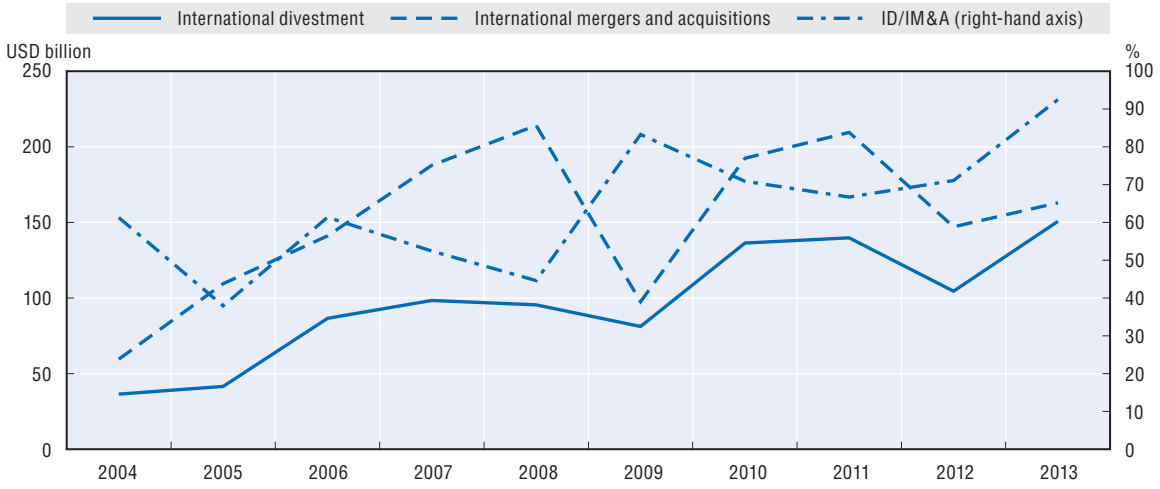
The global financial and economic crisis that started in 2008 gave rise to the first recorded decline in global foreign direct investment stocks since 1990, from USD 16.6 trillion to USD 15.6 trillion between 2007 and 2008. The developed countries accounted for over 70% of this decline. A decline in global investment stocks represents a reduction in the investment-based economic linkages between countries, a phenomenon that could be described as "investment de-globalisation".[3] Data on outflows suggest that this trend is accelerating.[4]

A comparison of the current foreign direct investment recession with the previous one between 2001 and 2003 suggests that investment de-globalisation is a new phenomenon. When foreign direct investment flows collapsed during its first major recession in 2000-03, global foreign direct investment stocks continued to grow by over 10% annually and not a single country recorded a decrease in its inward or outward foreign direct investment stock positions. How could this happen? Foreign direct investment data are usually presented either in terms of *flows* (the inward or outward amount for a country during a given period of time, usually a year) or in terms of *stocks* (the current cumulative value of all foreign direct investment). Even when flows decline, they are usually still contributing to foreign direct investment stocks, just at a slower rate. This underscores what an unusual economic event a decline in stocks represents. For stocks to decline, foreign direct investment flows need to become negative, which happens when foreign investors sell more foreign assets than they acquire, and repatriate the proceeds.

Firm-level data on international mergers and acquisitions suggest that the phenomenon has also been affecting developing countries. This is reflected by the sharp increase in the ratio of international divestment[5] to international mergers and acquisitions after 2008. In the five years from 2004 to 2008, the ratio of international divestment to international mergers and acquisitions in developing countries was 50%; in the subsequent five years, this ratio increased to 77%, reaching a record 93% in 2013 (Figure 5.5).

Just as firms engage in international mergers and acquisitions to acquire international assets, international divestment is also a natural part of the international activities of multinational enterprises. During different phases of an economic cycle, the relationship between international mergers and acquisitions and international divestment tends to change. When economic conditions are good, firms tend to expand through mergers and acquisitions. But during crises, firms tend to economise by divesting themselves of non-core assets. This explains why, during the foreign direct

Figure 5.5. **International mergers and acquisitions versus international divestment in developing countries, 2004-13**



Source: Author's calculations based on data from Dealogic, *M&A Analytics'* (database).

StatLink http://dx.doi.org/10.1787/888933121544

investment boom years leading up to the crisis – 2005-07 – the ratio of international divestment to international mergers and acquisitions was on average 36%. During the three years from 2008 to 2010, once the economic crisis was in full swing, this ratio increased to 45%, reaching 50% by 2013.

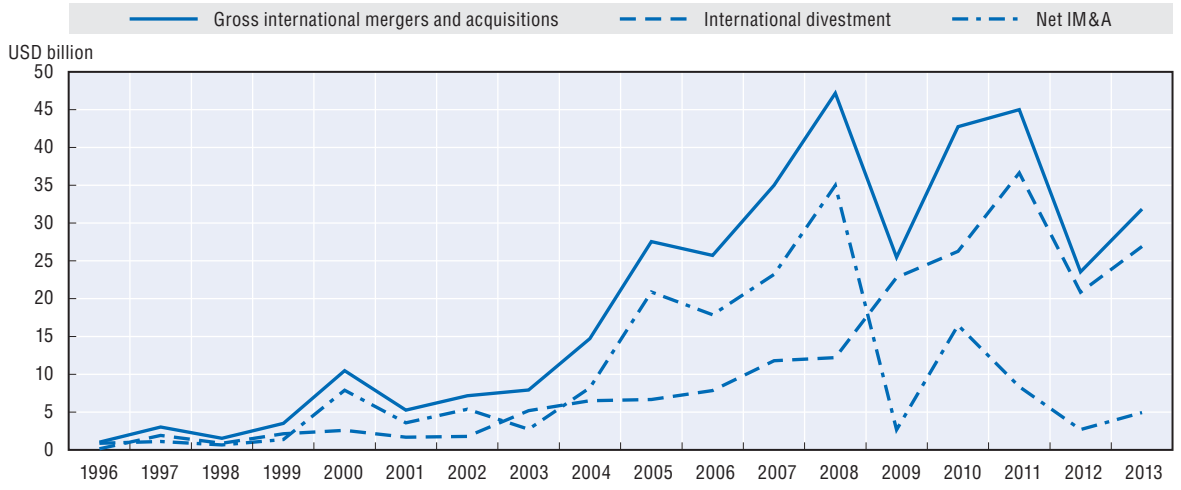
The rising levels of international divestment in developing countries do not necessarily represent investment de-globalisation, since they could entail the transfer of ownership of assets from one international investor to another. However, from a development perspective, international divestment is relevant for at least two reasons, which are explained below.

First, the transfer of ownership of an asset from one international investor to another is less likely to bring as many development benefits as the acquisition of a domestic asset by an international owner. The latter will usually increase access to international markets and provide the local facility with new management and production methods. Furthermore, mergers and acquisitions often entail capital infusions as part of the deal and are often accompanied by complementary investments by the multinational enterprise involved, such as upgrading of infrastructure essential for the economic activity in question and, in some cases, even the construction of new infrastructure, such as rail lines or port facilities.

Second, irrespective of who is buying divested assets (domestic or international buyers), divestments reduce the net international mergers and acquisitions a country receives,[6] which is a more meaningful measure of new economic linkages being created between the domestic economy and the rest of the world. This is illustrated in Figure 5.6 for China, which shows the gross value of international mergers and acquisitions received, international divestment, and the resulting value of net international mergers and acquisitions, which is much reduced since the peaks of 2007 and 2010.

The development impact of foreign direct investment partly depends on the extent to which it creates new linkages to the global economy. In the case of China, the gap between net international mergers and acquisitions and gross international mergers and acquisitions remained quite small up to 2008, but then rapidly widened as international divestment soared. Further analysis would be required to understand what might cause such a sharp increase in international divestment, but what is clear from this is that after 2008, international mergers and acquisitions in China seem to have become more volatile in contrast to an earlier phase during which international investors were more clearly building up their capacity in the Chinese market.

Figure 5.6. **China's net inward international mergers and acquisitions, 1996-2013**



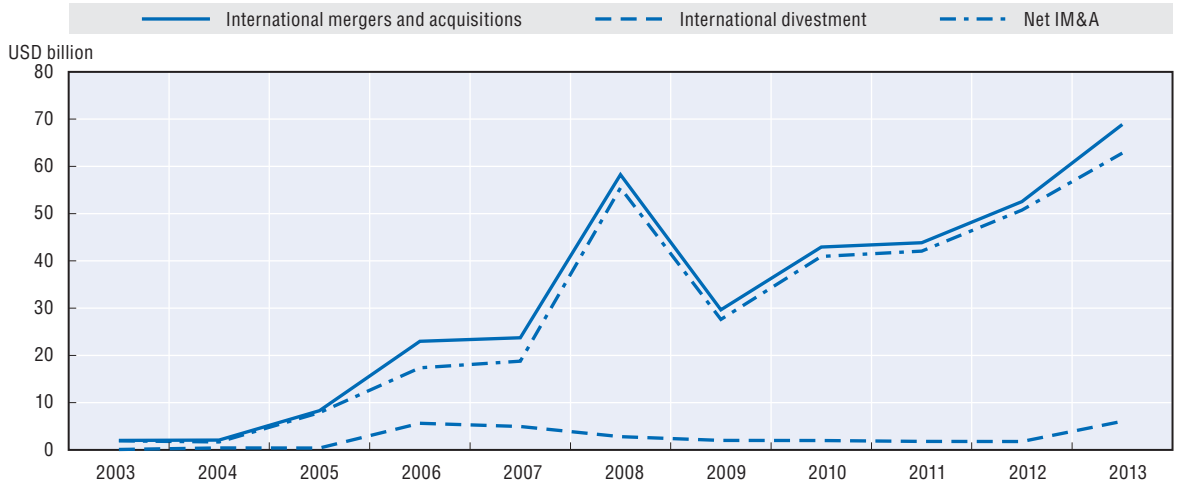
Source: Author's calculations based on data from Dealogic, *M&A Analytics'* (database).

StatLink http://dx.doi.org/10.1787/888933121563

One might assume that the sort of dynamics illustrated in Figure 5.6 will have little development impact for most developing countries, as many of them receive the majority of their international investment in the form of greenfield investments.[7] However, if international divestment continues to rise and investment de-globalisation proves to be a longer term structural trend, the implications could be profound since foreign direct investment has grown over the past decades to become the largest source of international capital for many countries.

Better news is that China's outward investment shows no signs of reversing course, which is reassuring given how important Chinese investments have become for developing countries (Figure 5.7).

Figure 5.7. **China's net outward international mergers and acquisitions and divestment, 2003-13**



Source: Author's calculations based on data from Dealogic, *M&A Analytics'* (database).

StatLink http://dx.doi.org/10.1787/888933121582

But as it matures, could China's outward investment eventually follow the general trend and start to increase its share of international divestment? While international divestment is a natural part of the international business environment, for individual developing countries the significant increase in the ratio of international divestment to international mergers and acquisitions might herald a more disruptive phase of investment globalisation characterised by restructuring and adjustment as new sources of international investment emerge and others retreat.

Are we entering a more disruptive phase of investment as new sources of international investment emerge and others retreat?

How can the positive aspects of foreign direct investment be harnessed?

For international investment to support long-term sustainable development, the challenge for governments will be to harness the positive side of its dynamism, and to minimise its more disruptive and negative effects, as for example when jobs are lost as a result of offshoring,[8] through appropriate adjustment programmes and policies. Part of the solution will involve taking whole-of-government approaches to improving domestic and international policy frameworks for investment, the focus of Chapter 12 in this volume.

The development co-operation community may need to think about a new role for official development assistance (ODA) as a source of counter-cyclical financing as developing countries become more exposed to the volatility of foreign direct investment, one of the downsides of greater reliance on private flows.

Key recommendations

- Harness the positive aspects of the dynamism inherent in foreign direct investment and minimise its more disruptive and negative effects.
- Increase the development impact of foreign direct investment in developing countries by improving domestic and international policy frameworks for investment (discussed in Chapter 12).
- Consider a new role for ODA as a source of counter-cyclical financing to cushion the volatile nature of foreign direct investment.

Notes

1. Foreign direct investment is investment by individuals or firms from one country into another, either by buying an existing firm (through mergers and acquisitions), setting up a new operation (greenfield investment) or by expanding the operations of an existing business. The three main components of foreign direct investment are equity investment, inter-company loans and re-invested earnings.
2. See *www.unctadstat.unctad.org*.
3. This expression has also been used by Joachim Fels, head of global economics at Morgan Stanley, in 2013. See: *www.businessinsider.com/economist-worries-about-de-globalization-2013-10*.
4. In 2012, six OECD countries experienced declines in their net foreign asset positions amounting to a combined USD 42 billion. Between 2008 and 2011, total declines in net foreign assets positions of OECD countries only amounted to USD 17.7 billion.
5. Divestment or divestiture is the reduction of some kind of asset for financial, ethical or political objectives or sale of an existing business by a firm. A divestment is the opposite of an investment.
6. Net international mergers and acquisitions are calculated as the value of international mergers and acquisitions received less the value of assets that international investors divest from a country.
7. Greenfield investment is the creation of a new facility (as opposed to investment in an existing facility).
8. Offshoring is the relocation by a company of a business process from one country to another – typically an operational process, such as manufacturing, or supporting processes, such as accounting.

PART I

Chapter 6

Are institutional investors the answer for long-term development financing?

by
Raffaele Della Croce, Directorate for Financial and Enterprise Affairs,[1] OECD

Developing countries need long-term investors to help finance activities that support sustainable growth such as infrastructure, including low-carbon infrastructure. With USD 83.2 trillion in assets in 2012 in OECD countries alone, institutional investors – pension funds, insurers and sovereign wealth funds – represent a potentially major source of long-term financing for developing countries. Despite the recent financial crisis, the prospect for future growth for institutional investors is unabated, especially in developing countries. But although interest is growing, the overall level of institutional investment in infrastructure remains modest and major barriers to investment still exist. Greater growth will depend on policy and structural reforms to create a more favourable investment climate, build private sector confidence and ensure that global savings are channelled into productive and sustainable investments.

This chapter also includes an opinion piece on long-term investment by Sony Kapoor, Managing Director of Re-Define, on promoting long-term investment in developing country infrastructure.

Long-term finance plays a pivotal role in fulfilling physical investment needs across all sectors of the economy (OECD, 2013c). It is also essential for the development of small and medium-sized enterprises, especially young, innovative, high-growth firms. Addressing the challenge of climate change and other pressures on the environment will require long-term investments in renewable energy and low-carbon technologies (G20/OECD, 2013). However, many countries find it hard to secure long-term investment in these sectors.

For example, the OECD estimates the total requirement for global infrastructure investment for transport; electricity generation, transmission and distribution; water; and telecommunications to be around USD 71 trillion by 2030 – about 3.5% of global gross domestic product (GDP) over the same period (Schieb, 2007).[2] Achieving a low-carbon energy sector globally will require an additional cumulative investment of USD 36 trillion by 2050, including USD 7.35 trillion in the power sector, of which USD 1.2 trillion would be needed in the People's Republic of China (IEA, 2012; and see Box 6.2).

Achieving a low-carbon global energy sector will require an additional cumulative investment of USD 36 trillion by 2050.

Such levels of investment cannot be financed by traditional sources of public finance alone. The impact of the financial crisis has exacerbated the situation further, reducing the scope for public investment in infrastructure within government budgets. The result has been a widespread recognition of a significant infrastructure gap and the need for greater recourse to private sector finance (OECD, 2013c).

The credit crisis has weakened the capacity of traditional providers of long-term finance – banks – to provide long-term financing. Can institutional investors (Box 6.1) fill the gap? They offer a potentially large and diversified source of long-term financing for physical and intangible investment needs across all sectors in developing countries. This is specifically the case for key drivers of growth, competitiveness and employment, such as infrastructure, company equipment, education and skills, research and development, and new technology.

Institutional investors play a key role in channelling savings into productive long-term investments, especially those that can be difficult to finance because they are "illiquid".[3] Given the low interest rate environment and volatile stock markets of recent years, institutional investors are increasingly looking for new sources of long-term, inflation-protected returns. Investments in real, productive assets such as infrastructure could potentially provide the type of income these investors require (OECD, 2013c).

This chapter explores the current trends and future scope for institutional investment in emerging economies in particular, and asks what policy support frameworks would be required to tap this promising source of finance.

Box 6.1. **Who are the institutional investors and how do they work?**

Traditionally, this heterogeneous group of public and private investors – in particular, pension funds, life insurers and sovereign wealth funds – has been seen as a source of long-term capital with investment portfolios built around the two main asset classes – bonds and equities – and an investment horizon tied to the often long-term nature of their liabilities.

Over the last decade, institutional investors have been looking for new sources of long-term, inflation-protected returns. Asset allocation trends observed over recent years show a gradual globalisation of portfolios with an increased interest in emerging markets and diversification in new asset classes. However, although growing rapidly, investment in infrastructure is still limited, representing around 1% of total assets on average across the OECD (OECD, 2013a).

Pension funds start collecting contributions when individuals enter the workforce and may only start paying benefits 30 to 40 years later with the assets accumulated. With USD 22 trillion in assets held by autonomous pension funds in OECD countries and annual contribution in-flows of around USD 1 trillion, pension funds could be key sources of capital for development.

Public pension reserve funds are set up by governments or social security institutions to contribute to the financing of the relevant pay-as-you-go pension plans. Some of the world's largest public pension reserve funds (including the pension plans for California's state teachers and public employees) actively target infrastructure projects in developing countries.

Life insurance companies also tend to have long-term liabilities, especially as major providers of annuities and similar retirement products. Some of the major insurance companies around the world have made commitments to green infrastructure investment.

Mutual funds offer a simple way for people to invest their money. A mutual fund – most often consisting of a mixture of stocks, bonds, cash and other securities – pools the assets of multiple investors. The total amount is invested by a fund manager into a variety of holdings. Investing in such a wide array of stocks and bonds would not be possible for the average investor without the help of a mutual fund.

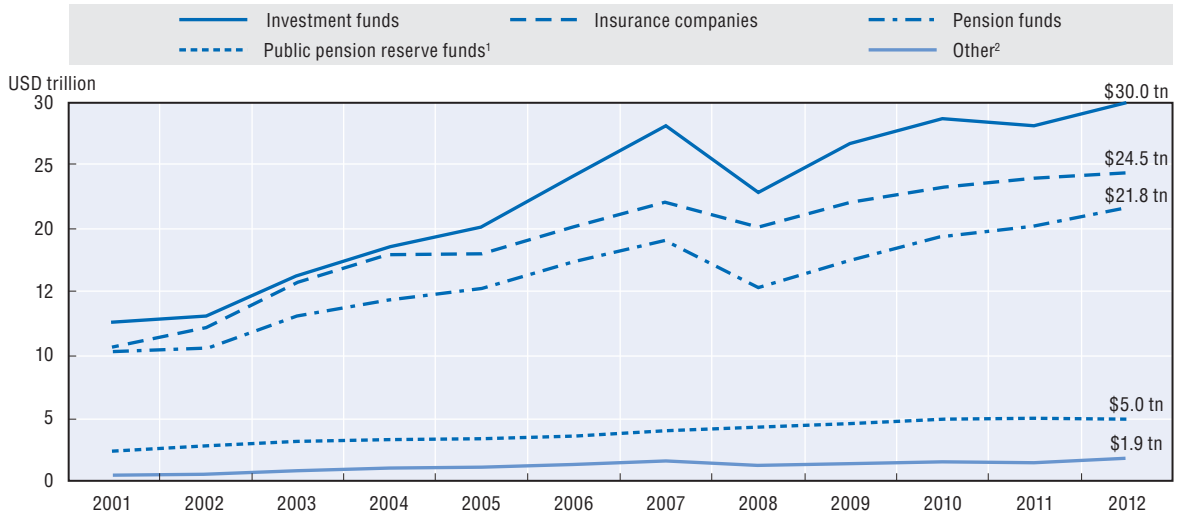
Sovereign wealth funds are special-purpose investment funds or arrangements owned by a central government whose purpose is either to ensure that a country's resources are preserved for future generations, or to stabilise government fiscal and/or foreign exchange revenues and macroeconomic aggregates. Sovereign wealth funds and public pension reserve funds are becoming major players in international financial markets. Assets under management by such funds have been growing rapidly and in January 2014 accounted for more than USD 6 trillion according to the Sovereign Fund Institute.

Source: G20/OECD (2013), "G20/OECD High-Level Principles of Long-Term Investment Financing by Institutional Investors", OECD, Paris, *www.oecd.org/daf/fin/private-pensions/G20-OECD-Principles-LTI-Financing.pdf*; OECD (2013c), *The Role of Banks, Equity Markets and Institutional Investors in Long-Term Financing for Growth and Development*, Report for G20 Leaders, OECD, Paris, *www.oecd.org/daf/fin/private-pensions/G20reportLTFinancingForGrowthRussianPresidency2013.pdf*.

Institutional investment is on the rise

Institutional investors – particularly pension funds, insurance companies and mutual funds – are increasingly important players in financial markets. In OECD countries alone, these institutions held USD 83.2 trillion in assets in 2012 (Figure 6.1). The annual inflow of new funds is also substantial. For instance, pension funds collected about USD 1 trillion in new contributions in 2012.

Figure 6.1. **Total assets by type of institutional investor in the OECD, 2001-12**



Notes: Book reserves are not included in this figure. Pension funds and insurance companies' assets include assets invested in mutual funds, which may be also counted in investment funds.

1. Data include Australia's Future Fund, Belgium's Zilverfonds (2008-12), Canada's Pension Plan Investment Board, Chile's Pension Reserve Fund (2010-12), France's Pension Reserve Fund (2003-12), Ireland's National Pensions Reserve Fund, Japan's Government Pension Investment Fund, Korea's National Pension Service (OECD estimate for 2012), New Zealand's Superannuation Fund, Norway's Government Pension Fund, Poland's Demographic Reserve Fund, Portugal's Social Security Financial Stabilisation Fund, Spain's Social Security Reserve Fund, Sweden's AP1-AP4 and AP6, the United States' Social Security Trust Fund.
2. Other forms of institutional savings include foundations and endowment funds, non-pension fund money managed by banks, private investment partnership and other forms of institutional investors. BRICS: Brazil, the Russian Federation, India, China and South Africa.

Source: OECD (2013a), *OECD Pension Market in Focus 2013* (brochure), OECD, Paris, *www.oecd.org/pensions/PensionMarketsInFocus2013.pdf*.

StatLink http://dx.doi.org/10.1787/888933121601

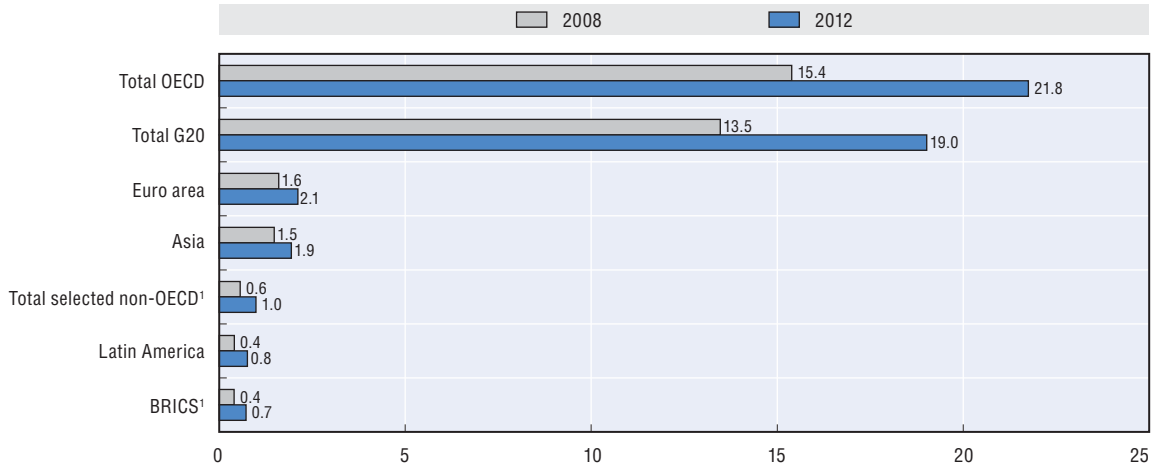
Pension funds and insurers are major investors in a large number of developed economies, with assets representing over 60% of GDP in countries such as Canada, the Netherlands, the United Kingdom and the United States. In non-OECD countries, institutional investors tend to be less established, although some important exceptions include Brazil and South Africa, which have well-developed pension fund and mutual fund industries (Figures 6.2 and 6.3). Among non-OECD countries, South Africa has one of the largest pension fund industries – both in absolute terms and in relation to its economy; at over 80% of GDP (Figure 6.3), it is on a par with the top OECD countries. Emerging economies are also home to some of the largest sovereign wealth funds in the world.

Despite the recent financial crisis, growth by institutional investors is unabated.

Figure 6.3 shows that despite the recent financial crisis, growth by institutional investors is unabated, especially in countries where private pensions and insurance markets are still small in relation to the size of their economies. In 2012, the average share of pension funds in GDP in OECD countries was 77%, while in non-OECD countries it was 33%. Emerging market and developing economies generally have an even greater opportunity to develop their institutional investment sectors as their financial systems are largely bank-based. Sovereign wealth funds and public pension reserve funds are growing rapidly in developing and emerging economies. Nonetheless, although growing rapidly, institutional investment in infrastructure is still limited.

Figure 6.2. **The growing importance of pension funds, 2008 and 2012**

USD trillion



1. Data refer to 2011. BRICS: Brazil, the Russian Federation, India, China and South Africa.

Source: OECD (2013a), *OECD Pension Market in Focus 2013* (brochure), OECD, Paris, *www.oecd.org/pensions/PensionMarketsInFocus2013.pdf*.

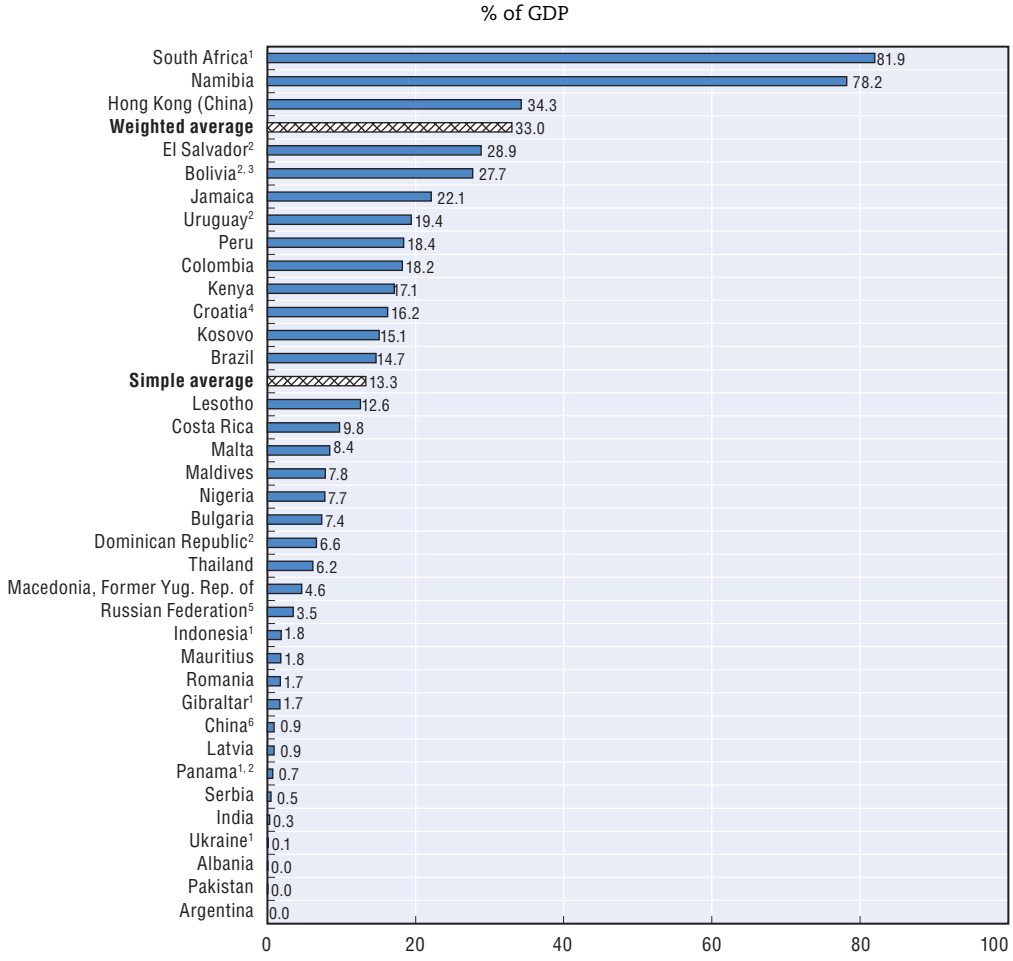
StatLink http://dx.doi.org/10.1787/888933121620

There are several barriers to "North-South" investment

The willingness of institutional investors and the private sector to finance major investment projects is heavily influenced by the perceptions of a country's investment climate (see Chapter 12) and the broad suite of policy settings and institutions that underpin a country's economy and political processes. In addition to the lack of large and deep local markets in developing countries, there are often restrictions on investment, such as heavy bureaucracy and controls, and weak financial infrastructure. In Peru, for example, the contractual process for a road concession can last up to 5 years and involves more than 20 government departments (Stewart and Yermo, 2012). Infrastructure, in particular, is considered to be vulnerable to high political, regulatory and execution risk, especially in developing countries (see the "In my view" box).[4] In addition to the policy environment, other factors preventing foreign investments are inflation and currency risk,[5] potentially restrictive investment requirements, and lack of local capacity and expertise. Furthermore, infrastructure investments in developing countries tend to involve new infrastructure ("greenfield" investment), which is more risky than the "brownfield" projects (investing in existing infrastructure) that are frequent in the more mature OECD economies (Stewart and Yermo, 2012; OECD, 2012).

Lack of objective, high-quality data on pension funds' asset allocations and their returns on investment is another barrier. This makes it difficult to assess the risks of infrastructure investments and to compare returns with investment in other assets. Without such information, investors are reluctant to make allocations. Whilst some countries collect such data, there is no international, official, accurate data on alternative investments such as hedge funds, private equity, real estate, infrastructure or commodities. The OECD has begun to collect this data and to make such comparisons.

Figure 6.3. **Importance of pension funds relative to the size of the economy in selected non-OECD countries, 2012**



Note: Reference to Kosovo is without prejudice to its status under international law.

1. Data refer to 2011.
2. *Source:* AIOS.
3. Data refer to 2010.
4. *Source:* HANFA.
5. *Source:* Ministry of Finance. Data only refer to the mandatory part of the Russian system.
6. *Source:* MOHRSS.

Source: OECD (2013a), *OECD Pension Market in Focus 2013* (brochure), OECD, Paris, *www.oecd.org/pensions/PensionMarketsInFocus2013.pdf*.

StatLink http://dx.doi.org/10.1787/888933121639

Policy reform can remove barriers to institutional investment

The OECD suggests that governments can take a number of key actions to address the barriers described above and facilitate institutional investors' investment, including in low-carbon projects (Box 6.2).

G20 leaders have highlighted the importance of long-term financing, focusing on infrastructure investment, to foster long-term growth. The OECD, within the framework of its project on Institutional Investors and Long-Term Investment, is participating in this work. The aim of the project is to promote long-term investment, such as for infrastructure, by addressing both potential regulatory obstacles and market failures. Many of the largest institutional investors across the world are already collaborating with the OECD on the project. In November 2012, G20 finance ministers and central bank governors requested that the World Bank, the International Monetary Fund, the OECD, the Financial Stability Board, the United Nations and other relevant international organisations assess the factors affecting

In my view: The OECD must take charge of promoting long-term investment in developing country infrastructure

Sony Kapoor,
Managing Director, Re-Define International Think Tank

The world of investment faces two major problems.

Problem one is the scarcity – in large swathes of the developing world – of capital in general, and of money for infrastructure investments in particular. Poor infrastructure holds back development, reduces growth potential and imposes additional costs, in particular for the poor who lack access to energy, water, sanitation and transport.

Problem two is the sclerotic, even negative rate of return on listed bonds and equities in many OECD economies. The concentration of the portfolios of many long-term investors in such listed securities also exposes them to high levels of systemic, often hidden, risk.

Most long-term investors would readily buy up chunks of portfolios of infrastructure assets in non-OECD countries to benefit from the significantly higher rate of return over the long term, and to diversify their investments. At the same time, developing economies, where neither governments nor private domestic markets have the capacity and depth to fill the long-term funding gap, are hungry for such capital.

So what is stopping these investments?

Financial risks in developing countries are well known and often assumed to be much higher than in OECD economies. Also, investing in infrastructure means that investors will find it hard to pull their money out on short notice, and therefore such investments pose liquidity risks.

Despite these easy answers, however, there are three significant caveats.

First, the events of the past few years have demonstrated that on average, political risk and policy uncertainty in developing countries as a whole have fallen, especially in the emerging economies.

Second, OECD economies are also exposed to serious risk factors, such as high levels of indebtedness and demographic decline. As the financial crisis demonstrated, they are also likely to face other "hidden" systemic risks not captured by commonly used risk models and measures.

Third, the kind of risks that dominate in developing countries, such as liquidity risks, may not be real risks for long-term investors (e.g. insurers or sovereign wealth funds). Given that the present portfolios of these investors are dominated by OECD country investments, any new investments in the developing world may look more attractive and may actually offer a reduction of risk at the portfolio level.

So I ask again: Why aren't long-term investors investing in developing country infrastructure in a big way?

The biggest constraint is the absence of well-diversified portfolios of infrastructure projects and the fact that no single investor has the financial or operational capacity to develop these. Direct infrastructure investment, particularly in developing countries, is a resource-intensive process.

The G20, together with the OECD and other multilateral institutions such as the World Bank, can facilitate the development of a diversified project pipeline on the one hand, together with mechanisms to ease the participation of long-term investors on the other. This work will involve challenges of co-ordination, more than commitments of scarce public funds.

In my view, the OECD – which uniquely houses financial, development, infrastructure and environmental expertise under one roof – must take charge.

Box 6.2. **Stepping up institutional investment in low-carbon finance**

In the wake of the economic and financial crisis, some traditional sources of low-carbon finance and investment – governments, commercial banks and utilities – face significant constraints. Alternative sources will be needed not only to compensate for these constraints, but also to ramp up low-carbon investments. Institutional investors offer a potential source. These investors are already actively engaged, for example, in wind power in Australia, Canada, Denmark, Germany, the Netherlands, Sweden, the United Kingdom and the United States; solar photovoltaics in Australia, Canada, Germany, Japan, South Africa and the United States; and sustainable agriculture in Brazil.

Although there are pockets of significant activity, institutional investments in low-carbon areas are in general minimal to date. A number of obstacles stand in the way, some of them general to infrastructure, others more specific to low carbon. Many institutional investors have yet to conclude that low-carbon investments offer sufficiently attractive, risk-adjusted financial returns. This is due to misaligned policy signals, such as continuing support for fossil fuel use and production, low or no prices on greenhouse gas emissions, and unpredictable changes in policies for renewable energy generation and other regulatory policies, with unintended consequences. In addition, many institutional investors still lack the knowledge and suitable investment channels or vehicles to access green infrastructure in a way that aligns with their varying sizes, operational models and investment objectives.

The OECD suggests that governments can take a number of key actions to address these barriers and facilitate institutional investment in low-carbon projects:

- Ensure a stable and integrated policy environment which provides investors with clear and long-term incentives and predictability.
- Address market failures (including a lack of carbon pricing) that result in investment profiles that favour polluting or environmentally damaging infrastructure projects over green infrastructure investments.
- Provide a national infrastructure road map that would give investors confidence in government commitments and demonstrate that a pipeline of investable projects is forthcoming.
- Facilitate the development of appropriate financing vehicles or de-risking instruments (e.g. green bonds), or of markets for instruments or funds with appropriate risk-return profiles.
- Reduce the transaction costs of green investment by fostering collaborative investment vehicles among investors and helping to build in-house expertise.
- Promote public-private exchange on green investment by creating or supporting existing platforms for dialogue among institutional investors, the financial industry and the public sector.
- Promote market transparency and improve data by strengthening formal requirements for institutional investors in infrastructure and green projects to provide information on their investments.

Source: Adapted from Kaminker, C. et al. (2013), "Institutional investors and green infrastructure investments: Selected case studies", *OECD Working Papers on Finance, Insurance and Private Pensions*, No. 35, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5k3xr8k6jb0n-en*.

long-term investment financing. This resulted in a diagnostic report (World Bank, 2013; OECD, 2013c) and the establishment of a Working Group on Investment and Infrastructure that will analyse obstacles and limitations delaying long-term financing and determine a work plan for the G20.

The OECD has also developed High-Level Principles on Long-Term Investment Financing by Institutional Investors (endorsed by G20 leaders in September 2013). The next step will be to identify approaches to implement them, which will be the task of the next G20 Leaders' Summit, in November 2014 in Brisbane, Australia (G20/OECD, 2013).

The OECD is currently working on a major G20/OECD project on the analysis of government and market-based incentives for long-term investment financing. It involves developing a taxonomy of instruments and incentives for stimulating financing for infrastructure. They include the wide range of options available to private investors for accessing the asset class, focusing on new forms of investment (equity and debt); and the risk mitigation mechanisms (instruments and incentives, public and private) the public sector can use to leverage private sector financing in infrastructure, in particular, targeting institutional investors (for example, guarantees, grants, fiscal incentives).

Developing countries themselves can become a source of investment

In addition to North-South investing, domestic pension funds in developing economies could provide an important source of infrastructure and development capital for their own development priorities. It could be argued that developing countries are better placed to make such investments, having closer knowledge of their local markets and projects, and no currency risk or overseas investment restrictions. International experience in countries such as Chile and Mexico suggests that institutional investors, especially pension fund assets, have been instrumental to the growth of the financial markets, and, in turn, to the provision of development finance. South-South investing is also likely to rise in importance (see Chapter 3), with pension funds, sovereign wealth funds and other institutional investors supplying much-needed capital to their own regions as well as to other emerging markets (Stewart and Yermo, 2012).

Some developing countries have taken bold steps by establishing sovereign wealth and pension fund systems, but often investments are restricted and there is limited scope for channelling these growing pools of assets into infrastructure development. Latin American and South African pension funds have the highest allocations to infrastructure projects – as high as 3% of total assets in countries such as Mexico and Peru, and 4% in South Africa. Countries with no pension fund allocation to infrastructure include China, India, Indonesia and Nigeria (Stewart and Yermo, 2012).

Governments need to establish the appropriate regulatory, supervisory and tax frameworks to allow such investors to grow. For example, improving investment conditions and enhancing local market liquidity through government bonds[6] would create important preconditions for the growth and development of corporate bond markets, which would ultimately facilitate infrastructure, mortgage and asset-backed financing. For example, the success of infrastructure bonds in Chile and Peru stems partly from the presence of various guarantees. In Peru, pension funds were first allowed to invest in infrastructure bonds in 2001; these bonds are issued by the project operator as the project advances and carry a government certificate of completion (Certificate of Recognition of Annual Payment for Works). Peruvian pension funds have also established an infrastructure trust fund to invest in project debt and take-up of these bonds has been relatively fast (Stewart and Yermo, 2012).

In Africa, with the main exception of South Africa, pension funds are at an early stage of development and infrastructure project investments are practically non-existent and highly restricted by regulations. However, change is under way. For instance, Kenya is looking to the pensions industry to fund the country's infrastructure and domestic needs. Since 2009, the government has issued 5 infrastructure bonds targeted at specific infrastructure projects; the bonds, with maturities ranging from 8-20 years, have been packaged with more incentives than normal government bonds. These bonds have been popular with pension funds, which have taken significant portions of the total issue. In addition, a Kenyan energy generating company – Kengen Ltd – issued an infrastructure bond in 2009 to fund a number of new projects. The bond was able to raise KES 25 billion (Kenyan shilling) against a target of KES 15 billion. Pension schemes accounted for around 40% of the total take-up (Stewart and Yermo, 2012).

Key recommendations

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

Notes

1. This chapter is based on the work of the OECD Institutional Investors and Long-Term Investment project. For more information on this project, see *www.oecd.org/finance/lti*.
2. Similar figures reported by McKinsey Global Institute and based on three alternative estimation methodologies estimate the infrastructure needs to 2030 at between USD 57 and USD 67 trillion, excluding the needs for social infrastructure (Dobbs et al., 2013).
3. Illiquid assets cannot easily be sold or exchanged for cash without a substantial loss in value.
4. Such risks can be addressed to some extent by multilateral guarantee schemes, such as the Multilateral Investment Guarantee Agency (MIGA), which is part of the World Bank Group. MIGA protects foreign direct investment in some of the world's poorest countries against various political risks such as expropriation, breach of contract, exchange rate or capital controls, war and terrorism (Stewart and Yermo, 2012).
5. A form of risk – particularly relevant for developing countries with volatile financial markets – that arises from the change in price of one currency against another. Whenever investors or companies have assets or business operations across national borders, they face currency risk if their positions are not hedged.
6. A debt security issued by a government to support government spending, most often issued in the country's domestic currency.

References

Della Croce, R. and R. Sharma (2014), *Pooling of Institutional Investors Capital: Selected Case Studies in Unlisted Equity Infrastructure*, Report for G20, OECD, Paris, *www.oecd.org/pensions/OECD-Pooling-Institutional-Investors-Capital-Unlisted-Equity-Infrastructure.pdf*.

Della Croce, R. and J. Yermo (2013), "Institutional investors and infrastructure financing", *OECD Working Papers on Finance, Insurance and Private Pensions*, No. 36, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5k3wh99xgc33-en*.

Dobbs, R. et al. (2013), *Infrastructure Productivity: How to Save $1 Trillion a Year*, McKinsey & Company, *www.mckinsey.com/insights/engineering_construction/infrastructure_productivity*.

Gatti, S. (forthcoming), "Private financing and government support to promote long-term investments in infrastructure", *OECD Working Papers on Finance, Insurance and Private Pensions*, OECD Publishing, Paris.

G20/OECD (2013), "G20/OECD High-Level Principles of Long-Term Investment Financing by Institutional Investors", OECD, Paris, *www.oecd.org/daf/fin/private-pensions/G20-OECD-Principles-LTI-Financing.pdf*.

IEA (2012), *World Energy Outlook 2012*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/weo-2012-en*.

Kaminker, C. et al. (2013), "Institutional investors and green infrastructure investments: Selected case studies", *OECD Working Papers on Finance, Insurance and Private Pensions*, No. 35, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5k3xr8k6jb0n-en*.

McKinsey Global Institute (2013), "Infrastructure productivity: How to save $1 trillion a year", January.

OECD (2013a), *OECD Pension Market in Focus 2013* (brochure), OECD, Paris, *www.oecd.org/pensions/PensionMarketsInFocus2013.pdf*.

OECD (2013b), *Annual Survey of Large Pension Funds and Public Pension Reserve Funds*, OECD, Paris, September, *www.oecd.org/daf/fin/private-pensions/LargestPensionFunds2012Survey.pdf*.

OECD (2013c), *The Role of Banks, Equity Markets and Institutional Investors in Long-Term Financing for Growth and Development*, Report for G20 Leaders, OECD, Paris, *www.oecd.org/daf/fin/private-pensions/G20reportLTFinancingForGrowthRussianPresidency2013.pdf*.

OECD (2012), "G20/OECD policy note on pension fund financing for green infrastructure and initiatives", OECD, Paris, *www.oecd.org/finance/private-pensions/S3%20G20%20OECD%20Pension%20funds%20for%20green%20infrastructure%20-%20June%202012.pdf*.

Schieb, P. (2007), "Infrastructure to 2030: Main findings and policy recommendations", in OECD, *Infrastructure to 2030 (Vol. 2): Mapping Policy for Electricity, Water and Transport*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264031326-3-en*.

Stewart, F. and J. Yermo (2012), "Infrastructure investment in new markets: Challenges and opportunities for pension funds", *OECD Working Papers on Finance, Insurance and Private Pensions*, No. 26, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5k8xff424vln-en*.

World Bank (2013), "Long-term investment financing for growth and development: Umbrella paper", The World Bank, Washington, DC, *www.g20.org/sites/default/files/g20_resources/library/Long_Term_Financing_for_Growth_and_Development_February_2013_FINAL.pdf*.

© OECD 2014

PART I

Chapter 7

Tax revenues as a motor for sustainable development

by
Gregory De Paepe *and* Ben Dickinson,
Development Co-operation Directorate and Centre for Tax Policy and Administration, OECD

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

This chapter also includes an opinion piece by Abdalla Hamdok, Deputy Executive Secretary of the United Nations Economic Commission for Africa, on how better taxation can help Africa fund its own sustainable development.

Taxation is one of the most important ways in which developing countries can mobilise their own resources for sustainable development. It supports the basic functions of an effective state – enabling it to raise the resources needed to deliver essential services – and creates the context for economic growth. At the same time, it is a catalyst for governments that are more responsive and accountable to their citizens, and for expanding state capacity (OECD, 2008a).

Achieving the MDGs will require developing countries to raise at least 20% of their gross domestic product in taxes.

The United Nations considers that achieving the Millennium Development Goals (MDGs) will require developing countries to raise at least 20% of their gross domestic product (GDP) in taxes. Yet half of all sub-Saharan African countries still mobilise less than 17% of their GDP in tax revenues, and several Asian and Latin American countries fare little better. Some low-income countries, therefore, may need to raise their tax-to-GDP ratios by almost four percentage points. This chapter examines why it is important for developing countries to increase their tax base, explores some key challenges and makes recommendations for improving how taxation and revenue spending can contribute to sustainable development. A companion chapter later in this volume (Chapter 14) outlines in detail the role of development co-operation in supporting tax reform.

Taxation plays a central role in promoting sustainable development

Tax revenues are the most fundamental component of home-grown revenues, and they grow in importance as a country develops (see the "In my view" box). Taxation offers an antidote to developing countries' dependence on external concessional finance and provides the fiscal reliance and sustainability needed to promote growth (OECD, 2008b). It strengthens the effective functioning of the state and reinforces the social contract between governments and citizens. The taxation process also helps to build effective and accountable states, as reforms that begin in the tax administration may spread to other parts of the public sector.

Thus, strengthening domestic resource mobilisation is not just a question of raising revenue: it is also about designing a tax system that promotes inclusiveness, encourages good governance, responds to society's concerns over income and wealth inequalities, and promotes social justice. More fundamentally, the centrality of taxation in the exercise of state power means that more efficient, transparent and fairer tax systems, and less corrupt tax administrations, can spearhead improvement on wider governance issues.

Developing countries face "taxing" challenges

In 2012, 32 African countries collected less than USD 1 of tax per person per day.

"Tax effort" – the ratio of actual to potential tax revenues – is not low in all developing countries, but significant additional revenue could be raised in those countries where performance is weakest. For example, total collected tax revenue was ten times the volume of total official development assistance (ODA) flows to Africa in 2012 (OECD/AfDB/UNDP, 2014). Yet at the country level, significant disparities are evident: that same year, 32 African countries collected less than USD 1 of tax per person per day. Those with the lowest tax-to-GDP ratios also tend to be those with the lowest effort.[1] Several countries – including Burundi, El Salvador, Rwanda and the Solomon Islands – have shown that substantially increasing domestic revenues is feasible. One good performer, for instance, has increased its tax-to-GDP ratio from 6% in 1990 to around 17% today. Other countries have achieved sustained revenue increases to 4-5% of GDP in just a few years. Common keys to success include sustained political commitment at the highest levels, administrative reforms that are aligned closely with policy changes and strong leadership by the revenue administration (Box 7.1) – all of which can encounter powerful opposition.

Box 7.1. **Tax reform: The governance dimension in Rwanda**

In Rwanda, personal backing from the President coupled with the United Kingdom's Department for International Development's (DFID) support to the Rwandan Revenue Authority (RRA) contributed significantly to the country's strong increase in tax revenue. Domestic revenue increased from 9% of GDP in 1998 to 14.7% in 2005 and the costs of tax collection were also reduced. This success was founded on strengthened internal organisational structures and processes, as well as increased accountability in relationships with partners, such as central and local government, the growing community of tax professionals and taxpayers themselves. The RRA now plays an important role in strengthening relationships between citizens and the state, helping to build a "social contract" based on trust and co-operation.

Source: OECD (2008a), *Governance, Taxation and Accountability: Issues and Practices*, DAC Guidelines and Reference Series, OECD, Paris, *www.oecd.org/dac/governance-development/40210055.pdf*.

Many of the tax challenges[2] faced by developing countries affect more advanced economies as well, but the specific challenges that loom especially large in developing countries include:

- **Weak tax administrations.** A well-functioning tax administration is critical to mobilising domestic resources in developing countries. Yet many administrations are staffed by poorly trained and low-paid officials, have structures that do not encourage an integrated approach to all taxes and do not strike the right balance between enforcement and taxpayer services. The design of a tax system should, therefore, consider the ability of the tax administration to manage it.
- **Low taxpayer morale, corruption and poor governance.** Research shows a significant correlation between tax morale – people's willingness to pay taxes – and tax compliance (Torgler, 2011). High levels of corruption are strongly associated with low state revenue, as are other poor governance indicators (weak rule of law, political instability). The centrality of tax collection as an exercise of state power gives governance issues in tax collection great importance.

- **Prevalence of "hard-to-tax" sectors,** including small businesses, small farms and professionals. This is particularly important where administrative capacity and incentives to comply are weak. While the informal sector is extensive in developing countries – contributing around 40% of GDP on average and up to 60% in many – it is arguably not in itself the problem: even though small traders and professionals may be informal, their income and sales are likely to be well below any reasonable tax threshold. Much of the most serious evasion is by qualified professionals. The issue is perhaps better framed as one of non-compliance. Estimates of non-compliance are scarce, but value-added tax (VAT) "gaps" have been put at 50-60% in some developing countries, compared to 7-13% in developed countries.
- **Dealing with natural resource wealth.** Many resource-rich countries struggle to design and implement fiscal regimes that are not only transparent, but also capable of raising reasonable public revenue from their natural and mineral resources. This issue is being brought to the fore by recent discoveries of natural resource endowments in developing countries.
- **Geographical and historical factors.** A wealth of geographical or historical factors may affect a country's ability to collect taxes. Small islands, for example, are better able to impose taxes at the border than are landlocked countries. Post-conflict countries with shattered administrations and tax bases face particular difficulties in mobilising domestic revenue (see Chapter 20), while successor states[3] are often especially eager to establish investor-friendly reputations. History also plays a role, such as a legacy of legal traditions that reflect various colonial pasts with diverse revenue approaches and performances.

Aside from these internal challenges, the external environment also influences tax capacity. For example, many countries continue to depend heavily on trade tax revenues,[4] yet trade liberalisation no longer allows them to tariff imports and exports, obliging them to seek other sources from which to recover tax revenue. Striking the right balance between using tax incentives to create an attractive tax regime for domestic and foreign investment, and securing the necessary revenues for public spending, is another key policy dilemma. Competition among developing countries for investment can trigger a "race to the bottom" in offering potential foreign investors the most beneficial tax rates. Developing countries also face challenges in designing and implementing effective transfer pricing[5] and information exchange regimes, and more generally in improving transparency. These issues are being addressed by the OECD/G20 work on Base Erosion and Profit Shifting (BEPS) and on tax information exchange (see Chapter 14 for more details).

In examining the challenges faced by developing countries, it is also important to stress that increased revenue is not in itself sufficient to foster sustainable development, and therefore is not the only consideration in assessing tax systems and their performance. How the revenue is distributed – to ensure equity, promote inclusiveness and effectively address social pressures – is equally important. Sustainable development also requires analysis of the potential role of taxation in reducing environmental damage or unsustainable resource use.

The quality of tax measures matters as much as the quantity of revenue raised.

The quality of tax measures also matters: measures to increase revenue by further taxing readily compliant taxpayers can worsen distortions and perceived inequities; conversely, reducing reliance on trade taxes can bring real structural gains that outweigh short-term revenue difficulties.

In my view: Africa can fund its own sustainable development

Abdalla Hamdok,
Deputy Executive Secretary, United Nations Economic Commission for Africa

Africa is on the path to sustainable long-term growth, opening up a number of investment opportunities. Development co-operation has helped to promote this growth and is expected to continue to do so, but the resources required for Africa's sustainable development will not come from aid. Africa must look within, generating financial resources from its own economies.

The potential for Africa to raise substantially more domestic financial resources – and to finance its development from these resources – is huge. Concrete results are within reach, even within a short time horizon, if the appropriate innovations and support are put in place.

Government tax revenue constitutes the most significant source of domestic resources for the implementation of development programmes on the continent and there is significant potential for scaling up returns. The lesson emerging from country experiences is that by focusing on expanding the tax base, improving tax administration and tapping relatively underutilised sources of taxation, African countries can increase tax revenue significantly.

Domestic revenues mobilised in Africa today are in excess of USD 520 billion, compared to USD 50 billion received in aid. What's more, African central and reserve banks hold more than USD 400 billion in international reserves and Africa's pension fund assets are growing at a staggering pace. The World Bank estimates that Africa's diaspora remittances soared to USD 40 billion in 2012 and they have the potential to grow to USD 200 billion over the next decade. Added to this is the potential that can be realised by addressing the losses to the continent through illicit financial flows.

For Africa to own its development, however, the continent needs to define a new robust threshold for domestic resource mobilisation that will enable the implementation of at least 70-80% of its development programmes and projects. This means devising new and innovative domestic resource mobilisation instruments and strengthening the effectiveness and efficiency of existing systems. It also means deepening reform in the areas of governance, institutional and macroeconomic policy, and legal and regulatory frameworks to provide an overarching enabling environment for investment and mobilisation of domestic resources. In addition, there is a need to accelerate regional integration and to reform specific laws governing investment of public funds – such as through public pension funds and international reserves of central/reserve banks.

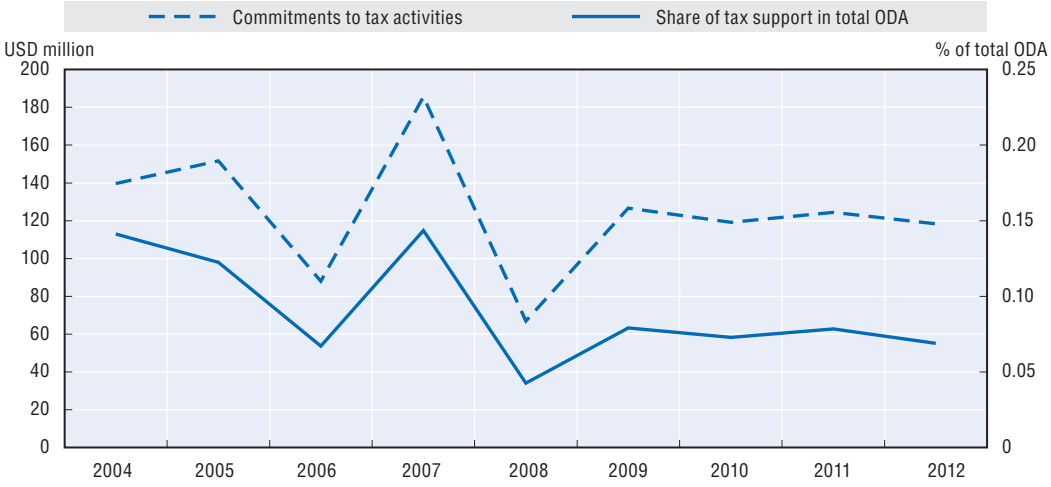
The capacity of a country or a region to mobilise domestic resources is determined by the size of the economic activities it generates, its economic growth performance, its ability to raise and manage tax revenues, and the competence of its financial system. In my view, Africa has the potential to draw on its own capacity to finance its growth and development, and is on the road to doing so. Innovation and efficiency will be central to making this happen.

The development community could do more to support tax systems

While domestic political will and leadership are the primary drivers of capacity development, partnerships with international organisations can play an important role in strengthening domestic tax systems, especially by providing technical assistance. Some development co-operation providers have been active for many years in offering tax advice to developing countries. Nonetheless, until recently, tax as a development issue has been somewhat neglected by much of the international community, despite some high rates of return and evidence of success (see Chapter 14). Currently, only around 0.1% of ODA (excluding from the International Monetary Fund) goes to support the development of tax systems in developing countries (Figure 7.1). Chapter 14 outlines ways in which development co-operation can help developing countries address some of the challenges outlined here.

Only 0.1% of ODA supports tax systems in developing countries.

Figure 7.1. **Official development assistance for tax-related activities, 2004-12**



Note: The data do not include figures from the International Monetary Fund.
Source: OECD Creditor Reporting System statistics.

StatLink http://dx.doi.org/10.1787/888933121658

While the challenges are substantial, there are also grounds for optimism. The impetus for change is increasingly coming from developing countries and regions themselves. Several African and Latin American countries have made significant advances in improving their tax systems, often in the most challenging of governance environments (see Chapter 20). In Africa, the African Tax Administration Forum – driven, managed and operationally funded by Africans – provides a key platform for peer learning, capacity development and dialogue on domestic and international tax issues. In the Americas, the Centro Interamericano de Administraciones Tributarias (CIAT) is a well-established platform for regional action. Other regions have similar organisations and international organisations and development co-operation agencies are increasingly strengthening their support to them.

Key recommendations

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

Notes

1. In one study, out of 15 developing countries with tax-to-GDP ratios below 15%, for instance, 13 had estimated effort below their group median; raising it to the median would increase their revenue by an average of about 3% of GDP.
2. Much of this section is drawn from the "Report to the G20 Development Working Group by the IMF, the OECD, UN and World Bank: Supporting the Development of More Effective Tax Systems".
3. A new, smaller country formed after a larger country has been divided up.
4. According to the International Monetary Fund (2011), in sub-Saharan Africa, trade taxes still account for one-quarter of all tax revenue.
5. A transfer price is the price charged by a company for goods, services or intangible property to a subsidiary or other related company. Abusive transfer pricing occurs when income and expenses are improperly allocated for the purpose of reducing taxable income (*OECD Glossary of Tax Terms*). See also Box 14.3 in Chapter 14.

References

IMF (2011), *Resource Mobilisation in Developing Countries*, International Monetary Fund, Washington, DC.

OECD (2013a), "Draft Principles to Enhance the Transparency and Governance of Tax Incentives for Investment in Developing Countries", OECD, Paris, *www.oecd.org/ctp/tax-global/transparency-and-governance-principles.pdf*.

OECD (2013b), "What drives tax morale?", Draft March 2013, OECD, Paris, *www.oecd.org/ctp/tax-global/TaxMorale_march13.pdf*.

OECD (2008a), *Governance, Taxation and Accountability: Issues and Practices*, DAC Guidelines and Reference Series, OECD, Paris, *www.oecd.org/dac/governance-development/40210055.pdf*.

OECD (2008b), "Taxation, state-building and aid: Factsheet", OECD, Paris.

OECD/AfDB/UNDP (2014), *African Economic Outlook 2014: Global Value Chains and Africa's Industrialisation*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/aeo-2014-en*.

Torgler, B. (2011), "Tax morale and compliance. Review of evidence and case studies for Europe", *Policy Research Working Paper*, No. 5 922, The World Bank, Washington, DC.

UN (2005), *Investing in Development*, United Nations, New York.

UNDP (2010), *What Will it Take to Achieve the Millennium Development Goals? An International Assessment*, United Nations Development Programme, New York, June, *http://content.undp.org/go/cms-service/stream/asset/?asset_id=2620072*.

© OECD 2014

PART I

Chapter 8

Foundations as development partners

by
Bathylle Missika *and* Emilie Romon, Development Centre, OECD[1]

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

Philanthropy is often thought of as "the rich giving to the poor". A different way of looking at it is society investing in its future. Modern philanthropy emerged at the beginning of the 20th century in the United States when Rockefeller and Carnegie set up the first large American foundations. As early as World War I, these foundations began to engage beyond national borders, indicating an interest and willingness to invest in social progress overseas, particularly in developing countries.

Because foundations' strategic priorities and activities vary greatly – ranging from advocacy to implementing their own projects (OECD, 2003) – it is difficult to formulate a global definition that encompasses their diverse natures. Yet they can be broadly described as independent, non-profit organisations with their own resources that work locally, regionally and internationally to improve the lives of citizens by running and funding activities in numerous areas, from youth empowerment and education to health and climate change (European Foundation Centre, 2014).

This chapter takes stock of how the relationship between foundations and the development community has evolved in the context of development co-operation and proposes ways in which it could continue to evolve for the benefit of sustainable development.

Foundations are increasingly prominent in development co-operation

Attempts at systematically strengthening co-operation among official development co-operation providers and foundations are only fairly recent. Over the past decade – with only a few exceptions – development agencies and foundations have worked on parallel tracks without much collaboration.

Development agencies and foundations have mostly worked on parallel tracks without much collaboration.

Providers of official development assistance remain more prominent in terms of funding and priority setting, including in discussions in bodies such as the Development Assistance Committee (DAC). Interestingly, neither the Millennium Declaration nor the Monterrey Consensus on Financing for Development (see Glossary) – the two major global declarations of recent times on development goals and financing – made mention of the role of foundations in achieving the Millennium Development Goals (MDGs). Similarly, foundations have focused on their own priorities, sometimes intersecting with those of traditional development actors, but have been reluctant to engage with what they have seen as "bureaucratic and inefficient partners". This has led to a "clash of civilisations" among actors who do not speak the same language and choose to work independently from one another rather than collaborate. The outcome in some cases has been duplication of work (Green, 2013). It was only in 2011, in the Busan Partnership agreement,[2] that foundations were recognised as significant contributors to development, although only from a financial perspective: as providers of additional funding for development co-operation.

Today, foundations' broader role in global development efforts is increasingly acknowledged and valued. The report of the High-Level Panel of Eminent Persons on the Post-2015 Agenda clearly acknowledges that their role as central actors in development co-operation goes far beyond the financial (HLP, 2013). This recognition was confirmed at the First High-Level Meeting of the Global Partnership for Effective Development Co-operation (GPEDC; see Box 8.1), which acknowledged the "added value that philanthropic foundations bring to development co-operation" (GPEDC, 2014). This is reflected in the decision of the Steering Committee of the Global Partnership to offer them a full member seat as of June 2014.[3]

Philanthropy's contribution to development has nearly multiplied by ten in less than a decade.

Box 8.1. **The OECD Global Network of Foundations Working for Development**

The Global Network of Foundations Working for Development (netFWD) is a group of foundations committed to optimising the impact of philanthropy for development by sharing experiences and lessons, influencing policy and developing innovative partnerships. Together with major philanthropic actors,[1] netFWD developed a set of "Guidelines for Effective Philanthropic Engagement" to help foundations working with or in developing countries improve the impact of their development efforts. The guidelines aim to enhance collaboration between the philanthropic sector and governments on shared goals with the view of increasing the effectiveness of philanthropic contributions to global efforts to promote human well-being and development. These voluntary and non-binding measures contribute to the ongoing efforts to strengthen development effectiveness and mutual accountability in the spirit of the Paris Declaration on Aid Effectiveness and the Busan Declaration for Effective Development Co-operation. They are explicitly cited in the Communiqué of the First High-Level Meeting of the Global Partnership for Effective Development Co-operation, which was released in April 2014 in Mexico (GPEDC, 2014). They represent a real step forward, as foundations have neither committed to implementing the Millenium Development Goals (MDGs) nor supported the previous series of declarations on development effectiveness (at Rome, Paris and Accra).[2]

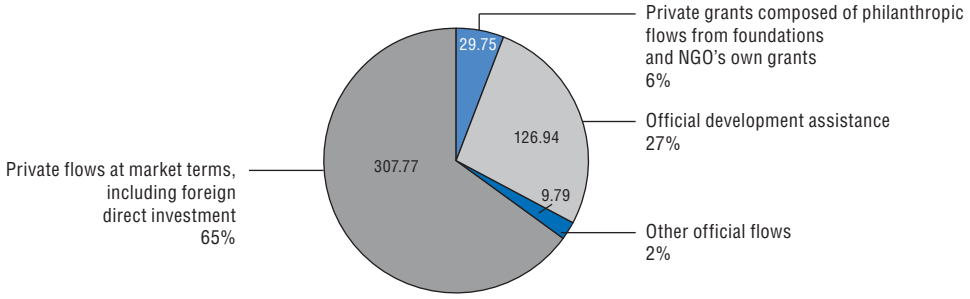
For more information, see *www.oecd.org/site/netfwd*.

1. Key partners include the European Foundation Centre (EFC), the STARS Foundation, the United Nations Development Programme and the Worldwide Initiative for Grantmaker Support (WINGS), as well as the Rockefeller Foundation.
2. For more details of all the declarations on effective development co-operation, see *www.oecd.org/dac/effectiveness*.

The recent global economic crisis and its effects on official development assistance (ODA) might explain this emerging recognition and appetite for enhanced collaboration. Increasing budgetary pressure has forced most official providers of concessional funding to reduce their spending and seek alternative sources of development funding (Chapter 2). In parallel, the growing contributions of large foundations to international development goals have given the sector as a whole greater visibility. Although the philanthropic contribution to development is hard to quantify, available data suggest that it has nearly multiplied by ten in less than a decade. According to OECD-DAC statistics, it was around USD 3 billion in 2003 (OECD, 2003), rising to USD 29.75 billion in 2012, including grants from non-governmental organisations (NGOs) (Figure 8.1; see also Chapter 9). While the Bill & Melinda Gates Foundation was the fourth largest provider in the health sector (including reproductive health) in 2012 (OECD, 2014), the majority of philanthropic organisations cannot yet match its endowment, influence or ability to leverage partnerships with a wide range of development actors.

Figure 8.1. **Philanthropy: A small slice of the external finance pie**

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



Source: OECD (2014), "Detailed aid statistics: Official and private flows", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00072-en*.

StatLink http://dx.doi.org/10.1787/888933121677

Many foundations are increasingly recognising the importance of actively positioning themselves in the global development debate to maximise the impact of their operations (OECD netFWD, 2014a). While few participated in the discussions that led to the development of the MDGs, a growing number of them are now engaging significantly in the post-2015 discussions. For instance, the Bellagio Initiative, supported by the Rockefeller Foundation, has proposed 12 development goals across 3 main areas: basic services, human capital and effective provision of public goods (CIGI, 2012). In addition, in 2013 a series of high-level dialogues brought together major philanthropic actors, the United Nations and other development stakeholders to discuss the role of foundations in the post-2015 framework.[4] This has helped to further identify the drivers behind foundations' engagement in development, as well as put greater emphasis on a number of common themes which can lend themselves to deepened collaboration. They are also increasing their participation in platforms for dialogue and knowledge-sharing (such as the one described in Box 8.1). Yet, while realising the benefit of locating their work more effectively within a global framework, foundations also highlight their interest in wielding a significant influence in designing this framework – as actors in their own right (DCPB et al., 2013).

Foundations have important qualities as development actors

Philanthropic actors have important comparative advantages over other development finance providers. For example, foundations enjoy greater freedom in the way they operate. They are not bound to electoral/political government cycles nor are they under the same pressure as private investors from their shareholders to deliver immediate financial returns in the companies or social purpose organisations in which they invest. This flexibility – together with their ability to devote "patient capital"[5] to testing innovative practices that can then be scaled-up through multi-stakeholder, cross-sector partnerships – has led some to see foundations' funding as "development risk capital". They are able to build close relationships with their grantees – whom they often prefer to call partners – providing them with the long-term technical knowledge and management capacity they require to achieve self-sufficiency (OECD netFWD, 2014a; and Box 8.2). Foundations have not yet achieved their full potential as risk-takers, however; they tend to avoid investments in fragile and conflict-ridden environments, for example.

Foundations' funding can be viewed as "development risk capital".

Box 8.2. **Foundations' shift towards long-term and co-ordinated engagement**

In the Middle East, a country's specific socio-economic issues are often defined by whether it is an oil economy or not. Nonetheless, there are common needs across the region: large youth populations struggling to find jobs; the need to promote enterprise, moving away from growth that is led by the public sector; and better quality output from the educational system.

Arab philanthropic capital is an important resource for the Middle East region, estimated at over USD 770 million* in 2012 in the Gulf alone. Foundations in the Middle East and North Africa, not dissimilar to their global counterparts, are increasingly moving away from traditional philanthropic models of short-term, multi-sector grant-making to look at more focused portfolios in which grants are provided together with technical support, under longer term commitments.

Emirates Foundation has adopted this approach. As an independent philanthropic foundation set up to improve the welfare of young people across the United Arab Emirates, its portfolio comprises six programmes for supporting young people, including through volunteering, work readiness and financial literacy. Ultimately, the goal is to create independent entities – essentially social enterprises – that are financially and operationally viable without grant support from the foundation. Each programme will continue until the social issue it seeks to address has been mitigated.

The concept of social enterprises – taking a business-based approach to creating long-term measurable and sustainable social value (see Chapter 16) – is gaining traction in the region, with various Arab social entrepreneurs pioneering new models of social innovation. At the same time, the philanthropic sector is becoming increasingly cohesive, with organisations such as the Arab Foundations Forum (AFF) uniting philanthropic entities from across the region with a view to sharing lessons learnt, exchanging ideas on best practice and providing opportunities for direct collaboration.

The shared challenges facing Arab countries require social solutions that are scalable and replicable. Many regional foundations are addressing these needs through fora such as the AFF, which allow them to share expertise and avoid "reinventing the wheel".

This consolidation will stand the region's philanthropists in good stead for supporting broader developmental goals and ensuring that the growing pool of Arab philanthropic capital is spent wisely and effectively.

* See the Coutts Million Dollar Donors Report, 2013 at *http://philanthropy.coutts.com/middle-east-(gcc)/findings* (accessed 15 May 2014).

Source: Contributed by Clare Woodcraft-Scott, Chief Executive Officer, Emirates Foundation for Youth Development.

Foundations' comparative advantage and value as development partners also include their unique potential to leverage funds and build multi-stakeholder partnerships around important development issues. For instance, the proximity of corporate foundations with the private sector allows them to tap into private flows at market terms which, including foreign direct investment, amounted to USD 307.77 billion in 2012 (Figure 8.1).

Often established by famous personalities or companies, foundations can also advocate and mobilise financial and non-financial support from governments, high net-worth individuals and the private sector for their personal causes. In Brazil, for example, the Instituto Ayrton Senna is a strong promoter of the importance of social and emotional skills in fostering children's lifetime success and social progress. Along with the Brazilian Ministry of Education and the OECD Centre for Educational Research and Innovation (CERI), it set up a high-level policy forum on "Skills for Social Progress" in March 2014 involving ministers and high-level officials from 14 countries (OECD netFWD, 2014b). Foundations can also help develop and test innovative approaches and more "business-like" instruments for development financing. An example is development impact bonds – these allow private investors to provide up-front funding that can later be reimbursed by public actors (be they development agencies or developing country governments) if the initiative proves successful.

The new profile of philanthropy also includes entrepreneurs who have emerged over the past decade, often from the information and communication technologies sector (e.g. Microsoft, eBay), who want to apply their recipes for success to philanthropic giving. The arrival of these new leaders on the philanthropic scene has been accompanied by a rise in the importance of innovative operational approaches, sometimes referred to as "venture philanthropy"[6] or "impact investment". These ways of operating seek to mobilise large amounts of underutilised or potential philanthropic capital for development purposes, and to make more efficient use of these resources for heightened social impact (Bishop and Green, 2008).

Two myths undermine effective co-operation between foundations and the development community

Aside from the factors outlined above, there are two myths that tend to stand in the way of better mutual understanding and co-operation between foundations and the development community.

Myth one: Foundations have almost unlimited resources

Many outside the philanthropic sector assume that foundations have access to vast amounts of funding. The Bill & Melinda Gates Foundation's considerable assets of USD 34 billion in 2011 and its significant contribution to the global health agenda have contributed to this misconception. Data show, however, that in fact, this is not the case. For example, according to the Foundation Center, less than a dozen US foundations enjoy an endowment superior to USD 5 billion and a large majority of them worldwide function with financial resources below USD 1 billion (Foundation Center, 2014).

Philanthropy's contribution to development only represented 6% of total flows from DAC providers to developing countries in 2012, while ODA constituted 27%.

Thus, what some see as philanthropy's potential to compensate for decreasing official development finance over the medium to longer term is largely overstated (Figure 8.1). Even when grants to NGOs (which are funded from various sources, from the general public to private sources) operating in developing countries are added to the total contribution of philanthropy to development, this only represented 6% of total flows from DAC providers to developing countries (in 2012). ODA, on the other hand, constituted 27% (USD 126.94 billion). Despite recent increases in foundations' funding for development, therefore, philanthropic giving and investments are unlikely to catch up with official development co-operation any time soon.

Myth two: Foundations have the same priorities as the development community

It is often assumed that the priorities and goals that will be set out in the post-2015 framework, supported by global alliances of development co-operation providers and developing countries such as the Global Partnership for Effective Development Co-operation, are likely to rally the whole philanthropic community. Foundations, however, have interests and priorities that may or may not intersect with those of the broader development community (Box 8.3). Issues of governance, for example, are gaining increasing importance in the post-2015 framework, but have not attracted much philanthropic engagement; less than 3% of total funding from US foundations is dedicated to concerns such as elections, access to information, democracy or municipal reform (Foundation Center, 2014).

Box 8.3. **The role of US foundations in supporting the Millennium Development Goals**

In 2012, the 1 000 largest US foundations provided international support totalling USD 5.9 billion. Of this total, 44%, or USD 2.6 billion, focused on priorities consistent with the MDGs (see table below). Yet despite the substantial share of foundation giving that aligns with the MDGs, a 2008 report by the Foundation Center showed that grant makers have mixed perspectives on the goals. According to interviews with 20 leading international funders, including large private and public US foundations, interviewees were generally aware of the goals but did not take the MDG framework into account when developing their grant-making agendas (Atienza et al., 2008). Many viewed the MDGs as a positive development and said that they provided new opportunities for partnerships and for building on government investments. However, some interviewees found the MDGs to be particularly weak in their area of activity, while others had already established MDG-consistent priorities before the goals were announced.

US foundation grants relevant to the Millenium Development Goals, 2012

Foundation giving for programmes related to the Millenium Development Goals, circa 2012

	Amount (USD)	Number of grants	Number of foundations
Goal 1: Eradicate extreme poverty and hunger	750 956 676	1 674	290
Goal 2: Achieve universal primary education	44 666 866	328	95
Goal 3: Promote gender equality and empower women	324 946 712	350	59
Goal 4: Reduce child mortality	449 928 774	321	51
Goal 5: Improve maternal health	305 618 010	231	43
Goal 6: Combat HIV/AIDS, malaria and other diseases	514 940 261	434	50
Goal 7: Ensure environmental sustainability	634 879 633	1 732	241
Goal 8: Develop a global partnership for development[1]	373 249 304	370	113

Notes: Except for Goals 7 and 8, estimates are based on international grants for developing countries and, where appropriate, global health grants. Grants related to multiple goals are counted more than once.

1. Figures represent a conservative estimate based on international grants related to the following activities: projects involving explicit partnerships; global poverty; global action; trade-related issues; debt relief; telecommunications; and grants to multilateral organisations, such as the World Bank and the United Nations' agencies.

Source: Foundation Center (2014), based on all international grants of USD 10 000 or more awarded by a sample of 1 000 of the largest US foundations. International grants include funding directly to cross-border recipients and to US-based international programmes. Some foundations are represented with 2012 grants data, while the balance are represented with 2011 data.

The survey showed possible pathways for encouraging greater alignment with global development goals. Specifically, in 2008 a set of leading international funders was asked which internal and external factors had most affected their funding priorities over the last four years. Among the external factors, respondents most often cited "new funding partnerships" and "major natural disasters abroad". These findings suggest that engaging in partnerships with foundations to identify and develop shared priorities would provide an opportunity for greater formal alignment around the MDGs. Drawing on the knowledge of the philanthropic sector and involving more foundations in the early planning processes for the post-2015 development agenda could strengthen philanthropic contributions' implementation of the global development goals.

Source: Contributed by the Foundation Center, see *http://foundationcenter.org*.

Instead, foundations tend to support their own areas of interest, often defined by the corporate interests of the firms that have created them or the personal "vision" of their founders. In long-established family foundations, descendants usually remain loyal to the founder's wish, although sometimes with slight diversions or even significant reforms. Alternatively, they may prioritise areas of intervention in which they have acquired influence and a solid network of contacts and partners.

The second reason why foundations may not fully align with agreed development goals such as the MDGs stems from their still limited inclusion in, and sense of ownership of, major international development processes. When foundations are approached by the development community, this often comes late in the process, when strategies and programmes have already been agreed and when the missing piece of the puzzle is financing.

Collaboration can be strengthened in several ways

To build global co-operation among development stakeholders and foundations, it will be fundamental to increase the strategic involvement of philanthropy. At the same time, there is growing awareness in the philanthropic sector that "to achieve their potential, in scale and impact, foundations (…) must be willing to let go of some of their autonomy to work more cohesively with partners across sectors and disciplines" (OECD netFWD, 2014a).

Trying to learn each other's "language" and getting to know one another better are prerequisites for effective partnerships. This could happen by participating in initiatives at the national, regional or global levels that seek to bring together foundations and governments. For instance, the Portuguese government has established a dialogue framework with development stakeholders including the philanthropic sector. This is an interesting collaborative practice that could be replicated in other countries.

Foundations' comparative advantages, especially their capacity for innovation and leveraging additional funding, could be better used by the development community. For instance, the so-called "venture philanthropists" provide social purpose organisations with first-stage, seed capital. Yet, in order to grow until they are self-sustainable, these organisations need later-stage investors such as traditional development co-operation providers to scale up their reach to other regions or sectors (OECD netFWD, 2014a). Official development co-operation providers could benefit by identifying successful initiatives led by foundations in their partner countries and bringing them to scale in collaboration with other stakeholders, such as national partners.

Before formalising or systematising any kind of relationship, governments and foundations could first test collaboration by partnering around an issue or country of common interest. Indeed, concrete initiatives are more likely to attract foundations than an abstract agreement. For example, the Better Than Cash Alliance is a coalition of bilateral and multilateral development co-operation agencies (e.g. USAID, the United Nations Capital Development Fund), foundations (e.g. Ford Foundation, the Bill & Melinda Gates Foundation and the Omidyar Network) and private sector actors (e.g. Citi, MasterCard and Visa), united around a specific issue: the promotion of electronic payments in developing countries.[7]

Key recommendations

- Use joint initiatives to help the development community and foundations become better acquainted, such as the recently developed "Guidelines for Effective Philanthropic Engagement" (Box 8.1).
- Draw on the comparative advantages of each to increase funding opportunities and impact, with foundations providing activities with seed capital and official development co-operation helping to scale them up.
- Build concrete partnerships around specific issues or countries rather than on abstract agreements.

Notes

1. The authors would like to thank Federico Bonaglia (acting Deputy Director of the OECD Development Centre) for reviewing and contributing to the draft of this chapter.
2. The Busan Partnership agreement was the outcome of the Fourth High Level Forum on Aid Effectiveness held in Busan, Korea in 2011. This new broad and inclusive partnership for development co-operation sets out four common principles: 1) ownership of development priorities by developing countries; 2) a focus on results; 3) inclusive development partnerships; and 4) transparency and accountability to each other.
3. The Global Partnership for Effective Development Co-operation was formed following the Fourth High Level Forum on Aid Effectiveness in Busan to act as a forum for advice, shared accountability and shared learning and experiences to support the implementation of the Busan Partnership agreement principles. See *http://effectivecooperation.org*.
4. The Ford Foundation, Rockefeller Foundation, OECD Global Network of Foundations Working for Development (netFWD), UNDP, UNDESA and the Worldwide Initiative for Grantmaker Support (WINGS) co-organised two events, one in April and the other in September 2013, on the role of foundations in the post-2015 framework.
5. "Patient capital" usually encompasses several factors, such as a longer investment timeframe, higher risk appetite, availability to for-profits and not-for-profits, and below market returns with above-market social and environmental outcomes (OECD netFWD, 2014a).
6. In the development context, venture philanthropy is an entrepreneurial approach to philanthropy that combines a variety of financial and non-financial resources to identify, analyse, co-ordinate and support self-sustaining, systemic and scalable (for and not-for profit) solutions to development challenges aimed at achieving the greatest impact (OECD netFWD, 2014a).
7. See their website at *http://betterthancash.org*.

References

Atienza, J. et al. (2008), *International Grantmaking IV: An Update on US Foundation Trends*, Foundation Center, New York.

Bishop, M. and M. Green (2008), *Philanthrocapitalism: How Giving Can Save the World*, Bloomsbury Press, New York.

CIGI (2012), *Post-2015 Goals, Targets and Indicators*, 10-11 April 2012, Centre for International Governance Innovation, Waterloo, Ontario, *www.beyond2015.org/sites/default/files/CIGI%20Post2015.pdf*.

DCPB, OESC and UNDESA (2013), *The Role of Philanthropic Organizations in the Post-2015 Development Agenda Setting*, Special Policy Dialogue of the Development Cooperation Forum, New York, 23 April 2013, United Nations Department of Economic and Social Affairs, New York, available at: *www.un.org/en/ecosoc/newfunct/pdf13/dcf_philan_summary.pdf*.

European Foundation Centre (2014), Foundations FAQ webpage, *www.efc.be/programmes_services/resources/Pages/Foundations-FAQ.aspx*.

Foundation Center (2014), "Foundation stats", *http://data.foundationcenter.org* (2011 and 2012 data, accessed on 12 February 2014).

GPEDC (2014), "First High-Level Meeting of the Global Partnership for Effective Development Co-operation: Building towards an inclusive post-2015 development agenda", Mexico High Level Meeting Communiqué, 16 April, Global Partnership for Effective Development Co-operation, *http://effectivecooperation.org/wordpress/wp-content/uploads/2014/05/FinalConsensusMexicoHLMCommunique.pdf*.

Green, M. (2013), "Philanthropy and official development assistance: A clash of civilisations?", *OECD netFWD's Article Series*, OECD, Paris, *www.oecd.org/site/netfwd*.

HLP (2013), *A New Global Partnership: Eradicate Poverty and Transform Economies Through Sustainable Development*, The Report of the High-Level Panel of Eminent Persons on the Post-2015 Development Agenda, High-Level Panel, United Nations, New York, *www.post2015hlp.org/wp-content/uploads/2013/05/UN-Report.pdf*.

OECD (2014), "Detailed aid statistics: Official and private flows", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00072-en*.

OECD (2011), "Busan Partnership for Effective Development Co-operation", Fourth High Level Forum on Aid Effectiveness, Busan, Korea, 29 November-1 December 2011, *www.oecd.org/dac/effectiveness/49650173.pdf*.

OECD (2003), "Philanthropic foundations and development co-operation", *OECD Journal on Development*, Vol. 4, No. 3, OECD Publishing, Paris, *http://dx.doi.org/10.1787/journal_dev-v4-art23-en*.

OECD netFWD (2014a), "Venture philanthropy in development: Dynamics, challenges and lessons in the search for greater impact", OECD Development Centre, Paris, *www.oecd.org/dev/Venture%20Philanthropy%20in%20Development-BAT-24022014-indd5%2011%20mars.pdf*.

OECD netFWD (2014b), "Philanthropy and youth empowerment: Foundations' innovative approaches to support youth", OECD Development Centre, Paris, *www.oecd.org/site/netfwd/Youth%20Empowerment_BAT2_OK.pdf*.

Development Co-operation Report 2014
Mobilising Resources for Sustainable Development
© OECD 2014

PART I

Chapter 9

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

by
Sarah Hénon, Judith Randel *and* Chloe Stirk, Development Initiatives

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

Projections for poverty and financing make it clear that resources provided through official development assistance (ODA) on the one hand, and civil society or non-governmental organisations (CSOs and NGOs)[1] on the other, are – and will remain – vital to the achievement of poverty eradication by 2030.[2] While domestic resource mobilisation and international commercial flows are increasing very rapidly,[3] not all countries have the capacity or the means to access these resources. For these populations, NGO finance and ODA remain critical.

Nonetheless, funds raised from the public by traditional NGOs may well be peaking, especially as opportunities for direct giving increase. In response to concerns about the potential for growth in existing markets, NGOs are actively seeking out new markets in middle-income countries.

Another aspect of change is the blurring of the old North-South, donor-recipient divide. This dynamic, which has governed development co-operation for the past 50 years, no longer holds true – and has not held true for some time. Many countries today are simultaneously providers and recipients of development co-operation, and developing country domestic institutions – governmental and non-governmental – are increasingly significant in terms of resources and leadership. An approach whereby NGOs raise money in the "North" and spend it in the "South" is no longer adequate for addressing the new geography of poverty.

All of this means that the role of NGOs and civil society is changing fast. While NGOs, and in particular large international ones, are important implementing partners and sources of finance for fighting extreme poverty (see Box 9.1 for examples), the part they will play in mobilising resources for the post-2015 global goals will not be met through business as usual.

In this changed environment, this chapter asks: how can NGOs and civil society best contribute to mobilising the resources needed to achieve global goals?

Estimates of how much NGOs mobilise directly from the public differ

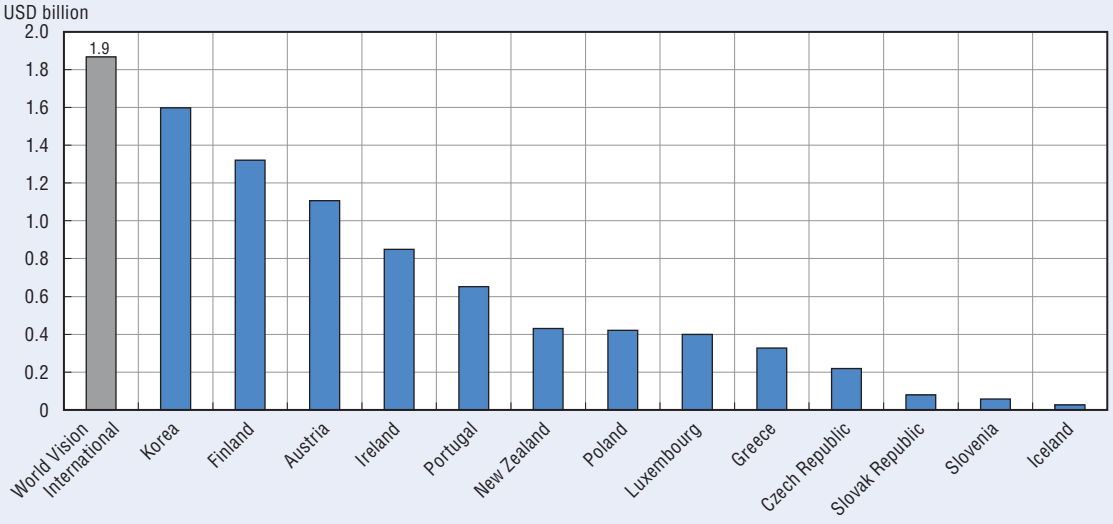
When the journalist Zeinab Badawi was moderating the opening session of the first High-Level Meeting of the Global Partnership for Effective Development Co-operation,[4] she challenged a speaker: "You just described farmers' groups as civil society. Wouldn't they see themselves as private sector?" Actually they are both.

In a similar fashion, the sharp distinctions between CSOs, consultancies, businesses and government are also blurred in practice. Providers of development co-operation often contract work out to large NGOs, seeing them as suppliers. Yet the same ODA providers may act as partners, each following their own agenda. Similarly, when we talk about money raised from the public, we are probably thinking about contributions to NGOs; but some governments also raise voluntary contributions from the public, particularly for humanitarian crises. Finally, individual direct giving through all sorts of private channels is significant, if largely invisible in the data. In practice, funds flow in several directions among foundations, non-governmental and civil society organisations, multilateral organisations and governments. This can result in both double counting of resources and in flows that are never captured in accounting systems.

Box 9.1. **Large NGOs are major development players**

The largest global international NGO, World Vision International, had 46 000 staff and a global budget of USD 2.57 billion in 2010, 80% of which came from private sources (Worthington and Pipa, 2010). In 2012, World Vision International's total income from private sources (including foundations) exceeded the ODA provided by each of 13 individual DAC development co-operation providers (see figure below) and the combined ODA of the 7 smallest of these DAC providers. In 2012, UNICEF's total income from private sources (including foundations) was greater than the ODA of 11 individual DAC providers.* In the same year, *Médecins Sans Frontières*' income from private sources was greater than the ODA of ten DAC providers. If these three NGOs were a single DAC member, their combined private development assistance in 2012 would have made them the 11th largest DAC provider.

How World Vision International's income from private sources compares to ODA of selected DAC development co-operation providers, 2012



Source: Development Initiatives based on the Global Humanitarian Assistance NGO dataset and OECD-DAC statistics.

StatLink http://dx.doi.org/10.1787/888933121734

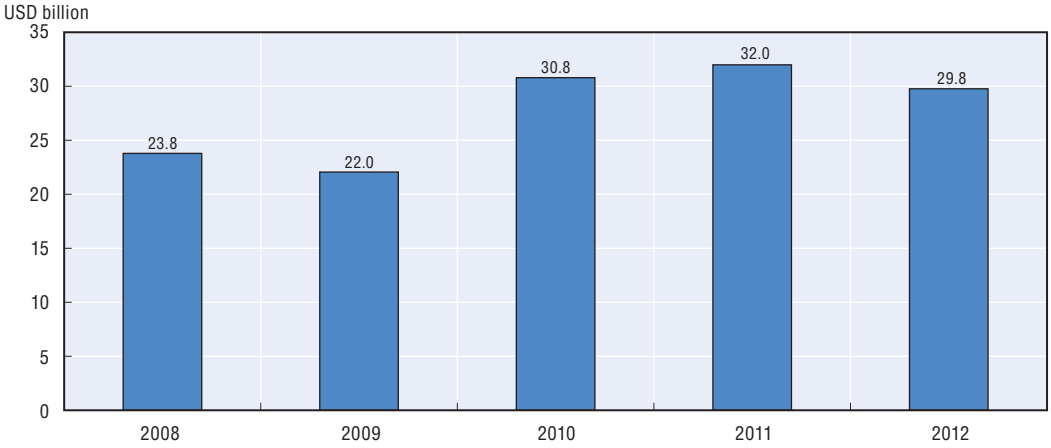
* UNICEF – the United Nations Children's Fund – is included as an NGO as it raises funds from the public.

The DAC estimates that funds raised directly by NGOs in member countries were USD 32 billion in 2011 – equivalent to 24% of total ODA.

There are, therefore, big differences in the estimates of the total volume of funding raised from private sources by NGOs and CSOs, even if this is limited to Development Assistance Committee (DAC) member countries. In 2011, the DAC estimated funds raised from the public directly by NGOs to be USD 32 billion (Figure 9.1),[5] equivalent to 24% of total ODA that same year. Yet these flows are reported to the DAC by member countries based on estimates, or on calculations from NGOs' annual statistical reports, and therefore may understate what in reality these organisations raise (OECD, 2011). The Center for Global Prosperity estimates the figure for 2011 to be USD 58.9 billion, while Development Initiatives (DI) puts it at USD 26 billion for the same year, which amounts to 57% of total private development assistance raised by companies, foundations and NGOs in DAC member countries (Adelman et al., 2011).

Figure 9.1. **Funds raised from private sources by NGOs based in DAC member countries, 2008-12**

USD billion, current prices



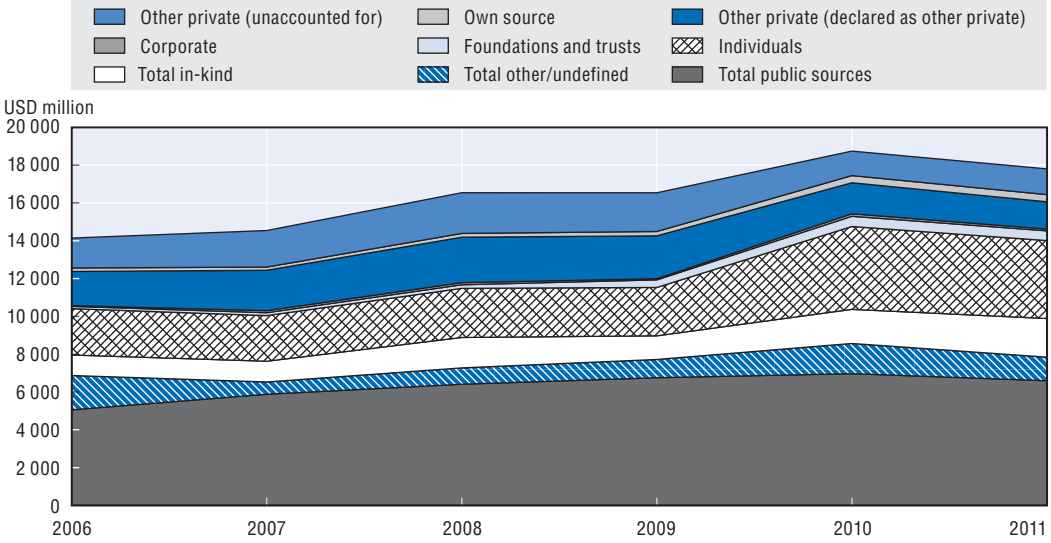
Source: OECD (2011), "Detailed aid statistics: Official and private flows", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00072-en*.

StatLink http://dx.doi.org/10.1787/888933121696

Data based on a sample of 31 large mainly international NGOs, the majority of which (29) are based in DAC member countries, show that contributions by individuals remain by the far the largest source; the most significant growth in private giving to NGOs is in contributions from foundations (Figure 9.2).

Private giving from countries outside the DAC – which is on the increase – also is likely to be under-reported. Funds mobilised from the public in countries which are not DAC members have a stronger component of giving by corporations, wealthy individuals and foundations, and are currently much more focused on needs in their own countries. In seven large countries (Brazil, the People's Republic of China, India, Saudi Arabia, South Africa, Turkey and the United Arab Emirates),

Figure 9.2. **Sources of private giving to NGOs, 2006-11**



Source: Development Initiatives (2014), *Measuring Private Development Assistance: Emerging trends and challenges*, Development Initiatives, Bristol, available at: *http://devinit.org/report/measuring-private-development-assistance-emerging-trends-challenges*.

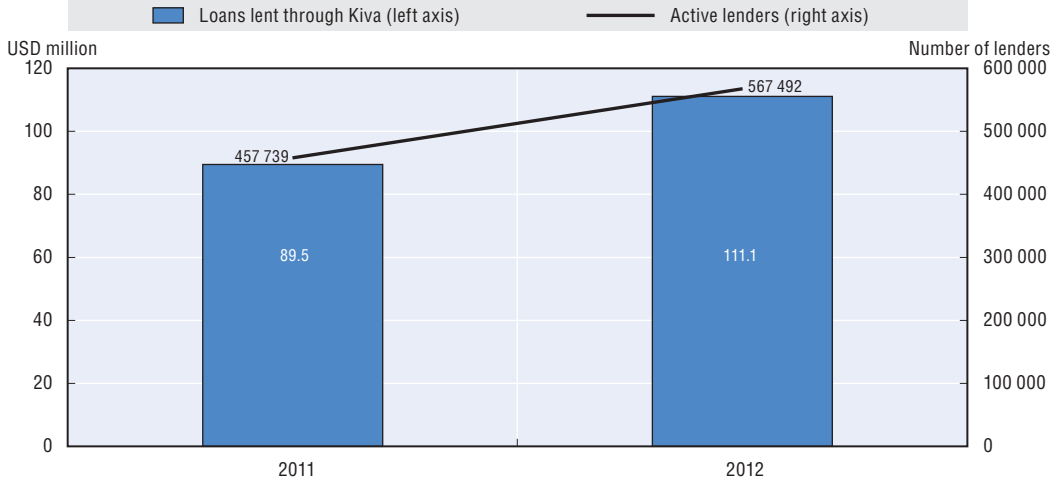
StatLink http://dx.doi.org/10.1787/888933121715

funds mobilised for international development were estimated to be at least USD 1.4 billion in 2011. However, this was in the context of contributions for domestic causes at around USD 35 billion a year (Development Initiatives, 2013).

Direct giving is growing fast

Individuals have been providing resources, solidarity and support across borders for centuries, but the rise of the Internet, mobile phone technology and social media over the past decade has significantly increased the ways in which individuals can give. Yet precisely because these gifts are "individual", they are often not visible. For instance, Kiva (*www.kiva.org*) and Zidisha (*www.zidisha.org*) are among the many Internet-based platforms that are now being used by individuals to give money. By leveraging the Internet and a worldwide network of microfinance institutions, Kiva lets individuals lend as little as USD 25 to micro-entrepreneurs around the world. Both the volumes and numbers of Kiva users have increased rapidly: to date 1.2 million people have used this platform to lend in over 70 countries, providing USD 552 million since October 2005, when Kiva was founded (Figure 9.3).

Figure 9.3. **Kiva lending volume and total number of active lenders, 2011 versus 2012**



Source: Author's calculations based on *Kiva 2012 Annual Report*, *www.kiva.org/annualreport* (accessed 17 April 2014).

StatLink http://dx.doi.org/10.1787/888933121753

Launched in 2009, Zidisha took Kiva's model further by allowing individuals to lend money directly to entrepreneurs in developing countries, without the need for a local microfinance intermediary. Since then, just under USD 2 million has been provided to entrepreneurs through Zidisha, which has 7 761 registered lenders.[6] These are just two examples of the growing phenomenon of "crowdfunding" (Box 9.2).

There is a range of other web-based platforms with slightly different approaches. GiveAid Direct (*www.giveaiddirect.com*), for example, allows individuals the opportunity to directly support people (e.g. by providing money for school fees) or to fund specific projects (such as procuring health equipment).

The rise of these individual giving websites has revealed substantial potential, but it is not clear yet whether this direct giving will replace contributions channelled through NGOs or add to them. Either way, greater direct public engagement will play a part in a development landscape where many more actors – more government departments, more businesses, more individuals – are getting involved.

Box 9.2. **Crowdfunding sustainable development**

The concept of "crowdfunding" – enabling large numbers of people to invest small amounts of money in a charity or business venture using online platforms – is increasingly drawing attention as an innovative way of tapping new sources of funding. Crowdfunding was initially used in philanthropy to collect donations. It then spread to consumer products in the form of pre-funding of products or projects (e.g. music, film), often providing some form of "reward" for investors, which has clear monetary value. Credit-based crowdfunding – or crowdlending – offers backers an interest rate in exchange for their loans e.g. to microbusiness. Equity crowdfunding – or crowdinvesting – is an investment in a start-up in exchange for an equity share of the company. These investments are typically made through dedicated web platforms which pool the funds; however, this form of crowdfunding is relatively new. According to industry estimates, from 2011 to 2012 the funding volume of global crowdfunding almost doubled, from USD 1.5 billion to USD 2.7 billion, before rising to an estimated USD 5.1 billion in 2013 (Massolution, 2013). The majority of crowdfunding platforms are based in the United States, followed by Europe. Although a newer phenomenon in the developing world, there are some crowdfunding platforms in developing countries.

Crowdfunding could become a new source of financing for development by providing platforms for people all over the world to contribute to philanthropic projects and ventures in developing countries. For example, the crowdfunding platform Indiegogo provides a channel for funding development projects such as Bamboo Lota. This project was designed to address deforestation and poverty in Malawi through the introduction of fast-growing bamboo charcoal instead of other forms of charcoal commonly used by poor families in the country. The project team raised money to conduct fieldwork and meet with government officials and NGOs in Malawi, build a kiln sourced from local resources for the community to create bamboo charcoal, and educate locals on the bamboo-to-charcoal process. Within three years, the government was actively investing in bamboo.

Such examples show the potential of lending, donation and reward-based crowdfunding models for providing innovative financing for development. Equity crowdfunding is more complex. While proponents of equity crowdfunding see great potential, envisaging that it will allow businesses to raise capital quickly and efficiently (Neiss, 2011), there are also many potential pitfalls. Equity crowdfunding essentially enables unsophisticated investors to inject money directly into young risky companies with the expectation of a financial return (NESTA, 2012b). In a number of countries this would require changes in current securities laws* (NESTA, 2012a). While a lot of attention has been given to recent legislation in the United States that will allow equity crowdfunding, this type of investment is not yet legal in many countries. There are active equity crowdfunding platforms in Belgium, France, Germany, the Netherlands and the United Kingdom, but many of these are new (a number of them only launched in 2012) so there is not yet much experience or evidence on how these are working (De Buysere, 2012) and what it might mean in terms of investor protection.

In short, crowdfunding could be used to generate new resources to finance sustainable development. While this potential should be reflected in the ongoing discussions of how to finance the post-2015 goals, there are still many challenges to be addressed, particularly for equity crowdfunding (Isenberg, 2012). The key will be to develop appropriate legal frameworks and build the necessary systems and trusted platforms to connect potential investors to appropriate ventures (World Bank, 2013).

* Those seeking equity investment must produce a prospectus approved by an authorised person and can only offer shares to sophisticated investors.

Source: This box was contributed to the chapter by Karen Wilson, Directorate for Science, Technology and Industry at the OECD.

NGOs manage and mobilise more than they raise

NGOs *manage* more money than they raise. They implement development programmes for governments and other providers to the order of USD 20 billion; this means that around 13% of ODA is channelled directly through NGOs. The United Nations organisations and foundations also implement programmes through NGOs. Most of this goes to large international NGOs; NGOs from developing countries receive only 9% of all ODA spent through NGOs.

NGOs implemented development programmes to the order of USD 20 billion in 2011 – equivalent to 13% of total ODA.

The volume of the funds NGOs manage gives them a seat around the table to discuss development priorities, data and information about delivery on the ground and impacts on target populations. Yet that voice is largely dominated by governments and a few large international NGOs.

NGOs also *mobilise* more than they raise. Together with the OECD, their consistent, long-term monitoring of the performance of DAC development co-operation providers helps hold them to their commitments – such as the United Nations target of giving 0.7% of gross national income as ODA and the G8 Gleneagles commitments to sub-Saharan Africa (see Chapter 2). While the data show that providers vary in their success in living up to these commitments, it is hard to imagine that targets set in 1970 and 2005 would still have traction in 2014 without this assiduous monitoring of performance and the persistent advocacy by NGOs. Having said that, there are limits to the extent to which NGOs have been able to counteract strong political pressure to reduce ODA.

Public and political awareness of and perception of development needs are also driven by NGO campaigning and engagement, from television advertising to organising visits for members of parliament to poor communities. For example, decades of development education – both formal and informal – in the United Kingdom, spearheaded by NGOs, have helped to lay the foundations of public understanding and support that has made the achievement of the 0.7% target a reality in that country, even at a time of budget austerity.

Yet while these activities clearly boost social concern and provide a vehicle for international solidarity, they can also have downsides. Emphasis on the 0.7% target has led to much attention being given to whether or not certain finance "counts" as ODA, rather than focusing on how to mobilise additional funds. Similarly, the role of NGOs in mobilising resources and public concern for some developing countries (often driven by immediate fundraising imperatives) can lead to the creation of a distorted image of these countries, creating a climate that discourages investment there and impairing the realistic assessment of associated risks and opportunities.

Transparency and accountability are crucial

Raising and mobilising resources is one thing, but allocating them effectively is equally critical. With funds raised from the public of around USD 30 billion, and responsibility for managing other resources too, getting maximum value for every dollar spent by NGOs is important – especially because those resources are focused on the most vulnerable people. Transparency can make a big contribution to effectiveness. If NGOs have access to information on what other providers are doing, they can allocate their own money more effectively. Similarly, transparency on the scale and distribution of NGO finance can drive investments that complement each other and help prevent duplication.

Governments of developing countries report that obtaining timely and forward-looking data from providers – including transparency on NGO spending – is a key priority for them because it helps ministries and others to make better decisions. Access to these data – and the capacity to use them – is critical to drive accountability. Nonetheless, the very CSOs that advocate for transparency and

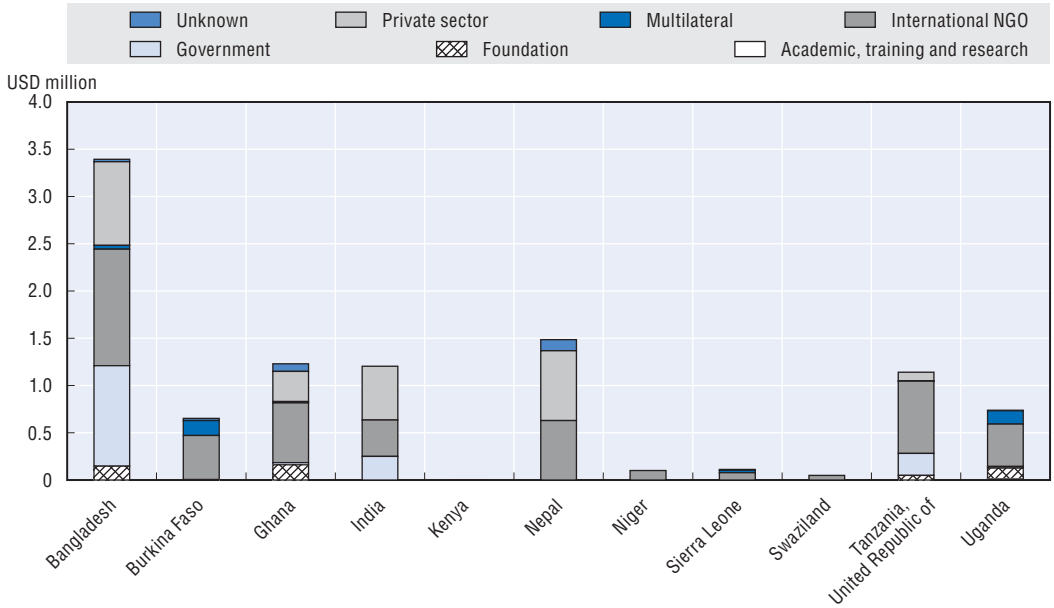
accountability often have a particularly challenging relationship with government and often operate in environments where there is limited space available for civil society.[7] NGOs are often worried that governments will use information on their spending to curtail their room for manoeuvre, especially since some governments view these organisations with suspicion – as extensions of the political opposition or as representatives of provider interests.

What do we know about how NGOs allocate their resources? Like ODA, NGO private funding comes in different forms. Around one-fifth is in the form of gifts in-kind (food, clothing, commodities, etc.) and again like ODA, not all NGO funding actually reaches developing countries. For example, data suggest that at least 15% of funds privately raised in the United States for international co-operation actually stay in that country, being spent on activities such as student support. We do not know what proportion of the funds raised from the public by NGOs actually is spent on "technical co-operation" – the provision of know-how, capacity, personnel and skills – and just as with ODA, we do not have good data on transaction costs.

However, NGO transparency is increasing. Currently, 168 NGOs publish their data to the International Aid Transparency Initiative (IATI).[8] While these data are of variable quality, looking at one of the best, WaterAid, makes clear the value of increased transparency (Figure 9.4). Users can see which types of organisations WaterAid uses to implement its work in various countries; in Malawi for example, WaterAid allocates half its money through government, while in Madagascar, the vast majority is spent through the private sector. Drilling down further in the IATI data, the specific locations and target populations are also identified; for instance, in Madagascar WaterAid helped 218 600 people in the urban commune of Antananarivo and provided 2 416 people with water and 1 409 with sanitation in Beravina.[9] The added value of this data includes better understanding of what works, more opportunity to make all resources more coherent and effective, and greater opportunity for local populations to demand accountability.

Figure 9.4. **WaterAid's international funded activities by country and implementing organisation**

In pounds sterling (GBP)



Source: Author's calculations based on *WaterAid Data 2010-13* from IATI registry, *www.iatiregistry.org/publisher/wateraid* (accessed April 2014).

StatLink http://dx.doi.org/10.1787/888933121772

New business models are needed for the new global goals

The big question is how can this mixed bag of public engagement and resource mobilisation make the strongest contribution to the achievement of global targets for sustainable development? Policies are required that actively promote civil society engagement, funding and advocacy for common problems – whether nutrition, disability or financial inclusion. The geography of poverty is shifting and today large numbers of extremely poor people live in countries that are experiencing rapid and consistent growth (OECD, 2013). The likelihood is that in the future, the people who are "left behind" – in terms of income and other forms of poverty – will not only be concentrated in a few countries, but spread across many. These people will share certain characteristics: they are likely to have been excluded for reasons of gender, ethnicity, disability or health, or they will be trapped in multidimensional poverty. CSOs across the world hold particular expertise in policies and programmes that benefit vulnerable groups such as these. Making progress will rely on the experience and capacity of these organisations.

The rise of domestic giving and of domestic social change organisations in many countries such as Brazil, India and Mexico also offers great scope for increasing and sustaining resources for progress against poverty. Creating an enabling environment, including through tax and other incentives for mobilising individual and corporate resources, offers the potential to generate increased finance. As domestic organisations become more visible and stronger, it is likely that they will be increasingly used as implementing agencies for international development providers, having a stronger voice in resource allocation and mobilisation. However, the political imperatives for governments in provider countries to support their own national NGOs are likely to remain strong.

It is not clear whether the aggregate amounts of money available for meeting the global goals, or the extent of public engagement with them, will be stronger if NGOs are working in a framework that is based on shared problems across 200 countries, versus raising funds in one place to be spent in another. But achieving universal goals should be accelerated by policies that actively promote civil society engagement, funding and advocacy on common problems across boundaries.

It is also unclear whether the rise of direct giving will replace contributions channelled through NGOs or add to them. Individual giving websites have revealed their potential, but precisely because they are individual and private, the scale of giving is often invisible. Yet we know that in many societies there is widespread public involvement in international co-operation – be it through church groups, community and business links, individual support for students, volunteers or educational exchanges. Whatever form it takes, greater direct public engagement will continue to be part of an environment in which more actors – more government departments, more businesses, more individuals, more CSOs – are playing a part.

At the same time, there is huge potential for CSOs to mobilise more than they raise, but in a different framework. The increased opportunities for private giving and micro-investment, as well as the growth of remittances (Chapter 10), all offer potential for greater resource mobilisation and public engagement. Until now, CSOs have focused energy and attention on holding governments to their commitments. In the future, they may devote more energy to shaping the way in which the private sector contributes to the achievement of global goals. These efforts need to have a much stronger focus on "inclusive partnerships" that facilitate real collaboration in the fight to overcome poverty and inequality.

Over time, the boundaries separating civil society and NGOs from other development co-operation providers are likely to become more – not less – blurred. This will make joined-up working critical for releasing more value from available resources. For that, transparency and access to information are key.

Key recommendations

- Promote and support civil society engagement, funding and advocacy for addressing common factors linked to extreme poverty in all countries – whether nutrition, disability or financial inclusion.
- Ensure NGOs and civil society have political space and a key voice in discussing development priorities as well as data and information about delivery on the ground and impacts on target populations.
- Support joined-up working between NGOs, governments, the private sector and others through greater transparency and accountability, specifically through publishing data to the International Aid Transparency Initiative so that they can be used alongside data from all other providers.

Notes

1. While the terms non-governmental organisation (NGO) and civil society organisation (CSO) are often used interchangeably, CSOs generally encompass a larger cross-section of civil society groups which contribute to development. These range from global networks such as the Open Forum for CSO Development Effectiveness, to international organisations such as Action Aid International, to development NGOs with headquarters in development co-operation provider countries, trade unions, community-based and faith-based organisations around the world. The DAC statistical reporting directive defines the term NGO broadly as any non-profit entity without significant government-controlled participation or representation. See also OECD (2011).
2. See Chapters 1, 2 and 8 in this volume.
3. For example, see Chapters 5 and 7 in this volume.
4. Held in Mexico City, 15-16 April 2014.
5. The calculations for this figure include aid to CSOs in developing countries.
6. According to Zidisha statistics, *www.zidisha.org/index.php?p=43* (accessed 11 June 2014).
7. In his April 2013 report to the UN Human Rights Council, Maina Kiai, Special Reporter on the rights to freedom of peaceful assembly and of association, draws the attention of the UN system to "increased control and undue restrictions in relation to funding received [by NGOs]" (Kiai, 2013). CIVICUS has noted threats to civil society in 87 countries ranging from registration restrictions to serious limits on freedom of association, and a particular focus on restrictions of civil society access to foreign funding (cited in CSO Partnership for Development Effectiveness, n.d.).
8. The IATI is a voluntary, multi-stakeholder initiative that seeks to improve the transparency of aid, development and humanitarian resources in order to increase their effectiveness in tackling poverty. The IATI brings together provider and host countries, civil society organisations and other experts in aid information. See more at: *www.aidtransparency.net*.
9. For more information, see WaterAid's page on the IATI Registry, *www.iatiregistry.org/publisher/wateraid*. All published WaterAid IATI data can be found at *http://datastore.iatistandard.org/api/1/access/transaction.csv?reporting-org=GB-CHC-288701&stream=True*.

References

Adelman, C., J. Norris and K. Marano (2011), *The Index of Global Philanthropy and Remittances 2011*, Center for Global Prosperity at The Hudson Institute, Washington, DC, *www.hudson.org/research/8635-the-index-of-global-philanthropy-and-remittances-2011*.

CSO Partnership for Development Effectiveness (n.d.), *Silencing Voices, Closing Space: An Assessment of the Enabling Environment for Civil Society*, A synthesis of evidence of progress since Busan for the Global Partnership for Effective Development Cooperation, Indicator Two, CSO Partnership for Development Effectiveness, *www.csopartnership.org/wp-content/uploads/2014/05/SilencingVoices_ebook.pdf*.

De Buysere, K. (2012), "The 'new' venture capital cycle: Obstacles in using the Internet for equity raising campaigns", *Working Paper*, Tilberg University.

Development Initiatives (2014), *Measuring Private Development Assistance: Emerging trends and challenges*, Development Initiatives, Bristol, available at: *http://devinit.org/report/measuring-private-development-assistance-emerging-trends-challenges*.

Development Initiatives (2013), *Investments to End Poverty*, Development Initiatives, Bristol, *http://devinit.org/report/investments-to-end-poverty*.

Isenberg, D. (2012), "The road to crowdfunding hell", *Harvard Business Review*, April.

Kiai, M. and J. Vize (2013), "Three years after Tunisia: Thoughts and perspectives on the rights to freedom of assembly and association from United Nations Special Rapporteur Maina Kiai", *Journal of Global Ethics*, Vol. 10, Issue 1, *www.tandfonline.com/toc/rjge20/10/1*.

Massolution (2013), "2013CF: The crowdfunding industry report".

Moore, D. and J. Zenn (2013), "The legal and regulatory framework for civil society: Global trends in 2012", in CIVICUS (2013), *State of Civil Society Report*, CIVICUS, New York, *http://socs.civicus.org/wp-content/uploads/2013/04/2013StateofCivilSocietyReport_full.pdf*.

Neiss, S. (2011) "Crowd-funding could boost entrepreneurship", *The Washington Times*, September.

NESTA (2012a), "The venture crowd", NESTA, London, June.

NESTA (2012b), "Crowding", in *How the UK's Businesses, Charities, Governments and Financial System Can Make the Most of Crowd Funding*, NESTA, London, December.

OECD (2013), *Development Co-operation Report 2013: Ending Poverty*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/dcr-2013-en*.

OECD (2011), *How DAC Members Work with Civil Society Organisations: An Overview*, OECD Publishing, Paris, *www.oecd.org/dac/howdacmembersworkwithcivilsocietyorganisationsanoverview2011.htm*.

OECD (2011), "Detailed aid statistics: Official and private flows", *OECD International Development Statistics* (database), *http://dx.doi.org/10.1787/data-00072-en*.

World Bank (2013), "Crowdfunding's potential for the developing world", *InfoDev*, Growing Innovation, Washington, DC.

Worthington, S.A. and T. Pipa (2010), "International NGOs and foundations: Essential partners in creating an effective architecture", in The Brookings Institute (2010), *Making Development Aid More Effective. The 2010 Brookings Blum Roundtable Policy Briefs*, The Brookings Institute, Washington, DC, *www.brookings.edu/~/media/Files/rc/papers/2010/09_development_aid/09_development_aid.pdf*.

© OECD 2014

PART I

Chapter 10

What place for remittances in the post-2015 framework?

by
Kathryn Nwajiaku, Jolanda Profos, Cécile Sangaré *and* Giovanni Maria Semeraro,
Development Co-operation Directorate, OECD

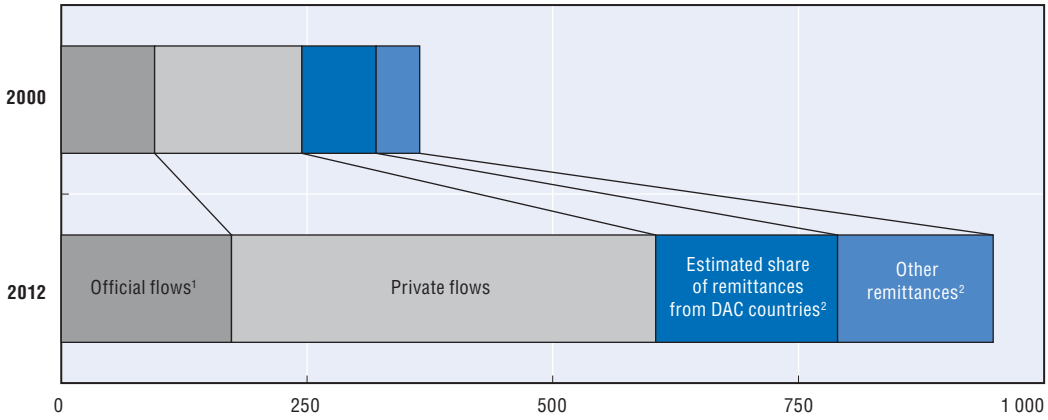
In 2012, developing countries received at least USD 351 billion in remittances (funds sent by people living and working abroad to their home countries). Remittances represent one of the largest, and fastest growing, sources of external income for these countries. While the motivation for sending remittances,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

This chapter also includes an opinion piece by Mthuli Ncube, Chief Economist and Vice President of the African Development Bank, on harnessing the potential of remittances in Africa.

Over recent years, remittances (funds sent by people living and working abroad to their home countries) have increased rapidly. Today, they represent the largest source of external finance for many developing countries. According to World Bank data, worldwide remittances to developing countries[1] reached their highest level in 2012, at USD 351 billion; this puts them ahead of official development assistance (ODA) and foreign direct investment (Figure 10.1).

Figure 10.1. **Remittances: A major source of external finance for developing countries, 2000 and 2012**

USD billion, constant 2012 prices



1. Includes bilateral and multilateral outflows to developing countries (including ODA).
2. Includes personal transfers and compensation of employees.

Sources: DAC statistics; World Bank migration and remittances data, available at: *http://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT* and *http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTDECPROSPECTS/0,,contentMDK:22759429~pagePK:64165401~piPK:64165026~theSitePK:476883.00.html*.

StatLink http://dx.doi.org/10.1787/888933121791

Remittances are the largest source of external finance for many developing countries, reaching USD 351 billion in 2012 – higher than ODA and foreign direct investment.

In the context of the current global financial crisis, remittances represent an important source of finance for many developing countries, especially as they tend to rise during downturns in the receiving economy – unlike capital flows such as foreign direct investment, which tend to fall. Moreover, while private capital mainly flows to emerging countries (Chapter 2), remittances are particularly important in poor countries, where they can represent up to almost half of gross domestic product (GDP) (Tables 10.1 and 10.2). They are also an important contributor to resilience in the face of economic or humanitarian crises.

Since the 2002 Monterrey Consensus on Financing for Development (see Glossary), there has been growing recognition among the international development community that remittances could be better harnessed for economic growth and welfare in developing countries. This chapter explores how remittances can be tracked better, analyses the extent to which they promote development, and outlines the main steps and obstacles to realising their developmental potential.

Table 10.1. **Remittances as a share of developing countries' gross domestic product, 2005-12**

As a % of GDP, by income group and region

Grouping		Personal remittances			Personal transfers		
		Average	Maximum	Standard deviation	Average	Maximum	Standard deviation
Income	LICs	7.1	52.0	10.1	7.0	51.7	10.2
	LMICs	7.8	43.8	8.0	5.8	24.4	5.9
	UMICs	4.1	33.5	5.9	3.9	32.2	5.4
Regions	Africa	3.7	43.8	6.2	2.8	16.8	3.4
	America	5.9	24.4	6.3	5.8	24.4	6.3
	Asia	7.5	52.0	9.5	7.2	51.7	9.7
	Europe	9.7	34.5	8.7	6.3	19.1	5.5
	Oceania	9.1	33.5	10.2	7.9	32.2	10.6
Other	LDCs	5.6	43.8	8.0	4.3	24.4	6.2
	Fragile states	5.5	25.3	6.3	5.0	24.4	5.7

Notes: LDCs: least developed countries; LICs: low-income countries; LMICs: lower middle-income countries and territories; UMICs: upper middle-income countries and territories. Standard deviation represents how far (on average) values are from the average of each group. Personal transfers (workers' remittances) are a sub-category of personal remittances (see Box 10.1).
Source: World Bank data, *http://data.worldbank.org/indicator*; *http://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT*; *http://data.worldbank.org/indicator/BX.TRF.PWKR.CD*; *http://data.worldbank.org/indicator/NY.GDP.MKTP.CD*.

Table 10.2. **Top 10 recipients of personal remittances, 2005-12**

As a % of GDP

Top 10 recipients of personal remittances		Top 10 recipients of personal transfers	
Tajikistan	40.7	Tajikistan	40.6
Lesotho	33.7	Tonga	25.8
Moldova	27.9	Kyrgyz Republic	22.3
Tonga	23.2	Haiti	21.6
Kyrgyz Republic	22.3	Samoa	20.9
Haiti	21.6	Nepal	19.3
Samoa	21.0	Honduras	18.3
Lebanon	20.8	Lebanon	18.2
Nepal	20.2	El Salvador	17.1
Honduras	18.4	Guyana	16.4

Source: World Bank data, *http://data.worldbank.org/indicator*; *http://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT*; *http://data.worldbank.org/indicator/BX.TRF.PWKR.CD*; *http://data.worldbank.org/indicator/NY.GDP.MKTP.CD*.

Remittances are on the rise, but their full scale is uncertain

Worldwide remittances to developing countries increased from USD 123 billion to USD 351 billion between 2000 and 2012 (Figure 10.1).[2] Over the same period, ODA flows (concessional, cross-border, bilateral and multilateral) rose from USD 84 billion to USD 132 billion. While the share of ODA in total developing countries' external finance fell from 20% in 2000 to 14% in 2012, the share of total worldwide remittances increased from 29% to 37%. The World Bank estimates that worldwide remittances to developing countries will continue to increase and will reach USD 540 billion by 2016 (World Bank, 2013a).

The share of ODA in developing countries' resource receipts fell from 20% in 2000 to 14% in 2012, while the share of remittances increased from 29% to 37%.

These statistics on remittances, however, should be read with caution. First, they include worldwide remittances (i.e. from all sending countries) and thus do not fully compare with the development-oriented flows in Figure 10.1, which, for the most part, come only from OECD Development Assistance Committee (DAC) member countries. According to World Bank estimates,[3] remittances from DAC countries to developing countries in 2012 amounted to USD 191 billion, representing 20% of their total resource receipts.

Moreover, the way remittances are measured may result in overestimations. For example, "compensation of employees" (workers' gross earnings) are counted as remittances (Box 10.1), even though migrant workers' earnings may be entirely or partly spent in the host country and therefore never sent home; the same is true for the income of non-migrants, e.g. locally recruited staff of embassies, consulates and international organisations treated in the balance of payments[4] as extraterritorial entities. Although balance of payment categories are well defined (Box 10.1), their differing implementation worldwide may also affect data comparability.[5]

Informal transfers of remittances amount to between one-third and one-half of worldwide remittances, but go unrecorded.

On the other hand, remittance measurements do not capture transfers through informal channels, such as cash carried by people travelling home or sent by mail. These flows are likely to represent one-third to one-half of worldwide remittances, but are not recorded in official statistics. They are called a variety of names, such as *hawala*, *hundi* or *fei qian*.[6]

Remittances make up a large share of developing countries' gross domestic product

Remittances represented on average 2.2% of all developing countries' GDP between 2005 and 2012, and are especially important as a share of GDP in low-income and lower middle-income countries (7% and 5.8% respectively between 2005 and 2012; Table 10.1). On average, European developing countries[7] seem to be the most dependent on remittance flows (9.7% of their GDP between 2005 and 2012). Over the same period, the ratio of personal remittances to GDP of the top ten recipient countries ranged between 41% and 18% (Table 10.2). In terms of the ratio of personal transfers (workers' remittances) to GDP, a sub-category of personal remittances (Box 10.1), the five largest recipients over the same period were Tajikistan, Tonga, the Kyrgyz Republic, Haiti and Samoa.

Remittances to low-income countries make up around 7% of their GDP on average.

The links between remittances and development are complex

Although remittances clearly constitute a major financial resource for developing countries, the different motivations behind these flows and their varying impact on economic growth and welfare suggest that they cannot be considered as development finance.

The decision to remit is complex – motivations range from altruism to self-interest. They may be driven by the aspiration of eventually inheriting, or by the desire to entrust the migrant's assets to relatives. Nevertheless, the amount of remittances received tends to decrease as the domestic income of a family rises; it also decreases over time as migrants' attachment to their family gradually weakens. At the same time, the decision for one family member to migrate may be the result of a family decision, with remittances being the mechanism for redistributing the gains to the whole family.

Box 10.1. **Who measures remittances and how?**

The sixth edition of the International Monetary Fund's (IMF) *Balance of Payment Manual and International Investment Position Manual* (IMF, 2009b; known as BPM6) defines remittances as "household income from foreign economies arising mainly from the temporary or permanent movement of people to those economies. Remittances include cash and non-cash items that flow through formal channels, such as via electronic wire, or through informal channels, such as money or goods carried across borders…". One of the key outcomes of recent methodological work carried out on remittances has been the replacement of the concept of "migrant" in the balance of payment framework on remittance data (see below) with the concept of residency. This definition includes flows beyond those resulting from the movement of persons and is no longer based on the concepts of migration, employment or family relationships.

The BPM6 addresses the definitional issues associated with international labour mobility and remittances, while the publication *International Transactions in Remittances: Guide for Compilers and Users* (IMF, 2009a) provides practical guidance to improve the quality of estimates for those using remittance statistics. Known as the RCG, this guide is jointly published by the IMF, the World Bank, Eurostat and the OECD.

The main source of remittance data today is the World Bank.* These data are mainly derived from three IMF balance of payments components:

1. **Personal transfers:** All current transfers in cash or in kind received by resident households from non-resident households.
2. **Compensation of employees:** The earnings of workers residing abroad for less than 12 months, including the value of in-kind benefits.
3. **Capital transfers:** The wealth of individuals who move their residency from one country to another for a period of at least one year. Capital transfers capture two different types of transactions: 1) return home assets: the assets accumulated during their stay by non-residents returning to their home country; and 2) change in residency status: individuals' change of residence from one country to another, which, therefore, may not involve real financial flows.

The Global Remittances Working Group contains a voluntary group of experienced compilers of remittance data led by the World Bank and established to co-ordinate at international level the work on remittances, including improving methodology and data. This encompasses measuring North-South, South-South, intra-regional and internal remittances; standardising information collection on migration and remittances in household surveys and censuses; and collaborating with other institutional efforts to improve data on migration.

For more information, see *http://go.worldbank.org/SS0MQSBFM0*.

* For example, see *http://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT*.

Source: IMF (2009a), *International Transactions in Remittances: Guide for Compilers and Users*, International Monetary Fund, Washington, DC; IMF (2009b), *Balance of Payments and International Investment Position Manual*, International Monetary Fund, Washington, DC; International Finance Corporation (2009), "Global Remittances Working Group", The World Bank, *http://go.worldbank.org/SS0MQSBFM0*; Lemos, F. and J. Reinke (2007), "The Luxembourg Group on Remittances", *www.cemla-remesas.org/medicion/PDF/seminario2007/LuxembourgGroup.pdf*; IMF (2006), "Luxembourg Group on Remittances: Progress report", 19th Meeting of the IMF Committee on Balance of Payments Statistics, Frankfurt, Germany, 23-26 October, International Monetary Fund, *www.imf.org/external/pubs/ft/bop/2006/06-03.pdf*.

It is reasonable to assume that remittances sent by migrants to their families back home help them to meet their basic needs and thus have an overall impact on poverty reduction (Adams, 2005). Yet, the microeconomic and macroeconomic impacts of remittances are not clear cut; neither is the extent to which these flows contribute to development. Remittances are traditionally perceived to be spent on direct consumption (medicines, food, car, etc.), rather than on productive investment, a situation which can lead to dependency on continuing remittances. Nonetheless, research in Guatemala suggests that remittances contribute to increasing households' spending on education

more than on consumption (Adams, 2005). Empirical studies also show a positive correlation between remittances and health (e.g. Hildebrandt and McKenzie, 2005), in particular infant mortality; while others establish a direct link between increases in remittance inflows and levels of investment (Leon-Ledesma and Piracha, 2004).

The macroeconomic impacts of remittances in developing countries are many and varied.

One of the most controversial aspects of remittances is probably their impact on inequality. World Bank research in Ghana and Guatemala found that remittances were responsible for a "slight increase in income inequality" (Adams, 2005); other studies in Egypt, Pakistan and the Philippines concluded that remittances had a negative effect on rural income distribution because of the limited number of beneficiaries.

On the other hand, at the macroeconomic level, remittances help to alleviate credit constraints and reduce macroeconomic volatility; protect consumption against negative shocks; enhance investment in human and physical capital; increase consumption and leisure, thus improving welfare; increase public debt sustainability; reduce country risk by lowering the marginal cost of servicing debt; and increase tax collections on consumption (IMF, 2008). Yet, the IMF cautions against two phenomena that can undermine the potential of remittances for increasing national productive capital:

1. "Dutch disease", which describes the apparent relationship between a large inflow of foreign currency (e.g. through remittances) and a decline in the manufacturing or agricultural sector. The assumption is that an increase in revenues makes a nation's currency stronger compared to that of other nations (manifest in the exchange rate); this in turn makes the nation's other exports more expensive, reducing the competitiveness of the manufacturing sector and deteriorating the trade balance (increasing imports and decreasing exports) (Acosta et al., 2007).
2. Moral hazard,[8] in which the increase of income from remittances allows people to work less (thereby diminishing labour supply). This also relates to uncertainties over whether remittances will be invested in productive activities.

While it would not be appropriate, therefore, to include remittances in measures of development finance, remittances nevertheless represent a huge potential source of financing for productive investment and welfare development. For this reason, development co-operation actors (both providers and hosts) should pay more attention to these flows as part of developing countries' resource receipts (see the "In my view" box).

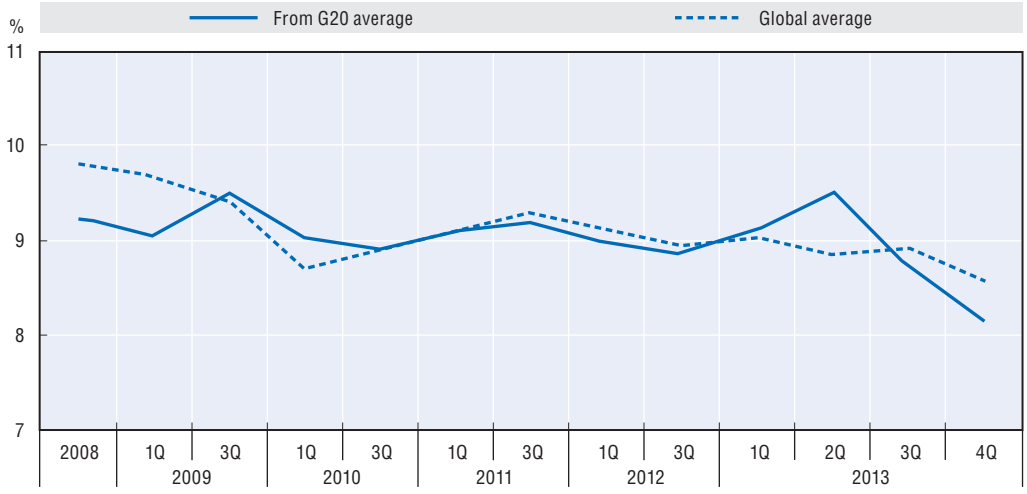
There are several obstacles to the use of remittances for financing development

There are two significant obstacles which prevent developing countries from making the most of remittances: the temptation to tax them and the costs of sending remittances home. Most experts today advise against taxing remittances, as this could affect recipient countries negatively in several ways. The tax would be additional to any income and sales taxes migrants already pay in their host country, reducing their incentive to send remittances home or driving these flows underground. A shift to informal channels could hinder efforts to achieve financial inclusion of migrants and their dependents, and to leverage remittances (Mohapatra, 2010b). Finally, taxes are difficult to impose and require extensive information-sharing among governments. Some countries already impose hidden taxes through overvalued official exchange rates for remittance transfers (Cuba, for instance, levied a 10% penalty exchange fee from 2006 to 2010).

The second obstacle is the high cost of transferring remittances from one country to another. Lowering these costs would be an important way for providers of development assistance to help increase and facilitate transfers of remittances. During the first four months of 2013, the global average cost of sending remittances fell from 9% of their value to 8.6%, while the cost of remitting from G20 countries declined for the first time in three years, from 9% to 8.2% (Figure 10.2). Further reductions in the cost of transferring remittances would bring significant benefits, particularly for the more expensive South-South transfers, which, excluding remittances through informal channels, represented 10-29% of developing countries' remittance receipts in 2005. A lack of competition in the remittance market, a lack of financial development in general and high foreign exchange commissions at both ends of the transaction chain keep South-South transfers' costs high (Ratha and Shaw, 2007).

Figure 10.2. **The cost of sending USD 200 from G20 countries is falling**

Sending cost as a % of remittance value



Source: World Bank (2013b), "An analysis of trends in the average total cost of migrant remittance services", *Remittance Prices Worldwide Report 7*, The World Bank, Washington, DC.

The G8 and G20 have endorsed the objective of the Global Remittances Working Group (Box 10.1) to co-ordinate international remittance initiatives and support remittance markets; both groups have pledged to reduce the global average costs of transferring remittances from 10% to 5% by 2014 (G20, 2011). Although remittances are not part of their own development finance efforts, members of the OECD DAC also recognise the need to facilitate the circulation of remittances through formal channels so as to encourage savings and increase countries' creditworthiness on international capital markets.

G20 countries have pledged to reduce the global average costs of transferring remittances from 10% to 5% by 2014.

In my view: We need to harness the potential of remittances in Africa

Mthuli Ncube,
Chief Economist and Vice President, African Development Bank

Over the past decade, remittances sent to Africa have grown rapidly and are a major source of foreign exchange. Currently, official figures show them to be the largest international flow of financial resources to Africa, and this does not include remittances sent informally, which are unrecorded but estimated to amount to up to 75% of the recorded flows.

Compared to other international financial flows, remittances are relatively stable. Like foreign direct investment in Africa, they declined after the global financial crisis; but remittances rebounded quickly and between 2010 and 2012 they exceeded both foreign direct investment and official development assistance.

The increasing financial weight of remittances compared to other external flows to Africa – and the positive role that they can play in development – have drawn heightened attention from policy makers. Yet for Africa's policy makers to maximise their development impact, it is critical that they understand the basic characteristics of this source of foreign exchange.

Policy makers who aim to raise the volume of remittances need firstly to understand the factors – aside from the costs of transmission – that can motivate or discourage senders. An empirical analysis of the key macroeconomic factors driving remittances in Africa between 1990 and 2011 found that inflation and depreciation of the nominal exchange rate reduced the transmission of remittances through formal channels (Ncube and Brixiova, 2013). A stable macroeconomic environment conducive to growth, coupled with consistent policies, is therefore essential to increase inflows of remittances, as well as other foreign capital.

Compared to other private capital flows, remittances are a less volatile source of foreign exchange, making them suitable for longer term purposes such as financial sector development. Remittances are also a key source of financing for trade, and therefore can reduce the need for external borrowing by generating foreign exchange. In countries where remittances account for a large and rising share of GDP, they can reduce the relative debt burden by expanding the tax base, thus helping countries on their path to high and inclusive growth. In Egypt, for example, rapidly growing remittances helped to ease debt sustainability pressures by expanding the tax base (Ncube and Brixiova, 2013).

In my view, the development potential of remittances is far from being realised. Policy makers and the private sector can do much to turn this around. For example, in Africa – where domestic savings are low – they can encourage receiving households to either save larger shares of their remittance income in the formal financial sector or to invest it in productive capital. Remittances can also be used to securitise[1] sovereign external loans[2] and improve countries' credit ratings (Ketkar and Ratha, 2001). This has been done in other regions, especially in Latin America, but so far rarely in Africa.

1. Securitisation is the process by which certain types of assets are pooled so that they can be repackaged into interest-bearing securities – financial instruments that can be readily bought and sold in financial markets, the way stocks, bonds and futures contracts are traded.
2. Sovereign debt is debt owned or guaranteed by a particular government. It is technically owed by a government and not by the citizens of the country issuing the sovereign bonds. A government issues bonds in a currency that is not its own, and then sells those bonds to foreign investors; this is what makes the debt external, as purchasers are from outside the country.

Countries are already taking steps to harness their remittances for development

Recognising the untapped development potential of remittances, over the past decade a number of countries have taken steps to offset the negative effects on growth and fiscal revenue incurred when workers migrate, tapping into remittances as an additional source of state revenue. This section highlights two of the most promising approaches: leveraging and matching remittances.

- **Leveraging remittances to facilitate access to international capital markets.** Channelling remittances through national commercial banks in developing countries gives developing countries greater leverage to access development financing. By providing banks with access to additional foreign currency, remittances improve countries' overall credit rating and enhance the ability of banks to raise lower cost and longer term financing on the international capital markets for bond financing, bank loans and foreign direct investment (Ketkar and Ratha, 2010). By serving as collateral, remittances can be used by banks to "securitise" future remittance receipts and raise financing for infrastructure and development projects (Ratha and Mohapatra, 2007). Brazil, Jamaica, Kazakhstan, Mexico, Peru and Turkey are among the countries that have such schemes. The United States has struck an agreement to assist Ecuador and Honduras to securitise remittances under the Building Remittance Investment for Development Growth and Entrepreneurship (BRIDGE) initiative (Mohapatra, 2010a).
- **Subsidising or matching remittances.** A number of countries have tried matching remittances with grants to enhance their impact. For example, since 2002, under its "3×1 programme", Mexico has been matching remittances sent by nationals via hometown associations with investments in high out-migration areas. For every Mexican peso provided by migrants, the federal, state and municipal governments each contribute an additional peso (IDB, 2012). The funds are to be used for water, sewers, roads and other infrastructure projects (Passel and Cohn, 2009). Several development co-operation agencies also support hometown associations to promote community financing of infrastructure. Switzerland, for instance, has pooled ODA with remittances from Albanian emigrants and with budgetary resources from the Albanian government to finance public service investments (e.g. solid waste management, water and sanitation) in the northern Albanian commune of Shkodra (OECD, 2010). A study of El Salvador households showed that subsidies for remittances used to pay for education led to increased educational investment, particularly for girls (Ambler et al., 2014).

Key recommendations

- Give more attention to remittances when analysing the bigger picture of developing countries' external resources, even if remittances are not technically development finance.
- Accelerate international efforts to lower the costs of sending remittances.
- Learn from the experiences and good practices of countries sending and receiving large amounts of remittances about how to leverage these flows to achieve greater development impact and gain the confidence of international capital markets (e.g. by supporting and subsidising remittances).

Notes

1. Including Bulgaria, Hungary and Romania, which are not on the DAC List of ODA Recipients, but are classified by the World Bank as developing countries.
2. Composed of personal transfers and compensation of employees; see Box 10.1.
3. See the World Bank Bilateral Remittance Matrix 2012 at: *http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTDECPROSPECTS/0,,contentMDK:22759429~pagePK:64165401~piPK:64165026~theSitePK:476883.00.html*.
4. Balance of payments accounts are an accounting record of all monetary transactions between a country and the rest of the world.

5. For example, some central banks record almost all migrants' remittances under "compensation of employees". Some others do not record "migrants' transfers" in the balance of payments capital account.
6. *Hawala* is said to derive from a Hindi word meaning "in trust", or from an Arabic word meaning "change" or "transform". It refers to an informal, unregulated underground banking system of fund transfer, widely used by expatriate workers from South Asia to send money to their families. It enables individuals to transfer sizable sums of cash from one country to recipients in another country without the funds ever crossing borders. It is similar to the method called "flying money", or *fei qian* by ancient Chinese (*source: United Nations Multilingual Terminology Database*, *http://unterm.un.org*).
7. For example, those included in the DAC List of ODA Recipients, at: *www.oecd.org/dac/stats/DAC%20List%20used%20for%202012%20and%202013%20flows.pdf*.
8. A moral hazard occurs when there is a tendency to be more willing to take a risk because the potential costs or burdens of taking such risk will be borne, in whole or in part, by others (*source:* Wikipedia).

References

Acosta, P., E. Lartey and F. Mandelman (2007), "Remittances and the Dutch disease", *Working Paper 2007-8*, April, Federal Reserve Bank of Atlanta, Atlanta, GA.

Adams, R. (2005), *Remittances, Household Expenditure and Investment in Guatemala*, The World Bank, Washington, DC.

Ambler, K., D. Aycinena and D. Yang (2014), "Subsidizing remittances for education: A field experiment among migrants from El Salvador", *Working Paper*, submitted to the *American Economic Journal: Applied Economics*, draft version available on Kate Ambler's (co-author) website, *https://docs.google.com/file/d/0ByHuI82mINfteDItMjhHZ19oQjg/edit* (accessed 20 June 2014).

CGD (2004), "Remittances and the war on global poverty: Private sector innovations and public policy issues", Panel discussion, Center for Global Development, Washington, DC.

G20 (2011), *Cannes Summit Final Declaration – Building Our Common Future: Renewed Collective Action for the Benefit of All*, G20 Summit declaration, 4 November 2011, draft text available at: *www.g20.utoronto.ca/2011/2011-cannes-declaration-111104-en.html* (accessed 23 June 2014).

Hildebrandt, N. and D. McKenzie (2005), "The effects of migration on child health in Mexico", *Policy Research Working Paper Series*, No. 3 573, The World Bank, Washington, DC.

IDB (2012), "Mexican migrant support program to improve with IDB support", *IADB News Release*, 20 September, Inter-American Development Bank, IDB website, *www.iadb.org/en/news/news-releases/2012-09-20/mexican-migrant-support-program-3x1.10117.html*.

IMF (2009a), *International Transactions in Remittances: Guide for Compilers and Users*, International Monetary Fund, Washington, DC.

IMF (2009b), *Balance of Payments and International Investment Position Manual*, International Monetary Fund, Washington, DC.

IMF (2008), *Macroeconomic Consequences of Remittances*, International Monetary Fund, Washington, DC.

IMF (2006), "Luxembourg Group on Remittances: Progress report", 19th Meeting of the IMF Committee on Balance of Payments Statistics, Frankfurt, Germany, 23-26 October, International Monetary Fund, *www.imf.org/external/pubs/ft/bop/2006/06-03.pdf*.

International Finance Corporation (2009), "Global Remittances Working Group", The World Bank, *http://go.worldbank.org/SS0MQSBFM0*.

Ketkar, S. and D. Ratha (2010), "Diaspora bonds: Tapping the diaspora during difficult times", *Journal of International Commerce, Economics and Policy*, Vol. 1, No. 2(2010).

Ketkar, S. and D. Ratha (2001), "Securitization of future flow receivables: A useful tool for developing countries", *Finance and Development*, March 2001, Vol. 38, No. 1, International Monetary Fund, Washington, DC, *www.imf.org/external/pubs/ft/fandd/2001/03/index.htm*.

Lemos, F. and J. Reinke (2007), "The Luxembourg Group on Remittances", *www.cemla-remesas.org/medicion/PDF/seminario2007/LuxembourgGroup.pdf*.

Leon-Ledesma, M. and M. Piracha (2004), "International migration and the role of remittances in Eastern Europe", *International Migration*, Vol. 42, No. 4, pp. 65-83.

Mohapatra, S. (2010a), "US signs historic deal with El Salvador and Honduras for remittance securization", World Bank blog, available at: *http://blogs.worldbank.org/peoplemove/us-signs-historic-deal-with-el-salvador-and-honduras-for-remittance-securitization* (accessed 8 November 2013).

Mohapatra, S. (2010b), "Taxing remittances is not a good idea", World Bank blog, available at: *http://blogs.worldbank.org/peoplemove/taxing-remittances-is-not-a-good-idea* (accessed 8 November 2013).

Ncube, M. (2013), "Harnessing remittances for Africa's development", AfDB blog, *www.howwemadeitinafrica.com/harnessing-remittances-for-africas-development/24843* (accessed 16 May 2014).

Ncube, M. and Z. Brixiova (2013), "Remittances and their macroeconomic impact", *World Economics*, Vol. 14, No. 4, pp. 1-20, *http://ideas.repec.org/a/wej/wldecn/569.html*.

OECD (2013), "External resource flows beyond ODA: Remittances in the post-2015 DAC statistical framework", DAC Working Party on Development Finance Statistics, DCD/DAC/STAT(2013)19, OECD, Paris, *www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DCD/DAC/STAT(2013)19&docLanguage=En*.

OECD (2010), "DAC Peer Review of Switzerland", *OECD Journal on Development*, Vol. 10, Issue 4, OECD Publishing, Paris, *http://dx.doi.org/10.1787/journal_dev-10-5km7jvnl3rxs*.

Passel, J. and D. Cohn (2009), *Mexican Immigrants: How Many Come? How Many Leave?*, Report of the Pew Hispanic Center, 22 July, *www.pewhispanic.org/2009/07/22/mexican-immigrants-how-many-come-how-many-leave*.

Ratha, D. and S. Mohapatra (2007), "Increasing the macroeconomic impact of remittances on development", Development Prospects Group, The World Bank, Washington, DC, prepared for the G8 Outreach Event on Remittances, Berlin, 28-30 November 2007.

Ratha, D. and W. Shaw (2007), "South-South migration and remittances", *Working Paper*, No. 102, The World Bank, Washington, DC.

World Bank (2013a), *Migration and Development Brief 21. Migration and Remittance Flows: Recent Trends and Outlook, 2013-16*, The World Bank, Washington, DC.

World Bank (2013b), "An analysis of trends in the average total cost of migrant remittance services", *Remittance Prices Worldwide Report 7*, The World Bank, Washington, DC.

PART II

Mechanisms for increasing resources for sustainable development

© OECD 2014

PART II

Chapter 11

Using financial instruments to mobilise private investment for development

by
Mariana Mirabile, Cécile Sangaré *and* Claudia Schmerler,
Development Co-operation Directorate, OECD

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

This chapter also includes two opinion pieces. The first is by Pierre Jacquet, President of the Global Development Network, on how official development assistance should be used to enhance risk sharing between the private and public sectors. The second is by Owen Barder of the Center for Global Development on stimulating private investment by ensuring genuine returns for success.

Development agencies and bilateral and multilateral development finance institutions (see Chapter 4) have been exploring a range of ways to leverage private finance for development by sharing the risk and reducing any costs involved. This chapter outlines and explains three promising approaches:

1. **Pooling mechanisms:** Pooling numerous types of finance from both public and private sources can result in larger volumes of investment capital and/or longer term loans.
2. **Guarantee schemes:** Guarantees can improve a project's financial viability and lessen the risk involved, thereby attracting additional investment.
3. **Equity and mezzanine finance:** By investing in risk capital, public investors can reduce the risks for other investors, thereby promoting additional finance alongside their investment.

All of these financial instruments can help build the confidence of potential private investors in situations that might otherwise seem too costly and/or too risky. Yet to be effective, they need to be accompanied by policy reform to create a conducive business environment – e.g. with sound regulatory and legislative frameworks, reliable payment mechanisms, clear underlying tariffs and transparent bidding processes – for public and private investment. The question of how to create an enabling environment for investment through policy reform is discussed in Chapter 12.

Pooling resources allows for large-scale investment

Developing countries need investment in infrastructure. Yet the large volumes of finance required, coupled with the risky and often long-term nature of infrastructure projects, can make these unattractive to private investors operating alone. Bilateral and multilateral providers of development co-operation are exploring ways to use public funds to bring public and private finance on board through financial solutions such as blended loans, syndicated loans and securitisation – all explained below.

Blended loans are helpful for financing low-return projects

Blended loans offer a middle ground between pure grant and finance at market rates; they mobilise public finance by mixing budget funds (i.e. grants or subsidised loans) with additional funds raised from other sources (e.g. capital markets). Blending loans in this way can generate much larger financial packages than can be made available only through grants. This is especially useful for projects that are economically viable and have a clear developmental impact, but that do not generate high enough returns to be bankable on commercial terms, given perceived risk levels.

> *Blending grants and market loans can generate much larger financial packages than can be made available only through grants.*

Because they combine a concessional[1] and a non-concessional component, blended loans soften the terms and conditions of the financial package (e.g. lower interest rates, longer tenor). In this way, they make a loan "cheaper" for the borrower. This may also help to attract private equity finance to underpin the overall finance package.

Blended mechanisms are increasingly used by multilateral development banks (e.g. the World Bank, Inter-American Development Bank Group), the European Union (Box 11.1) and bilateral development finance institutions (e.g. European Investment Bank, Agence Française de Développement, or the German government-owned development bank – KfW).

Box 11.1. **How the European Union leverages additional financing for development**

Investment needs in European Union (EU) partner countries are substantial – far higher than can be covered by governments' own resources (e.g. ODA). Blending is an important vehicle for leveraging additional resources and thereby for strengthening the impact of EU action. By blending EU grants with non-grant financing, additional public and private resources can be leveraged to drive sustainable inclusive economic growth as a basis for poverty reduction.

Over the past seven years, seven EU regional blending facilities have been established. Close to EUR 2 billion in EU grants went to support more than 200 investments in economic and social infrastructure as well as private sector development. EU grants were blended with loans and equity from public finance institutions, contributions from partner countries, as well as private resources. This blending of different financial resources is helping to unlock investments with an estimated volume of EUR 40 billion.

While so far most of the leveraged financing is public, realising the potential of blending to mobilise private financing will also be important to support local businesses and help fund infrastructure projects, which are subject to many risks that deter private investment. Risk-sharing mechanisms can mitigate those risks, leading to lower financing costs. They can also make local financial markets more inclusive, allowing direct financing for previously unserved local businesses.

In December 2012, the EU Platform for Blending in External Co-operation was launched to increase the effectiveness of blending in EU external co-operation. The work of the platform includes reviewing existing blending mechanisms, enhancing the technical and financial analysis of projects, developing indicators for measuring results, and assessing the potential and risk of private financing.

Source: This box was provided by EuropeAid.

Lenders can reduce their risk through syndicated loans

A syndicated loan is provided by a group of lenders (the "syndicate"), spreading the borrowing across lenders who would not have been able to provide the same loan amount and/or terms on their own.

Syndicated loans are commonly used by multilateral development finance institutions (see Chapter 4). They are made up of two parts: a loan provided by a development finance institution (the "A lender") and one or more loans made by commercial banks or institutional investors (the "B lenders"). Because of their special relationships with their borrowing governments, multilateral development finance institutions benefit from tax immunity and "preferred creditor" status (member governments grant the loan providers preferential access to foreign currency in the event of a foreign exchange crisis). When financial institutions participate as B lenders in a syndicated loan they benefit from this same status, thus taking on less risk than if they were to lend on their own. Participation by a development finance institution in the syndicate can also lower borrowing costs and allow developing countries a longer repayment period.

Attracting new sources of financing through securitisation schemes

Securitisation is the process of pooling assets, such as loans, and re-packaging them into marketable securities. The main objective of securitisation is to make additional capital available to borrowers who cannot grow further, either because they are not able to access affordable bank loans given their risk profile or because they have reached maximum debt-to-equity leverage[2] or debt exposure limits. When the pooled assets are sold, they are removed from their balance sheet. By transforming them into tradable securities, they become attractive to other investors. Although its use by development finance institutions is limited, partly because of the negative experience with subprime mortgage backed securities in the United States, securitisation is extensively used in Islamic finance to issue asset-backed securities in a form called "*sukuk*".

Securitisation can attract Islamic finance – a growing source of financing for many developing countries.

Sukuk comply with *sharia* requirements of risk-taking and sharing of profit and losses (value and income depend on the performance of the underlying assets), and thus have the potential to attract Islamic investors, who are a growing source of financing for many developing countries. For example, in 2009 the Central Bank of Kenya issued its first infrastructure bond for a total amount of USD 222.8 million, of which nearly USD 12 million was a *sukuk* tranche (MIFC, 2013).

Guarantee schemes reduce investor risk

Guarantee schemes[3] – a mainstay of international financial markets for many years – help mobilise finance by transferring or mitigating risks that private investors would not be able or willing to take. Guarantees act as a type of "insurance policy" against the risks of non-payment, facilitating financial flows to developing countries and high-risk sectors (see the "In my view" box by Pierre Jacquet). They are particularly beneficial to developing country businesses, which often lack creditworthiness in the eyes of private investors (Box 11.2).

Guarantees for development supported USD 15.3 billion of private investment in developing countries between 2009 and 2011.

Although the use of guarantees for development purposes by development finance institutions has expanded in recent years, its potential remains largely untapped (Mirabile et al., 2013). A recent OECD survey of resources mobilised[4] by guarantees for development purposes revealed that:

- While guarantees for development supported USD 15.3 billion in private investment in developing countries between 2009 and 2011,[5] this amount was marginal when compared to ODA. For example, net ODA in 2011 alone was USD 134 billion – more than 20 times the volume of risks covered by development guarantees.
- Most of the private capital mobilised by guarantees was sourced from banks, investment funds or companies domiciled in OECD economies. This points to the scope for making greater use of development guarantees to tap local savings and capital markets in developing countries.
- Most development guarantees surveyed covered risks in middle-income countries, where conditions are well-suited for the use of market-based instruments to mobilise private capital. Furthermore, financial services, infrastructure and industry accounted for more than 70% of the resources mobilised.

- Middle-income countries in Africa benefitted most from guarantees, followed by Asia and Eastern Europe: contracts issued in Africa were significantly smaller than those issued in other regions, however.
- More than half of the resources mobilised were guaranteed by international financial institutions; this is likely a result of their: 1) strong treasury and co-financing operations; 2) leading role in infrastructure/big ticket investments; and 3) comparatively larger average guarantee exposures.

Box 11.2. **International Finance Corporation's partial credit guarantees**

International Finance Corporation (IFC) guarantees are a key instrument both to provide clients with access to funding that they would otherwise find more difficult (or impossible) to obtain and to facilitate the development of local capital markets in emerging countries. IFC guarantees can be used on both bond and loan instruments, and for both local and foreign currency cross-border transactions. Partial credit guarantees generally are – in the IFC's view – the most appropriate instrument for meeting client needs and promoting the development of local capital markets; however, in selective cases, the IFC can also provide full guarantees.

Guarantees have important uses and benefits for both borrowers and investors.

For borrowers, IFC guarantees:

- enable clients to achieve higher credit ratings on bond issuances
- assist first-time bond issuers to establish their name in the market with key institutional investors
- improve bond placement outcomes for clients, as investors often value the full due diligence the IFC performs on each client and the surveillance it provides for the life of the transaction
- facilitate borrowers' access to investment funds outside the formal banking system (such as pension funds); allow the IFC to mobilise local currency resources for clients.*

For investors/lenders, IFC guarantees:

- provide local pension funds and insurance companies with high-quality instruments that meet their credit quality requirements, in which they would not have been able to invest otherwise
- help banks to lend more by reducing the amount of risk borne by the bank on loans to the IFC's clients.

Importantly, the IFC views its guarantees primarily as market access, credit enhancement and exposure management products, and not necessarily as money-saving structures for clients. Because the IFC evaluates and prices its guarantees based on an individual assessment of the credit risk of the client and other relevant factors – and charges fees based on this assessment – there may not always be significant cost savings for the client relative to other financing alternatives. The value of the guarantee lies, rather, in the benefits outlined above, backed by the IFC's long-standing global expertise in working with arrangers, credit rating agencies and other capital market participants to structure efficient transactions that meet the needs of both borrowers and investors/lenders.

* Where it is not possible to hedge an IFC-funded local currency loan or bond investment.

Source: Copyright [2014] International Finance Corporation.

In my view: ODA should be used to enhance risk sharing between the private and public sectors

Pierre Jacquet,
President of the Global Development Network

An important argument in favour of redefining official development assistance (ODA) is that its current definition, based on grants and concessional loans above a given degree of concessionality, somehow pre-determines the nature of what it should be used to finance. In other words, the instrument drives the content: grants and loans naturally call for concrete counterparts in the form of development projects elaborated in order to request such ODA support. This encourages donor governments in their natural tendency to think of themselves as direct and autonomous development actors and to feel accountable for that role.

Such an instrumentally pre-determined approach to ODA presents substantial drawbacks. Given the political pressure to declare high figures for ODA, it discourages the use of taxpayer money for any non-ODA declarable instrument. Yet, current ODA-declarable instruments are not adequate to catalyse and attract other actors and potential funders. Expanding the range of declarable instruments toward more innovative development finance could help further mobilise market forces and private investments behind development objectives.

Some private decisions not to invest in developing countries may be informed by proper and well-documented risk analysis, in which case no compensatory public action is justified on economic grounds. Some, however, may be based on market failures; for instance, a lack of proper information, of contract enforcement mechanisms, of expected profitability due to insufficient complementary investments or of proper insurance mechanisms. In these instances, there is a strong case for using public money to create risk-sharing mechanisms between the private and the public sectors.

The mission of the private sector is not to promote public goods, whether local or global; but the provision of such goods will often benefit from the technical and managerial *savoir-faire*, as well as the financial might, of the private sector. Creating opportunities for revisited "public-private partnerships" will have to rest on complex contractual relations that involve formulation and implementation challenges. Public money may help reconcile private profitability objectives with the additional costs involved in providing public goods benefits.

In my view, risk mitigation is at the core of a modernised, reinvented role for ODA. Better risk analysis and coverage is likely to attract private investment and support local entrepreneurship. This is based on the underlying assumption that available market instruments and spontaneous private decisions do not allow for mitigating risks in an effective way, and that this results in under-investment. For example, farmers in poor developing countries may not be able to use their future crop, considered as too risky, as collateral and may as a result be too constrained financially to buy the fertilisers necessary to increase production. Offering a guarantee may help.

More generally, ODA should be used to provide insurance, guarantees, risk-sharing instruments, debt instruments with "counter-cyclical provisions" to smooth various external shocks (for example, diminution of the required debt service in years in which a shock affects the debtor's capacity to pay), etc. There are market-based ways to account for the modernised use of ODA. Significant capacity development would be needed in development agencies to permit careful assessment of potential market failures, as well as careful risk and moral hazard management. Errors may be made along the way, but the promise of engaging new markets and private actors makes these efforts to modernise more than worthwhile.

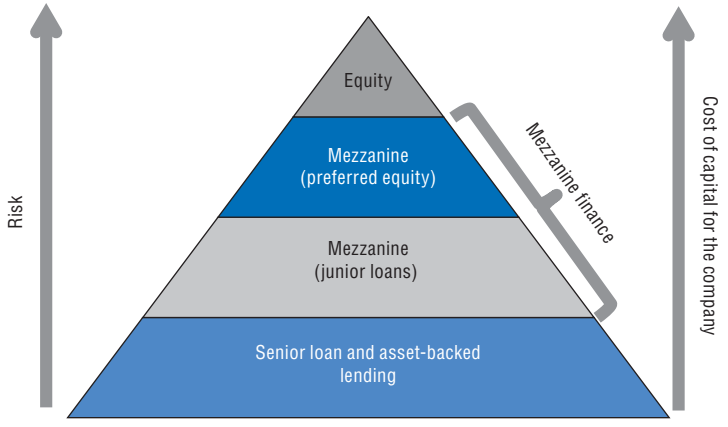
Public sector investment in risk capital mobilises additional finance

Investment in risk capital – equity[6] and mezzanine tranches – is key for new or expanding private companies to start a business, provide a stable long-term funding basis and protect creditors who ground part of their lending decision on the availability of significant equity. Nonetheless, this type of investment is often deemed too risky by the private sector unless the public sector steps in to share the risk (though there are different ways of viewing this support – see the "In my view" box by Owen Barder further below).

Public investors can take equity stakes directly in a company by purchasing a share of ownership, or indirectly by investing in equity or debt funds.[7] Doing so reduces the risk for creditors, who will be repaid before equity holders. Higher equity capital allows the investee company[8] to improve its solvency, meaning it can acquire debt from domestic or international commercial banks. Highly rated investors (e.g. development finance institutions) increase the creditworthiness of the investee company because of their prudent financial management and adherence to sound governance standards (see Chapter 4). They are also expected to support the company, even in challenging times.

Investment funds can either have a flat structure – in which all shares have the same profile with respect to risks, profits and losses – or else structure the capital into tranches, with different levels of "seniority" (i.e. order of repayment in the event of sale or bankruptcy; Figure 11.1). Structured investment funds allow investors to invest according to the risk they can carry and returns they seek. The most "junior" tranche of capital (Figure 11.1) absorbs the highest risk. Investors in this tranche thus provide a "first-loss guarantee" to other investors in more senior tranches. Investors in the next (and riskier) tranche provide an additional risk cushion to more senior investors above them. This mechanism effectively spreads the risk and creates new investment opportunities for private investors by creating tranches with risk and return profiles that match their investment criteria.

Figure 11.1. **Risk levels of structured capital**



In my view: Returns for success are the best means of stimulating private investment

Owen Barder,
Center for Global Development

Promoting private investment may be an effective way of accelerating economic development and access to public services for the poor. Donors and multilateral finance agencies have reported to the OECD that they have used loan guarantees to bring in USD 15.3 billion from the private sector between 2009 and 2011.

But are guarantees the best way to crowd in private investment? They make sense if you believe the market overestimates the risks of investing in developing countries and that official agencies systematically judge these risks better. Even if you believed both parts of this, though, wouldn't you first want to exhaust other options to achieve the same results without paying to protect investors from risks?

Private investment stimulates positive social benefits – such as jobs and economic infrastructure – which go beyond private returns. But when social returns exceed private returns, the private sector will tend to invest too little. The most effective policy response to this is normally boosting returns, not mitigating risk. There are ways that governments can do this, some of which have been pioneered by the Center for Global Development.

Development impact bonds, for example, are being implemented to improve education outcomes in Rajasthan and tackle sleeping sickness in Uganda by guaranteeing public payments for private success. The Advance Market Commitment (AMC) for vaccines has given pharmaceutical companies reason to invest in research and development for vaccines that would otherwise not pass the cost hurdle because their main customers are poor. Such contracts reward the private sector for what they achieve.

Schemes that provide rewards are often a better way to attract private investment because they encourage investors to take risks, recognise failure, adapt and learn. By contrast, it is difficult to see how guarantees that reduce risk to investors won't simultaneously weaken the private sector's incentives to do well the very things we want them to do.

Loan guarantees also tend to be blunt instruments: they are offered to a particular firm, which requires policy makers to pick winners. Mechanisms that augment returns, by contrast, can be open offers, leaving it to the market to determine who provides the service and receives the subsidy. These payments can also be more tightly targeted at social benefits for the highest priority beneficiaries, whereas it is hard to vary the benefits of loan guarantees in proportion to the achievement of social objectives.

Increasing the returns for success is also politically attractive. Paying out only if a project delivers results is much easier to defend to a sceptical public than loan guarantees that bail out failed investments.

If we really want to see greater private investment in developing countries, we have more powerful tools available than using aid to make projects viable. For example, opening our markets to exports would generate billions of dollars of new investment, without requiring public agencies to pick winners or set aside capital for guarantees.

In my view, OECD countries can do much more to boost private investment by improving their own policies: deploying better technology transfer and intellectual property regimes, opening their data, investing in research and development, reducing agricultural subsidies, tackling corruption and improving international tax co-operation. These policies, more than aid-financed subsidies, can drive truly transformational increases in investment, innovation and growth that will benefit rich and poor countries alike.

Mezzanine finance refers to the layer of financing between an institution's senior debt and equity. It is often a more expensive financing source for a company than senior debt because in the event of default, the mezzanine financing is only repaid after all senior obligations have been satisfied. However, it is a less expensive alternative to equity, as mezzanine financing is repaid before direct equity investments are serviced.

Development co-operation agencies typically invest in the most risky (junior or first loss) tranche, while development finance institutions (the private sector arm of providers' development co-operation) invest in the mezzanine tranche. Together they provide sufficient protection to attract additional private investment into the more senior tranches of the fund (Box 11.3).

Box 11.3. **Mezzanine finance and renewable energy in Latin America**

In Latin America and the Caribbean, a key barrier to affordable financing for renewable energy project developers and small businesses has been high collateral* and project equity requirements for bank loans. To address these barriers, and to mobilise commercial and development bank debt from both local and international sources, the recently established Central American Renewable Energy and Cleaner Production (CAREC) Facility provides innovative, "mezzanine" financing for renewable energy, energy efficiency and clean production projects in seven countries (Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama). Mezzanine financing serves as a bridge to help entrepreneurs access bank loans by, for example, offering unsecured loans or additional project equity. The fund's USD 20 million capital will be used to co-finance energy projects with local banks, and is expected to leverage over USD 65 million in private investment for clean energy projects.

Several projects have already been financed through CAREC. In Guatemala, an investment of USD 2.5 million was approved in 2006 for Bioenergia, a company that recycles biogas from distilleries. In Honduras, two projects have been financed: a 13.5 megawatt (MW) hydroelectric plant to supply households and industries in Intibuca and a 9.5 MW private grid-connected hydroelectric plant. In Costa Rica, investment was approved in 2010 for a beef-rendering plant that uses bi-products to process meat and bone for animal consumption.

* In lending agreements, collateral is a borrower's pledge of specific property to a lender to secure repayment of a loan.

Key recommendations

- Expand the use of different financial instruments beyond grants and concessional loans where market conditions allow (e.g. in productive sectors) to complement and save scarce concessional funds for interventions that do not generate (enough) financial returns to support the use of market-based instruments but require more concessional finance instead. These include investments in the social sector or in high-risk environments.
- Support policy reform to create a conducive business environment for public and private investment, including sound regulatory and legislative frameworks, reliable payment mechanisms, clear underlying tariffs and transparent bidding processes (the subject of Chapter 12). This will maximise the mobilisation potential of the instruments described in this chapter.

Notes

1. Concessional loans are provided at far lower than market rates for developing countries, for longer terms and with conditions which allow grace periods for payments.
2. The debt-to-equity ratio is calculated by dividing total liabilities by total equity. The debt-to-equity ratio is a financial leverage ratio. Financial leverage ratios are used to measure a company's ability to handle its long-term and short-term obligations.
3. In this chapter, guarantee schemes refer to guarantees and insurance.
4. The amount mobilised by guarantees was defined as the face value of the loan for which a guarantee is issued.
5. Only institutions with a developmental mandate were included in the sample.
6. Equity is ownership interest in a company, represented by the shares issued to investors.
7. Equity funds invest in the equity of companies while debt funds provide debt instruments to their clients.
8. The company seeking investors.

References

IDB (2012), "IDB loan to improve municipal solid waste management in Bolivia", *IDB News Release*, 10 December 2012, Inter-American Development Bank, available at: *www.iadb.org/en/news/news-releases/2012-12-10/bolivia-to-improve-solid-waste-management-in-cities,10253.html* (accessed 12 May 2014).

MIFC (2013), *Sukuk: Growing Relevance in Infrastructure Development*, Bank Negara Malaysia, Malaysia International Islamic Finance Centre, Kuala Lumpur, available at: *www.mifc.com/index.php?ch=28&pg=72&ac=53&bb=uploadpdf*.

Mirabile, M., J. Benn and C. Sangaré (2013), "Guarantees for development", *OECD Development Co-operation Working Papers*, No. 11, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5k407lx5b8f8-en*.

© OECD 2014

PART II

Chapter 12

Creating an environment for investment and sustainable development

by
Carole Biau *and* Mike Pfister, Directorate for Financial and Enterprise Affairs, OECD[1]

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

This chapter also includes an opinion piece by Justin Yifu Lin, Honorary Dean at the National School of Development, Peking University, and former Chief Economist of the World Bank, on how any developing country can undergo dynamic structural transformation.

Foreign direct investment (FDI) is a vital source of external capital for most developing countries (see Chapter 5). Over the past two decades, developing countries have collectively received an increasing share of global foreign direct investment. The analysis in Chapter 5 illustrates that while these countries only received 20% of global foreign direct investment in 1990, this had risen to over 50% by 2012. This includes a 19% increase over just five years (2007-12). This trend is a result of a variety of factors, including the recent economic downturns in industrialised countries, the rise of "South-South" investment (Chapter 3) and improving investment environments in developing countries.

The trend, however, has not been uniform across developing countries or regions. As Chapter 5 points out, while Asia receives 30% of the foreign direct investment going to developing countries, the share is under 20% for Latin America and the Caribbean and 5% for Africa. Certain African countries are clearly performing well in terms of FDI-to-GDP ratios, yet the continent arguably attracts less foreign direct investment than one would expect given its multitude of investment opportunities and the attractive market size of many African countries.

Sustainable development depends as much on the quality of investment as on the quantity.

This is where the domestic regulatory framework of host countries comes into play, and where the role of developing country policy makers is crucial. This chapter explores how the investment gap in developing countries can be narrowed, addressing "push" and "pull" factors simultaneously. Dealing with the push factors means unlocking the supply of finance, including from institutional investors (e.g. pension funds, insurance companies and mutual funds; see Chapter 6); innovative forms of concessional and non-concessional financing from bilateral and multilateral providers, including from development finance institutions (Chapters 4 and 15). The pull factors are the conditions that will attract investors to developing country locations.

However, attracting investment is not the end of the story: sustainable development depends as much on the quality of investment received as on the quantity. Policy makers must harness investment inflows to generate the maximum development benefits through employment, technology transfer, competitiveness, and growth of domestic enterprises and industries in host countries. The experience of developing countries over the past few decades, as analysed by the OECD Investment Policy Reviews (see Box 12.1),[2] suggests that the benefits of inward direct investment are not automatic; they depend crucially on the overall policy environment for the investment.

Drawing on OECD experiences in various developing countries, this chapter looks into five dimensions of investment policy that are key for sustainable development:

1. creating regulatory and legal capacity for managing investment inflows
2. promoting and facilitating investment
3. attracting private investment in infrastructure
4. strengthening the links between investment and trade
5. promoting responsible business conduct by multinational enterprises.

Box 12.1. **The Policy Framework for Investment**

The Policy Framework for Investment (PFI) is a comprehensive, systematic approach to assessing investment and business climates, and for designing reforms to improve them. It helps countries to create the conditions that will enable them to mobilise private investment for economic growth, gender empowerment, sustainable development and poverty reduction. Developed in 2006 by a task force representing some 60 economies, as well as business, labour, civil society and international organisations, it covers ten policy areas recognised as foundations for a healthy environment for investors, from small and medium-sized firms to multinational enterprises:

1. investment policy
2. investment promotion and facilitation
3. trade policy
4. competition policy
5. tax policy
6. corporate governance
7. responsible business conduct
8. human resource development
9. infrastructure and financial sector development
10. public governance.

The framework has assisted dozens of developing country governments – from Botswana to Myanmar and Zambia – engaged in domestic reform, regional co-operation or international policy dialogue on investment. It is also useful to investment promotion agencies; to providers of development co-operation, as they assist developing countries in improving their investment climate; and to businesses, trade unions and civil society, in their dialogue with governments. The framework guided *OECD Investment Policy Reviews* of close to 30 countries at varying levels of development and across all continents. At the regional level, the Southern African Development Community (SADC) is using it as a reference for its Regional Investment Policy Framework; the Secretariat of the Association of Southeast Asian Nations (ASEAN) has partnered with the OECD since 2012 in a similar approach.

The PFI is currently being reviewed and updated by a global task force co-chaired by Finland and Myanmar. This review is guided by the Advisory Group on Investment and Development, a joint body of the Investment and the Development Assistance Committees. It is also informed by extensive feedback from developing countries. Aiming for completion in 2015, the updated framework contributes to the post-2015 sustainable development agenda.

For more information, see *www.oecd.org/daf/inv/investment-policy/pfi.htm*.

These elements are all inter-linked features of a healthy investment climate (Box 12.1) and therefore have important, long-term implications for developing countries' ability to mobilise investment for development.

For several years now, and with an ever-increasing number of partners internationally – including developing countries – the OECD Investment Division has been providing targeted policy guidance in this domain. It offers various policy instruments to assist host countries in enhancing investor protection standards, to multiply business linkages and to better capture the potential positive spillovers of investment. The OECD's regional investment programmes offer mechanisms to combine such country-level work with regional dimensions (Box 12.2).[3]

Box 12.2. **Improving the regional investment environment in the Middle East and North Africa**

The Middle East and North Africa (MENA) region needs private investment, both domestic and foreign, to provide new engines of growth and dynamism. Some of the region's biggest challenges lie in strengthening the process of change; maintaining, supporting and tracking progress in implementing policy; and building capacity. The MENA-OECD Investment Programme supports reform efforts by MENA governments to enhance the investment climate by:

- promoting investment and strengthening the employment potential of foreign direct investment
- catalysing entrepreneurship and development of small and medium enterprises
- creating a level playing field for business
- supporting women's economic integration.

In Egypt, the programme is rebuilding investor confidence by assisting in the design of a roadmap for reform. Launched in May 2014, Egypt's Business Climate Review focuses on investment policies and public-private partnerships. The review builds on a comprehensive analysis of the business environment covering 12 dimensions, such as investment policies, small and medium enterprises, anti-corruption, infrastructure, tax policies and human capital. The recommended reforms include a revision of the legal investment framework, improvements in transparency and predictability of procedures, the gradual phasing out of recently introduced capital transfer restrictions on businesses and capacity development for ministries involved in public-private partnerships.

Improving the business environment in resource-rich, post-conflict economies is a central theme of the MENA-OECD Investment Programme's work in Iraq and Libya. In both nations, security problems and restrictive, unclear, inconsistently implemented regulations converge with high levels of perceived corruption, insufficient infrastructure and a dominant public sector to discourage investment. Work with the government of Iraq centres on enhanced investment policies, capacity development and the establishment of investment zones targeting specific sectors. These zones offer a separate, radically simplified regulatory framework and a range of investor services and infrastructure. Work in Libya focuses on improving the business environment through the development of small and medium enterprises.

For more information, see *www.oecd.org/mena/investment*.

Regulations and good legal capacity can encourage investors

The quality of investment policies directly influences the decisions of all investors, be they small or large, domestic or foreign. Transparency, property protection and non-discrimination are investment policy principles that underpin efforts to create a sound investment environment for all. Laws and regulations dealing with investments and investors, including small and medium enterprises, must be clear, transparent and readily accessible without imposing unnecessary burdens. A policy of timely, adequate and effective compensation for expropriation,[4] consistent with international investment law, is also a pre-requisite for most investment. In the case of foreign investment in particular, discriminatory restrictions on international investment (such as limits on ownership by foreign companies in certain sectors of the economy) can be substantial obstacles. While most countries have reduced these restrictions substantially, some persist in industries across the globe. Developing countries, in particular, need to be transparent about these restrictions; they also should review them periodically to assess their costs against their intended benefits.

For example, *ex ante* screening of investment inflows can limit investment, especially when it is not transparent. While the majority of OECD countries have significantly reduced their screening of investment,[5] the picture across developing and emerging economies is mixed. Zambia, for example, has a largely open investment regime with limited screening (OECD, 2012); Myanmar, on the other

hand, has a strict screening mechanism through the Myanmar Investment Commission. Although socio-economic conditions may seem to justify such a centralised approach in countries like Myanmar, where line ministries are still developing their capacities to effectively manage investment approval mechanisms, discretion should be used in taking a centralised approach as the efficiency of the system is, above all, what matters. Centralised investment screening can unduly stretch the capacity of a single agency, constraining its ability to effectively manage increasing investment flows (OECD, 2014c). This can result in a focus on big investment projects, to the detriment of smaller investments that could bring a number of development benefits beyond employment, including new technology and know-how.

Good laws, and the capacity to enforce them, are fundamental

Particular attention also must be paid to the enforcement of investment-related laws. For example, while many countries have laws and regulations to protect intellectual property rights, they often lack effective enforcement mechanisms; this can discourage foreign direct investment in innovation and technology transfer. Systems of contract enforcement and dispute resolution are also important in keeping possible disputes from escalating, with high potential costs for the host government. Indeed delegating an investment dispute to the International Centre for Settlement of Investment Disputes entails heavy administrative and arbitrator fees, as well as a variety of other costs (such as attorneys' fees, expert and witness costs, etc.) incurred all the way through to the final arbitration award.

More also needs to be done to establish timely, secure and effective methods of registering ownership of land and other forms of property. In many African countries, the absence of accurate and comprehensive land registration systems considerably lowers the incentives for landowners to register their plots and to make long-term investments and upgrades in their property; in Tanzania, for instance, only 2% of land is currently registered (OECD, 2013b). The insufficient transparency or coherence of land compensation systems is another considerable deterrent for domestic and foreign investors alike. Land administration is often subject to a mixture of community, tribal and common law (such as in Mozambique), and application procedures can vary from one land authority to the next within the same country. This is the case in Indonesia, where land rights are part of a complex framework that hinders physical infrastructure development (OECD, 2010).

Finally, the capacity of the domestic legal system is of critical importance to the overall investment policy framework. Over the past decades, international investment agreements, including bilateral investment treaties and free-trade agreements, have been used to strengthen investment ties among countries, including developing countries. Developing countries need to be aware of the benefits and risks of entering such treaties, and to ensure they have adequate capacity to negotiate and implement them. This is especially important given the recent trend towards giving host countries more leeway to protect domestic interests in treaty negotiations.

Attracting investment is one thing, making it work for development is another

To be effective, measures to attract investment must anticipate potential market failures (such as inadequate supportive infrastructure, costly and lengthy business establishment procedures, low competitiveness in domestic markets, etc.) and be developed in a way that will leverage the strong points of a country's investment environment (see the "In my view" box). This involves both promotion and facilitation – two very different sets of activities. The former is about promoting a country or a region as an investment destination while the latter is about making it easy for investors to set up shop or expand their existing investments. The importance of good and appropriate investment promotion and facilitation cannot be underestimated; in fact, poorly designed investment promotion and facilitation measures can be costly and ineffective and limit benefits to development.

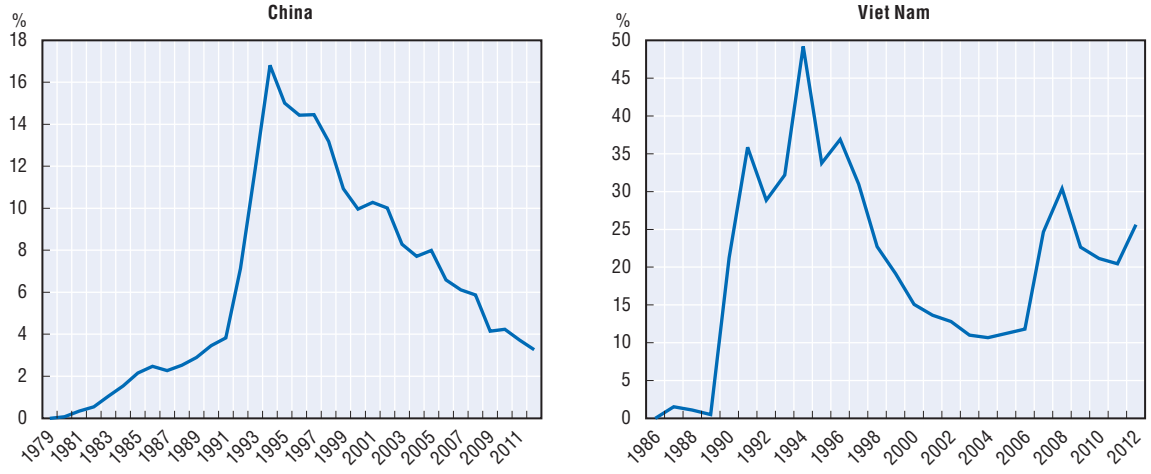
Many countries have failed to turn export success based on foreign direct investment into something more durable.

Investment promotion can play a critical role in developing countries' economic performance and most developing countries have established dedicated investment promotion agencies. Many of these agencies are highly dynamic and internationally active, such as the Mauritius Board of Investment or the Malaysian Investment Development Authority, both of which have representations in foreign countries. The underlying principle of good promotion, however, is that it can only be as effective as the quality of investment and investment-related policies.

In Southeast Asia, for example, the promotion and attraction of export-oriented foreign direct investment enabled countries like Malaysia and the Philippines to shift quickly towards a manufacturing-based economy through foreign direct investment in which economic growth was driven by rapidly expanding exports. The record from this export performance speaks for itself, but so too does the manifest failure in many cases to translate this success into something more durable. Not only have exports been limited to a small number of products (usually intermediate ones) and sectors, but often these export sectors have been virtual foreign enclaves within their host countries. This is a particular risk when export development is geographically concentrated within special economic zones or export processing zones. Unless careful attention is paid to fostering upstream and downstream business linkages between these high-growth sectors or zones and the rest of the economy, there are often limited returns for the host country. Such caveats deserve careful consideration by governments, in order to enhance the sustainability of their approach to fostering innovation and export upgrading through special economic zones and industrial parks (see the "In my view" box).

Good investment facilitation requires effective one-stop shops with single-point authority (OECD, 2014c). It is also vital to provide after-care services to investors (in the form of post-establishment follow-up, trouble-shooting and assistance from the national investment promotion agency) that will help in retaining them. The experiences of the People's Republic of China and Viet Nam – illustrated in Figure 12.1 – show how difficult it is to sustain high investment flows after a period of liberalisation.

Figure 12.1. **Share of foreign direct investment in gross fixed capital formation[1] in China and Viet Nam**



1. The ratio of gross fixed capital formation (GFCF) to GDP represents the amount of value-added in total domestic production that has been invested rather than consumed (notably in the form of land improvements, machinery and equipment purchases, and physical infrastructure). The ratio illustrated in Figure 12.1 (FDI-to-GFCF) in turn shows how much of this GFCF is created thanks to FDI.

Source: UNCTADStat (2012), *http://unctadstat.unctad.org*.

StatLink http://dx.doi.org/10.1787/888933121848

Where challenges such as export promotion, business registration or land allocation are not well co-ordinated among the various authorities, business facilitation efforts can be undermined. Frequent performance evaluation of these agencies and strong communication with the business community are essential for creating a good investment climate; at the same time, investment promotion agencies can play an essential role as policy advocates. The Joint Economic Council of Mauritius, for example, has earned widespread acclaim for fostering smooth and effective dialogue between the public and private sectors (OECD, 2014b).

Incentives should be carefully designed

Developing countries frequently use tax incentives to attract investment. This in some cases has stimulated a detrimental "race to the bottom" among countries competing to attract the same investors without giving due attention to whether investment inflows proportionally increase as a result. There has been a dramatic increase in the number of tax incentives offered in sub-Saharan Africa, for instance: 69% of the countries in the region offered tax holidays in 2005, compared to 45% in 1980 (Keen and Mansour, 2009). This trend has only been rectified somewhat in recent years: in countries of the Southern African Development Community (SADC) between 2004 and 2014, the number of countries offering tax incentives dropped from 9 to 7 for tax holidays, from 9 to 6 for export incentives, and from 9 to 5 for initial capital allowance (OECD, 2014e). This gradual re-positioning on tax incentives partly results from the realisation that such schemes have jeopardised the fiscal revenues of several countries. Often, investment incentives to attract investors to countries have little added value but represent a high opportunity cost on funds that could be more productively used elsewhere to support more sustainable investment. Moreover, in many developing countries, excessive discretion granted to the relevant decision makers and low transparency in the award of investment incentives blurs the picture for investors and revenue authorities alike and may create opportunities for corruption. A regional approach to avoiding "beggar thy neighbour" investment incentives could deliver good results.

Most investors would invest in developing countries without the aid of tax incentives.

Developing country governments have much room for improvement in establishing reliable and centralised mechanisms for evaluating the costs and benefits of investment incentives, their appropriate duration, transparency and impact on national economic interests and on other countries. These efforts are particularly important given that research shows that tax incentives are rarely the tipping factor behind an investment decision in a developing country. A large majority of investors covered by investor motivation surveys of the World Bank's Investment Climate Advisory claim that in the majority of cases (for instance over 90% in Rwanda, Tanzania and Uganda) they would have invested even if incentives were not provided (World Bank, 2013). The OECD Task Force on Tax and Development (see Chapter 14), in its advisory capacity to the OECD's Committee on Fiscal Affairs and the Development Assistance Committee, addresses these challenges within the "Statebuilding, Taxation and Aid" pillar of its work programme.

To make the most of foreign investment inflows, developing country governments also need to promote investment linkages between foreign affiliates and local enterprises and to address specific investment obstacles faced by small and medium-sized enterprises (Box 12.3). In many countries, investment linkages are addressed on a mostly ad hoc basis, without a dedicated capacity-development programme to help domestic companies find business opportunities. For instance, foreign investors may be obliged to sub-contract a minimum share of work to domestic firms (in Tunisia, the public procurement regime insists on 20% going to Tunisian enterprises); or domestic entrepreneurs may be

Box 12.3. **The OECD's role in ensuring good business conduct by multinational enterprises**

The *OECD Guidelines for Multinational Enterprises* are far-reaching recommendations for responsible business conduct (OECD, 2011). They are adhered to by 46 governments – representing all regions of the world and accounting for 85% of foreign direct investment – which encourage their enterprises to observe the guidelines wherever they operate. The guidelines cover business ethics on employment, human rights, environment, information disclosure, combating bribery, consumer interests, science and technology, competition and taxation. Each adhering country has to set up a national contact point responsible for promoting the guidelines nationally and investigating breaches of the guidelines by companies operating in or headquartered in that country. A great majority of such breaches occur in developing countries. Through its *Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas*, the OECD also supports companies potentially sourcing minerals or metals from high-risk areas to respect human rights and avoid contributing to conflict.

given price preference margins when bidding for sub-contracts and public procurement contracts. In the longer term, such measures are often self-defeating. For countries that do use them, it remains important to carefully structure such preference schemes to avoid compromising the quality of procured goods or deterring foreign investors.

Creating fertile ground for infrastructure investment is a priority

Infrastructure has a strong impact on a country's investment attractiveness. The extensiveness of the road network, the efficacy of the port system and the length of container wait times, for instance, have clear implications for the timely and cost-effective delivery of goods – it is estimated that each day in transit costs 0.6-2% of the value of traded goods (Hummels and Schaur, 2012). Likewise, water infrastructure has important implications for agricultural production and health. Reliable power supplies are also key: in Nigeria, reliance on private electricity generators adds about 40% to the cost of goods and services and it is estimated that more reliable power supplies could boost annual GDP growth by 3-4 percentage points (OBG, 2012).

Addressing the growing "infrastructure gap" is a priority for many developing country governments and given their limits of public funds, private investment has an important role to play (see Chapter 6). Yet, following decades of growth, over recent years private investment in developing country infrastructure has faltered.

One key step in addressing this gap is to make the market structure attractive for private investors by creating a level playing field between public and private providers of infrastructure services. This involves ensuring predictable pricing and competitive infrastructure markets through sound market regulation.

Secondly, developing country governments can help create more space for private investment in infrastructure by improving the governance of state-owned operators and limiting their monopoly powers. When inefficiently run, state-owned operators can adversely affect the quality of network management, deterring private investment. Inefficiencies in employment, bill collection and maintenance together with system losses (such as water leakage, or electricity lost during distribution and transmission through power lines) cost about USD 12 billion annually in Africa (Trebilcock and Mota Prado, 2011). For instance, the Tanzanian government was forced to bail out six state-owned infrastructure operators in 2008/09 at a cost of USD 36 million; verification of the performance of the country's 170 privatised state-owned enterprises in 2012 revealed that over half were making losses (OECD, 2013b).

Inefficient infrastructure management and maintenance costs Africa about USD 12 billion every year.

Thirdly, the regulatory framework for infrastructure investment needs to be more predictable and do more to address the risky nature of long-term infrastructure projects. Private participation in infrastructure delivery (in particular through public-private partnerships) is a relatively recent form of procurement in many countries. Over the past two decades, 37% of public-private infrastructure projects have been conducted in lower middle-income countries, and only 4% in low-income developing countries, where the risks are perceived to be higher (Rosenstock and Trebilcock, 2013). To limit risks for private investors, laws and regulations, as well as institutional roles and responsibilities, need to be clear and understood by all parties. Public sector capacity for project design and implementation is also indispensable to avoid fiscally unsustainable contracts and costly contract renegotiations.

Finally, cross-border infrastructure investment presents unique opportunities for many developing countries. Large infrastructure projects that are not economically viable in individual countries can become highly valuable on a regional scale. Nonetheless, the complications of cross-border infrastructure projects – such as overlapping authority and sovereignty issues – should not be under-estimated and may explain the vast deficit in regional infrastructure. For instance, the Mmamabula Energy Project in Botswana (a planned 1 200 megawatt capacity power station and integrated coal mine project that is intended to provide power to South Africa) is currently on hold due to regulatory changes regarding power purchase agreements in South Africa. Regional harmonisation of infrastructure investment frameworks (including regulation and tariff-setting, procurement procedures and investment dispute resolution) is crucial to the success of many regional infrastructure projects currently in the pipeline for developing countries.

The OECD Investment Division has developed several tools to help governments attract and manage more private participation in infrastructure, including the *OECD Principles for Private Sector Participation in Infrastructure* (OECD, 2007), the *OECD Checklist for Public Action on Private Sector Participation in Water Infrastructure* (OECD, 2009) and the *Policy Guidance for Investment in Clean Energy Infrastructure* (OECD, 2014d). This latter policy guidance is a non-prescriptive tool to help governments – especially in developing and emerging countries – to mobilise private investment in clean energy infrastructure, including in renewable energy and energy efficiency in the electricity sector. The OECD will adapt the guidance to specific country contexts to help them make the most of their clean energy investment potential.

It is important to tap the synergies between trade and investment

Many developing country governments are looking to promote the competitiveness of their domestic exports and enhance their attractiveness as investment destinations by diversifying not only their products, but also their markets. In small countries especially, stimulating investment relies to a large extent on creating investment opportunities within export-oriented industries and on prospects for integrating production into global value chains (see the “In my view” box).

Greater trade means greater investment in most cases.

Tapping the possible synergies between trade and investment requires careful co-ordination and alignment of trade and investment strategies to ensure that they are complementary, and that they tackle shared structural bottlenecks and diversify export sectors as well as destination markets. Trade facilitation measures are an evident first step and are the focus of many aid-for-trade initiatives (see Chapter 21). Other steps include investing in trade infrastructure, building a human resource

In my view: Any developing country can undergo dynamic structural transformation, starting now

Justin Yifu Lin,
Honorary Dean at the National School of Development, Peking University,
and former Chief Economist of The World Bank

Any developing country – even those with poor infrastructure and a weak business environment – can start on a path to dynamic structural transformation and growth today. How? By facilitating technological innovation and development in industries where it has a comparative advantage.

Take China. At the time of its transition to a market economy in 1979, the business environment was poor, infrastructure was very bad and China lacked the capacity to take advantage of its cheap labour market to produce goods for export. To overcome these obstacles, the Chinese government – at all levels and in all regions – encouraged foreign investment in special economic zones and industrial parks. This enabled China to rapidly develop labour-intensive light manufacturing and become the world's factory.

The same approach can work in other developing countries. For instance, in August 2011 the late Ethiopian Prime Minister Meles Zenawi visited China. Aware of Ethiopia's labour cost advantages and China's plans to relocate its shoe industry because of rising wages, he invited Chinese shoe manufacturers to invest in Ethiopia. Managers of Huajian, a designer shoe manufacturer, visited Addis Ababa in October 2011 and – convinced of the opportunity – opened a shoe factory near Addis in January 2012, employing 550 Ethiopians. Huajian more than doubled Ethiopia's shoe exports by the end of 2012 and by December 2013, the workforce had expanded to 3 500 (by 2016 it is expected to reach 30 000).

Before this, like almost all other African countries, Ethiopia had found it difficult to attract export-oriented foreign direct investment in light manufacturing. The immediate success of the Huajian shoe factory transformed foreign investors' impression of Ethiopia, helping them to see it as a potential manufacturing base for exports to global markets. Over just three months in 2013, 22 factory compounds in the new industrial park of Bole Lamin were leased to export-oriented factories.

As long as it is carefully embedded within the broader economy so as to avoid creating isolated "enclaves" of productivity and growth (see above), this type of investment can help to fuel modern economic growth, funding improvements in infrastructure and institutions as well as structural changes in technology and industries to reduce the costs of production and increase output values. In any country, these enhancements in labour productivity can fuel a continuing increase in per capita income.

In my view, development finance can have the largest possible impact on accelerating a developing country's structural transformation, job generation and poverty reduction when the country uses these flows to remove infrastructure bottlenecks and develop industries that draw on the country's comparative advantages. This pragmatic approach will allow these countries to capture China's relocation of 85 million labour-intensive manufacturing jobs, allowing them too to grow as dynamically as the East Asian economies.

base with the skills required to meet the needs of niche export and investment sectors, and reducing excess regulatory red tape for investors. Malaysia's experience with skills enhancement and co-ordinating the links among the government, the private sector and training institutes can offer a useful example for developing countries (OECD, 2013a). Aligning labour supply with demand also requires strong statistical capacity to evaluate and forecast market trends and to inform the design of national curricula.

Finally, despite the multiplication of trade and competitiveness strategies across developing countries, long-term vision is limited in many cases. Focusing on a few key market areas that offer long-term potential can help in tapping comparative advantage, adding value or latching onto global value chains.

Responsible business conduct is essential to the international investment climate

Multinational enterprises can contribute significantly to development and economic growth in both their home and host countries through job creation, human capital development, efficient distribution of capital and the transfer of technology, knowledge and skills. By their nature, multinational enterprises often span multiple cultural, legal and regulatory environments. Although many demonstrate high standards of business conduct, weak regulatory and institutional frameworks and poor rule-of-law, can lead to the neglect of these standards.

When governments provide an enabling environment for responsible businesses, they are more likely to attract and keep high-quality investors (Box 12.3). In turn, firms that maintain high responsible business standards are more likely to bring lasting benefits to employees, customers and the societies in which they operate, in turn building their own reputation (OECD, 2013a).

Key recommendations

- Promote investment for development by addressing "push" and "pull" factors simultaneously: unlocking the supply of finance (from institutional investors, domestic capital markets, as well as innovative forms of concessional and non-concessional financing from bilateral providers and development finance institutions) while creating the conditions that will attract investors to developing country markets.
- Follow the Policy Framework for Investment (Box 12.1) to create a conducive environment for attracting foreign direct as well as domestic investment, by ensuring effective and transparent regulations on (among others): investment restrictions, access to land, core standards of investor protection and the administration of tax incentives for investment. These regulations must be accompanied by sound enforcement capacity within the public sector.
- Enhance the potential of infrastructure markets in developing countries, not merely as enablers of investment in other sectors of the economy, but as investment opportunities in their own right. Infrastructure markets can be made more attractive to private investors by improving the efficiency and governance of state-owned infrastructure providers, and more generally creating a level playing field between public and private infrastructure operators.
- Make sure that foreign investment works for development by promoting linkages between foreign affiliates and local enterprises, and creating investment and local employment opportunities within export-oriented industries.
- Improve responsible business conduct, especially by multinational enterprises, by adhering to and implementing the *OECD Guidelines for Multinational Enterprises* (Box 12.3).

Notes

1. Carl Dawson, Geraldine Ang and Karim Dahou also contributed to this chapter.
2. Country reports presenting an overview of investment trends and policies in the countries reviewed. See *www.oecd.org/investment/countryreviews.htm*.
3. See *www.oecd.org/daf/inv/investmentfordevelopment*.
4. Expropriation is the act of taking privately owned property by a government to be used for the benefit of the public. In several countries, the government has the right to take property through "eminent domain" – but this must to subject to timely, adequate and effective compensation.
5. See the OECD FDI Regulatory Restrictiveness Index: *www.oecd.org/investment/fdiindex.htm*.

References

Hummels, D. and G. Schaur (2012), "Time as a trade barrier", *NBER Working Paper*, No. 17 758, January, National Bureau of Economic Research, Cambridge, MA.

Keen, M. and M. Mansour (2009), "Revenue mobilization in sub-Saharan Africa: Challenges from globalization", *Working Paper*, No. 09/157, International Monetary Fund, Washington, DC.

OBG (2012), *The Report: Nigeria 2012*, Oxford Business Group, London.

OECD (forthcoming), *OECD Investment Policy Reviews: Nigeria*, OECD Publishing, Paris.

OECD (2014a), *OECD Investment Policy Reviews: Botswana 2014*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264203365-en*.

OECD (2014b), *OECD Investment Policy Reviews: Mauritius 2014*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264212619-en*.

OECD (2014c), *OECD Investment Policy Reviews: Myanmar 2014*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264206441-en*.

OECD (2014d), *Policy Guidance for Investment in Clean Energy Infrastructure: Expanding Access to Clean Energy for Green Growth and Development*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264212664-en*.

OECD (2014e), "Preliminary draft contributed to the tax incentives pillar of the SADC Regional Policy Framework", OECD, Paris, June.

OECD (2013a), *OECD Investment Policy Reviews: Malaysia 2013*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264194588-en*.

OECD (2013b), *OECD Investment Policy Reviews: Tanzania 2013*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264204348-en*.

OECD (2012), *OECD Investment Policy Reviews: Zambia 2012*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264169050-en*.

OECD (2011), *OECD Guidelines for Multinational Enterprises*, 2011 Edition, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264115415-en*.

OECD (2010), *OECD Investment Policy Reviews: Indonesia 2010*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264087019-en*.

OECD (2009), "Checklist for public action in the water sector", in OECD, *Private Sector Participation in Water Infrastructure: OECD Checklist for Public Action*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264059221-4-en*.

OECD (2007), *OECD Principles for Private Sector Participation in Infrastructure*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264034105-en*.

Rosenstock, M. and M. Trebilcock (2013), *Infrastructure PPPs in the Developing World: Lessons from Recent Experience*, University of Toronto Faculty of Law, Toronto.

Trebilcock, M.J. and M. Mota Prado (2011), *What Makes Poor Countries Poor? Institutional Determinants of Development*, Edward Elgar, Northampton, MA.

World Bank (2013), "Results of Investor Motivation Survey conducted in the EAC", presentation made to the Tax Compact in Lusaka, Zambia, February, Global Tax Simplification Team.

Development Co-operation Report 2014
Mobilising Resources for Sustainable Development
© OECD 2014

PART II

Chapter 13

Fighting corruption and illicit financial flows

by
Alessandra Fontana, Development Co-operation Directorate, OECD

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

In developing countries, where there is high demand for increased domestic resource mobilisation to finance development, illicit financial flows drastically reduce the availability of such revenues in the following ways:

- Funds that should circulate in the country's economy as investment and taxes paid into public coffers end up abroad.
- Public funds are syphoned off through embezzlement instead of being spent on public services.
- Public funds are wasted in overpriced works by unfit companies chosen after having paid hefty bribes; these bribes may also be syphoned abroad.

These are just a few examples of how illicit financial flows reduce the resources available to developing countries. The consequences, to name just a few, include fewer hospitals and schools, fewer police officers, and fewer roads and bridges to facilitate trade. The existence of this criminal activity also demands the reallocation of state resources from other public investment in order to fight such activity (UNODC, 2011). Finally, money laundering is harmful to the financial sector as it undermines the capacity to attract investors and to fuel the economy.

Every USD 100 million of recovered stolen assets could fund full immunisations for 4 million children or provide water connections for 250 000 households.

It is impossible to quantify the dimension of illicit flows or the quantity of goods and services citizens could have received had these funds been put to proper use for development. Nonetheless, it has been estimated that every USD 100 million recovered could fund full immunisations for 4 million children or provide water connections for some 250 000 households (World Bank and UNODC, 2007).

To take stock of the state of play and to highlight how OECD countries can support developing countries' efforts to limit illicit flows, the OECD has issued the report *Illicit Financial Flows from Developing Countries: Measuring OECD Responses* (OECD, 2014). It assesses OECD countries' compliance with international standards, and shows that there are important gaps to be filled if these flows are to be combatted effectively. This chapter summarises the findings from *Illicit Financial Flows from Developing Countries* on:[1]

- complying with anti-money laundering standards
- reducing bribery payments
- freezing and repatriating stolen assets
- supporting developing countries.

Many OECD countries are susceptible to money laundering

International standards for controlling money laundering[2] are set by the Financial Action Task Force (FATF) and comprise the most comprehensive anti-money laundering regime to date. By strictly implementing the FATF's 40 recommendations on combating money laundering, OECD countries can help to curb illicit flows (FATF, 2012).[3]

In reviewing OECD country compliance with these recommendations,[4] *Illicit Financial Flows from Developing Countries*, however, finds that numerous weaknesses in OECD countries' systems are allowing illicit funds from developing countries to enter. FATF reviews also show that OECD countries' performance varies and that, in general, their systems are at a high risk of being abused for laundering illicit flows.[5] The identification of politically exposed persons involved in financial transactions taking place in their jurisdictions is one of the areas where OECD countries fare the worst.[6] Such people are naturally at greater risk of corruption; therefore the financial transactions in which they are engaged should be scrutinised more closely. This is not because of a presumption that all politically exposed persons are corrupt, but because they act in public office positions in which they may be responsible for managing large sums of money, for example, and therefore may be exposed to opportunities for corruption. Over one-third of OECD countries fail to require the application of additional due diligence measures when a business is dealing with politically exposed persons.

Over one-third of OECD countries fail to require due diligence measures for businesses dealing with politically exposed persons.

OECD countries also score poorly against the recommendations for clearly ascertaining the actual owners of companies and trusts being set up in their jurisdictions. Criminals wishing to hide their funds may set up companies or trusts as a façade; it is not always straightforward to identify the ultimate beneficiary or owner of a trust or company.

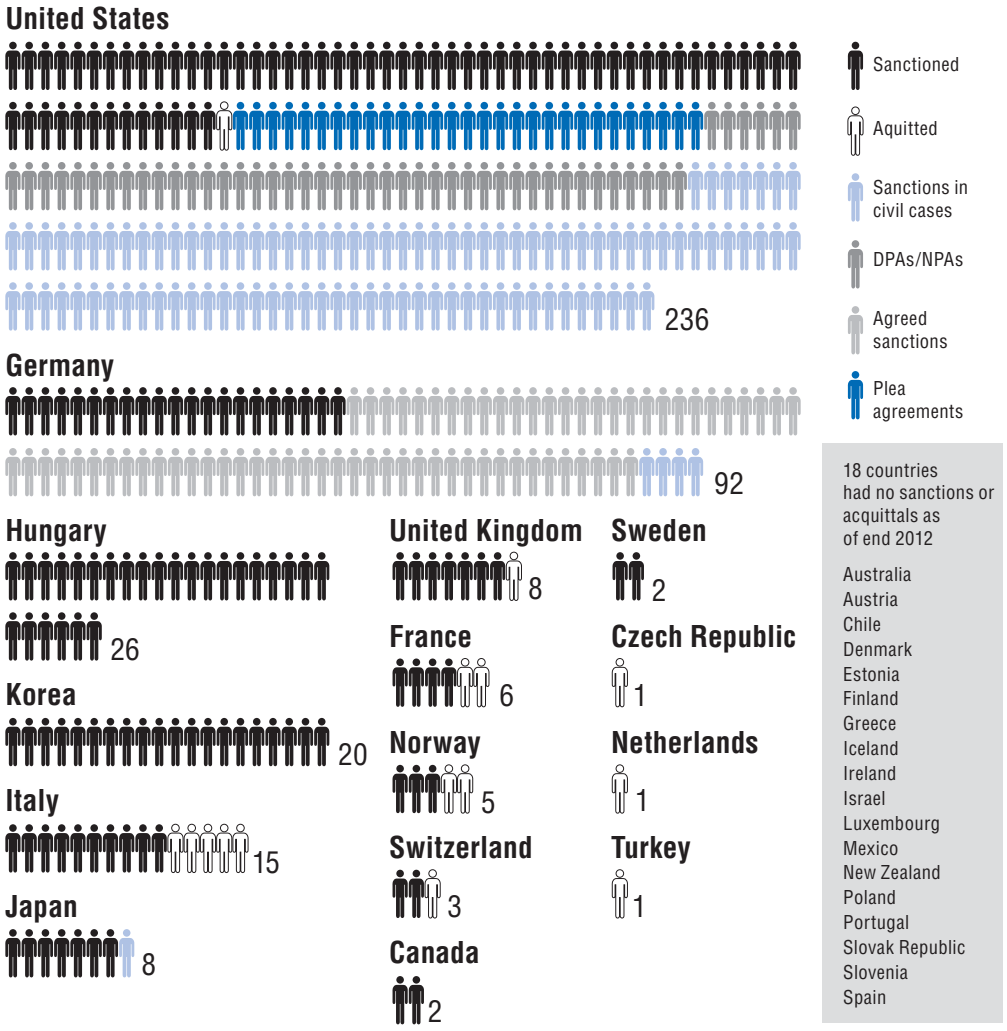
Another problematic area is OECD countries' performance in regulating how "designated non-financial businesses and professions" ensure that they are not used as a channel to launder funds. This term refers to businesses and professions such as real estate agents and lawyers that may be used as conduits for illicit activity on behalf of others. For example, these businesses may buy real estate or conduct business on behalf of criminals engaging in money laundering. This is why it is important to enforce the FATF recommendation that requires these professionals to collect sufficient documentation to identify who they are engaging in business with, and to report to the authorities any suspicion that their client is attempting to launder funds.

Progress on fighting foreign bribery is mixed

The 1999 OECD Anti-Bribery Convention (OECD, 2011) has been signed by all 34 OECD countries, plus Argentina, Brazil, Bulgaria, Colombia, the Russian Federation and South Africa. It commits signatory countries to: 1) make bribery a criminal offence; 2) prosecute individuals and companies that offer, promise or give bribes to foreign public officials; and 3) penalise offenders, including through fines or imprisonment.[7] The convention's 40 signatory countries include those responsible for the largest global flows of foreign direct investment, especially through the activities of large multinational enterprises. The global reach of such companies means they are constantly exposed to potentially corrupt situations. The OECD Working Group on Bribery in International Business Transactions is responsible for monitoring the implementation and enforcement of the convention, as well as of the 2009 *Recommendation of the Council for Further Combating Bribery of Foreign Public Officals in International Business Transactions* and related instruments. Monitoring is done through peer review and is considered by Transparency International to be the "gold standard" of monitoring.

Progress on implementing the Anti-Bribery Convention is mixed, with more than half of all OECD countries having made no prosecutions whatsoever (Figure 13.1). A number of gaps in OECD countries' legal frameworks prevent the effective application of their anti-bribery regimes. These include overly narrow interpretations of foreign bribery or the imposition of an impractical burden of proof (e.g. the requirement to prove that a public official has directly intervened in the

Figure 13.1. **Total number of individuals and legal persons sanctioned or acquitted for foreign bribery, 1992-2012**



Notes: DPA: deferred prosecution agreements; NPA: non-prosecution arrangements.
Source: OECD (2014), *Illicit Financial Flows from Developing Countries: Measuring OECD Responses*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264203501-en.*

awarding of a contract subsequent to a bribe). Short-term statutes of limitations can also be an obstacle given the length of time required to bring such cases to court. Finally, weak sanctions often fail to provide an effective deterrent to those tempted to pay bribes overseas.

Nonetheless, figures from the Working Group on Bribery in International Business Transactions show that between 1999 and the end of 2012, 216 individuals and 90 legal entities were sanctioned through criminal proceedings for foreign bribery in 13 OECD countries; at least 83 of the sanctioned individuals were given prison terms. Another 44 individuals and 95 legal entities in 3 signatory countries have been sanctioned in criminal, administrative and civil cases for other offences related to foreign bribery, such as money laundering or false accounting. Around 320 investigations are still ongoing in 24 countries, and criminal charges have been filed against 166 individuals and entities in 15 countries. OECD countries need to increase their investigative and prosecutorial efforts, as well as resources for the public agencies handling bribery cases.

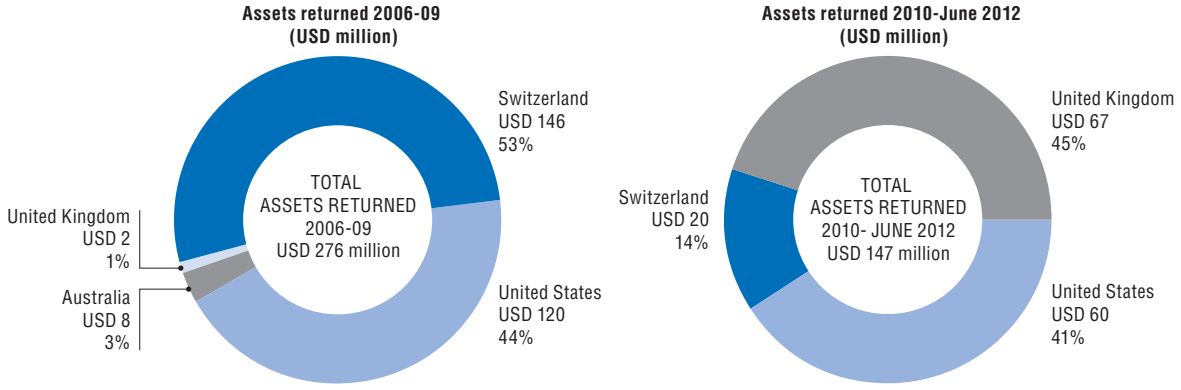
Another way to increase the number of cases unearthed is to establish "whistleblower protection", which can increase the amount of information passed to the authorities. Whistleblowers are individuals willing to provide information to public authorities about corrupt or criminal transactions. These individuals usually require protection to safeguard them from retaliation. Finally, it is important that sanctions are severe enough to work as a deterrent for companies considering paying bribes abroad.

Greater political will is needed for recovering illicit assets

Resources for financing development can also be made available by finding illicit assets held in OECD countries, then freezing and repatriating them (known as asset recovery). OECD countries have made only modest progress in repatriating stolen assets – many have not frozen any corruption-related assets to date. Nonetheless, a stock-taking undertaken by the OECD and the World Bank Stolen Asset Recovery (StAR) Initiative of member countries' commitments on asset recovery found that between 2010 and June 2012, a total of approximately USD 1.4 billion of corruption-related assets had been frozen and a total of USD 147 million returned to a foreign jurisdiction (OECD and The World Bank, 2014; see also Figure 13.2).[8]

Between 2010 and June 2012, approximately USD 1.4 billion of stolen assets had been frozen and USD 147 million had been returned.

Figure 13.2. **Recovered stolen assets, 2006-12**



Source: OECD and The World Bank (2011), *Tracking Anti-Corruption and Asset Recovery Commitments: A Progress Report and Recommendations for Action*, OECD and the International Bank for Reconstruction and Development/The World Bank, available at: *www.oecd.org/dac/governance-development/49263968.pdf*; OECD/The World Bank (2014), *Few and Far: The Hard Facts on Stolen Asset Recovery*, The World Bank, Washington, DC, *http://dx.doi.org/10.1787/9789264222311-en*.

The majority of returned assets and 86% of the frozen assets went back to non-OECD countries. This is a sign of progress, since a previous survey showed that asset recovery mainly benefited OECD countries (OECD and The World Bank, 2011). Switzerland froze the most assets, followed by the United Kingdom and the United States. These countries, which all have large financial centres, have made asset recovery a political priority, witnessed by their stated commitments to do so at recent G8 and G20 meetings and the amounts frozen and returned. Belgium, Canada, Luxembourg, the Netherlands and Portugal also froze some assets during this period.

Political will is the most important element in the quest to recover stolen assets. Indeed, the countries showing the greatest results have all implemented comprehensive policies that identify asset recovery as a priority and have committed the resources necessary to achieve results. Other OECD countries can improve their performance by:

- adopting and implementing comprehensive strategic policies to combat corruption and recover assets
- ensuring that laws effectively target corruption and asset recovery
- providing the necessary powers to public authorities in OECD countries to rapidly trace and freeze assets (Box 13.1)
- implementing institutional reforms that encourage the active pursuit of cases of stolen assets
- developing capacity
- improving trust and co-operation with foreign counterparts
- ensuring adequate funding for domestic law enforcement efforts
- fostering international co-operation in kleptocracy[9] cases
- collecting relevant data to measure results.

Box 13.1. **The time-consuming process of asset recovery**

Courts in OECD countries responsible for issuing asset freezing and confiscation orders first need evidence that the assets in their territory are linked to a crime. This evidence, in many cases, needs to be collected in the asset source country (a developing country, for example). The developing country, in this case, needs to collect and send this evidence to the authorities involved in the asset freezing in the OECD country, so an order to confiscate the funds can be issued. This is a lengthy and difficult process given the high profile of some of the individuals involved in committing such crimes. Sometimes by the time the court in the OECD country finally gets the evidence, the assets have already been shifted elsewhere. Current policy debates are trying to improve these processes by exploring whether these procedures should be changed in order to allow funds to be frozen at a quicker pace.

"Smarter" development co-operation can help developing countries reduce corruption

There are no categories or standards against which to measure development co-operation targeted at controlling illicit financial flows. Development Assistance Committee (DAC) statistics on official development assistance (ODA) do not explicitly categorise development programmes in the area of illicit financial flows. The existing activities in this area are likely to be subsumed under areas such as public finance management, anti-corruption organisations, and legal and judicial development. OECD analysis for the recent report *Illicit Financial Flows from Developing Countries* attempted to estimate this by looking at data on amounts spent by development co-operation agencies on projects in developing countries that have the potential to affect illicit financial flows (e.g. projects to reinforce the judiciary or to improve anti-corruption authorities, etc.). In 2011, on average 11% of ODA was dedicated to projects and programmes that may have an impact of illicit financial flows (OECD, 2014).

In 2011, on average only 11% of ODA was dedicated to targeting relevant illicit financial flow areas.

There may be a scarcity of resources even in developed countries for some of the reforms needed to control illicit financial flows (outlined above). ODA can be used in innovative ways to increase the resources available for this, including, for example, funding investigative authorities in OECD countries whose work contributes to the return of funds to developing countries. There are also smart ways in which development agencies can support developing countries in their fight against illicit financial flows. These include:

- Hiring or training staff in the relevant public sector authorities in developing countries to promote the technical skills needed.
- Helping to build developing countries' investigative capacity to tackle economic crime (Box 13.1).
- Supporting the institutions and actors working to build political commitment.
- Raising the problem of illicit financial flows in political dialogue with developing countries in order to ensure that they also engage in addressing their part of the challenge (see next section).
- Supporting civil society organisations that hold political leaders to account.
- Pushing the knowledge frontier, e.g. by funding relevant academic and policy research.
- Conducting risk assessments in developing countries to identify the biggest source of illicit financial flows so they can allocate scarce funds to tackling it. Without understanding which processes are most vulnerable, developing countries may waste money, for example, improving one particular authority when their main vulnerability is in a different one.

Developing countries need to strengthen their own governance systems

While this chapter has mainly focused on the responsibilities of providers of development co-operation, it is important to emphasise that this is a shared agenda; corruption and illicit financial flows need to be addressed by developing and developed countries alike. Unilateral efforts will not succeed.

Developing countries also need to strengthen their own anti-money laundering mechanisms and institutions to prevent illicit flows from leaving their financial systems in the first place. For instance, they are responsible for establishing mechanisms that make bribery difficult and risky. Even the best anti-money laundering regime cannot address money laundering when corrupt individuals at the highest political levels control the very institutions supposed to exert control over them, or when these officials abuse channels such as state banks. Moreover, developing countries that wish to see funds frozen and repatriated from developed countries need to request and engage in the legal processes that lead to repatriation (Box 13.1). This involves collecting evidence and, more importantly, bringing to justice those found guilty of corruption, theft of public resources and money laundering.

Policies to fight illicit financial flows are closely linked to policies for improving governance in developing countries.

It is clear from this discussion that policies to fight illicit financial flows are closely linked to policies for improving governance in developing countries – these have been part of the activities of the international development community for a long time. High levels of corruption combined with weak institutions are drivers of illicit flows and these are often symptoms of deeper governance failures. Ultimately, the fight to control illicit outflows from the developing world must focus on building responsive, effective institutions that deliver services to their population; this, in turn, should encourage citizens and companies to engage in legal activities, report their earnings and pay their taxes and dues in accordance with national laws. As development agencies engage with developing countries in partnerships to reduce illicit financial flows, they should not forget that these efforts are part of broader governance and institution-building efforts.

Key recommendations

- **Fighting money laundering:** OECD countries should enforce the standards set by the Financial Action Task Force more strictly, particularly in conducting due diligence of politically exposed persons and establishing the real ownership of companies and trusts.
- **Fighting international bribery payments:** OECD countries should put in place systems that more actively and effectively sanction overseas bribery payments. They should also provide better protection for whistleblowers.
- **Improving asset recovery:** OECD countries should establish legal and operational frameworks, supported by dedicated staff, to investigate and prosecute offenders and to respond rapidly to a developing country's requests for mutual legal assistance or to an urgent request to freeze assets. They should also improve information sharing among jurisdictions and institutions and encourage and support developing countries in investigating corruption and managing returned assets.
- **Making better use of development co-operation:** Development co-operation agencies should promote stronger political commitment to tackling illicit financial flows and the stricter implementation of standards among OECD countries, while helping developing countries implement their responsibilities through capacity development and good governance support.

Notes

1. This chapter does not discuss reducing tax evasion, as this is touched on in Chapter 14 of this volume.
2. Money laundering is the process through which criminal money passes in order for its true origin, nature and ownership to be concealed. This is done for the purpose of hiding the criminal origin of the funds.
3. The Financial Action Task Force (on Money Laundering) is an intergovernmental organisation founded in 1989. The objectives of the FATF are to set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. The FATF Secretariat is housed at the OECD headquarters in Paris.
4. It should be noted that the FATF updated the recommendations in 2012, but since assessments of the implementation of the 2012 standard only started in 2014, the OECD assessment was based on the 2003 recommendations.
5. FATF reviews for each country can be accessed by selecting the chosen country at: *www.fatf-gafi.org/documents/documents.jsp?lang=en*.
6. Politically exposed persons are individuals who are or have been entrusted with prominent public functions. They include heads of state or of government, senior politicians, senior government members, judicial or military officials, senior executives of state-owned corporations and important political party officials. Establishing business relationships with politically exposed persons, as well as with their family members or close associates, may involve risks that should be closely monitored.
7. The convention defines bribing a foreign public official as "intentionally to offer, promise or give any undue pecuniary or other advantage, whether directly or through intermediaries, to a foreign public official, for that official or for a third party, in order that the official act or refrain from acting in relation to the performance of official duties, in order to obtain or retain business or other improper advantage in the conduct of international business" (Article 1, OECD, 2011).
8. Funds frozen but not yet returned may be waiting for prosecution and sentencing to take place (see Box 13.1). This process may take a long time depending on the complexity of the case and how difficult it is to get evidence.
9. Kleptocracy is a form of political and government corruption where the government exists to increase the personal wealth and political power of its officials and the ruling class at the expense of the wider population, often without even the pretence of honest service. This type of government corruption is often achieved through the embezzlement of state funds.

References

FATF (2012), *International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation: The FATF Recommendations*, Financial Action Task Force/OECD, Paris, *www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF_Recommendations.pdf*.

OECD (2014), *Illicit Financial Flows from Developing Countries: Measuring OECD Responses*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264203501-en*.

OECD (2011), *Convention on Combating Bribery of Foreign Public Officials in International Business Transactions*, OECD, Paris, available at: *www.oecd.org/daf/anti-bribery/ConvCombatBribery_ENG.pdf*.

OECD (2009), *Recommendation of the Council for Further Combating Bribery of Foreign Public Officals in International Business Transactions*, OECD, Paris, *www.oecd.org/daf/anti-bribery/44176910.pdf*.

OECD/The World Bank (2014), *Few and Far: The Hard Facts on Stolen Asset Recovery*, The World Bank, Washington, DC, *http://dx.doi.org/10.1787/9789264222311-en*.

OECD and The World Bank (2011), *Tracking Anti-corruption and Asset Recovery Commitments: A Progress Report and Recommendations for Action*, OECD and the International Bank for Reconstruction and Development/The World Bank, Paris, available at: *www.oecd.org/dac/governance-development/49263968.pdf*.

UNODC (2011), *Estimating Illicit Financial Flows Resulting from Drug Trafficking and Other Transnational Organized Crimes: Research Report*, United Nations Office on Drugs and Crime, Vienna, available at: *www.unodc.org/documents/data-and-analysis/Studies/Illicit_financial_flows_2011_web.pdf*.

World Bank and UNODC (2007), *Stolen Asset Recovery Initiative: Challenges, Opportunities, and Action Plan*, The World Bank, Washington, DC and United Nations Office on Drugs and Crime, Vienna, available at: *www.unodc.org/pdf/Star_Report.pdf*.

© OECD 2014

PART II

Chapter 14

Supporting countries in growing their tax base

by
Gregory De Paepe *and* Ben Dickinson,
Development Co-operation Directorate and Centre for Tax Policy and Administration, OECD

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

This chapter also includes an opinion piece by Ngozi Okonjo-Iweala, Nigeria's Co-ordinating Minister for the Economy and Minister of Finance, on the importance of realising the potential of taxation.

Chapter 7 explored why domestic tax systems are crucial to sustainable development: they provide governments with the resources needed to tackle poverty and deliver public services, while increasing state capacity, accountability and responsiveness. It also outlined the many obstacles faced by developing countries in increasing their tax-to-GDP ratios.

This chapter describes the ways in which development co-operation is helping to support domestic resource mobilisation in developing countries, as illustrated by the recent OECD report *Tax and Development: Aid Modalities for Strengthening Tax Systems* (OECD, 2013a). It also looks at new challenges arising from the rapidly changing external environment – such as the taxation of multinational enterprises – and how international co-operation is helping to tackle these.

Support to tax systems can take many forms

Budget support creates powerful incentives for reform

Budget support involves the transfer of resources from a development co-operation agency or group of agencies – either earmarked for a certain sector (sector budget support) or unearmarked (general budget support) – directly to a developing country's national treasury. This approach creates a unified framework for financing that is fully aligned with the priorities, needs and systems of the host country. It can be a useful mechanism for turning the spotlight on tax performance and creating incentives for improving the tax system, while addressing interactions between taxation and governance (Box 14.1).

Budget support can provide powerful incentives for improving the tax system.

Pooled funding and bilateral support can both have advantages

When development co-operation providers pool their funding, this enables better co-ordination. For example, basket funding involves placing providers' funds in a segregated account for a designated purpose, such as a tax programme, rather than passing them into the host government's general budget. By establishing a unified arrangement for planning, implementation and monitoring, basket funding is eminently well suited to co-ordinating providers' support to tax programmes. It minimises duplication of effort and aligns support with the country's strategy for tax reform. Often providers and countries decide the strategic priorities jointly, then providers link their funding to implementation.

On the other hand, bilateral projects, when a host country engages with only one provider, still account for a large share of aid flows. Bilateral tax programmes can be highly effective if the host country shows strong ownership and leadership (Box 14.2). In countries where there is one dominant bilateral tax programme, co-ordination is not much of a problem. Yet, if multiple development co-operation providers pursue parallel tax projects in a single country, there is a risk of fragmentation, inconsistency and high costs to the local government. Co-ordination in establishing a coherent division of labour can help multiple providers support the tax system effectively.

Box 14.1. **How budget support helped Afghanistan broaden its revenue base**

The Afghanistan Reconstruction Trust Fund was established in 2002 in response to a firm request from the Afghan government for a single source of untied aid. Administered by the World Bank, it involves co-ordinated international action by 16 development co-operation agencies.

The programme has two parts. The first is a "matching grant", or variable tranche of budget support linked to the country's performance in revenue collection; performance is measured against a target set by the International Monetary Fund (IMF). The second part is a structural reform fund with three "themes": enhancing domestic revenue generation, improving public sector governance and enabling private sector development. For each theme, Afghanistan must meet benchmarks to trigger the release of funds – i.e. specific and verifiable actions relating to the respective reforms. For example, in 2010/11, customs reforms under the revenue theme involved submitting quarterly reports on a set of performance indicators and rolling out an automated system for customs data to one new customs post.

At the time the trust fund was created, Afghanistan's public finance management systems were dysfunctional, with a tax-to-GDP ratio of less than 3%. Since the incentive programme took effect, revenues have consistently exceeded programme targets, reaching 8.9% of GDP in 2009/10. The review attributed the revenue increase to the success of offices focusing on large and medium-size taxpayers in harnessing scarce resources for maximum impact. Another factor was the more efficient collection of sales tax, income tax and customs duties (World Bank and Islamic Republic of Afghanistan, 2010).

Source: OECD (2013a), *Tax and Development: Aid Modalities for Strengthening Tax Systems*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264177581-en*.

Box 14.2. **Bilateral support for tax reform in El Salvador**

In the early 2000s, the tax-to-GDP ratio in El Salvador was stuck at around 11% and import duty revenues were set to decline as a result of free-trade agreements. Looking for ways to increase revenues without increasing tax rates, the government embarked on a series of reforms to modernise the tax administration. These included introducing information technology (IT) systems, improving taxpayer services, expanding public information on the tax system and upgrading professional skills within the tax service.

These reforms improved tax compliance, boosting the tax-to-GDP ratio to 14.1% by 2007. The economic crisis brought this ratio down in 2009 – but only to 13% – before it rebounded to 13.8% in 2010. There were also huge improvements in virtually every indicator of tax collection efficiency. For example, the new IT systems reduced the average time for processing an income tax return from 4 hours to just 40 minutes; and the introduction of automated calls brought in 10 000 additional tax returns in the first 4 months (DAI, 2010).

These tax reforms were driven by the El Salvador government, which also set out the funding priorities. Bilateral assistance from the United States Agency for International Development (USAID) was the predominant source of support – USAID advisors and consultants were involved in all aspects of the reform programme. Indeed, during the period of the Tax Policy and Administration Reform (2005-10), no other providers (apart from intermittent IMF missions) directly supported the tax authorities. At the ministry level, however, the Inter-American Development Bank provided funding for an integrated tax and customs IT system, while the World Bank supported the Tax Analysis Unit.

Source: OECD (2013a), *Tax and Development: Aid Modalities for Strengthening Tax Systems*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264177581-en*.

Technical and in-kind support can bring high returns

Rather than funding tax systems, some development co-operation agencies deliver technical services and investments directly through in-kind support, e.g. through twinning or pairing arrangements for the secondment of experienced tax officials. The Tax Inspectors Without Borders concept has been developed to provide assistance for targeted tax audits in developing countries across the globe (Box 14.3). This initiative, being developed by the OECD Tax and Development Task Force, aims to bring tax audit experts from both developed and developing countries with advanced tax systems together with local officials in tax administrations that require support; they work together directly on solving audit issues, transferring knowledge and skills in the process (OECD, 2014).

Box 14.3. **Tax Inspectors Without Borders: An innovative OECD approach to improve audit skills and tackle tax avoidance**

Developing countries and development partners have for a long time identified the mobilisation of domestic financial resources for development as a priority, and in a changing era, taxation has taken on a higher profile as a means to support this goal.

The demand for assistance from developing countries is changing too, as globalisation poses new challenges and opportunities in international taxation, particularly transfer pricing and tax information exchange. On the supply side, many countries that once required development co-operation are now active providers of assistance themselves on tax matters, adding a positive dynamic to international knowledge building.

The Tax Inspectors Without Borders concept was developed against this background. Tax Inspectors Without Borders began on a trial operational basis at the end of 2013, with a number of pilot projects planned for 2014. It aims to facilitate targeted tax audit assistance programmes in developing countries across the globe. Tax audit experts will work directly with local officials in developing country tax administrations on current audits and audit-related issues concerning international tax matters and sharing general audit practices for specific cases.

Tax Inspectors Without Borders offers a new form of direct assistance, using a "learning by doing" approach to solve audit issues and transfer knowledge and skills. These programmes can complement existing training by introducing a real life, practical component. Using the Tax Inspectors Without Borders tools to put in place a simple but effective framework to address potential issues such as confidentiality and conflict of interest, experts can now work on audit files alongside local tax officials.

Source: OECD (2014), "Tax Inspectors Without Borders. A learning by doing approach to tax audit assistance", *Briefing Note*, OECD, Paris, available at: *www.oecd.org/ctp/tax-global/tax-inspectors-without-borders-summary.pdf*.

Kenya achieved a rate of revenue return of USD 1 650 for every USD 1 of development co-operation spent on tax reform.

Although Tax Inspectors Without Borders is still in the pilot stages, similar audit assistance programmes have shown strong results – not only in terms of increased tax revenue, but also in strengthening capacity. This, in turn, improves the quality and consistency of tax audits while increasing citizens' confidence in the tax administration. Colombia increased its tax revenue by 76% (from USD 3.3 million in 2011 to USD 5.83 million in 2012) through a capacity development programme for tax administrators that cost USD 15 000. This programme of assistance helped the country to pass revised transfer pricing legislation in line with international standards.[1] Similarly, a USD 20 000 tax support programme in Kenya led to an increase of USD 33 million in tax revenue between June 2012 and June 2013 – a rate of return of USD 1 650 of revenue for every USD 1 spent.[2] This kind of support can also be highly responsive to host country needs (see the "In my view" box).

In my view: Development depends on realising the potential of taxation

Ngozi Okonjo-Iweala,
Co-ordinating Minister for the Economy and Minister of Finance, Nigeria

Developing country governments would do well to strengthen their tax systems so they can mobilise the domestic resources they need to finance their own development. This is particularly true for African countries, where the recent trend of decreasing official development assistance (ODA) shows no sign of reversing.

In developing countries in general, revenue administration is often hampered by weak organisational structures, low capacity of tax officials and a lack of modern, computerised, risk-management techniques. The value-added tax "gap" alone is estimated at around 50-60% in developing countries, compared with only 13% in developed countries. The International Monetary Fund (IMF) estimates that for many low-income countries, an increase in tax revenues of about 4% of GDP is attainable. Since the 1990s, many African countries have made progress in improving their domestic tax capacities and receipts. Despite these improvements, however, there are still many revenue leaks that need to be plugged.

In Nigeria, we are making concerted efforts. Following the recent revision of our GDP to USD 510 billion, our tax-to-GDP ratio declined from 20% to about 12%, several points below the 15% tax-to-GDP threshold recommended by the IMF for satisfactory tax performance. Yet with our increasingly diversified economy, there is room to greatly improve our tax administration capacity and increase our tax revenues.

A recent diagnostic exercise to examine the bottlenecks in our tax collection processes revealed some interesting findings. For example, about 75% of our "registered" firms were not in the tax system. Moreover, about 65% of Nigeria's registered taxpayers had not filed their tax returns over the past two years. With the support of external consultants, we are introducing remedial measures to improve tax performance and estimate that we can raise an additional USD 500 million in non-oil tax revenues in 2014.

The international community has an important role to play in supporting such efforts by developing countries, and evidence shows that this can yield impressive returns. The OECD has found that every USD 1 of ODA spent on building tax administrative capacity can generate as much as USD 1 650 in incremental tax revenues. Yet to date, only limited funds have been targeted at improving tax institutions and tax policies.

To support the broader goal of mobilising financing for the post-2015 development agenda, ODA can also be used in many other creative ways, for instance to leverage private financial resources (Chapter 11).

In my view, realising the full potential of domestic resource mobilisation in developing countries – and in Africa in particular – is central to discussions on financing the post-2015 development agenda. It will be particularly important to deploy a greater proportion of ODA in low-income countries to support their tax administration efforts. Realising this potential will require strong commitment and leadership from developing country policy makers, as well as the support of the international community.

Global processes are needed to address international tax matters

Globalisation poses new challenges and opportunities for international tax matters and the demand for assistance from developing countries is growing. For instance, a growing number of developing countries have signed the Convention on Mutual Administrative Assistance in Tax Matters, which provides for all possible forms of administrative co-operation between states in the assessment and collection of taxes, in particular with a view to facilitate tax information exchange to combat tax avoidance and evasion.

The G20 has identified base erosion and profit shifting (BEPS) as a serious risk to tax revenues, sovereignty and fair tax systems worldwide. Base erosion and profit shifting is an issue which harms developed and developing countries, arising from deficiencies of current international tax rules and standards. These enable multinational companies to take advantage of tax rates that are lower than in the country where the activities take place and value is created by artificially shifting profits across borders. For some of the poorest countries, which rely very heavily on tax revenue from multinational companies, base erosion has a particularly significant effect on vital tax revenues. If the largest and most high-profile taxpayers are seen to be avoiding their tax liabilities, confidence and effectiveness of the tax system are undermined.

The OECD and G20 economies are working together to address BEPS issues, providing consistency for both business and tax sovereignties. In 2013, the OECD launched a 15-point Action Plan to provide governments with the domestic and international tools they need to combat profit shifting (OECD, 2013c). The Action Plan recognises that greater transparency and improved data are needed to evaluate and stop the growing disconnect between where profits are made and where they are reported for tax purposes. In September 2014, the OECD/G20 BEPS Project delivered the first batch of deliverables, with phases 2 and 3 scheduled to be finalised by September and December 2015 respectively.

Acknowledging that developing countries face specific policy issues and implementation challenges that are not always shared with developed countries, the G20 mandated the OECD to report on the main sources of base erosion and profit shifting for developing countries and set out a new agenda for addressing BEPS issues in developing countries. Based on intensive consultations with developing countries, the report highlights the actions developing countries have taken, many with international support, that indicate there are opportunities to raise additional revenues from addressing BEPS issues and to create a more certain and stable investment climate for business. The report sets out how the G20 can assist developing countries address the challenges posed by these BEPS issues and the need for developing countries to have a voice in the process.

International progress is also being made in the fight against tax evasion. In July 2014 the OECD developed and endorsed a proposal for a new single global standard for automatic exchange of information in response to a request by G20 leaders at their summit in September 2013. The standard calls on jurisdictions to obtain information from their financial institutions and automatically exchange that information with other jurisdictions on an annual basis, which involves the systematic and periodic transmission of "bulk" taxpayer information by the source country to the residence country concerning various categories of income (e.g. dividends, interest, royalties, salaries, pensions, etc.).

Developing countries stand to gain from the implementation of this new global standard in their fight against illicit financial flows, by increasing their revenue collection and deterring tax evasion. G20 governments have mandated the OECD-hosted Global Forum on Transparency and Exchange of Information for Tax Purposes working with the OECD Task Force on Tax and Development[3] to help developing countries identify their need for technical assistance and capacity building in order to participate in and benefit from automatic exchange of information. In September 2014, the Global Forum presented its roadmap to the G20 spelling out how developing countries can overcome obstacles to participate in the automatic exchange standard and meet its requirements. The roadmap describes a stepped approach for how developing countries can participate in the new standard and includes an outline for pilot projects to be undertaken between developing and developed country partners, working with the Global Forum Secretariat, to address awareness and capacity constraints. It is expected that pilot projects with a number of developing countries will be launched at the beginning of 2015.

How tax support is delivered is also important

Each of the above instruments can play a distinct and valuable role in supporting tax systems and enhancing linkages between taxation and governance. But results also depend on the context in which instruments are used. This section outlines some principles to guide *how* tax support is delivered.

Tailor support to each country's needs and priorities

Experience in supporting tax reform echoes lessons learnt from other policy areas: local leadership, locally designed solutions and approaches that are sensitive to each country's socio-economic environment are critical. When supporting tax reform, it is important that support is tailored to local government preferences and to prevailing local conditions.

It is also important to view tax systems as part of each country's broader economic governance framework. This means that the development of good tax systems needs to go hand in hand with reinforcing the linkages between the revenue and expenditure sides of the public finance equation. This can be done by combating corrupt practices, linking support in the revenue area with other public financial management reforms, reinforcing the role of audit institutions, bolstering parliamentary scrutiny over both revenue and expenditures, and supporting non-state actors to monitor the effective use of public revenues.

> *View tax systems as part of each country's broader economic governance framework.*

A few basic principles can guide effective support to tax reform

Recent stocktaking by OECD countries, developing countries, business and civil society has helped to formulate a set of draft "Principles for International Engagement in Supporting Developing Countries in Revenue Matters" (OECD, 2013b). These principles offer guidance for development co-operation agencies, revenue authorities and finance departments on how to work together to support host country-led domestic resource mobilisation. They also can help developing countries engage effectively with international partners on revenue issues (Box 14.4).

Box 14.4. **International support to developing countries in revenue matters: A summary of draft principles**

1. Follow the leadership of government and co-ordinate at the country level.
2. Do no harm.
3. Take a "whole-of-government" approach to maximise policy coherence and development co-operation effectiveness.
4. Take account of international aspects of taxation.
5. Balance revenue collection imperatives with fairness, equity and governance considerations.
6. Encourage transparency in revenue matters.
7. Strengthen revenue and expenditure linkages.
8. Promote sustainability in revenue collection systems.
9. Encourage broad-based dialogue on revenue matters that includes civil society, business and other stakeholders.
10. Measure progress and build the knowledge base on revenue matters.

Source: OECD (2013b), "Draft Principles for International Engagement in Supporting Developing Countries in Revenue Matters", OECD, Paris, available at: *www.oecd.org/ctp/tax-global/Principles_for_international_engagement_May2013.pdf*.

Development agencies need to set a good governance example

Development agencies frequently secure tax exemptions from developing countries on ODA-financed inputs. These typically include exemptions from income tax on the salaries of staff based in the developing country; taxes on goods and services provided; value-added taxes on local purchases; and customs duties and excise taxes on imports. These exemptions can undermine the legitimacy of local institutions and discourage voluntary compliance by local taxpayers. They can also distort the local market when goods and services imported from provider countries receive preferential tax treatment over domestically produced goods and services.

Customs exemptions for development co-operation providers accounted for around 17% of Tanzania's gross value of imports in 2005.

Evidence suggests that tax exemptions are also a significant budgetary issue for host countries. For example, in Tanzania, customs exemptions for development co-operation providers accounted for around 17% of the gross value of imports in 2005 (OECD/AfDB/ECA, 2010). Developing countries argue that removing exemptions would widen the tax base, boost the credibility of both the revenue administration and the development agencies, simplify tax systems, and encourage voluntary compliance by local and multinational taxpayers (OECD/AfDB/ECA, 2010). This is a challenging policy area for development agencies but as a minimum, full transparency of exemptions claimed should be a feasible next step.

Supporting tax systems in fragile states is especially urgent

Fragile states – countries and economies marked by conflict, instability and poor governance – are furthest from achieving the Millennium Development Goals, but they find it much harder than others to access resources to finance their development. These states need to boost domestic revenue generation as a source of social spending, and also as a cornerstone of statebuilding (see Chapter 20 on fragile states). Experience shows that even in immediate post-conflict periods, support to revenue collection can pay dividends; for example, in Burundi and Rwanda, donor support to revenue

authorities significantly improved tax collection. However, many development co-operation providers are hesitant about providing support and funding to government systems in such risky contexts. The New Deal for Engagement in Fragile States – endorsed by 41 countries and organisations in 2011 – recognises these fears, but emphasises that the risk of not engaging in fragile states outweighs the risks of getting involved (International Dialogue on Peacebuilding and Statebuilding, 2011).

Key recommendations

- Step up efforts for more and better development co-operation support to tax matters, in line with best practice, as set out in the OECD "Draft Principles for International Engagement in Supporting Developing Countries in Revenue Matters".
- Customise support to fit country conditions; there is no "one-size-fits-all" approach to tax reform.
- Ensure host-country ownership and leadership; concessional finance alone cannot "buy" effective and lasting reforms.
- Support developing countries in becoming parties to the "Multilateral Convention on Administrative Assistance in Tax Matters" to tackle tax evasion and avoidance.
- Remember that *how* revenue gets collected is as important as *how much* gets collected.
- Provide assistance to developing countries to ensure they can participate in and benefit from the OECD/G20 BEPS Project.
- Provide assistance to developing countries to identify their need for capacity building in order to participate in and benefit from the new standard in automatic exchange of information for tax purposes.
- Strengthen linkages between taxation and governance by supporting institutions and organisations outside the revenue system, such as the justice system, parliament and civil society.
- Ensure that providers lead by example by being transparent about their tax exemptions for ODA-funded staff salaries, goods and services.
- Prioritise fragile states for urgent support to tax reform.

Notes

1. Reported by Colombia to the OECD Task Force on Tax and Development plenary meeting in Korea, October 2013.
2. Reported by Kenya to the OECD Task Force on Tax and Development plenary meeting in Korea, October 2013.
3. The OECD Task Force on Tax and Development was created in 2010 and brings together the Committee on Fiscal Affairs and the Development Assistance Committee (DAC). Its members – OECD and developing countries, international and regional organisations, civil society and business – meet every year, most recently in Seoul, Korea in October 2013. Co-chaired by South Africa and the Netherlands, the role of the Task Force is to advise the OECD committees on delivering a tax and development programme to improve the enabling environment for developing countries to collect taxes fairly and effectively.

References

DAI (2010), *Final Report: TAPR Project*, report for USAID, Development Alternatives Inc., Bethesda, MD.

International Dialogue on Peacebuilding and Statebuilding (2011), *A New Deal for Engagement in Fragile States*, International Dialogue on Peacebuilding and Statebuilding, available at: *www.pbsbdialogue.org/documentupload/49151944.pdf*.

Love, P. (2013), "What is BEPS and how can you stop it?", *OECD Insights*, 19 July, OECD, Paris, available at: *http://oecdinsights.org/2013/07/19/what-is-beps-how-can-you-stop-it*.

OECD (2014), "Tax Inspectors Without Borders. A learning by doing approach to tax audit assistance", *Briefing Note*, OECD, Paris, available at: *www.oecd.org/ctp/tax-global/tax-inspectors-without-borders-summary.pdf*.

OECD (2013a), *Tax and Development: Aid Modalities for Strengthening Tax Systems*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264177581-en*.

OECD (2013b), "Draft Principles for International Engagement in Supporting Developing Countries in Revenue Matters", OECD, Paris, available at: *www.oecd.org/ctp/tax-global/Principles_for_international_engagement_May2013.pdf*.

OECD (2013c), *Action Plan on Base Erosion and Profit Shifting*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264202719-en*.

OECD (2010), *OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations 2010*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/tpg-2010-en*.

OECD/AfDB/ECA (2010), *African Economic Outlook 2010*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/aeo-2010-en*.

World Bank and Islamic Republic of Afghanistan (2010), "Afghanistan economic update", PowerPoint presentation to the ARTF Quarterly Meeting, The World Bank, Kabul, 8 December.

PART II

Chapter 15

Innovating to finance development

by
Julia Benn *and* Mariana Mirabile, Development Co-operation Directorate, OECD

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

This chapter also includes an opinion piece by Philippe Douste-Blazy, United Nations Under-Secretary-General and Special Advisor on Innovative Financing for Development, on how innovative financing can put the world's wealth to work for all people.

The pursuit of the Millennium Development Goals (MDGs) has shown just how wide the gap is between the resources needed and the resources available to finance development. Innovative finance for development initiatives were conceived to narrow this gap, with the idea that innovation could be used to ensure that part of the wealth generated through globalisation, rather than benefitting just a few, should be used to the benefit of many.

Innovative financing for development is an evolving concept

No internationally agreed definition of innovative finance for development exists. Initiatives tagged as "innovative" by some stakeholders may not be considered so by others. At present, innovative finance for development comprises many very different initiatives. For example, some earmark resources or make them available quickly, others correct market failures or modify the risk profile of a specific sector, and yet others mobilise domestic resources. Financial engineering mechanisms – such as blended finance, syndicated loans, guarantees or mezzanine finance (Chapter 11) – are also regularly referred to as innovative because of their increased use to leverage resources in the development context.

The pursuit of the MDGs has shown how wide the gap is between the resources needed and the resources available.

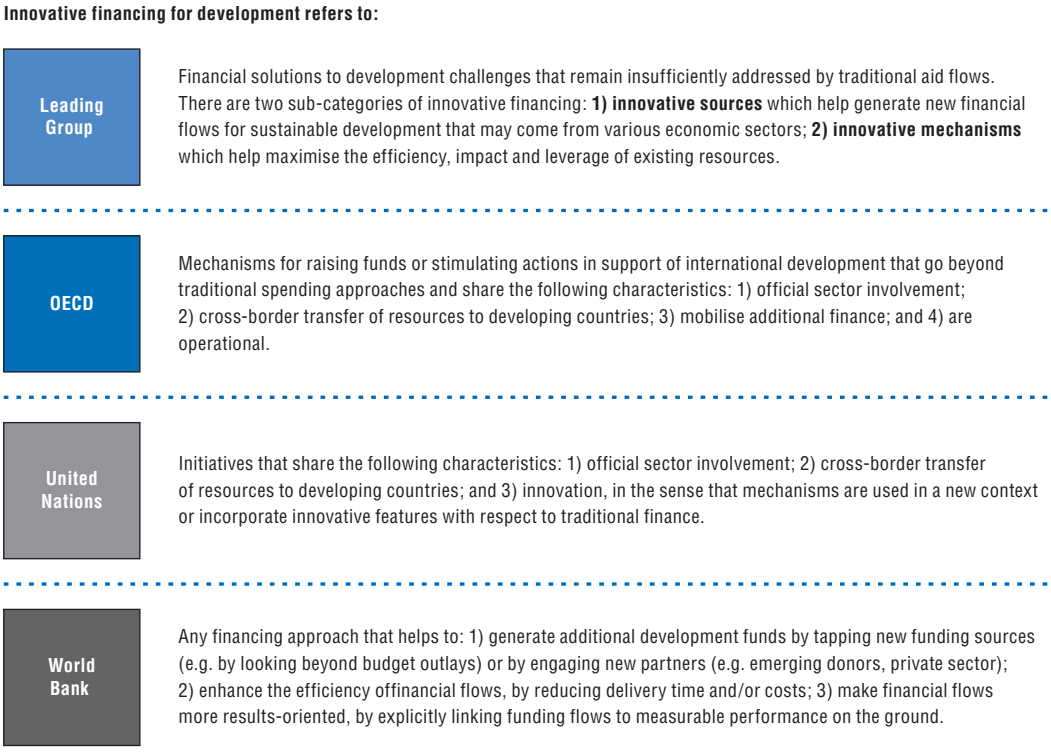
Figure 15.1 summarises how innovative financing for development has been defined by the Leading Group on Innovative Financing for Development (LG),[1] the OECD, the United Nations and the World Bank.

The term "additional" in particular – included in both the OECD and World Bank definitions – can be ambiguous and difficult to measure (Box 15.1).

A common definition of innovative finance for development is needed.

The international community – at the latest annual plenary session of the Leading Group, held in Nigeria in January 2014 – agreed that a common definition of innovative financing for development is needed to be able to track amounts mobilised by these initiatives in the post-2015 era. This agreement was reinforced at the Leading Group's expert workshop ("Preparing for 2015: The Role of Innovative Financing in Sustainable Development and Climate Change") held in Paris in June 2014.

Figure 15.1. **Varying definitions of innovative financing for development**



Sources: Leading Group website, *http://leadinggroup.org/rubrique172.html*; Sandor, E. (2011), "Mapping innovative finance for development mechanisms", *OECD Journal: General Papers*, Vol. 2010/1, OECD Publishing, Paris, *http://dx.doi.org/10.1787/gen_papers-2010-5kgc6cl2x95d*; United Nations (2012), *World Economic and Social Survey: In Search of New Development Finance*, United Nations, New York, *www.un.org/en/development/desa/policy/wess/wess_current/2012wess.pdf*; World Bank (2010), *Innovative Finance for Development Solutions: Initiatives of the World Bank Group*, The World Bank, Washington, DC, *http://siteresources.worldbank.org/CFPEXT/Resources/IF-for-Development-Solutions.pdf*.

Box 15.1. **The thorny issue of measuring additional finance**

The term "additional" may have different meanings. It might refer variously to:

1. More resources for development, be they official development assistance (ODA) or other types of finance originating from non-traditional sources of finance.
2. Flows beyond ODA, that do not count against the 0.7% ODA/GNI target (see Chapter 2).
3. Flows (ODA or other) that would not have been available otherwise, or that would have become available only at a later stage.

Measuring "additionality" statistically is even less straightforward. Monitoring "flows beyond ODA" would be problematic as some of the flows mobilised by innovative mechanisms meet the ODA criteria and are thus included as ODA. Monitoring flows that "would not have been available otherwise" or that "would have become available at a later stage" is even more complicated, as assessing their additionality requires knowing what would have happened in the absence of the innovative initiative. The only form of additionality that seems to be traceable is the case where "additional flows" are understood as flows originating from non-traditional sources of finance (i.e. outside development co-operation budgets), regardless of their ODA eligibility *ex post*. The international solidarity levy on air tickets (Box 15.2) is an example of a mechanism that generates such additional, but ODA-eligible, flows.

Innovative development finance is already in action

Innovative spending initiatives have been successful in optimising the use of traditional sources in a myriad of ways in the health sector. For example:

- **Tackling disease outbreaks by "front-loading" finance.** Front-loading resources means making funds available earlier than usual. By converting development co-operation providers' future ODA commitments into bonds, finance that would have been available in 20 years' time is made available today as these commitments are sold to the market and converted to cash the moment they are sold. For example, the International Finance Facility for Immunization (IFFIm)[2] has front-loaded large volumes of funds for immunisation programmes by selling "vaccine bonds" in capital markets backed by long-term pledges from providers of development co-operation. With administrative support from the World Bank, the IFFIm issues bonds in international capital markets that are to be serviced and repaid from ODA allocations earmarked in advance for this purpose. IFFIm thus borrows ODA from the future, to spend it today. The front-loading allows higher value for money because when fighting epidemics, a big initial push is usually more successful than years of marginal effort.[3] Furthermore, such large investments open up possibilities for bargaining with pharmaceutical companies to reduce the price of vaccines due to high volumes purchased, further increasing the efficiency of the resources spent. The resources generated by the bonds' sales are used to support immunisation programmes through the GAVI Alliance.

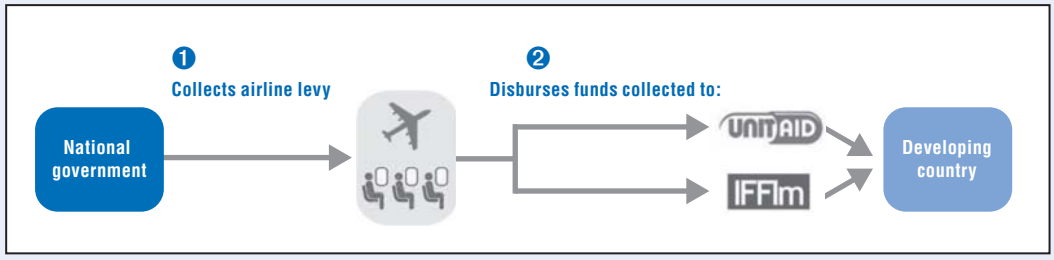
Advance market commitments have encouraged the development and production of vaccines tailored to the needs of, and affordable to, developing countries.

- **Encouraging vaccine development through advance market commitments.** Advance market commitments encourage private companies to invest in the development of affordable vaccines tailored to the needs of developing countries by using legally binding agreements to guarantee that high volumes of that vaccine will be bought by institutions such as UNITAID (Box 15.2). How do they work? By subsidising the purchase of vaccines by developing countries (up to a fixed number of sales or a fixed total amount), development co-operation providers ensure a market for private sector vaccine manufacturers that would not otherwise have existed. Once this fixed number of sales or total amount has been reached, manufacturers who benefited from the subsidy are contractually obliged to either sell the vaccines to developing countries at an affordable price or to license their technology to other manufacturers. For example, pneumococcal vaccines are new, complex vaccines that would normally reach low-income countries 10-15 years after their introduction in industrialised countries. Thanks to the pneumococcal advance market commitment, children in over 25 countries are being immunised against the main cause of pneumonia today.[4]
- **Swapping debt for health.** Debt2Health is an innovative financing initiative of the Global Fund to Fight AIDS, Tuberculosis and Malaria. Official development co-operation providers agree to grant debt relief in exchange for a commitment by the developing country to invest the equivalent amount in its national health programmes, through an approved Global Fund grant. In this way, Debt2Health reallocates resources from debt repayments towards life-saving investments in health.

Box 15.2. **UNITAID and France's solidarity levy on air tickets**

UNITAID is a global health initiative established in 2006 by the governments of Brazil, Chile, France, Norway and the United Kingdom. It provides sustainable funding for medicines, diagnostics and prevention for HIV/AIDS, malaria and tuberculosis. UNITAID's key source of income is through the international solidarity levy on airline tickets. Currently collected in 9 out of 29 UNITAID member countries – Cameroon, Chile, Congo, France, Madagascar, Mali, Mauritius, Niger and the Republic of Korea – this nationally implemented and internationally co-ordinated tax on airline ticket sales collects USD 224 million every year, generating funds for UNITAID and IFFIm (UNITAID, n.d.; see figure below).*

How the airline levy works



In France, this levy is called the "solidarity levy on airline tickets" and is charged to each passenger departing French soil. Domestic/intra-European Union economy class passengers are charged EUR 1 and international economy passengers are charged EUR 4. For first and business class, the rate is EUR 10 for domestic/intra-European Union and EUR 40 for international flights. In January 2013, France's Directorate General for Civil Aviation announced that EUR 1 billion had been collected since the inception of this tax in 2006. In his speech to the 67th United Nations General Assembly in September 2012, French President François Hollande said that the success of UNITAID has influenced France to push for a tax on financial transactions.

* Funds raised are an estimation from UNITAID 2012 Financial Statement, available at: *www.unitaid.eu/images/budget/Dec-31-2012_Financial_Statements.pdf*.

The potential of innovative financing is still largely untapped

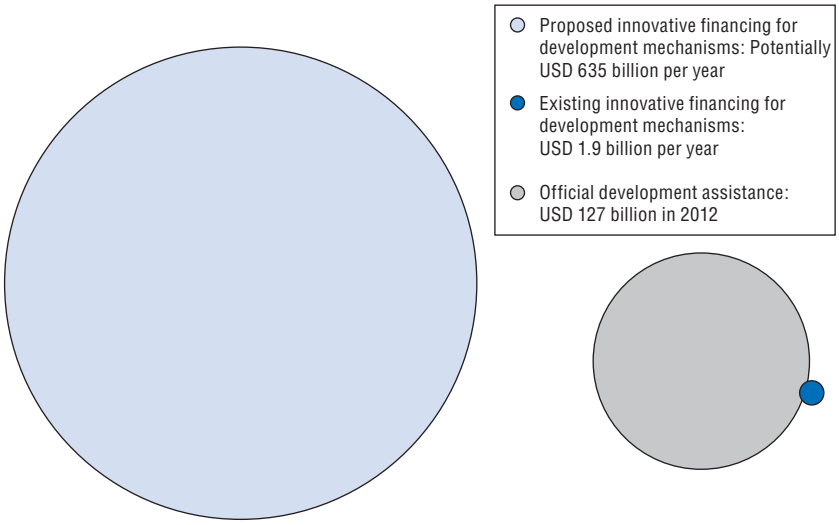
To date, the resources mobilised by innovative finance for development initiatives amount on average to USD 2 billion every year. This is equivalent to a small fraction (about one-seventieth) of the amount allocated as ODA in 2012 (Figure 15.2).[5]

The annual resources mobilised by innovative financing for development average USD 2 billion – equivalent to only a small fraction of the ODA allocated in 2012.

How much more could potentially be mobilised through innovative financing mechanisms? The United Nations' estimates suggest that over USD 600 billion could be mobilised every year, i.e. five times as much as ODA in 2012 (Figure 15.2). The potential stems from an array of "innovative sourcing" options proposed over the past decade, which could take advantage of potentially large untapped sources of revenue (Table 15.1). Particularly interesting in the current environment of spending cuts are taxes on financial and currency transactions and on greenhouse gas emissions (see Chapter 18), as well as the creation of new international liquidity through the issuance of special drawing rights by the International Monetary Fund (IMF).[6]

Figure 15.2. **Potential of "innovative sourcing and spending" mechanisms**

USD billion



Sources: DAC statistics; United Nations (2012), *World Economic and Social Survey: In Search of New Development Finance*, United Nations, New York, *www.un.org/en/development/desa/policy/wess/wess_current/2012wess.pdf*.

Table 15.1. **Proposed innovative financing mechanisms for development**

Initiatives	Potential amount mobilised a year (USD billion)
New special drawing rights issuance (as reserve to free up domestic resources)	160
Special drawing rights used as development finance	100
Carbon taxes – USD 25 per tonne of CO_2 emitted	250
Billionaire's tax	40
Currency transaction tax	40
Financial transaction tax	15
REDD+[1]	30
Total	**635**

1. REDD+ is the UN Programme on Reducing Emissions from Deforestation and Forest Degradation.

Source: Based on United Nations (2012), *World Economic and Social Survey: In Search of New Development Finance*, United Nations, New York, *www.un.org/en/development/desa/policy/wess/wess_current/2012wess.pdf*.

The tax on transactions in the financial market – the financial transaction tax – is already being implemented in some countries and is being discussed at the European level.[7] The financial transaction tax is a levy applied on specific types of monetary transactions, such as the purchase of shares, bonds, traded funds and derivatives. The tax generates substantial additional public revenue, part of which could be used to finance development. In the Leading Group's 2014 annual plenary session, the international solidarity levy on air tickets was referred to as "the pilot for the financial transaction tax". Given the success of this pilot, it may now be time to scale up (see Box 15.2 and the "In my view" box).

Even at very low rates, the proceeds from a tax on financial transactions in G20 countries could amount to over USD 350 billion a year, part of which could be allocated to development.

In my view: Innovative financing can put the world's wealth to work for all people

Philippe Douste-Blazy,
United Nations Under-Secretary-General
and Special Advisor on Innovative Financing for Development

Many industrialised countries are facing heavy debt and slow economic growth, so it is no surprise when the media admonish that there is no money for global development and social needs. Yet the global economy produces astonishing wealth. There are more billionaires across the globe today than ever before – the number of wealthy individuals increased by 28% between 2009 and 2011 – and many companies are making astronomical gains. The way wealth is generated, where it is generated and how it is distributed is changing, however, and this affects both the haves and have-nots.

To meet the needs of the poorest people on our planet, we will need to harness the opportunities offered by the changing global economy. This means being innovative in how we finance development. It means bringing on board new, sustainable revenue flows – derived directly from the revenue and capital that characterise the 21st century global economy – to complement official development assistance (ODA). It is true that the excesses of financial innovation have brought the world economic system to the brink, but it is also true that financial innovation can be used for the good of humanity.

For example, take the international solidarity levy on air tickets. Many people have no idea when they board a plane from Chile, France or Morocco – or from six other countries – that their airline ticket helps UNITAID buy AIDS medicine for children (see Box 15.2). Yet travellers have generated more than EUR 2.5 billion, thanks to which 8 out of 10 children in the world with AIDS are receiving treatment and some 350 million people have access to anti-malaria treatments – a disease that kills one child every 40 seconds. UNITAID raises and spends its funds in ways that create leverage in the marketplace for the interests of patients in the poorest countries of our planet – and ultimately for the security of us all.

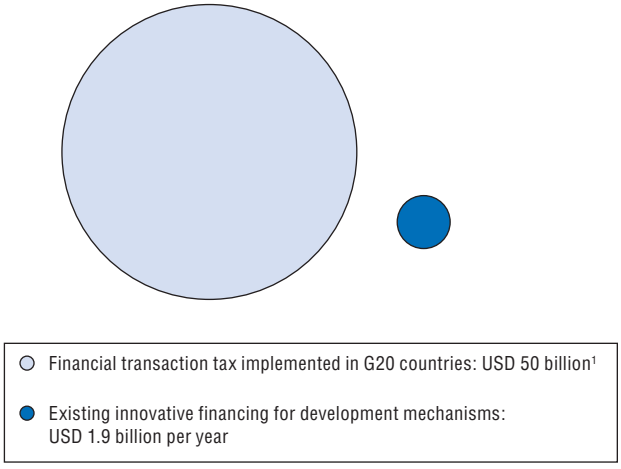
The UNITAID example can be applied to other sectors of the global economy – for example, to the extractive industries. In Africa, oil and gas generate almost USD 150 billion in revenue per year. As a member of the Advisory Board of the Innovative Finance Foundation (IFF)* – which generates funding for social infrastructure – I proposed examining the feasibility of using innovative instruments such as a micro-levy on Africa's extractive industries to combat stunting (reduced growth rates resulting from malnutrition). Stunting affects a staggering 165 million children under five years of age, more than 90% of whom are in the developing world; the highest rates are in Africa (36%) and Asia (27%) (UNICEF/WHO/World Bank, 2011). The IFF's initial research indicates that such action could not only generate funding for health and education, it could also support governments in good natural resource management.

In my view, innovative financing is about making capitalism work better for all people, so that they can share equitably in the world's wealth for their health, education, nutrition and other development needs. It enables everyone to participate in the global economy, no matter where they live.

* See *www.innovativefinance.org*.

A UNITAID report estimates that even at very low rates (0.2% per equity transaction and 0.001-0.01% for debt securities), the proceeds from a tax on financial transactions in G20 countries could amount to over USD 350 billion a year (UNITAID, 2011). France has committed to allocate 15% of the amount leveraged through such taxes to finance development; if this percentage, as an average, were to be allocated across all of the G20 countries, more than USD 50 billion of additional resources – or 25 times the resources mobilised by all the innovative mechanisms in place today – would become available every year (Figure 15.3).

Figure 15.3. **Annual mobilisation potential of financial transaction taxes**



1. Assuming 15% of the tax is allocated to development.
Source: Based on United Nations (2012), *World Economic and Social Survey: In Search of New Development Finance*, United Nations, New York, *www.un.org/en/development/desa/policy/wess/wess_current/2012wess.pdf*; UNITAID (2011).

Key recommendations

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

Notes

1. The Leading Group on Innovative Financing for Development is a platform bringing together 64 member countries with differing levels of development, as well as international organisations and non-governmental organisations. It seeks to promote the implementation and definition of innovative financing mechanisms around the world.
2. See: *www.iffim.org*.
3. Such a push can meaningfully disrupt the spread of the disease by reducing both the number of contagious people and the prevalence of pathogens (Douste-Blazy and Altman, 2010).
4. For more information, see *www.gavialliance.org/funding/pneumococcal-amc*.
5. This calculation only includes initiatives that meet the OECD definition (Figure 15.1). The total is thus an underestimation of the total amount that would have been mobilised by innovative financing for development initiatives if the United Nations or the World Bank definitions were taken into account.
6. Special drawing rights represent a claim to currency held by IMF member countries which may be exchanged for euro, Japanese yen, British pounds sterling or US dollars.
7. Eleven countries (Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, the Slovak Republic, Slovenia and Spain) have decided to implement – through enhanced co-operation – a European directive on the taxation of financial transactions. A recent meeting of the Economic and Financial Affairs Council (May 2014) reached agreement on the modalities of the future tax, which will exclude derivative products. However, there is no consensus yet on the allocation of the future revenues of the tax (Council of the European Union, 2014).

References

Council of the European Union (2014), "Press release, 3310th Council meeting", 6 May 2014, Economic and Financial Affairs, Brussels, *www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/142513.pdf*.

Douste-Blazy, P. and D. Altman (2010), *Power in Numbers: UNITAID, Innovative Financing, and the Quest for Massive Good*, Public Affairs, New York.

Landau, J.P. et al. (2004), "Rapport à Monsieur Jacques Chirac Président de la République", Groupe de travail sur les nouvelles contributions financières internationales, *www.diplomatie.gouv.fr/en/IMG/pdf/LandauENG1.pdf*.

Sandor, E. (2011), "Mapping innovative finance for development mechanisms", *OECD Journal: General Papers*, Vol. 2010/1, OECD Publishing, Paris, *http://dx.doi.org/10.1787/gen_papers-2010-5kgc6cl2x95d*.

UNDESA (2002), *Monterrey Consensus on Financing for Development*, United Nations Department for Economic and Social Affairs, New York, *www.un.org/en/events/pastevents/pdfs/MonterreyConsensus.pdf*.

UNDP (2012), "Innovative financing for development: A new model for development finance", *Discussion Paper*, United Nations Development Programme, New York, January, *www.undp.org/content/dam/undp/library/Poverty%20Reduction/Development%20 Cooperation%20and%20Finance/InnovativeFinancing_Web%20ver.pdf*.

UNICEF/WHO/World Bank (2011), *UNICEF-WHO-The World Bank: 2011 Joint Child Malnutrition Estimates – Levels and Trends*, World Health Organization, Geneva, *www.who.int/nutgrowthdb/estimates/en*.

UNITAID (2011), *Tax on Financial Transactions: An Implementation Guide*, World Health Organisation, Geneva, *www.unitaid.eu/images/NewWeb/documents/Finance/UTD-Report-TTF_en.pdf*.

UNITAID (n.d.), "Innovative financing: The air ticket levy", World Health Organization, Geneva, *www.unitaid.eu/en/innovative-financing*.

United Nations (2012), *World Economic and Social Survey: In Search of New Development Finance*, United Nations, New York, *www.un.org/en/development/desa/policy/wess/wess_current/2012wess.pdf*.

World Bank (2013), *Financing for Development Post-2015*, The World Bank, Washington, DC, *www.worldbank.org/content/dam/Worldbank/document/Poverty%20documents/WB-PREM%20financing-for-development-pub-10-11-13web.pdf*.

World Bank (2010), *Innovative Finance for Development Solutions: Initiatives of The World Bank Group*, The World Bank, Washington, DC, *http://siteresources.worldbank.org/CFPEXT/Resources/IF-for-Development-Solutions.pdf*.

Development Co-operation Report 2014
Mobilising Resources for Sustainable Development
© OECD 2014

PART II

Chapter 16

Enhancing the contribution of social business to sustainable development

by
Kerstin Humberg, engagement manager, international business consultancy
and Linda Kleemann, Kiel Institute for the World Economy, Germany

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

This chapter also includes an opinion piece by Muhammad Yunus, Founder and Managing Director of the Grameen Bank, on why development without sustainability is meaningless.

Since Muhammad Yunus, the founder of the Grameen Bank[1] in Bangladesh, publicly coined the term through his Nobel lecture in December 2006, "social business" has become a popular buzzword. But what is social business and what can it contribute to poverty reduction and human development?

The OECD was among the first international organisation to conceptualise social entrepreneurship, using a definition that remains a reference point for policy makers and practitioners: "Any private activity conducted in the public interest, organised with an entrepreneurial strategy but whose main purpose is not the maximisation of profit but the attainment of certain economic and social goals, and which has a capacity of bringing innovative solutions to the problems of social exclusion and unemployment" (OECD, 2000). This definition is very similar to Muhammad Yunus' notion of social business (see Box 16.1 and his "In my view" box later in this chapter).

Box 16.1. **Two types of social business**

Yunus distinguishes between two types of social business:

- Type 1: A "non-loss, non-dividend company" that creates social benefits through the nature of its products, services and/or operating systems.
- Type 2: A profit-maximising company owned by its poor or otherwise disadvantaged target beneficiaries, or by a dedicated trust.

In Yunus' view, it is crucial to be clear that social business excludes the pursuit of individual profit by the company's founders and shareholding investors, beyond the return of their original investment, to maximise the company's social and environmental value-creation potential.

Source: Yunus, M. (2010), *Building Social Business – The New Kind of Capitalism That Serves Humanity's Most Pressing Needs*, Public Affairs, New York; Yunus, M. (2007), *Creating a World Without Poverty: Social Business and the Future of Capitalism*, Public Affairs, New York.

Strictly speaking, Yunus' social business approach represents a specific sub-set of social entrepreneurship. While a social enterprise in its broad sense may be for-profit or non-profit, commercially viable or subsidised, a social business complying with Yunus' concept is based on a commercially viable business model, while at the same time adhering to the non-distribution constraint[2] of non-profit organisations (unless ownership is given to the company's target beneficiaries). All those who design and run social businesses could thus be called social entrepreneurs, but not all social entrepreneurs are engaged in social business, as social enterprises may depend on donations or include conventional dividend payments to shareholders.

Social business contributes to human development by enlarging people's choice in an economically, environmentally and socially sustainable way.

Today, both terms social business and social enterprise tend to be used to refer to all kinds of hybrid organisations, ranging from non-governmental organisations (NGOs) with income-generating activities to socially responsible businesses that pursue social and environmental benefits in addition to profits. In order to promote some standardisation of terms and fill the gap in Yunus' definition on the question of what "social" is, we propose the following universal definition of social business: "A business that contributes to human development by enlarging people's choice in an economically, environmentally and socially sustainable way.[3] Its norms and standards are context-specific and result from societal negotiation."

Social entrepreneurship is widespread and varied in developing countries

Detailed data on the extent and impact of social business are scarce. *The Global Entrepreneurship Monitor Report on Social Entrepreneurship* shows that between 0.4% and 4% of the working-age population in emerging and developed markets can be considered social entrepreneurs (Terjesen et al., 2011). While this figure is not definitive and only offers a proxy for the prevalence of social business, it shows that the general idea of social entrepreneurship seems to be widespread and can, in principle, be replicated in a variety of places.

Reports and case studies illustrate three dominant modes of social business in developing countries:

1. Social businesses that are founded and funded by local elites who have studied or have spent part of their working life abroad before bringing back home the idea of solving social problems through business. They are well educated, comparatively wealthy and have good international networks.
2. Social businesses that are founded by international elites who have a history in a particular country, often having worked as employees of international organisations, development agencies, NGOs or multinational corporations.
3. Social businesses established by multinational corporations as a testing field for market entry, as a corporate social responsibility scheme[4] or as an entry point for transforming the whole business.

Social business has some advantages over conventional development co-operation

What are the strengths of the social business approach compared to conventional development co-operation? In principle, social businesses offer a wide range of opportunities. Real-life examples such as Grameen Danone Foods Ltd in Bangladesh (see Box 16.2) exemplify how they can:

- mobilise private sector resources
- create new employment and income opportunities
- enlarge poor consumers' choices of products and services
- foster bottom-up growth
- overcome charity approaches to development
- turn poor people from "aid" recipients into market participants
- achieve a win-win-situation of profitability and social value creation at the same time.

One major advantage social business has over development co-operation is the combination of a long-term perspective (rather than a short-term, project approach) with a business case built on market dynamics, thus increasing the likelihood that products or services offered to target beneficiaries are actually in demand. In a social business initiative, "the poor" are regarded as active market participants, for example as employees who can add to value creation or as consumers who are willing to pay if they get value for money at an affordable price. In this way, social business initiatives can enlarge poor consumers' choice of products and services.

In my view: Development without sustainability is meaningless

Muhammad Yunus,
Nobel Peace Prize-winning founder of Grameen Bank

Over the past three decades there has been a feeling of uneasiness about development programmes based on handouts, charity and safety nets. It is no longer an issue of debate: development without sustainability cannot be meaningful or have an impact.

The Yunus Centre's social business work in Bangladesh and around the world puts sustainability at the core. Social business is cause-driven. It is profitable, but its investors are not interested in personal profit; once they recoup their investment, any additional profits are ploughed back into the business for its expansion and improvement. The objective is to attain one or more social goals, with profit seen only as a means to ensure the sustainability of the business.

The social businesses founded by the Yunus Centre range from small, single-entrepreneur businesses to large joint ventures with multinational companies. For example, in 2006 Grameen joined forces with one of the world's major food producers – Groupe Danone – to produce a yoghurt fortified with micro-nutrients that could reduce child malnutrition in Bangladesh (see Box 16.2). Kids love this delicious and healthy product. Neither Danone nor Grameen take dividends from the company and the creativity and energies of the board, management and staff are focused on the social goal, without losing sight of the need to cover the costs of the enterprise and expand.

Grameen borrower families in Bangladesh number more than 8 million. Thanks to the efforts of the Grameen Bank, thousands of their children have received education – in many cases for the first time in their families – reaching high-school, college and university. Many have become engineers and doctors. Even so, despite these qualifications, many are unable to secure employment because of the acute shortage of jobs. Grameen has launched a campaign to redirect these minds away from the traditional job market to futures based on entrepreneurship. These *nobin udyokta* (in Bangla, "new entrepreneurs") insist: "We are not job seekers, we are job givers." Grameen companies invest social business funds in their enterprises without any expectation of returns beyond the original capital. After the young entrepreneurs pay back the equity, they become owners of their own social businesses. By continuing to grow the business, they generate employment for others and build financial security for themselves and their families. This formula of turning the unemployed into entrepreneurs is a potent way of tackling the persistent social problem of unemployment which even plagues industrialised countries.

In my view, social business offers an effective way to solve some of our most intractable problems. I would like to urge OECD countries to explore this path towards sustainable development, promoting the creation of social business funds by businesses, governments, foundations and individuals. This will empower entrepreneurs – young and old – to create businesses that can solve the problems of their own communities. Every profit-making business can create a parallel social business to solve a small slice of any mega problem. I invite OECD countries to try it.

Box 16.2. **Grameen Danone's learning curve**

Grameen Danone Foods Ltd was launched in July 2006 as a private limited company in rural Bangladesh. The company was set up as a 50/50 joint venture between Grameen Group and Group Danone Asia Pte Ltd, a subsidiary of the multinational food producer Groupe Danone. Grameen Danone's aim is to alleviate malnutrition among needy children by selling fortified yoghurt at an affordable price. But experience has shown how challenging it is to combine these objectives with business solvency. During the start-up phase, Grameen Danone was confronted with several challenges: low demand in the rural target market, a lack of sales and distribution channels to reach poor and extremely poor consumers, and high operating costs in the absence of a functioning cold chain.

To ensure the yoghurt's affordability, Grameen Danone tried to keep the initial price as low as possible by focusing on a one-product-fits-all solution. When this proved to be counterproductive, Grameen Danone decided to diversify its product portfolio by expanding to urban markets with the aim of boosting the plants' capacity utilisation and allowing for economies of scale.

Today, Grameen Danone has had a fairly successful record in job and income creation. Nonetheless, while this has boosted the income and food security of salespersons and micro-farmers, it has not been sufficient to lift them out of poverty. Also, because of its pilot project character, the yoghurt business was still limited in scale after five years, reaching approximately 60 000 people or an estimated 0.04% of Bangladesh's total population with one cup of yoghurt a day. The most critical shortcoming, however, is the fact that Grameen Danone has not yet fully established its desired health impact. If consumed regularly at least twice a week, Grameen Danone's product should be effective in providing adequate nutritional levels. However, this type of regular consumption requires not only a minimum ability to pay, but also a change in target customers' consumption patterns.

Source: Humberg, K. (2011), *Poverty Reduction through Social Business? Lessons Learnt from Grameen Joint Ventures in Bangladesh*, Oekom Verlag, Munich, Germany.

Integrating the poor into value chains can generate new income and employment opportunities.

Integrating the poor into value chains that did not exist before can also generate new income and employment opportunities, although the extent to which this actually happens depends on the type of business model. How social business can provide employment opportunities, including for disadvantaged individuals, has been analysed recently by the OECD through a survey of social enterprises and social economy organisations, mostly in OECD countries (Buckingham and Teasdale, 2013). By improving stakeholders' capabilities (e.g. in terms of better health and productivity) and contributing to development, social business initiatives also may foster growth from the bottom up, in contrast to top-down macroeconomic strategies.

Self-sustainable social business solutions are particularly promising in three regards. First, if commercial viability is achieved, this relieves executives from fundraising and dependency on financial development "aid". Second, sufficient profits allow successful initiatives to be scaled up and replicated. Thirdly, social value creation – responding to poor or disadvantaged people's needs as the primary business driver – allows the social-minded entrepreneur to innovate and take advantage of previously untapped business opportunities, entering new markets that are judged unprofitable or too risky for conventional businesses.

Creating a viable social business is complicated

The opportunities outlined above reflect a best-case scenario. It is, however, challenging to achieve social goals, environmental sustainability *and* commercial viability at the same time (Box 16.2 and Humberg, 2011). The creation of commercially viable social purpose ventures is complicated, requiring both capital and technical know-how; it is also important to allow for learning and experimentation, as changing consumer behaviour in line with a social objective often takes time.

Moreover, even when a social business company reduces target beneficiaries' vulnerability (e.g. by improving their health or growing their social capital), it may not offer income opportunities that are significant enough to lift the poor out of poverty. And finally, the number of proven social business models that can be scaled up and replicated is still limited.

Achieving social goals, environmental sustainability and commercial viability at the same time is challenging.

Lack of access to start-up capital is a big constraint for many social entrepreneurs. Important sources of funding for social business start-ups in developing countries are friends and family, as well as the entrepreneur's own savings. In addition to these private funding options, there are three principal sources of finance: development grants, banks and private equity investors. However, each comes with its own problems:

- Official development assistance (ODA) is perceived as arbitrary and volatile, and with strings attached that lower the value for the social entrepreneur. In addition, many development co-operation actors prefer to support only the social purpose of a social business, while making sure that their money is not used for business profit. This separation may be impossible for a social entrepreneur to achieve.
- Banks often perceive social businesses as risky because they involve unconventional business models. Furthermore, small but growing social businesses may be too small for average business loans, but too big for microfinance.
- Currently, private equity risks undermine the primary social purpose of a business in favour of the private investors' profit demands. The kind of capital needed would be both patient (equity that can be paid back over a long period) and accepting of a no-dividend policy (in other words, only the initial investment is paid back).

This is where development-driven intermediaries, impact investors[5] and social business angels[6] have a role to play. Development actors and impact investors may be able to fill gaps by providing targeted finance and social business support services. Successful local entrepreneurs also could link social business start-ups to their networks and provide advice based on their experience.

Finally, assessing the social impact of businesses tends to be resource-intensive and complicated, not only because of potential time lags between interventions and impact, but also due to the absence of universal social reporting standards. Further work is needed to develop standards and best practices in these assessments. Without universal standards, it is impossible to compare the net impact of different social businesses, in particular because of the potentially large number of positive and negative side effects that should be taken into account. It is critical that all positive and negative outcomes be considered to avoid unintended side effects and to gauge a venture's net social return on investment.

Social business is not risk-free

Social businesses are also not immune to negative outcomes. For example, the need to be commercially viable might place pressure on environmental objectives or favourable wage levels, and lead to exploitative business practices. Some social business companies may also enter into direct competition with local producers, thus distorting local market structures.

Some communities may see the sale of clean water as a noble cause; others may see it as contradicting an inherent human right – access to potable water.

The current micro-credit crisis and debate around profit-maximising credit providers[7] point to another risk. Once a social entrepreneur has succeeded in developing a viable social business model, the model is open to replication, including by profit-maximising entrepreneurs in search of personal financial gain, with potentially negative consequences for the poor. In the absence of a clear regulatory framework (Box 16.3), anyone could claim to run a social business. The problem, however, in establishing such a regulatory framework is that what is considered "social" is context-dependent. For example, some communities may see the provision of clean water, albeit at a cost, as a noble cause, while others may see it as contradicting an inherent human right – access to potable water.

Box 16.3. **OECD recommendations for policy support to social enterprise* development**

Public policies can create an enabling environment for social enterprises if policy makers adopt a systemic vision of social enterprise and fully understand the contribution that it can make to the improvement of economic and social development and well-being. The OECD has highlighted some key areas for national and local policy action in developed countries that might apply to developing countries as well (OECD/European Union, 2013):

- Promote a culture of social enterprise entrepreneurship.
- Build enabling legal, regulatory and fiscal frameworks to bring clarity, without over-regulating so as to avoid using the law for matters that do not necessarily require it. This should be accompanied by a wide range of strategies to support the development of social enterprise.
- Provide sustainable finance that is tailored to the needs of social enterprises, including innovative institutional arrangements between governments and financial institutions that seek both social and financial returns. Governments can also improve access to capital through tools such as credit guarantees and tax credits that provide fiscal incentives for potential investors.
- Offer business development services and support structures involving a "braided" system – i.e. support that targets both traditional and social businesses – to foster and incubate business ideas and projects.
- Support access to markets by creating a level playing field for social enterprises through measures similar to those applicable to small and medium-sized enterprises, e.g. tax relief.
- Support programmes and initiatives that strengthen the capacity to build effective strategies to enter the market.
- Make public procurement policies more open to the social enterprise sector.
- Support research and increased knowledge of the sector and its needs, including on issues such as measuring social impact.
- Promote effective social impact measurement driven by a plurality of stakeholders to shape the debate in a way that supports the alignment of the needs of the various stakeholders.

While a coherent policy framework to support social enterprises is essential to maximise their impact, policy processes are just as important as the policies themselves. Social enterprise policies are more effective if they are built through horizontal (working across silos) and vertical co-ordination (working across levels of government) and in co-operation with the various stakeholders. This reduces information asymmetries and opportunistic behaviours, and results in greater policy coherence and effectiveness (Noya, 2009; Mendell et al., 2010; OECD/European Union, 2013).

* Although the terms social business and social enterprise are sometimes used interchangeably, they do not cover exactly the same realities. These OECD policy recommendations have been designed with social enterprises in mind, although most also apply to social business.

Source: Noya, A. (ed.) (2009), *The Changing Boundaries of Social Enterprises*, Local Economic and Employment Development (LEED), OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264055513-en*; Mendell, M. et al. (2010), "Improving social inclusion at the local level through the social economy: Report for Korea", *OECD Local Economic and Employment Development (LEED) Working Papers*, No. 2010/15, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5kg0nvg4bl38-en*; OECD/European Union (2013), *Policy Brief on Social Entrepreneurship*, Publication Office of the European Union, Luxembourg, *www.oecd.org/cfe/leed/Social%20entrepreneurship%20policy%20brief%20EN_FINAL.pdf*.

This box was contributed to the chapter by Antonella Noya, Centre for Entrepreneurship, SMEs and Local Development at the OECD.

Finally, even those who start with noble objectives are not immune to "mission drift". For example, the lure of financial gain may lead owners of profitable social business companies to change their target customers (e.g. from the rural poor to the affluent urban population). This observation points to a trade-off between profitability and affordability. In their quest for commercial viability, social businesses may also run the risk of passing over the extreme poor (see also Shrimali et al., 2011).

Is social business a promising development approach?

Social business represents a new development approach with its own set of opportunities, limitations and risks. If well managed and set up to contribute to poor consumers' purchasing power, social business companies can turn poor communities from "aid" beneficiaries into active market participants, and short-term development programmes into commercially viable business solutions. Social business companies primarily respond to market conditions and customer demand, rather than the priorities of development co-operation providers and their partners; social business calls for experimentation, innovation, replication and growth. The concept furthermore stimulates a fundamental debate about the role of private and public institutions in development, while opening up new avenues for cross-sector collaboration in developing countries. The private sector can offer financial capital, technical expertise and functional business know-how, while partnerships with research institutions allow for progress in the field of social impact assessment.

The role that development co-operation can play in fostering social business is to some extent similar to creating an enabling environment for conventional business. In addition, there are several support mechanisms that can be specifically tailored to social business (such as the examples developed for social enterprises in Box 16.3). For instance, development co-operation can lend support to education as a key strategy for advancing the social business approach. Encouraging an entrepreneurial mindset, fostering critical and creative thinking, promoting ethics and values, and teaching social problem-solving skills are all essential. Legal forms that permit a combination of for-profit and non-profit activities are also needed. Much can be learnt from developed country experiences; the United Kingdom, for instance, has gone far in creating a supportive environment specifically for social enterprises (Social Enterprise UK, 2013).

It is important to be aware, however, that social business entrepreneurs frequently compete with traditional development co-operation providers for both resources and customers. A standardised analysis of the project environment can help to detect, and prevent, such instances.

Social business entrepreneurs frequently compete with traditional development co-operation providers for both resources and customers.

Finally, emerging social business start-up hubs in megacities such as Nairobi and Accra can help to promote the concept and its implementation in other places in the developing world. These hubs offer access to capital, networking, advisors and mentors along with the training and learning resources required to turn a start-up into a successful business.[8]

The recommendations below are targeted at all types of support, and apply both to development co-operation providers and governments – in the North and the South.

Key recommendations

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

Notes

1. The Grameen Bank is a Nobel Peace Prize-winning microfinance organisation and community development bank founded in Bangladesh. It makes small loans to the impoverished without requiring collateral. The name Grameen is derived from the word *gram* which means "rural" or "village" in the Sanskrit language.
2. The non-distribution constraint states that a non-profit organisation is prohibited from distributing its net earnings among individuals who oversee the organisation. This includes board members, staff and directors.
3. With reference to Amartaya Sen's capability approach (2001).
4. Corporate social responsibility is a system which serves as a basis for companies to voluntarily integrate social and environmental concerns into their activities and their relations with their stakeholders (definition by the European Union).
5. Investors seeking social impact rather than profit maximisation.
6. A business angel is an affluent individual who provides capital for a business start-up.
7. Purely for-profit micro-credit providers, as opposed to social business providers or even non-profit providers, have come under intense criticism recently for providing services that harm rather than help the poor (including high interest rates and unfair loan contracts, which lead to over-indebtedness, etc.).
8. See *http://hubaccra.com* and *www.thegrowthhub.com*.

References

Buckingham, H. and S. Teasdale (2013), *Job Creation through the Social Economy and Social Entrepreneurship*, OECD, Paris, *www.oecd.org/cfe/leed/130228_Job%20Creation%20throught%20the%20Social%20Economy%20and%20Social%20Entrepreneurship_RC_FINALBIS.pdf*.

Humberg, K. (2011), *Poverty Reduction through Social Business? Lessons Learnt from Grameen Joint Ventures in Bangladesh*, Oekom Verlag, Munich, Germany.

Mendell, M. et al. (2010), "Improving social inclusion at the local level through the social economy: Report for Korea", *OECD Local Economic and Employment Development (LEED) Working Papers*, No. 2010/15, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5kg0nvg4bl38-en*.

Noya, A. (ed.) (2009), *The Changing Boundaries of Social Enterprises*, Local Economic and Employment Development (LEED), OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264055513-en*.

OECD (2000), *Social Enterprises*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264182332-en*.

OECD/European Union (2013), *Policy Brief on Social Entrepreneurship*, Publication Office of the European Union, Luxembourg, *www.oecd.org/cfe/leed/Social%20entrepreneurship%20policy%20brief%20EN_FINAL.pdf*.

Sen, A. (2001), *Development as Freedom*, Oxford University Press, New York.

Shrimali, G. et al. (2011), "Improved stoves in India: A study of sustainable business models", *Energy Policy*, Vol. 39, No. 12, pp. 7 543-7 556.

Social Enterprise UK (2013), "The People's Business: State of Social Enterprise Survey 2013", Social Enterprise UK, London, *www.socialenterprise.org.uk/advice-services/publications/the-people-business*.

Terjesen, S. et al. (2011), *Global Entrepreneurship Monitor Report on Social Entrepreneurship*, Global Entrepreneurship Research Association, London, *www.gemconsortium.org/docs/376/gem-report-on-social-entrepreneurship-executive-summary*.

Yunus, M. (2010), *Building Social Business – The New Kind of Capitalism That Serves Humanity's Most Pressing Needs*, Public Affairs, New York.

Yunus, M. (2007), *Creating a World without Poverty: Social Business and the Future of Capitalism*, Public Affairs, New York.

Yunus, M. (2006), "We can put poverty into museums", *Nobel Lecture*, 10 December, Oslo, *www.nobelprize.org/nobel_prizes/peace/laureates/2006/yunus-lecture-en.html*.

PART III

Development finance post-2015 and the provision of global goods

Development Co-operation Report 2014
Mobilising Resources for Sustainable Development
© OECD 2014

PART III

Chapter 17

How can development co-operation address global challenges?

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

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

Since its inception in 1972, the concept of official development assistance (ODA) has been a successful instrument for promoting development co-operation and orienting development policies. Development assistance has helped to stimulate growth and reduce poverty by building human and physical capacity, and has brought about significant improvements in health (Channing et al., 2011).

Over the more than 40 years that ODA has been in existence, however, the global environment has changed dramatically. Two shifts are particularly notable: on the one hand, more attention is being focused on global challenges such as climate, security and migration; on the other hand, new and innovative forms of development financing have emerged, as this *Development Co-operation Report* makes clear. This chapter asks what these shifts mean for ODA.

Official development assistance needs to respond to global challenges

Traditional development concepts malfunction in an interconnected world where global solutions are needed to tackle cross-border problems that inhibit development.[1] These solutions include securing "global public goods", such as peace and security (Chapter 19), a stable climate (Chapter 18), health and a sound financial environment.

At the same time, developing countries have become widely differentiated and a one-size-fits-all ODA concept is no longer attractive to them. While ODA remains an important tool for enhancing the development prospects of poor and fragile nations where it is the most important source of finance, new and innovative forms of development financing have emerged, increasing many countries' options.[2] In the countries that have traditionally provided development co-operation, on the other hand, budgetary pressures make it imperative not only to show results for taxpayer money spent, but also to increase the leverage of scarce public funds.

We need a wider concept of international co-operation based on a holistic approach to development, while preserving the useful elements of ODA.

We need a wider concept of international co-operation based on a more holistic approach to development, while preserving the useful elements of ODA. The global post-2015 goals – presently being defined to succeed the Millennium Development Goals (MDGs) – can provide the building blocks for a new concept of international co-operation. These should include, but not be limited to, development co-operation. The new concept should include means of measuring contributions for achieving the new global goals and provide a benchmark for policies to facilitate progress.

The post-2015 agenda will require that developed and developing countries take shared responsibility for collective action, building on the principles agreed in Accra (2008) and Busan (2011) and reconfirmed in Mexico.[3] Addressing global challenges requires co-ownership and the contribution of all actors.

DAC members have agreed to revise the ODA definition in 2014.[4] Yet, we also need a wider concept of international co-operation[5] based on a more holistic approach to development while preserving the useful elements of ODA. This situates development co-operation within a broader and more complex global agenda, incorporating the public and private sector, as well as civil society. The Rio conventions (described in Chapter 18) and the MDGs can be seen as precursors of this wider agenda.

A global public goods approach calls for wide political buy-in

There is some fear on the part of developing countries that focusing the post-2015 agenda on public goods could divert ODA to goals that do not predominantly benefit developing countries, in particular low-income countries (Kaul, 2013). The vision document on the post-2015 agenda, by the High-Level Panel of Eminent Persons, outlines a results-oriented agenda that can be instrumental in defining realistic, clear-cut and measurable targets for global public goods (HLP, 2013). The better focused this agenda is, the greater the possibility of deriving useful policy implications and mobilising the financial resources needed.

The financing and policy requirements of this new global agenda need political backing for commitments, as well as agreement on a system to measure countries' contributions and the results achieved. Putting it in place, therefore, poses a number of challenges:

1. It will need to be embraced by all countries as a visible sign of the alignment of developed and developing countries' policies towards delivering global public goods.
2. It will require credible commitments from developed and developing countries for substantial additional funding.
3. It should not lead to a reduction of funding for developing countries.
4. It should not be seen as less binding than the present ODA system.

An integrated approach to meeting these challenges will acknowledge that many actors are involved, providing scope for co-ordination and alignment with the private sector and civil society.

Financing the new global agenda will require innovation

Achieving results for global public goods will require substantial financial resources. While there is no accepted estimate of the total volume of global financing required to achieve the results envisaged, it will certainly largely surpass current ODA levels. For example, under the United Nations Framework Convention on Climate Change, developed country parties have committed to jointly mobilising USD 100 billion per year by 2020 to address the needs of developing countries in combating and adapting to the impacts of climate change; this funding will come from a wide variety of sources (Chapter 18).

The new money will have to come from a range of sources, both traditional and new, as outlined in this *Development Co-operation Report*. It will need to draw on public finance, but with a much larger involvement by the private sector and civil society. International institutions can make a solid contribution by doing work to estimate the amounts needed.

Some global public goods objectives, such as control of infectious diseases, food security and financial stability, may be best funded through multilateral channels, as this can increase policy coherence. Yet, while multilateral organisations provide the right setting for co-operation among developed and developing countries, alignment of their policies can only occur if developing countries have a stronger voice in the multilateral organisations and international coalitions. More needs to be done to achieve this.

Results-based funding, or cash-on-delivery aid, offers a new approach to development: providers pay for measurable and verifiable progress on specific outcomes, such as USD 100 for every child who completes primary school. Linking payments directly to specific results enables the host country to decide how it wants to achieve the outcome (Birdsall and Savedoff, 2010).

Funding can also be raised through global taxation or a comparable mechanism, such as levies on airline tickets,[6] if this is appropriate in the light of a specific international target. For example, leaders of international organisations have repeatedly asked governments to use fiscal policies such as carbon taxes to combat climate change.[7] International taxes and new sources of finance for

cross-border mechanisms in support of global public goods have the advantage of creating a level playing field across countries – addressing unfair competitive edges because of free-rider behaviour – and could help to redirect funds from developed to developing nations.

Various taxes, levies and user fees have been suggested over the years for financing global public goods, but the political obstacles to establishing global institutions with tax and redistributive authority are formidable and as yet support is insufficient. There is a need for new fiscal tools to promote sustainable development by creating the necessary incentives to shift part of taxation from the traditional labour and investment base. The broad post-2015 agenda may pave the way for scaling up some financial incentives that already exist at the national level, such as fiscal facilitation of energy efficiency and fair trade.

There is a need for new fiscal tools to promote sustainable development by creating the necessary incentives.

Strengthened co-operation between the public and the private sectors, including civil society, offers great promise for funding the new global agenda. Such partnerships provide a vehicle for combining the specialised knowledge of the corporate sector, civil society organisations and knowledge institutions. The trend towards globally active non-governmental organisations (NGOs) fits well with the universal character of global public goods.

Previous chapters in this report have looked at the roles of public-private partnerships for infrastructure and service provision (Chapter 12), of civil society in empowerment of the poor (Chapter 9), of public funding in support of domestic resource mobilisation (Chapter 14) and of innovative financing mechanisms such as guarantees (Chapter 11), as well as many other mechanisms for generating the resources needed.

International co-operation will need to be governed coherently

This new, ambitious global agenda implies that the focus will not only be on "foreign" policies, but also on better policies at home. The inclusion of development within a wider global agenda implies that it will no longer be the exclusive terrain of the respective national ministry, and that development co-operation will have to leave its comfort zone.

This broader approach will foster consideration of the coherence of global policies, more explicitly linking national policies on issues such as taxation, migration and trade with international goals for global public goods (see Box 17.1 for an example).

It is also important to reach international agreement on a broader definition and standardisation of contributions to global public goods and to take shared responsibility for achieving results. A mechanism that can monitor and compare countries' efforts towards agreed targets will add credibility to commitments and provide added incentives. The ODA system created by the OECD's Development Assistance Committee (DAC) was designed to do just this, and much can be learnt from their experience. Currently, providers of development co-operation are assessed against a target of allocating 0.7% of their gross national income (GNI) as official development assistance (Table 17.1). Developing countries consider the target as a guarantee of future financial transfers, despite the fact that many provider countries have still not managed to reach the 0.7% target. In 2013, only 5 of the 26 DAC members allocated 0.7% or more of their GNI to ODA; the average ODA expenditure among the DAC countries is 0.3% of GNI.

The new global agenda will require international solidarity among all countries. The DAC experience shows that it will be helpful to develop output indicators that can put pressure on countries to fulfill their commitments and that in some cases address free-rider behavior. These

Box 17.1. **Policy coherence and its effect on development: The example of Ghana**

A recent study has assessed the coherence between Dutch development co-operation policies and other Dutch policies in Ghana over the period 2006-11. The policies studied were in the areas of trade (an economic partnership agreement), agriculture (tariffs), taxation (a bilateral tax treaty), migration and the environment (a voluntary partnership agreement). The assessment found that the development co-operation policies pursued by the Netherlands over the period in question were coherent with Ghana's development objectives. It also found that any negative effects resulting from incoherence between development co-operation and other policies were generally limited.

Potential incoherencies were found between Dutch and European policies. Nonetheless, these generally had no major negative implications for Ghana. On the other hand, the restriction of Ghana's free access to European markets was seen to have major negative implications for Ghana's national income.

Source: IOB (2014), "Autonomy, partnership and beyond: An analysis of policy coherence for Ghana", *IOB Study Newsletter*, No. 14-04, IOB, Ministry of Foreign Affairs of the Netherlands, The Hague.

Table 17.1. **From an official development assistance target to a target for international co-operation**

	Target for development co-operation	Target for international co-operation
Goal	Development and welfare in developing countries	Global public goods and global sustainable development and welfare
Target	0.7% of GDP	Results-based or GDP-based targets, differing for least developed countries and fragile states
Instrument	Financial flows only	Financial flows, guarantees and other leverage mechanisms; knowledge transfers
Cost	Concessional	Concessional and non-concessional if debt sustainability allows
Source	Official (public)	Official and private sources
Recipients	Developing countries	Developing countries and global institutions

could take the form of financial targets, along the lines of the ODA target, or some other mechanism for measuring achieved results (Table 17.1). For the Netherlands, for example, a target for international co-operation of 2% of GDP has been suggested (Wijffels et al., 2012).

Therefore, the new global agenda should include a firm commitment to a concrete target for ODA flows to least developed countries and fragile states. This could be in the form of a nominal target, for example 0.25% of GDP, or of a commitment to provide at least half of national ODA flows to this group of countries (see Chapter 2). At the very least, there needs to be a firm commitment by all provider countries to the UN agreed target of allocating 0.15-0.20% of GNI for the least developed countries. This will help stop the disconcerting downward trend of ODA to these countries and help give assurances that the new agenda will not result in the diversion of concessional funding.

Since the new post-2015 goals will be developed and adopted in the United Nations General Assembly, it would be logical that a framework for the registration of all contributions to international co-operation is also set out in the UN context. Other organisations may provide the necessary input, including the OECD DAC.

Least developed countries and fragile states will continue to rely on fully concessional ODA flows for the foreseeable future.

Much debate will be needed to reach international consensus on all of these issues. Yet at the same time, the process of creating and maintaining the right global environment for sustainable development will help garner support as the interests of developing and developed countries become more aligned.

Key recommendations

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

Notes

1. Former UN Secretary-General Kofi Annan labelled the great global challenges that transcend the capabilities and resources of any one nation as "problems without passports".
2. See Chapters 1, 2 and 20, among others.
3. These represent some key moments and declarations in the development community's push for more effective development co-operation: the Accra Agenda for Action endorsed in 2008 at the Third High Level Forum on Aid Effectiveness in Accra, Ghana; the Busan Partnership document endorsed at the Fourth High Level Forum on Aid Effectiveness in Busan, Korea in 2011; and the High-Level Meeting of the Global Partnership for Effective Development Co-operation, which took place in Mexico City in April 2014. For more information, see *www.oecd.org/dac/effectiveness*.
4. See Chapter 1.
5. The concept of international co-operation is one policy option put forward in a report of the Interministerial Policy Review (2013), established by the government of the Netherlands. Severino and Ray (2009) have developed a similar concept of global policy finance, which combines financing of global public goods and the traditional ODA targets of economic development and welfare.
6. Discussed in Chapter 15.
7. The Secretary-General of the United Nations, the Managing Director of the International Monetary Fund, the President of the World Bank and the Secretary-General of the OECD have all, on various occasions, called for fiscal policies to combat climate change (various press reports April 2014).

References

Birdsall, N. and W. Savedoff (2010), *Cash on Delivery: A New Approach to Foreign Aid*, Center for Global Development, Washington, DC.

Channing, A., S. Jones and F. Tarp (2011), "Aid effectiveness: Opening the black box", *WIDER Working Papers*, No. 2011/44, World Institute for Development Economics Research, Helsinki.

HLP (2013), *A New Global Partnership: Eradicate Poverty and Transform Economies Through Sustainable Development*, The Report of the High-Level Panel of Eminent Persons on the Post-2015 Development Agenda, High-Level Panel, United Nations, New York, *www.post2015hlp.org/wp-content/uploads/2013/05/UN-Report.pdf*.

Interministerial Policy Review (2013), *Towards a New Definition of Development Cooperation: Considerations on ODA*, Government of the Netherlands, The Hague.

IOB (2014), "Autonomy, partnership and beyond: An analysis of policy coherence for Ghana", *IOB Study Newsletter*, No. 14-04, IOB, Ministry of Foreign Affairs of the Netherlands, The Hague.

Kaul, I. (2013), "Accelerating poverty reduction through global public goods", in OECD, *Development Co-operation Report 2013: Ending Poverty*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/dcr-2013-en*.

Reisen, H., M. Soto and T. Weithöner (2004), "Financing global and regional public goods through ODA: Analysis and evidence from the OECD Creditor Reporting System", *OECD Development Centre Working Papers*, No. 232, OECD Publishing, Paris, *http://dx.doi.org/10.1787/030687754666*.

Severino, J.M. and O. Ray (2009), "The end of ODA: Death and rebirth of a global public policy", *Center for Global Development Working Papers*, No. 167, Center for Global Development, Washington, DC.

Wijffels, H. et al. (2012), *Towards a New Definition of International Cooperation* (in Dutch), National Commission for International Co-operation and Sustainable Development (NCDO), Amsterdam, Netherlands.

Development Co-operation Report 2014
Mobilising Resources for Sustainable Development
© OECD 2014

PART III

Chapter 18

Finding synergies for environment and development finance

by
Jan Corfee-Morlot *and* Stephanie Ockenden, Development Co-operation Directorate, OECD

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

This chapter also includes an opinion piece by Manuel Pulgar Vidal, Peru's Minister of Environment, on making well-financed climate change action central to the post-2015 goals.

Deterioration and damage to the global and local environment – notably the consequences of climate change, loss of biodiversity and ecosystem services, and desertification – threaten well-being and resilient development. The impact of these changes may fall indiscriminately across countries, population groups and generations, affecting in particular the poorest, the most vulnerable and those who have limited control over, and responsibility for, possible solutions.

The Intergovernmental Panel on Climate Change (IPCC) recently concluded that the warming of the global climate system is unequivocal (IPCC, 2013). Inaction on climate change could lead to a continued rise in global temperatures by 2100 ranging from 2.5°C to 7.5°C above pre-industrial levels (IPCC, 2014a). This would increase the severity – and in some cases the frequency – of extreme weather events, with potentially catastrophic consequences for stable economic development, human life and prosperity. Doing nothing could be costly, equating to a permanent loss of over 14% in average world consumption per capita (OECD, 2012). Developing countries stand to be disproportionately affected by unabated climate change, eroding development gains made to date (IPCC, 2014a). Assessments suggest that a sizeable share of development assistance activities might be affected by climate risk, with estimates ranging from 10% to 40% per country depending on the development co-operation portfolio in each country context, when measured as a share of total official development assistance (ODA) (OECD, 2005).

Inaction to address local environmental risks also carries heavy costs. Without further policy action, for example, the OECD estimates a doubling of premature deaths from local air pollution by 2050, with air pollution today already a larger health threat globally than malaria (OECD, 2012). Natural assets represent over a quarter of the wealth in developing countries today, increasing the vulnerability of these countries to growing environmental risk, including resource scarcity (OECD, 2008).

It is estimated that up to 40% of development assistance portfolios within developing countries are affected by climate risks.

Managing environmental sustainability, through natural resource management, biodiversity protection, and climate change mitigation and adaptation, can give rise to multiple local and development benefits. Local benefits alone can provide justification for environmental action, and measures in support of climate change adaptation and improved resilience are often locally focused. For example, adaptation benefits emerge from "good" development planning, whilst mitigation actions can provide energy access and security benefits and improve air quality and human health.

There are inextricable links between global and local environmental issues and sustainable development. Initiatives under the sustainability agenda emerging from the Rio+20 Summit, the post-2015 development goals and the three "Rio conventions" will need to be compatible, tightly inter-linked and mutually reinforcing. In recognising the links between environment and development, the new post-2015 development framework is expected to take the form of a set of Sustainable Development Goals (UNGA, 2013).[1] The financing of these goals must be complementary to financing commitments under the Rio conventions to ensure co-ordinated action on development and the environment. This chapter asks how finance can be put to best use to achieve environment and development objectives simultaneously. In exploring this question, it outlines the financial resources available today and the sustainable development synergies they offer, as well as the policy changes needed to maximise these synergies.

Financing global and local environmental sustainability

Achieving global and local environmental sustainability, development and growth will require shifting as well as scaling up finance to support investment in clean energy, water and sanitation systems, as well as sustainable land use (Kennedy and Corfee-Morlot, 2012). Transitioning to low-carbon, climate-resilient and sustainable development pathways requires a holistic approach, shifting public and private finance from "brown" to "green" investments, scaling-up "green" finance, and ensuring that environmental considerations and safeguards are integrated into all relevant activities. This will not be achieved by only stepping up development co-operation finance – it will also mean mobilising domestic resources, and from both the public and private sector.

Effective responses to global environmental issues necessitate international co-operation and co-ordinated action at the global level. The Rio conventions have been influential in building the international architecture for financing global environmental sustainability, outlining developed country contributions of financial assistance and support to developing countries related to the implementation of these conventions. Financial commitments and mechanisms linked to the Rio conventions (Box 18.1) have driven significant growth in international co-operation and financial resources; the goals of these funds are set in the context of sustainable development and in this way include consideration of poverty reduction and development alongside of global environmental sustainability.

Robust frameworks to support the measurement and monitoring of these international commitments will deliver greater transparency, accountability and trust – and which in turn is fundamental to secure the expected global climate deal in 2015, and the United Nations post-2015 development framework. Building on its effort to enhance and modernise statistics on resource flows to developing countries beyond aid, the DAC statistical framework, and in particular the system of "Rio markers", can provide a solid basis for monitoring environment-related flows (see following section).

Pooled funds for the global environment also exist outside of the Rio conventions, financed through voluntary contributions and co-finance. Most significant are the Climate Investment Funds (CIF),[2] which provide 48 developing and middle-income countries with resources to mitigate and manage the challenges of climate change and reduce their greenhouse gas emissions. The Climate Investment Funds are implemented jointly by the multilateral development banks (MDBs): African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, Inter-American Development Bank and the World Bank Group. The World Bank also serves as the Trustee and the administrator for the Climate Investment Funds. This multi-provider initiative currently pools USD 8bn in ODA pledges and contributions from 14 donors (CIF, 2014). The Climate Investment Funds are innovative in that they can receive public funds from providers of ODA (grant or in some cases concessional loans) and also capital contributions, including from the private sector. Their design aims to pilot the application of innovative strategies that can help to scale-up and transform policies, institutions and markets for low-carbon climate resilience; these strategies are integrated within country development plans, taking into account environmental, social, poverty alleviation and development objectives. In practice, however, the focus on poverty and development benefits appears mixed. An interim independent evaluation of the Climate Investment Funds found that for the largest fund – the Clean Technology Fund – only 3 out of a sample of 16 plans cited poverty reduction or cost-savings to the poorest (ICF, 2013).

Box 18.1. **The financial spin-offs from Rio**

The 1992 Rio "Earth Summit"[1] gave rise to three international conventions, established to address threats to the global environment and sustainable development and to galvanise international action:

- the United Nations Framework Convention on Climate Change (UNFCCC)
- the Convention on Biological Diversity (CBD)
- the United Nations Convention to Combat Desertification (UNCCD).

These conventions facilitate international co-operation across developed and developing country parties and across a range of commitments, including developed country provision of financial support, capacity building, and technology and knowledge transfer to support action in developing countries.

Specific financial commitments related to the implementation of these conventions also exist, and vary:

- Under the UNFCCC, developed country parties have committed to "provide new and additional resources… approaching USD 30 billion for the period 2010-12, with a balanced allocation between adaptation and mitigation" referred to as Fast Start Finance, together with the goal "of mobili[s]ing jointly USD 100 billion per year by 2020 to address the needs of developing countries…from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources".[2]
- Under the CBD, developed country parties have committed to "double total biodiversity-related international financial resource flows to developing countries, in particular least developed countries and small island developing [s]tates, as well as countries with economies in transition, by 2015 and at least maintaining this level until 2020"[3] including through a country-driven prioritisation of biodiversity within development plans in recipient countries.

Financial mechanisms and other related initiatives under the conventions also take a variety of different forms:

- The **Global Environment Facility** (GEF) is the main financial mechanism for the UNFCCC,[4] the CBD and the UNCCD (as well as the Stockholm Convention on Persistent Organic Pollutants and the Minamata Convention on Mercury). This partnership for international co-operation involves 183 countries, plus international institutions, civil society organisations and the private sector. Funded projects range from national policy reforms to institutional capacity development (GEF, 2014). The GEF is, to date, the largest financial mechanism to promote environmentally sustainable development: since 1991, the GEF has provided USD 12.5 billion in grants and leveraged USD 58 billion in co-financing for 3 690 projects in 165 developing countries.
- The UNFCCC's new **Green Climate Fund** (GCF) is expected to make a significant and ambitious contribution towards the goals set by the international community to combat climate change, pooling contributions from a range of sources; it is expected to be capitalised and become operational by the end of 2014 (see also the "In my view" box). The fund will promote low-emission and climate-resilient sustainable development pathways by providing support to developing countries for limiting or reducing their greenhouse gas emissions and adapting to the impacts of climate change. Key design elements include a focus on country ownership and a private sector facility to mobilise private climate finance, with funds to be channelled through local, regional or international implementing agencies and partners.
- The **Clean Development Mechanism** (CDM) established under the UNFCCC **Kyoto Protocol** finances mitigation actions in developing countries to support sustainable development (and to assist developed countries in meeting their greenhouse gas emissions targets). The CDM allows emission-reduction projects in developing countries to earn Certified Emission Reduction credits, each equivalent to one tonne of CO_2. These credits are be traded and used by industrialised countries to meet a part of their emission-reduction targets under the Kyoto Protocol. The mechanism stimulates sustainable development and emission reductions, while giving industrialised countries some flexibility in how they meet their emission-reduction limitation targets.
- The UNFCCC **Adaptation Fund** provides an example of an innovative financing mechanism, where funding to developing countries is generated through a 2% levy on Certified Emission Reduction credits issued through the CDM (in addition to voluntary contributions). This fund was established to finance climate change adaptation projects and programmes in developing country parties to the Kyoto Protocol that are particularly vulnerable to the adverse effects of climate change. The Adaptation Fund has achieved its goal of raising USD 100 million by the end of 2013. It is also innovative in part due to its provisions for "direct access" by developing country governments, avoiding intermediaries and potentially lowering transaction costs of obtaining external finance to support adaptation action.

1. Officially the United Nations Conference on Environment and Development.
2. UNFCCC Decision 1/CP.16, *The Cancun Agreements*, 2010.
3. COP 11 Decision XI/4, 7(a), 2012, *www.cbd.int/decision/cop/default.shtml?id=13165*.
4. The GEF also administers the Least Developed Countries Fund and the Special Climate Change Fund, which function under the UNFCCC.

External financing for the environment and development

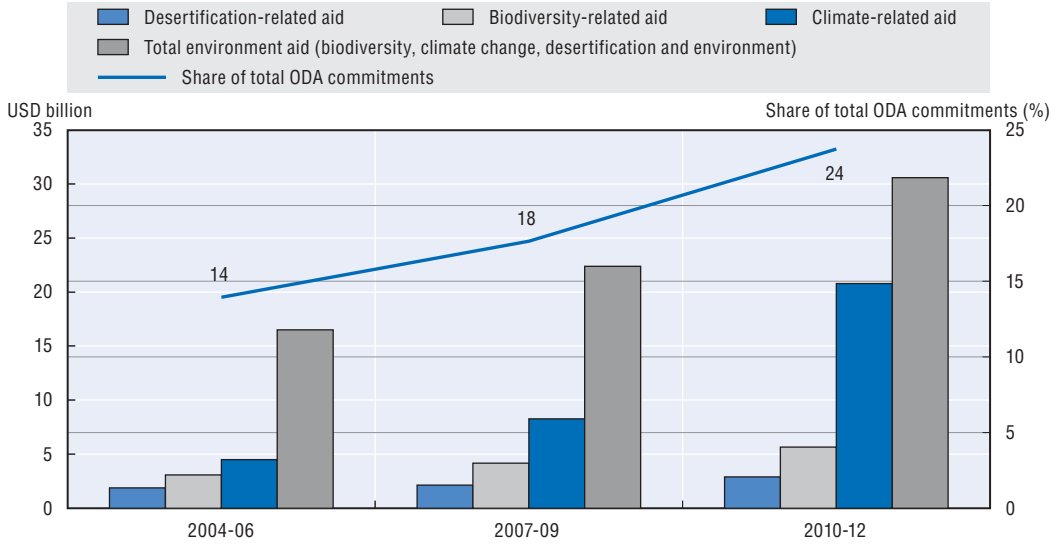
OECD-DAC statistics measure and monitor official development finance from DAC members in support of global and local environmental issues, such as finance to local environmental objectives tracked by the "environment" marker since 1992, and finance targeting the global objectives of the Rio conventions. "Rio markers", covering **climate change mitigation**, **biodiversity** and **desertification**, were introduced in 1998; and one for **climate change adaptation** was introduced in 2010.[3]

Every aid activity reported to the OECD DAC is screened and marked as either: 1) targeting the respective environmental objectives as a "*principal*" objective or a "*significant*" objective; or 2) not targeting the objectives. As such, the markers are considered descriptive, allowing for an approximate quantification of financial flows targeting the objectives of the Rio conventions. Finance reported by parties to the Rio conventions against specific quantified finance goals may be based on alternative definitions and measurement methodologies, and may not be directly comparable to Rio marker data. However, in most cases the reporting is based upon Rio marker data as a starting point, with many DAC members counting a share of this ODA towards their UNFCCC and CBD commitments (OECD, forthcoming).

Over 2010-12, total bilateral ODA commitments targeting the global and local environment as either a *principal* or *significant* objective reached USD 31bn per year, representing 24% of total bilateral ODA commitments by OECD-DAC members (Figure 18.1). This figure represents an increase by over one-third between 2007-09 and 2010-12 in finance targeting all "green" environmental objectives, including the local environment and biodiversity, climate change and desertification (OECD-DAC Credit Reporting System, 2014). The "greening" of ODA indicates that environmental sustainability is increasingly being mainstreamed into core bilateral agency portfolios, which in turn reflects its increasing priority in development co-operation.

Figure 18.1. **ODA to the environment, 2004-12**

Three-year annual averages, bilateral commitments, USD billion, constant 2012 prices



Notes: "Total environment aid" includes biodiversity, climate and desertification development co-operation identified by the Rio markers, and environment-related development co-operation based on the environment marker. Many activities target multiple objectives; the total environmental development co-operation adjusts for this to ensure there is no double counting. "Climate-related aid" covers development co-operation to both climate mitigation and adaptation from 2010 onwards, but only mitigation pre-2010. Reported figures for 2004 to 2009 may appear lower than in practice, and may reflect a break in the series, given that pre-2010 adaptation spending is not marked.
For technical reasons, data collection on Rio markers for the United States was not yet available at the time of this publication. The United States is working to review its data collection methodology and will supply data for 2011 and 2012 in the coming months.
Source: OECD-DAC Creditor Reporting System statistics, July 2014, *www.oecd.org/dac/stats/rioconventions.htm*.

StatLink http://dx.doi.org/10.1787/888933121905

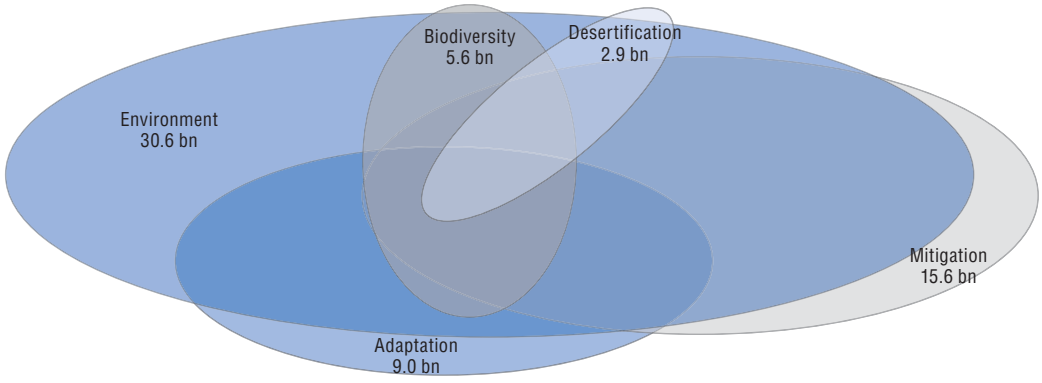
Most of this increase in aid for the environment has been driven by the remarkable growth in climate-related ODA – a 150% increase between 2007-09 and 2010-12. Between 2010 and 2012, total bilateral ODA commitments by OECD-DAC members for climate change averaged USD 21bn per year, representing 16% of total bilateral ODA commitments; and commitments peaked in 2010, which was the first year of the Fast Start Finance period (Box 18.1). The UNFCCC Fast Start Finance goals are narrower than those for total climate-related aid, but appear to have had a broad impact in increasing the mainstreaming of climate change considerations into development co-operation activities.

Total bilateral climate-related ODA commitments have seen a 150% increase between 2007-09 and 2010-12.

"Green" external development finance is often designed and delivered to achieve multiple objectives. Figure 18.2 illustrates the extent of this, and how 65% of "green" development finance can target two or more environmental objectives simultaneously.

Figure 18.2. **The multiple objectives of environmental development co-operation, 2010-12**

Three-year annual average, bilateral commitments, USD billion, constant 2012 prices



Source: OECD-DAC Creditor Reporting System statistics, July 2014.

"Green" external development finance is also available from the multilateral development banks. In 2012, the MDBs jointly committed to the Rio+20 agenda for inclusive green growth, resulting in many taking on targets to increase the share of their activities and finance that target environmental objectives. For example, the Inter-American Development Bank aims to allocate 25% of its total lending to environmental sustainability and climate-related projects by 2015; it achieved 20% in 2013 (IDB, 2014). Overall, MDB climate finance was estimated at USD 27 bn in 2012 (MDB Joint Report, 2013). Yet despite this significant amount of environment-related multilateral flows, there is no comprehensive and integrated system to monitor total "green" external development finance. The OECD is working with the multilateral development banks and other international financial institutions to improve the reconciliation of green multilateral flows within its statistical system so as to establish a common understanding of "total" green development finance across bilateral and multilateral channels. Though some progress has been made, the evidence on trends is still thin and total volumes are difficult to estimate. Private finance flows towards greener outcomes are also considered significant, in particular for climate change, but an area where there is limited statistical data information to estimate the total magnitude of flows. The OECD is co-ordinating a Research Collaborative on Tracking Private Climate Finance to provide further evidence.[4]

Innovative finance can be transformational in the right policy context

Several chapters in this report outline the growing importance of innovative and private sector finance for developing countries. Such finance includes foreign direct investment (Chapter 5); institutional investors such as insurance companies, investment funds and pension funds (Chapter 6; and see the "In my view" box); and the use of public finance and innovative financial instruments to leverage private finance and investment (Chapter 11). All these sources have scope for mobilising finance and investment that promotes environmental sustainability.

It is essential to get the policy and market-based incentives and signals right to induce environmentally sustainable actions over time, green investment and behaviour at a global and transformational scale, and in the most cost-effective way. Today's investment choices and decisions covering the types, features and location of infrastructure will determine the extent to which economies are either locked into high-carbon, energy-intensive pathways and also the degree to which infrastructure is vulnerable to climate change, or capable of achieving low-carbon, climate-resilient development (Corfee-Morlot et al., 2012). An environmentally sustainable future will require a shift away from polluting, fossil-fuel intensive infrastructure to low-carbon and climate-resilient investments and behaviour.

The OECD has conducted substantial analysis of the policy environment needed for governments to achieve zero net carbon emissions by 2050 (Gurría, 2013). Measures needed include putting a clear price on carbon, reforming fossil fuel subsidies and ensuring coherence in energy policies (OECD, 2013a). These initiatives can also offer a "double dividend" – not only reducing greenhouse gas emissions, but also raising revenue for the environment. For example, carbon markets offer the potential to generate up to USD 30-50 bn annually (AGF, 2010), and reforming subsidies and support mechanisms to fossil fuel consumers, which are estimated by the International Energy Agency (IEA) to be USD 544 billion worldwide in 2012 (IEA, 2013), could also free up substantial funds for the environment while also incentivising green investment (OECD, 2013b).

The IEA estimates the value of fossil-fuel subsidies amounted to USD 544 billion worldwide in 2012.

Careful management will be needed to make the most of environment and development synergies

There can be multiple local development benefits from actions targeting global environmental issues. Actions to adapt and improve resilience to climate change are locally or regionally focused, and adaptation benefits emerge from "good" development planning; likewise, climate change mitigation can provide energy access, security benefits and improved air quality and human health. International efforts such as the UN Sustainable Energy for All initiative,[5] which aims to provide clean, efficient energy and access, can provide solutions for the 1.3 billion people currently lacking electricity in developing countries and the 2.6 billion who lack clean cooking facilities (IEA, 2013).

To create synergies, environmental considerations need to be mainstreamed into national development plans and priorities, and into development co-operation practice. This will help to deliver sustained results and well-targeted and designed policies and programmes at national and sub-national levels of governance. Such approaches are in keeping with the effectiveness principles guiding the work of many development co-operation providers[6] and initiatives such as the Partnership for Climate Finance and Development,[7] emerging from the 4th High-Level Forum on Aid Effectiveness in Busan, Korea (OECD, 2011). This voluntary partnership promotes coherence and collaboration among climate change, development finance and development co-operation communities at the country, regional and global levels.

In my view: Well-financed climate change action must be central to the post-2015 goals

Manuel Pulgar Vidal,
Minister of Environment, Peru

Climate change and sustainable development are inextricably linked. It is critical, therefore, that the post-2015 sustainable development agenda fully embeds climate change.

Likewise, achieving adequate finance is critical for a successful global agreement on climate change in 2015.[1] This agreement needs to be ambitious if it is to turn the world's economy towards a sustainable path by limiting the global temperature increase to 2°C.

Countries are already thinking through the future of climate financing to ensure that the world reaches the level of ambition needed. The 20th Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC), to be held in late 2014 in Lima under Peru's presidency, will be an important landmark in this sense.

The first thing we need to achieve is greater transparency about climate financing, as well as the results it produces. We need to scale-up climate financing and make sure that the necessary funds and investments get to where they are needed, with a greater degree of predictability.

Second, countries need to think through what conditions and policy frameworks would enable them to scale-up climate funding and investments in the long-term and effectively manage financial resources. Peru has already taken action on low-carbon and climate-resilient strategies by:

- promoting public and private funding and investment for various climate change initiatives
- integrating climate-change related risks within the National Public Investment System
- creating fiscal instruments for climate resilience and recovery from natural disasters
- encouraging research and technology for climate change initiatives.

Many ongoing conversations are centred around new and innovative sources of climate finance. The Green Climate Fund (GCF) was set up in 2013 to co-ordinate and promote these efforts, and countries are currently discussing how to trigger a pledging process. The GCF offers the opportunity to attract new sources of financing and to support developing countries' national financing strategies. We hope that meaningful pledges to the GCF will be made towards the end of 2014.

Innovative sources of financing are needed if the world economy is to become truly sustainable. This is why we welcome analytical work on attracting financing from institutional investors such as pension funds (Chapter 6); on how to grow the green bond[2] market; on instruments and mechanisms of risk mitigation that can help leverage financial resources (Chapter 11); on mobilising domestic resources in developing countries (Chapters 7 and 14); and also on crowdfunding (Chapter 9). We all need to be part of the solution.

As we move towards the climate conference, Peru hopes to help countries find convergence around key climate finance issues that increase the level of ambition and prepare the broader roadmap for global agreement on climate change in 2015.

In my view, the current discussions on climate change financing will – and must – help to meaningfully inform the post-2015 development agenda to ensure that climate change is fully integrated into the Sustainable Development Goals.

1. Editor's note: This refers to the United Nations Climate Change Conference, COP21, to be held in Paris in 2015. According to the organising committee, the objective of the 2015 conference is to achieve, for the first time in over 20 years of UN negotiations, a binding and universal agreement on climate, from all the nations of the world (source: Wikipedia).
2. Editor's note: Two entities of the World Bank Group – the International Bank for Reconstruction and Development and the International Finance Corporation (IFC) – have been instrumental to the development of the global green bond market. Proceeds from these bonds are being used for investments that help address climate change. Since 2008, the World Bank has mobilised over USD 5.3 billion through 61 green bond transactions in 17 currencies, and the IFC has issued USD 3.4 billion in green bonds (World Bank, 2014).

Sharing the lessons from development co-operation and the development effectiveness principles can help to support the achievement of environment and development goals (OECD, 2014). On the financing side, there are inevitable tensions. One example is illustrated in the "country ownership, country systems" approach advocated by the development effectiveness declarations and the climate funds approach, which are promoted in some countries and sometimes internationally. On the one hand, these special purpose funds have been designed to work in innovative ways to pool, co-ordinate and harmonise financing from both public and private sources, and targeting specific global issues may require more programmatic and regional approaches. But on the other hand, vertical mechanisms can create functions that run in parallel to or duplicate developing countries' own systems and programmes. The Intergovernmental Panel on Climate Change recently called for assessment of the comparative effectiveness of the two approaches since the evidence around how these different approaches perform is thin (IPCC, 2014b).

The OECD DAC has played a role over the past decades in producing policy guidance to support development co-operation providers to address issues of sustainable development in their policies and operations. In particular through *Applying Strategic Environmental Assessment: Good Practice Guidance for Development Co-operation* (OECD, 2006), recognising the commitment to develop and apply strategic environmental assessments under the Paris Declaration on Aid Effectiveness, guidance on *Integrating Climate Change Adaptation into Development Co-operation* (OECD, 2009), and most recently *Putting Green Growth at the Heart of Development* (OECD, 2013c).

Key recommendations

- Shift, scale-up and mobilise financial resources and investment from both public and private sources to secure future global and local environmental sustainability, development and growth.
- Implement innovative financing arrangements and mechanisms coupled with domestic policy to price and regulate "environmental bads" to shift the private sector and individual behaviour towards environmentally sustainable action.
- Ensure that initiatives under the sustainability agenda emerging from the Rio+20 Summit, the post-2015 development goals, the three Rio conventions, and the global climate deal expected in 2015[7] are compatible, tightly inter-linked and mutually reinforcing.
- Promote international co-operation and co-ordination across institutions and actors; integrate development considerations into environmental initiatives and mainstream environmental considerations into national plans, strategies and development co-operation.
- Support developing countries in making their growth green and inclusive, while ensuring that countries' own development plans, programmes and policies lead the way for targeted and effective use of external development finance.
- Seek synergies between global environmental and local sustainable development benefits. Learn from development co-operation experience in managing inevitable trade-offs so as to achieve multiple development and environmental objectives simultaneously.
- Robust frameworks to support the measurement and monitoring of future international "green" finance commitments will be necessary to support greater transparency, accountability and trust; the DAC statistical framework, and in particular the system of "Rio markers", can provide a solid basis for international monitoring of environment-related flows.

Notes

1. See also the latest working document of the Open Working Group on Sustainable Development Goals at: *http://sustainabledevelopment.un.org/focussdgs.html* (accessed 23 May 2014).
2. The Climate Investment Funds consist of four funding windows, the Clean Technology Fund (supporting demonstration and deployment of low-carbon technology), the Forestry Investment Program, the Pilot Program for Climate Resilience and the Scaling-up Renewable Energy Program.
3. For further information, see: *www.oecd.org/dac/stats/rioconventions.htm*.
4. See: *www.oecd.org/env/researchcollaborative*.
5. See: *www.se4all.org*.
6. Including the principles stated in the Paris Declaration on Aid Effectiveness (2005), the Accra Agenda of Action (2008) and the Busan Partnership for Effective Development Co-operation (2011). See: *www.oecd.org/dac/effectiveness*.
7. See: *www.oecd.org/development/environment-development/climate-partnership.htm*.

References

AGF (2010), *Report of the Secretary-General's High-level Advisory Group on Climate Change Financing*, United Nations, New York, *www.un.org/wcm/webdav/site/climatechange/shared/Documents/AGF_reports/AGF%20Report.pdf*.

CIF (2014), *About the Climate Investment Funds*, Climate Investment Funds, Washington, DC, *https://climateinvestmentfunds.org/cif*.

Corfee-Morlot, J. et al. (2012), "Towards a green investment policy framework: The case of low-carbon, climate-resilient infrastructure", *OECD Environment Working Papers*, No. 48, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5k8zth7s6s6d-en*.

GEF (2014), "What is the GEF", Global Environment Facility, Washington, DC, *www.thegef.org/gef/whatisgef*.

Gurría, A. (2013), "The climate challenge: Achieving zero emissions", lecture by OECD Secretary-General, Angel Gurría, LSE London, 9 October 2013, *www.oecd.org/about/secretary-general/the-climate-challenge-achieving-zero-emissions.htm*.

HLP (2013), *A New Global Partnership: Eradicate Poverty and Transform Economies Through Sustainable Development*, The Report of the High-Level Panel of Eminent Persons on the Post-2015 Development Agenda, High-Level Panel, United Nations, New York, *www.post2015hlp.org/wp-content/uploads/2013/05/UN-Report.pdf*.

ICF (2013), *Independent Evaluation of the Climate Investment Funds*, Final Interim Report, ICF International, Washington, DC, *www.cifevaluation.org/cif_interm_report.pdf*.

IDB (2014), *Inter-American Development Bank Sustainability Report 2013*, Inter-American Development Bank, Washington, DC, *http://publications.iadb.org/handle/11319/6418?scope=123456789/1&thumbnail=true&rpp=5&page=1&group_by=none&etal=0*.

IEA (2013), *World Energy Outlook 2013*, International Energy Agency, Paris, *http://dx.doi.org/10.1787/weo-2013-en*.

IPCC (2014a), *Summary for Policymakers*, Working Group III – Mitigation of Climate Change, Intergovernmental Panel on Climate Change, Geneva, *http://report.mitigation2014.org/spm/ipcc_wg3_ar5_summary-for-policymakers_approved.pdf*.

IPCC (2014b), "International cooperation: Agreements and instruments", draft, Chapter 13 in *Climate Change 2014: Mitigation of Climate Change*, Working Group III – Mitigation of Climate Change, Intergovernmental Panel on Climate Change, Geneva, *http://report.mitigation2014.org/drafts/final-draft-postplenary/ipcc_wg3_ar5_final-draft_postplenary_chapter13.pdf*.

IPCC (2013), *Climate Change 2013: The Physical Science Basis*, Working Group I Contribution to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change, Summary for Policymakers, Intergovernmental Panel on Climate Change, Geneva.

Kennedy, C. and J. Corfee-Morlot (2012), "Mobilising investment in low carbon, climate resilient infrastructure", *OECD Environment Working Papers*, No. 46, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5k8zm3gxxmnq-en*.

MDB Joint Report (2013), *Joint Report on MDB Climate Finance 2012*, joint report by the African Development Bank (AfDB), the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the Inter-American Development Bank (IDB), The World Bank (WB) and the International Finance Corporation (IFC), *www.ebrd.com/downloads/sector/sei/climate-finance-2012.pdf*.

OECD-DAC Statistics (2014), "Climate-related aid", OECD, Paris, *www.oecd.org/dac/stats/rioconventions.htm*.

OECD-DAC Creditor Reporting System statistics (2014), July, *http://stats.oecd.org/Index.aspx?datasetcode=CRS1*.

OECD (forthcoming), "A stock-take of OECD DAC members' reporting practices on environment-related official development finance and reporting to the Rio conventions", *Development Co-operation Directorate Technical Paper*, OECD, Paris, forthcoming.

OECD (2014), "Global and local environmental sustainability, development and growth", OECD and Post-2015 Reflections, Element 4, Paper 1, OECD, Paris, *www.oecd.org/dac/environment-development/FINAL%20POST-2015%20global%20and%20local%20environmental%20sustainability.pdf*.

OECD (2013a), "Climate and carbon: Aligning prices and policies", *OECD Environment Policy Papers*, No. 1, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5k3z11hjg6r7-en*.

OECD (2013b), "A post-2015 Information System for International Development and Climate Finance", OECD, Paris, *www.post2015hlp.org/wp-content/uploads/2013/05/OECD_A-Post-2015-Information-System-for-International-Development-and-Climate-Finance.pdf*.

OECD (2013c), *Putting Green Growth at the Heart of Development*, OECD Green Growth Studies, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264181144-en*.

OECD (2012), *OECD Environmental Outlook to 2050: The Consequences of Inaction*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/env_outlook-2012-3-en*.

OECD (2011), *Busan Partnership for Effective Development Co-operation*, 4th High Level Forum on Aid Effectiveness, Busan, Republic of Korea, *www.oecd.org/dac/effectiveness/49650173.pdf*.

OECD (2010), *Development Perspectives for a Post-2012 Climate Financing Architecture*, Preliminary version, OECD, Paris, *www.oecd.org/greengrowth/green-development/47115936.pdf*.

OECD (2009), *Integrating Climate Change Adaptation into Development Co-operation: Policy Guidance*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264054950-en*.

OECD (2008), *Natural Resources and Pro-poor Growth: The Economics and Policies*, DAC Guidelines and Reference Series, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264060258-en*.

OECD (2006), *Applying Strategic Environmental Assessment: Good Practice Guidance for Development Co-operation*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264026582-en*.

OECD (2005), *Bridge Over Troubled Waters: Linking Climate Change and Development*, OECD, Paris, *www.oecd.org/dac/environment-development/bridgeovertroubledwaterslinkingclimatechangeanddevelopment.htm*.

OECD (n.d.), "Partnership for Climate Finance and Development", OECD, Paris, *www.oecd.org/dac/environment-development/FINAL%20Partnership%20for%20Climate%20Finance%20and%20Development%202014.pdf*.

UNGA (2013), *Special Event 25 September: Outcome Document*, United Nations General Assembly, available at: *www.un.org/millenniumgoals/pdf/Outcome%20documentMDG.pdf*.

United Nations (2012), *The Future We Want*, Outcome document of the UN Conference on Sustainable Development, 22 June 2012, Rio de Janeiro, United Nations, New York, *www.uncsd2012.org/content/documents/727The%20Future%20We%20Want%2019%20June%201230pm.pdf*.

United Nations (1992), *Report of the United Nations Conference on Environment and Development*, Rio de Janeiro, 3-14 June, United Nations, New York, *www.un.org/documents/ga/conf151/aconf15126-4.htm*.

World Bank (2014), "Growing the green bond market to finance a cleaner, resilient world", World Bank news online, 4 March 2014, *www.worldbank.org/en/news/feature/2014/03/04/growing-green-bonds-market-climate-resilience*.

Development Co-operation Report 2014
Mobilising Resources for Sustainable Development
© OECD 2014

PART III

Chapter 19

Financing peace and security for sustainable development

by
Tilman Brück *and* Gary Milante, Stockholm International Peace Research Institute (SIPRI), Sweden

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

Peace and security are key, if underappreciated, pre-requisites for sustainable development. The Millennium Declaration emphasised the importance of security and stability for development, yet these elements were not explicitly included in the Millennium Development Goals' (MDG) targets or indicators (Denney, 2012). Peace and security need to feature more explicitly in the post-2015 development framework if progress is to be sustainable. Indicators to measure progress and a funding mechanism will also be needed. This chapter explores these challenges, as well as the moral hazard issues associated with identifying and supporting activities to build peace and security. It concludes by considering collective mechanisms for supporting and financing security and development and emphasises the important role of traditional development actors in providing peace and security.

Peace is a classic "public good" (see Chapter 17) in the sense that it is neither exclusive nor rivalrous. Security – the freedom from harm or from the threat of harm – is necessary for production, investment and all other economic activities that require respect for and protection of property (and personal) rights. Farmers will not plant young coffee trees, for example, if they expect them to be vandalised or looted. Traders, likewise, will not send their wares to customers if they cannot be sure they will receive payment, or be able to enforce payment through an effective justice system.

Peace and security are inextricably linked to sustainable development.

We also know that peace can be both a pre-condition for and a consequence of sustainable development. When there is economic opportunity and people have a stake in the future, they are more likely to resolve conflict peacefully. On the other hand, when conflict is violent, the development costs can be devastating: in addition to loss of lives, property and production locally, violence has negative spillovers for neighbours and the global community. It is also important to remember that conflict leads to fragility and fragility can induce conflict. For this reason, the needs of both conflict-affected and fragile countries require special attention (see Chapter 20).

In fact, research shows that violent conflict is one of the biggest obstacles to global economic well-being (Bozzoli et al., 2011). Its burden on development may equal that of climate change. Yet while some countries suffer serious consequences from war, other countries benefit economically from the fiscal stimulus of wars fought elsewhere. Hence conflict and fragility may further enhance global development inequalities.

We need better data on peace and security

There is a paucity of data on peace and security. For example, the Stockholm International Peace Research Institute (SIPRI) publishes military spending data every year for all available countries (SIPRI, 2014) and the Global Peace Index of the Institute for Economics and Peace provides a comprehensive metric to gauge how peaceful countries are.[1] Yet, each of these efforts remain incomplete. Military spending is only a part of all security spending, which is not being measured yet in a systematic way; and an index cannot capture in a single metric the many aspects of peaceful behaviour (Brück, 2013).

There are no agreed scientific norms for measuring non-military spending on security.

There are several reasons for the data gaps on peace and security. To start with, information is, of course, the first victim of war. Another challenge stems from identifying security spending among the data, as there are no agreed norms for measuring non-military spending on security (Brück et al., 2013). While financial assistance for security typically comes directly from bilateral providers, it is not "counted" as official development assistance (Box 19.1). Also, because states can pursue their own strategic interests through assistance or intervention, it is difficult to identify the "public good" component of such support. For example, the support from NATO for Kosovo's independence, including the security assistance provided to supplement local capacity, is not interpreted the same way as the security assistance that the Russian Federation is providing on the grounds of "protecting" Russians in eastern Ukraine. Or take the case of Afghanistan: Was the whole war effort in fact development co-operation, provided to help the country develop securely? If not, then how does one identify those interventions in Afghanistan that are eligible to be considered as official development assistance (ODA)? If funding is provided to reduce support for rebels (i.e. to win "hearts and minds"), is that military spending or development aid?

Box 19.1. **What security expenditure can be counted as official development assistance?**

Only certain conflict, peacebuilding and security expenditures currently meet the development criteria of official development assistance (ODA). In the context of current discussions on redefining ODA (see Chapter 1), the members of the OECD Development Assistance Committee (DAC) are reviewing these measures.

Key elements of the ODA Reporting Directives concerning the eligibility of security expenditure

Generally eligible	Generally not eligible	Comments
	Financing of military equipment and services.	Apart from additional costs incurred for the use of military personnel to deliver humanitarian aid or perform development services.
	Combatting terrorism.	Because of perceived links to domestic security.
Expenditure on police training		Eligible for routine police functions, but not for counter-subversion, suppression of political dissidence or intelligence gathering on political activities.
Peacekeeping		Restricted to expenditures within a United Nations context in nine activity areas, including security sector reform and other rule of law activities.
Management of security expenditure: Strengthening of civilian oversight and broader public financial management		
Enhancing civil society engagement in security management		
Security system reform: Non-military competence/capacity and planning activities to promote accountability		
Civilian peacebuilding and conflict resolution		Excluding engagement with military strategy and defence co-operation.
Reintegration of combatants and control of small arms		With some limitations.
Removal of land mines and unexploded ordnance		
Efforts to prevent and/or demobilise child soldiers		
	Disarmament of mass-destruction weapons and anti-proliferation of nuclear weapons.	Not mentioned in the directives but is not considered as ODA-eligible.

Source: OECD (2014), "Possible new measure of total support for development: Options regarding peace and security, climate change and global programmes", DAC(2014)7, OECD, Paris, *www.oecd.org/dac/externalfinancingfordevelopment/documentupload/TOSD%20DAC(2014)7.pdf*.

In fact, new technologies such as satellite sensing, smartphones and big data are offering new data collection opportunities. Yet even so, there is no comprehensive system for sorting data on peace and security. What is required is a system for organising all possible data on peace and security into a global system of security accounts, which could offer data in a comprehensive and consistent manner (Brück, 2013). This would be akin to the system of national accounts used by economists.[2] For all but the most war-torn or politically distorted economies there exist macroeconomic data at the World Bank or the International Monetary Fund that permit systematic analyses and comparisons and that can inform and guide policy. It is time that peace and security studies command a similar dataset, which in turn would permit the tracking of peace and security indicators in the post-2015 development framework.

Collecting and publishing data are relatively cheap activities, but they have high value for research (new data can help advance research) and for policy and media communities (data can help to focus political attention). International organisations like the United Nations (UN), the World Bank or the OECD could be tasked with collecting data in a global system of security accounts. No new institution or special financing format are required for this – just the mandate and the corresponding resources for existing organisations to start the necessary work.

Financing peace and security is a political challenge

If we accept that peace and security are vital for development, and that they can and should be measured and monitored as part of the global goals, then how can the provision of these public goods be funded? Current practice offers little help – there are as yet no large-scale peacebuilding activities that are funded collectively and there are no pooled finances and few formal mechanisms for supporting peace and security. This is in stark contrast to the set of Bretton Woods Institutions aimed at supporting growth, development and economic stability in the world.[3]

The United Nations peacekeeping missions, for example, are funded on a case-by-case basis, independently of development and humanitarian activities (see Box 19.2). Regional peacekeeping missions either have a "costs fall where they may" approach – whereby each pays their own share of costs arising (in the case of NATO and the European Union missions) – or are externally funded on a mission-by-mission basis through a trust fund or through centrally managed budgeting.

In part, this state of play reflects the political thinking of the past 50 years. The World Bank has an "apolitical" mandate: it cannot provide security or any assistance involving a political mission (related to the survival of a state or government). Similar constraints bind the regional development banks. Yet if security is a genuine public good, then is financing it really "political"? The World Bank helps to fund healthcare, which is also a pre-requisite for socio-economic development, as are gender equality programmes. Understandably, both provider and host countries are wary of issues of "sovereignty" and political influence. However, if the post-Cold War era and its watershed wars in Afghanistan, Iraq and Somalia have taught us anything, it is that tackling underdevelopment also means tackling insecurity (and vice versa). Therefore, international organisations, as well as provider and host countries, can no longer dodge the issue. Furthermore, the World Bank's apolitical mandate does not preclude it from playing a supportive role in such global initiatives. While the World Bank may not be involved in peacebuilding *per se*, trust fund management, data collection and statistical capacity building are certainly within its mandate, even on issues related to peace and security (the oversight of which could be contracted out to other actors with comparative advantage in these topics).

Box 19.2. How the World Bank works to deal with moral hazard in responding to the needs of fragile and conflict-affected states

The World Bank recently struggled with the moral hazard problem as it revised its financing modalities to make them more responsive to the needs of fragile states. This includes modifications to its latest financing regime, known as IDA17.

The global coalition of developed and developing countries which fund the International Development Association (IDA) have committed a record USD 52 billion for IDA17, agreeing that increased funding was needed to tackle the toughest issues in fragile and conflict-affected states and help those countries tip the balance toward stability. Two important steps in that direction are:

1. Reducing the weighting on institutions. Previously the World Bank's annual assessment of institutions in its performance-based allocation system resulted in lower per capita allocations to fragile states than other developing countries; reducing this weighting levels the playing field for access to financing.
2. Introducing the so-called "turn-around" mechanism, which expands exceptional financing beyond post-conflict and re-engaging situations to include cases where a significant opportunity exists to support a transition. This new mechanism is a much more flexible approach than previous mechanisms as it is founded on a qualitative assessment prepared by the country team, which identifies windows of opportunity for peaceful development.

The qualitative assessment by World Bank staff is the effective equivalent of a letter of recommendation and endorsement of a government's approach to avoiding crisis. It would be a light-touch, short overview of the current situation and the government's plan for transition and could, conceivably, be approved in a matter of weeks or months – significantly faster than the slow-moving rate of change in the World Bank's normal allocation system.

In the right hands, this more agile mechanism could provide the necessary latitude to ensure additional financing for proactive development actors in complex and fragile situations; it would also provide a model that other development actors could apply. Nonetheless, if World Bank country managers in fragile situations are paralysed by bureaucratic constraints, or if they cannot properly assess fragility or transition preparedness and/or are risk averse, then this new mechanism will be no more effective than the current practice.

This type of innovation in responding to situations of conflict and fragility will be necessary if the World Bank is to meet the goals of its President, Jim Yong Kim, for increasing financing for fragile situations by 50% over the next three years (Kim, 2013).

Source: World Bank (2013), "Implementation arrangements for allocating IDA resources to countries facing 'turn-around' situations", *Background Note*, IDA Resource Mobilization Department, October 2013, available at: *www.worldbank.org/ida/papers/IDA17_Replenishment/Implementation-Arrangements-for-Allocating-IDA-Resources-to-Countries-Facing-Turn-around-Situations-Background-Note-September-2013.pdf*.

Creating mechanisms for global financing of security means clearly distinguishing between genuine public goods and national strategic interests.

Creating mechanisms for global financing of security means clearly distinguishing between genuine public goods and national strategic interests. For example, protecting the oil tankers of some nations from maritime piracy is not really a public good. Working to strengthen the justice system in Somalia, however, probably has a strong public good character. The NATO experience for cost-sharing on support to joint security provision has a long history and there is rich literature about it, which could help in creating similar mechanisms.

Another key lesson from the wars in Afghanistan and Iraq is that peace and security cannot simply be built, made or enforced. No army can guarantee freedom from violence. We must accept that we do not yet fully understand how peace and security are produced, and that they may well be a by-product of other activities. Traders who repeatedly interact with each other build trust, which encourages them to continue to interact peacefully rather than stealing from their business partners at gunpoint. Attempts to strengthen social cohesion and trust by community-driven development show mixed results and explicit attempts to engineer social outcomes sometimes fail, but trust sometimes emerges as a by-product of other interactions (Fearon et al., 2009; Wong, 2012).

Prevention is better than cure

Another limitation to security financing, as currently conceived, is that it is more reactive than proactive. This bias ignores the fact that prevention and peacebuilding can be far more efficient and cost-effective than dealing with the costly aftermath of full-blown conflict: rebuilding property and dealing with loss of life, disability, refugees and foregone production or economic activity. One study found that the economic cost of Germany's participation in the war in Afghanistan was around EUR 2.5-3 billion a year (Brück et al., 2011). Given the relatively minor role of the German army in the war in Afghanistan, this is a significant cost, especially when measured as a share of the German national budget or as a share of total German development co-operation (which was about EUR 6 billion in 2010; Brück et al., 2011).

Prevention and peacebuilding efforts are especially cost-effective when they manage to avert violent and costly conflict. In practice, however, financing preventive activities could raise a moral hazard problem in the sense that making resources available for building peace may create perverse incentives to create a conflict in the first place (Box 19.2). If there were resources available for prevention and peacebuilding activities, how would the international community identify and prioritise "real" threats of violence? Surely every political dialogue and negotiation process in the world could be justified as a "peacebuilding" activity. How can the international community ensure that collective action and resources are devoted to the "right cases"? And how can these be agreed upon in light of the public versus private interests described above? These remain unanswered questions, both in policy discussions and in the academic literature.

Financing peace and security requires innovative thinking

What specific mechanisms or facilities could be created for financing peace and security activities that are clearly public goods? This *Development Co-operation Report* offers many examples of innovative ways of financing development, and many of these could be applied to the concept of peace and security; for example, international taxes on financial services (Chapter 15) or on carbon emissions (Chapter 18). Others could include global taxes on arms/other trade or on natural resource management of the global commons (including mineral rights for sea beds, the Arctic and Antarctic, and space).

> *With all of the "war bonds" that have been issued, there has never been a serious attempt to issue "peace bonds".*

"Peace bonds" or a global lottery are also options. With all of the special bonds issued by governments to finance their own security agendas in times of war (the so-called "war bonds"), no government or international organisation has ever issued a peace bond. The proceeds of such a global financing mechanism could be used for peacebuilding activities (Addison and Chowdhury, 2003). Indeed, a peace bond should be a global initiative, since state-issued bonds are, inherently, aimed at the stability, solvency and security of the issuing state.[4] Herman (2013) proposes a special low-rate bond with a lottery element (random serial numbers would be awarded a bonus premium). Global collective action could guarantee such initiatives.

Because preventing violent conflict from erupting is much cheaper than rebuilding security post-conflict, the UN would benefit from a standby budget for funding peace interventions on very short notice – for instance, to support a legitimate government faced with violent challenge to its authority or to avoid the imminent outbreak/escalation of violence. Such military support in the past could only have been provided by a few global powers. Having such a standby facility would facilitate the use of forces that are more multinational in nature by helping to pay for the services of smaller countries contributing to the facility (and providing income opportunities in the fragile areas where the peacekeepers work).

A standing mechanism could also be created that allows for joint underwriting of non-UN peacekeeping missions by regional actors, or by countries taking the lead on an individual security matter but with financial support from others. If these missions are truly considered public goods, an assessment methodology similar to the UN assessments could be adopted (Box 19.3). Of course, a first step towards creating financial solvency for peace activities would be the payment of arrears for outstanding UN assessments.

Box 19.3. **How does the UN finance peacekeeping missions?**

While decisions about establishing, maintaining or expanding a peacekeeping operation are taken by the UN Security Council, the financing of UN peacekeeping operations is the collective responsibility of all member states, each of which is legally obliged to pay its respective share. The General Assembly apportions peacekeeping expenses based on a special scale of assessments under a complex formula that member states themselves have established. This formula takes into account, among other things, the relative economic wealth of member states; the five permanent members of the Security Council are required to pay a larger share because of their special responsibility for the maintenance of international peace and security. Although the payment of peacekeeping assessments is mandatory, as of 30 April 2014, member states owed approximately USD 1.54 billion in peacekeeping dues.

Source: Based on text from the United Nations Peacekeeping webpage, *www.un.org/en/peacekeeping/operations/financing.shtml*.

Funding global diplomacy and justice is a must

Peacebuilding often takes the form of "soft" power and negotiations to nudge political processes into the public and constructive sphere of diplomacy and dialogue, and away from escalation into violence and conflict. A standing facility to support the creation and maintenance of peacebuilding spaces could replicate concepts like the Chatham House principles of open and confidential debate, or the advocacy of the Quaker United Nations Office against injustice and war, in the capitals of countries around the world. These spaces could offer neutral, safe and accessible fora for off-the-record dialogue and negotiations, thereby reducing costly and time-intensive travel for one-day meetings in major capitals. These facilities would help in identifying honest attempts to broker peace, helping to resolve the moral hazard issues described above, and as such should be supported by the global community. They could perhaps be funded by philanthropists but placed under public administration, providing a network for global peace diplomacy.

Reducing violence and insecurity is intricately linked to providing justice. Institutions for global justice are few and far between, but providing a solid financial structure to organisations like the International Criminal Court, Interpol or the United Nations Office on Drugs and Crime (UNODC) would help to reduce impunity (for example by bringing war criminals to justice and reducing the incentive to fight or finance fighting). Similar but smaller organisations would benefit from having sources of independent funding from a few nation states, ideally through an endowment.

Finally, providing security is not always a task for the security forces. Given how intricately peace and development are linked in so many, yet poorly understood, ways, we must recognise that much security derives from the process of development itself. In that sense, there are huge security dividends to be earned from good development policies – just as good security policies also greatly facilitate socio-economic development. Non-traditional security actors can also be found in the traditional development communities. If anything, scholarship and policy have underestimated these externalities, thereby potentially underproviding the levels of security and development assistance required for sustainable development.

Key recommendations

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

Notes

1. See: *www.visionofhumanity.org/#/page/news/949*.
2. See: *http://en.wikipedia.org/wiki/National_accounts*.
3. The Bretton Woods Institutions are the World Bank and the International Monetary Fund (IMF).
4. The term "peace bond" may need to be amended, however, as this means something quite different in Canada (an order from a criminal court that requires a person to keep the peace and be on good behaviour for a period of time), and the non-governmental organisation Non-violent Peace Force already issues decorative peace bonds.

References

Addison, T. and A.R. Chowdhury (2003), "A global lottery and a global premium bond", *WIDER Discussion Paper*, Vol. 2003/80, United Nations University World Institute for Development Economics Research (UNU-WIDER), Helsinki.

Bozzoli, C., T. Brück and O.J. de Groot (2011), "How many bucks in a bang: On the estimation of the economic costs of conflict", in M. Garfinkel and S. Skaperdas (eds.), *Handbook of the Economics of Peace and Security*, Oxford University Press, Oxford.

Brück, T. (2013), "Introduction: An economist's perspective on security, conflict and peace research", in SIPRI (2013), *Stockholm International Peace Research Institute Yearbook 2013*, Oxford University Press, Oxford.

Brück, T., O.J. de Groot and N. Ferguson (2013), "Measuring security", in R. Caruso and A. Locatelli (eds.), *Understanding Terrorism: A Socio-Economic Perspective*, Emerald Publishing, Bingley.

Brück, T., O. de Groot and F. Schneider (2011), "The economic costs of the German participation in the Afghanistan War", *Journal of Peace Research*, Vol. 48, No. 6, pp. 793-805.

Denney, L. (2012), *Security: The Missing Bottom of the Millennium Development Goals?*, Overseas Development Institute, London.

Fearon, J.D., M. Humphreys and J.M. Weinstein (2009), "Can development aid contribute to social cohesion after civil war? Evidence from a field experiment in post-conflict Liberia", *American Economic Review*, Papers and Proceedings, Vol. 99, No. 2, pp. 287-291.

Herman, B. (2013), "Half a century of proposals for 'innovative development financing'", *DESA Working Paper*, No. 125 (July 2013), United Nations Department of Economic and Social Affairs, New York.

Justino, P., T. Brück and P. Verwimp (2013), "Micro-level dynamics of conflict, violence and development: A new analytical framework", in P. Justino, T. Brück and P. Verwimp (eds.), *A Micro-Level Perspective on the Dynamics of Conflict, Violence and Development*, Oxford University Press, Oxford.

Kim, J.Y. (2013), "World Bank must take bold steps to help end poverty", speech at Georgetown University, 1 October 2013, *www.worldbank.org/en/news/video/2013/10/02/president-jim-kim-speech-in-george-washington-university*.

OECD (2014), "Possible new measure of total support for development: Options regarding peace and security, climate change and global programmes", DAC(2014)7, OECD, Paris, *www.oecd.org/dac/externalfinancingfordevelopment/documentupload/TOSD%20DAC(2014)7.pdf*.

SIPRI (2014), *SIPRI Yearbook 2014*, Oxford University Press, Oxford.

Wong, S. (2012), *What Have Been the Impacts of World Bank Community-Driven Development Programs?*, CDD Impact Evaluation Review and Operational and Research Implications, The World Bank, Washington, DC.

World Bank (2013), "Implementation arrangements for allocating IDA resources to countries facing 'turn-around' situations", *Background Note*, IDA Resource Mobilization Department, October 2013, available at: *www.worldbank.org/ida/papers/IDA17_Replenishment/Implementation-Arrangements-for-Allocating-IDA-Resources-to-Countries-Facing-Turn-around-Situations-Background-Note-September-2013.pdf*.

© OECD 2014

PART III

Chapter 20

Backing recovery in fragile states

by
Kathryn Nwajiaku *and* Jolanda Profos, Development Co-operation Directorate, OECD[1]

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

Today, about 1.4 billion people live in fragile states (Box 20.1), including more than one-third of the world's extreme poor: people living below the USD 1.25 a day poverty line. If current trends continue, by 2018 most of the world's extreme poor will be in fragile states.

By 2018 most of the world's extreme poor will be in fragile states.

Box 20.1. **What and where are the fragile states?**

Fragile states are countries or economies with weak capacity to carry out basic governance functions and/or to develop constructive relations between state and society, as well as among different groups in society. The g7+, a voluntary association of countries that are or have been affected by conflict, is refining the way in which fragility is assessed. They use the term "fragile" to describe themselves and see fragility and resilience as interlinked, shifting points along a continuum or spectrum. Fragility is also a global phenomenon, not restricted to conflict-affected states. It potentially affects all countries, to differing degrees, depending on their capacities for resilience.

Every year, the OECD compiles a list of countries and economies considered fragile in order to monitor financial flows to these states.* Fragile states comprise a broad spectrum of contexts – from the one-party state of North Korea to war-torn Syria and relatively stable Bosnia and Herzegovina. Two-thirds of fragile states are now found in sub-Saharan Africa, the Middle East and North Africa, and the number of fragile sub-Saharan countries (now 29) and fragile Arab states and economies (now 6) is increasing. Close to half of all fragile states – 23 out of 51 – are middle-income countries and economies, and many of them are rich in natural resources. The list of fragile states, categorised according to income, can be found in Figure 2.2 (Chapter 2).

* The list is assembled by combining the latest harmonised list of fragile situations published by the World Bank, African Development Bank and Asian Development Bank with those countries that have a Failed State Index above 90 on the Failed States list developed by the Fund for Peace.

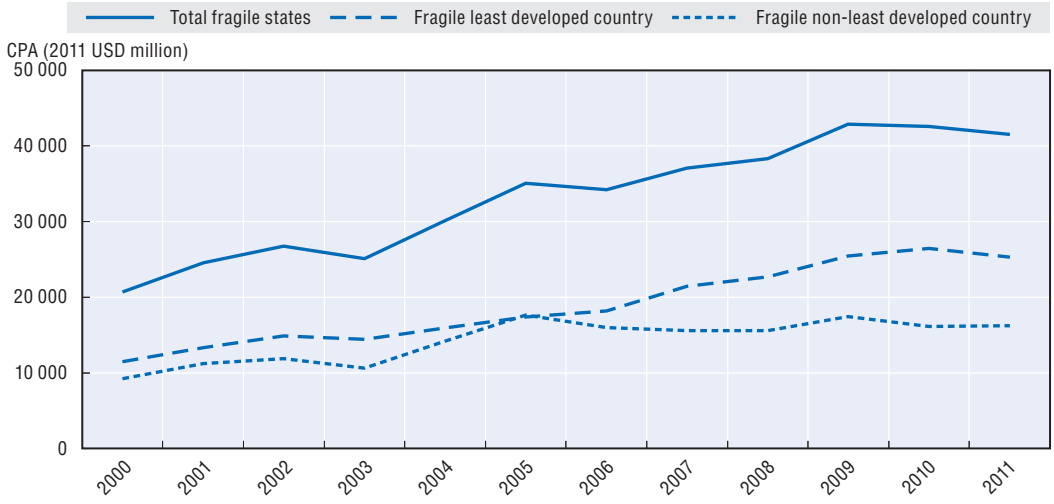
This chapter asks: What financial resources are available to fragile states – at home and abroad – to fund their development? What role does development co-operation play? And what can be done to close their financing gaps?

Least developed fragile states depend heavily on development co-operation

Over the past decade, official development assistance (ODA) has been the largest and most reliable source of development finance for the least developed fragile states. After a peak in 2005, ODA from all development providers to the 51 fragile states on the current list followed an erratic downward trend. The impact has been particularly severe for the least developed fragile states, as the analysis of country programmable aid reveals (a specific sub-category of ODA that providers programme for individual countries).[2] After their country programmable aid had steadily grown between 2000 and 2009, it began declining in 2010 (Figure 20.1).

Figure 20.1. **Development co-operation to fragile states is falling**

Country programmable aid (CPA) to fragile states, 2000-11



Source: OECD (2014a), *Fragile States 2014: Domestic Revenue Mobilisation in Fragile States*, OECD Publishing, Paris, *www.oecd.org/dac/incaf/FSR-2014.pdf*.

StatLink http://dx.doi.org/10.1787/888933121943

The least developed fragile states – the ones with the greatest needs – are seeing the sharpest decline in ODA. Yet these are countries that often depend significantly on ODA: a snapshot of 2011 data shows that in the fragile least developed countries, ODA accounted for 45% of all external finance (see Chapter 2). Out of eight countries recently identified as appearing as potentially under-aided, all are least developed countries and seven are fragile or conflict-affected states (OECD, 2014b). Other fragile states are also neglected because ODA tends to be disproportionately concentrated in countries of geo-political importance (e.g. Afghanistan, which received USD 6.7 billion in 2011) or takes little account of population size and need. Fragile states with the least ODA per capita have tended to be those with the worst human development indicators. In 2011, 44 fragile states – among them some of the poorest countries in the world – each received on average less than half a percentage of global ODA (OECD, 2014a).

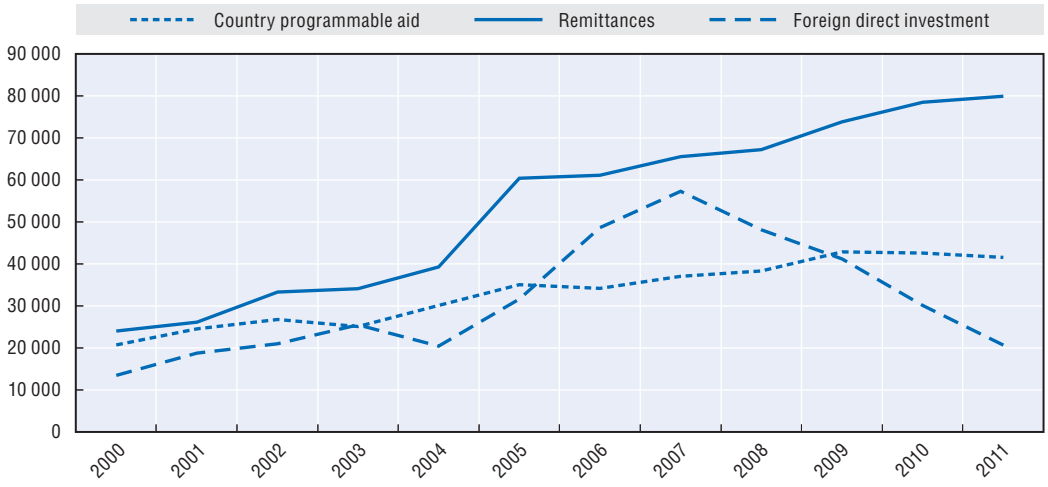
In particular, in the areas of security and justice fragile states often have a greater need for financing than other developing countries (see Chapter 19). Yet despite recent evidence of the long-term developmental cost of conflict,[3] there is a relative stagnation of support for peace and security in conflict-affected states. Because of the importance of supporting justice and accountable security provision and the overall evidence of links between violence and poverty, security and justice are the first of the five objectives addressed by the Peacebuilding and Statebuilding goals agreed by the 41 members of the New Deal for Engagement in Fragile States.[4] Yet these goals have not been matched by funding.

Remittances are an important resource for fragile states

Figures on key sources of finance for these countries show that, in total, remittances from overseas migrants (Figure 20.2) are the largest financial inflow in fragile states (56%), far outpacing development co-operation (29%) and foreign direct investment (15%); others – including bonds, export credits, securities and private grants – represent a comparatively small share of total external resources.

Figure 20.2. **Major inflows in fragile states: Remittances, aid and foreign direct investment**

Constant 2011 USD million



Source: Compiled from OECD CPA data, FDI data from IMF through eLibrary, *http://elibrary-data.org*, and Remittances from World Development Indicators, *http://worldbank;org:data-catalog:word-develoment-indicators*.

StatLink http://dx.doi.org/10.1787/888933121962

Remittances are an important source of finance for many developing countries, especially because of their counter-cyclical nature: they increase during downturns in the recipient economy – unlike capital flows such as foreign direct investment – and so play an important role in mitigating economic shocks (see Chapter 10). To date, however, the extent to which remittances contribute to development is not clear. Being private income, they are not necessarily spent in line with a state's development goals. Also, remittances disproportionately benefit citizens in middle-income countries, who tend to receive much larger amounts per capita than citizens in low-income fragile states. There are ways in which the development community can do more to address and strengthen the development impact of remittances in low-income fragile states. These include making the transfer of remittances cheaper and easier to access, both for sending and receiving countries; "securitising" future remittance receipts, whereby banks transform them into securities to raise financing for infrastructure and development projects; and providing matching funds for remittance-backed local development projects (OECD, 2014a).

Foreign direct investment in fragile states is volatile

Net foreign direct investment in fragile states has followed a continuous downward slide. Since the start of the global economic crisis, it has been characteristically volatile and extremely unequally distributed. Almost half of all foreign direct investment in fragile states goes to just three countries: Egypt, Nigeria and Sudan. For most fragile states, especially African countries that are not resource-rich, foreign direct investment is simply not part of the resource equation. Further, the least developed fragile states have little access to it, as they are often considered less creditworthy than middle-income countries.

For most fragile states, foreign direct investment is simply not part of the resource equation.

Raising domestic revenue offers both potential and challenges

Revenue raised through taxes and other domestic sources – known as domestic revenue – offers fragile states a promising and sustainable source of home-grown development finance. The United Nations estimates that to achieve the Millennium Development Goals (MDGs), domestic revenue should represent at least 20% of a country's gross domestic product (GDP). Yet only two fragile states have reached that target (Bosnia and Herzegovina, and Kenya). On average in 2011, domestic revenue represented only 14% of the GDP of fragile states; in other developing countries, the average was 17% and in OECD countries it was 34%.

Domestic revenue represented only 14% of the GDP of fragile states in 2011 – well below the 20% target set by the UN.

Developing capacity to raise revenue through taxes is particularly crucial in fragile states. It reduces their dependence on development co-operation and helps finance human development and recovery, while at the same time strengthening the contract between the state and its citizens by enabling the government to provide vital services. It can also fortify intra-society relationships: in countries with high taxation, economic resources are distributed more equally, leading to greater social cohesion (see, for example, Haldenwang, 2008).

Yet fragile states face particular challenges in broadening their tax base. To begin with, they often rely on one or two types of resources for their revenue – typically non-renewable natural resources or customs revenues. Likewise, they characteristically have weak technical, technological and statistical capacities required for tax systems. This is compounded by perceptions of a lack of state legitimacy, which can discourage citizens and corporations from paying taxes. In some cases, citizens' unwillingness to pay tax reflects "an often accurate perception that officials themselves may be corrupt, that governments consistently misuse public funds and that expenditure patterns may not reflect their wishes" (OECD, 2010). Finally, huge potential revenue is lost through the pressure to offer competitive tax conditions to attract multinational enterprises (Chapter 14); extensive informal and agricultural sectors, which often lie outside the tax system; and illicit financial flows (Chapter 13).

Yet despite the challenges and opportunities – and despite ODA providers' strong political and rhetorical commitment to revenue mobilisation in developing countries – only 0.08% of ODA to developing countries in 2010/11 supported public financial management and related areas. In fragile states and economies, the share was even lower – only 0.07%. This is despite compelling evidence that investments in domestic resource mobilisation can yield significant returns, even in the most challenging contexts (Box 20.2).

A substantial body of knowledge is emerging on how development co-operation providers can support revenue systems in fragile states while also encouraging statebuilding (OECD, 2014a):

- They can encourage fragile states to broaden their tax base by focusing on direct taxation (often by simplifying tax rates).[5] Direct taxes, such as income or property tax, are thought to be the most effective kind of taxation for statebuilding, as they give citizens a voice.
- They can help fragile states design frameworks to manage natural resource revenues better.
- They can strengthen fragile states' capacity to interact with multinational enterprises, e.g. by making tax incentives, transfer pricing regimes and supply chains more transparent and efficient.
- They can set an example by being transparent about development co-operation (see Chapter 14).
- They can help fragile states boost tax morale among citizens by strengthening the link between revenue collection and responsible expenditure (OECD/EUROsociAL, 2013).[6]

Box 20.2. **Support to tax administrations: An investment that pays off**

- In Ethiopia, the UK Department for International Development (DFID), alongside other donors, supports tax system reform through the Public Sector Capacity Building Programme. The aim is to increase tax revenue by 87%, from ETB 43.3 billion (Ethiopian birr) in 2010 to ETB 81 billion in 2013. Every GBP 1 of DFID support is estimated to produce additional revenue of about GBP 20 a year.
- The support to tax collection in El Salvador, extended by the United States' Agency for International Development (USAID) – totalled USD 5.3 million between 2004 and 2010 and allowed the country to increase its revenue by USD 350 million a year (see also Box 14.2 in Chapter 14).
- In the West Bank, a joint programme by the United Nations Development Programme (UNDP), Danida, the World Bank, GIZ (the German Federal Enterprise for International Co-operation) and Japan International Cooperation Agency allowed 60 participating municipalities to almost double their property tax collection, from USD 16.8 million in 2008 to USD 33 million in 2012.

Source: OECD (2013a), *Tax Inspectors Without Borders*, Final Report on the Feasibility Study into the Tax Inspectors Without Borders Initiative, OECD, Paris, *www.oecd.org/ctp/tax-global/TIWB_feasibility_study.pdf*; information on West Bank programme provided by Sakher AlAhmad, Nicolas Garrigue and Eugenia Piza-Lopez (UNDP).

Development co-operation providers can also draw on a recent OECD report (2013b) that outlines guiding principles for revenue mobilisation in fragile states (Box 20.3) and makes 50 recommendations for best practice.

Box 20.3. **Key guiding principles for revenue mobilisation in fragile states**

- Leadership and political will for reform by the host country is crucial – development co-operation alone cannot "buy" effective and lasting reforms.
- *How* revenue gets collected is just as important as *how much* gets collected. In fragile states, tax reform should put emphasis on being equitable and fostering accountability and transparency.
- Reforming the tax system only works when done in conjunction with anti-corruption measures. Otherwise corruption continues to undermine new tax administrations and policies.
- Strengthening linkages between taxation and governance also involves supporting institutions and organisations outside the revenue system, such as the justice system, parliament and civil society.

Source: OECD (2013b), *Tax and Development: Aid Modalities for Strengthening Tax Systems*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264177581-en*.

Appropriate risk management can promote investment in fragile states

What is holding back development co-operation providers, and other external finance providers, from investing in fragile states? This is largely a result of their aversion to the perceived risks of operating in these challenging environments.

The risk of not engaging in fragile states outweighs the risks of getting involved.

The New Deal for Engagement in Fragile States – endorsed by 41 countries and organisations in 2011 – recognises these apprehensions, but emphasises that the risk of not engaging in fragile states outweighs the risks of getting involved. Appropriate risk taking is essential to delivering results during transition. This means that international support needs to be tailored to manage risks in fragile and conflict-affected states.

In fact, there is a range of ways in which development co-operation can be provided to reduce risks. *Development Assistance and Approaches to Risk in Fragile and Conflict Affected States* (OECD, forthcoming) brings together a wealth of concrete examples of risk taking and risk management from Afghanistan, the Democratic Republic of Congo (DRC), Haiti, Myanmar, Nepal, Somalia and South Sudan, together with practical implications for development co-operation providers. In addition, as discussed in Chapter 11, guarantee schemes backed by development finance providers can help mobilise private sector finance by transferring or mitigating risks that private investors would not be able or willing to take otherwise. Guarantees act as a type of "insurance policy" against the risks of non-payment, facilitating financial flows to developing countries and high-risk sectors. They are particularly beneficial to developing country businesses, which often lack creditworthiness in the eyes of private investors, and have had some success in fragile states.

Key recommendations

- Improve both the quantity and quality of development co-operation to fragile states, especially in the least developed fragile states which depend upon it the most.
- Support revenue mobilisation in fragile states by following emerging guiding principles in areas such as: broadening the tax base, managing revenues from natural resources, striking better deals with multinational enterprises, promoting transparency and boosting tax morale.
- Seek opportunities to harness remittances as a source of development – for instance by making financial services for remittances cheaper and easier to access, "securitising" future remittance receipts and providing matching funds for remittance-backed local development projects.

Notes

1. This chapter is based largely on OECD (2014a).
2. Country programmable aid tracks the proportion of ODA over which host countries have, or could have, significant say. It measures gross bilateral ODA but excludes activities that: 1) are inherently unpredictable (humanitarian aid and debt relief); 2) entail no cross-border flows (administrative costs, imputed student costs, promotion of development awareness, and costs related to research and refugees in provider countries); 3) do not form part of co-operation agreements between governments (food aid, aid from local governments, core funding to non-governmental organisations, ODA equity investments, development co-operation through secondary agencies and aid which is not allocable by country or region).
3. See the 2014 Global Peace Index at: *www.visionofhumanity.org/#/page/news/949*.
4. The Busan High Level Forum on Aid Effectiveness in November 2011 agreed a New Deal for Engagement in Fragile States. The New Deal identifies five Peacebuilding and Statebuilding Goals which aim to foster inclusive political settlements and conflict resolution; establish and strengthen people's security; address injustices and increase people's access to justice; generate employment and improve livelihoods; and manage revenue and build capacity for accountable and fair service delivery. For more information, see: *www.newdeal4peace.org/peacebuilding-and-statebuilding-goals*.
5. Simplified tax rates, such as presumptive direct taxes, can be a pragmatic solution where taxing effective income is impossible, for instance where the government faces capacity constraints or taxpayers lack financial transparency. The term "presumptive taxation" generally means that the tax rate is not directly measured on the basis of the actual tax base (e.g. income), but instead estimated from indicators that are easier to measure. For example, presumptive taxes are used to tax income for small businesses in Timor-Leste and Kosovo. They are calculated based on factors such as the type of product sold, the size of the enterprise and a rough estimate of turnover.
6. Tax morale is people's motivation to pay their taxes, beyond their legal obligation to do so.

References

Haldenwang, C. (2008), *Taxation, Social Cohesion and Fiscal Decentralization in Latin America*, German Development Institute, Bonn, *www.die-gdi.de/CMS-Homepage/openwebcms3.nsf/(ynDK_contentByKey)/ANES-7F4H2R/$FILE/DP%201.2008.pdf*.

International Dialogue on Peacebuilding and Statebuilding (2011), *A New Deal for Engagement in Fragile States*, International Dialogue on Peacebuilding and Statebuilding, *www.pbsbdialogue.org/documentupload/49151944.pdf*.

OECD (forthcoming), *Development Assistance and Approaches to Risk in Fragile and Conflict Affected States*, OECD, Paris.

OECD (2014a), *Fragile States 2014: Domestic Revenue Mobilisation in Fragile States*, OECD Publishing, Paris, *www.oecd.org/dac/incaf/FSR-2014.pdf*.

OECD (2014b), "Identification and monitoring of potentially under-aided countries", OECD, Paris, *www.oecd.org/dac/aid-architecture/Identification%20and%20Monitoring%20of%20Potentially%20Under-Aided%20Countries.pdf*.

OECD (2013a), *Tax Inspectors Without Borders*, Final Report on the Feasibility Study into the Tax Inspectors Without Borders Initiative, OECD, Paris, *www.oecd.org/ctp/tax-global/TIWB_feasibility_study.pdf*.

OECD (2013b), *Tax and Development: Aid Modalities for Strengthening Tax Systems*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264177581-en*.

OECD (2010), "Domestic resource mobilisation for development: The taxation challenge", issues paper for the OECD Global Forum on Development, *www.oecd.org/site/oecdgfd/44465017.pdf*.

OECD/EUROsociAL (2013), *Building Tax Culture, Compliance and Citizenship: A Global Source Book on Taxpayer Education*, draft for consultation version, October 2013, OECD, Paris, *www.oecd.org/ctp/tax-global/sourebook-taxpayer-education.pdf*.

Development Co-operation Report 2014
Mobilising Resources for Sustainable Development
© OECD 2014

PART III

Chapter 21

Supporting a fair and equal trading system

by
William Hynes, Development Co-operation Directorate, OECD

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

This chapter also includes an opinion piece by Roberto Azevêdo, Director-General of the World Trade Organization, on how the full potential of trade for development is yet to be tapped.

Today most economies are interwoven and trade in "many cases is the single most important external source of development financing" (UNDESA, 2002).[1] Trade is essential for the transfer of knowledge, technology and skills – and thus for development. This powerful developmental role of trade has been recognised by the High-Level Panel (HLP) set up by the United Nations Secretary-General Ban Ki-moon to advise on the global development framework beyond 2015. The HLP's 2013 report identified an "open, fair and development-friendly trading system" as one condition for creating a global environment that will enable "a world in 2030 that is more equal, more prosperous, more peaceful and more just than that of today" (HLP, 2013). The panel's report recognises that countries are leading their own development, and that this dynamism is driven by trade rather than by development co-operation. Ensuring that the global trading system is open and fair will create the framework for countries to grow further.

Trade is essential for the transfer of knowledge, technology and skills – and thus for development.

Today, fragmented production chains offer developing countries the opportunity to enter international markets without having to produce sophisticated final products. Yet while many developing countries have been able to reap the benefits of international trade, others have not and many impediments to a fair world trade system remain. This chapter looks at the evolving nature of trade and the changing role of developing countries in world trade. Next, it analyses how the international community has helped developing countries integrate into the world trading system. It concludes by examining the recent World Trade Organization (WTO) Bali Agreement and makes some recommendations for providers of development co-operation to help further efforts to make the world trading system more equitable and fair.

The nature of world trade is changing

The share of developing countries in world trade doubled from 16% in 1991 to 32% in 2011. The economic crisis accelerated this trend, and by 2012 the value of exports from developing countries to other developing countries (South-South trade) exceeded exports from these countries to rich (OECD) countries (South-North trade).[2] Developing country markets absorb 49% of total exports from the least developed countries, with the People's Republic of China being the leading market destination, absorbing over 20% of least developed countries' merchandise exports (Cirera, 2013).

Developing country markets absorb 49% of all exports from least developed countries.

World trade is also becoming more diversified. Fuel and mining products have driven much of the recent growth in least developed countries' exports, accounting for more than 60% of the total. Clothing is the second largest category, followed by food products (15% and 10% of total least developed countries' exports, respectively). On average, however, least developed countries are dependent on these three products for more than 70% of their export receipts, leaving them highly susceptible to volatile prices and falls in demand for those products (OECD/WTO, 2011). There have also been small, but important, increases in least developed countries' commercial services exports,[3] which reached USD 25 billion in 2011, corresponding to 0.6% of the world total (UNCTAD, 2013).

There are still impediments to equitable world trade

An important step towards making the world trading system more equitable has been the expansion of WTO membership since 1994 to include most developing countries. Yet while the quotas and duties of the past have been replaced by preference programmes and duty-free, quota-free market access schemes for developing countries, other complications still remain. For example, "rules of origin" can seriously limit sourcing opportunities for developing countries and in addition create unnecessary red tape and paperwork. This can curtail the participation of developing countries and especially the least developed ones – where capacity is limited – in global value chains, which, in turn, reduces their competitiveness (HLP, 2013).

While poorer countries have traditionally relied on trade taxes, this is much less the case today. For instance, the share of trade taxes in (sub-Saharan) African gross domestic product (GDP) declined by 5% every year between 2000 and 2011 (OECD/AfDB, 2013). Today the benefits of trade liberalisation far outweigh forgone tax revenues;[4] continued progress requires a more open trading system that is rules-based, predictable and non-discriminatory, as envisioned in Millennium Development Goal 8. This can substantially stimulate development worldwide, benefiting countries at all stages of development (UNDESA, 2002). To make this happen, a range of concerns have yet to be addressed at the global level.

Trade barriers, technical barriers and trade-distorting subsidies – particularly in agriculture – need to be removed. The abuse of anti-dumping measures needs to be controlled. Private sanitary and phytosanitary measures are a further obstacle. There is also a great demand for more and better transfer of knowledge and technology from developed to developing countries. Finally, special provisions for the treatment of developing countries in trade agreements need to be made more precise, effective and workable.

Aid for trade can help countries meet their development goals

Following the conclusion of the Uruguay Round of trade talks in the 1990s, it was clear that developing countries required assistance to analyse, negotiate and implement trade agreements. Finger and Schuler (1999) argued that the costs of implementing the Uruguay Round were substantial and that the WTO obligations reflected little awareness of the capacity constraints of developing countries. The first WTO Ministerial Conference, held in 1996, recognised that the least developed countries faced these type of constraints. This led to the creation of the "integrated framework" to improve the capacity of the least developed countries in trade policy formulation and implementation. The intention was to achieve the full integration of the least developed countries into the multilateral trading system, thereby increasing their market opportunities (WTO, 2006a). However, the integrated framework had only modest success, as "trade was inadequately seen, by both donors and recipients, as an integral aspect of economic development and poverty reduction" (WTO, 2006a). Trade rarely featured as a priority of either development co-operation providers or developing countries. Development co-operation providers did scale up support to capacity building for designing trade policy and regulations, especially from the start of the Doha Development Round in 2001,[5] but a greater, more holistic effort was needed. While ministers at Doha promoted trade liberalisation, they also

acknowledged that more capacity was needed, as many low-income countries could not benefit from reciprocal market access because they had little to offer (Suwa-Eisenmann and Verdier, 2007). Ministers recognised the need to move beyond market access and agreed to assist further with building the trade capacities of developing countries. The breakthrough came at the WTO Ministerial Conference in Hong Kong, China in 2005, which requested a new WTO work programme on aid for trade (Box 21.1).

Support to trade has only recently become a priority for the development community.

Box 21.1. **What is aid for trade?**

Developing countries need support to participate in international trade effectively. The WTO-led Aid-for-Trade Initiative aims "to help developing countries, particularly least developed countries, build the supply-side capacity and trade-related infrastructure that they need to assist them to implement and benefit from WTO [a]greements and more broadly to expand their trade" (WTO, 2006b).

Aid for trade aims to enable developing countries, particularly the least developed ones, to use trade more effectively to promote growth, development and poverty reduction and to achieve their development objectives, including the Millenium Development Goals. It is founded on the assumption that while some countries offer good prospects, most developing countries have low capacity to trade, and that trade liberalisation alone cannot create the incentives needed for broader economic reform. Trade-specific development co-operation programmes, accompanied by complementary economic reforms, can ensure sustainability and have a lasting development impact (OECD, 2013b). The OECD with the WTO monitors the initiative examining developing country strategies and priorities and donor programming to assess what is happening, what is not and where improvements are needed. This monitoring creates incentives for the delivery of more and better aid for trade so that developing countries can build the capacities to help them capitalise on the opportunities of international trade.*

* More details on the OECD's work on aid for trade can be found at: *www.oecd.org/dac/aft*.

Providing assistance for trade capacity building is one of the indicators of progress towards the achievement of Millennium Development Goal 8, and it is clear that the Aid-for-Trade Initiative helps the multilateral trade system deliver on its objective of encouraging and contributing to sustainable development, raising people's welfare and reducing poverty. The WTO and others have argued that "economic growth and trade – as a driver of growth – deserve a prominent place in the post-2015 development agenda. We need an agenda that integrates economic growth with social inclusion and with environmental protection" (Lamy, 2013).

Developing countries are increasingly prioritising trade and mainstreaming trade in their development strategies. In response, the international community has scaled up support, and funding has held up well in spite of the financial crisis. Annual aid-for-trade commitments amounted to over USD 54 billion in 2012, and have doubled since 2005. This has been bolstered by the commitment of the G20 countries, which have pledged to maintain aid for trade resources beyond 2011 at 2006-08 average levels. As Hynes and Holden (2013) argue, this increase is seen principally in the form of increased investments in economic infrastructure and support for building productive capacity. Aid for trade is also focusing on improving transport times and costs, and improving standards certification (OECD/WTO, 2013a). This has helped to arrest a decades-long decline in official development assistance (ODA) to the economic sectors compared to social sectors.[6]

There is strong empirical evidence that aid for trade is delivering tangible results. Indeed, much of the aid-for-trade literature has focused on assessments of the effectiveness of aid for trade. These have generally been positive at the aggregate level (Newfarmer and Ugarte, 2013; Cali and te Velde, 2011; Basnett et al., 2012). Some emphasise in particular the effectiveness of aid-for-trade facilitation (Helble et al., 2012) and others focus on the effectiveness of support provided to infrastructure (Vijil and Wagner, 2012).[7] OECD/WTO (2013b) documents numerous examples of development co-operation programmes that helped countries to adjust to trade liberalisation and trade reform; technical assistance programmes to mainstream trade in development strategies; and training programmes for government officials in trade policy.

Aid for trade has more than doubled in real terms since 2005.

Nonetheless, while aid for trade is strengthening the role of trade as an engine of development, it is also necessary to recognise that ODA can potentially distort trade, undermining its own effectiveness. For instance, if ODA is tied to the purchase of goods from the provider's country, it can create a bias towards projects with a large import content in areas of particular export interest to the originator and towards "commercially interesting" developing countries; this, in turn, can harm the credibility of providers of development co-operation.[8] The OECD has estimated that tying reduces the value of ODA by 15-30% on average (OECD, 1991). While progress on reforming the tying status of ODA has been slow for decades, DAC development co-operation providers agreed in 2001 to untie aid for the least developed countries, which can least afford the associated costs of tied aid.

The WTO Bali Agreement promises to facilitate trade

To further explore options for creating a fairer trading system, the international community came together in Bali in December 2013 at the WTO Ministerial Conference. The resulting agreement, which follows many years of negotiations, sets out important measures to streamline trade, allow developing countries more options to achieve food security, boost least developed countries' trade and stimulate development more generally.

Measures to facilitate trade could cut global trade costs by more than 10%, and raise annual global output by over USD 400 billion.

The most important aspect of the 2013 Bali Agreement was the area dealing with trade facilitation. The agreement calls for streamlining and cutting red tape in customs procedures to expedite the movement, release and clearance of goods. The OECD estimates that these measures could cut global trade costs by more than 10%, raising annual global output by over USD 400 billion, and benefiting developing economies the most (OECD, 2013a). Some poorer countries, however, raised concerns about their ability to make the required capacity upgrades (see Box 21.2 for one example). The Bali Ministerial decision recognised the particular needs of developing – and especially least developed – countries in implementing such measures. Providers of development co-operation agreed to enhance assistance and support for capacity building in this area – to target ODA towards strengthening administrative trade processes, training custom officials and improving the efficiency of regulation of cross-border trade, all of which reduce clearance times at borders. Finally, ensuring transparency on the assistance to help developing countries which implement the trade facilitation agreement was essential in concluding the deal. The OECD estimates that development co-operation to trade facilitation amounts to almost USD 477 million annually;[9] such flows will play a critical role in implementing the Bali Agreement (OECD, 2014).

Box 21.2. **Yemen's efforts to secure trade-based economic security**

AbdulWahab al-Awdi,
Director, Policy Development and Capacity Building, Yemen Customs Authority

Yemen, which acceded to the WTO in Bali after 13 years of negotiation, faces major obstacles in streamlining customs and securing broader economic security. The only least developed country in the Middle East, Yemen's objective is to develop its trade policies and improve its performance indicators and business environment.

Two-thirds of Yemen's exports are fuel, which is very vulnerable to price fluctuations and the negative effects of political instability. Nevertheless, Yemen's trade-to-GDP ratio amounted to 67.5% in 2012, in spite of the unrest in the country. This indicates how crucial trade is for Yemen's economic security and that the government relies heavily on revenues from fuel exports. Nonetheless, the share of tax revenue in GDP was only 7.3% in 2013 – well below the region's 18.4% average. Yemen's failure to recuperate its potential revenue from tax is largely a result of corruption and weak government institutions.

Substantial support has been provided to help Yemen improve its customs service, and to modernise and reform its administration, systems and procedures – goals that have been prioritised by both the government and providers of development co-operation. Yet, despite the political will and commitment of Yemen's customs leadership – and the awareness that the modernisation process has to be inclusive and comprehensive, covering a wide range of customs processes and procedures – budget constraints have blocked the reform process. Securing support from the international community – in line with the agreements in Doha and Bali – will be fundamental to take this forward.

A number of other decisions taken in Bali will help service providers from the least developed countries to compete in developed country markets. For example, improvements in preferential schemes exempt least developed country exports from tariffs and quotas, and the accompanying rules of origin have been simplified. More broadly, the decision to introduce a monitoring mechanism to review and strengthen special and differential treatment provisions will benefit all developing countries. As Roberto Azevêdo, Director-General of the WTO, has stated, "this achievement is vital for the equilibrium and efficacy of the multilateral system" (Azevêdo, 2014; and see his "In my view" box).

To conclude, in a world linked by value chains, the creation of an equal and fair trading system would benefit all countries. For decades, advocates of trade have argued for "trade, not aid" as the long-term sustainable solution to development challenges. Yet, the vast majority of developing countries have faced difficulties in benefiting from economic and trade reforms, revealing that both "trade, not aid" *and* "trade as aid" are rather limited (UNCTAD, 2008). While the global marketplace offers enormous opportunities, developing countries often lack the human, physical and infrastructural capacities to compete effectively. Assistance to increase their trade and integration into the global economy can be delivered through reforms in trade policy (e.g. to create preferential and market access), by channelling resources and by providing technical assistance to developing countries through development co-operation.

In my view: The full potential of trade for development is yet to be tapped

Roberto Azevêdo,
Director-General, World Trade Organization (WTO)

The United Nation's post-2015 development agenda is gaining momentum. To be truly effective and meaningful, the agenda has to include trade; it should make full use of the multilateral trading system to achieve the post-2015 goals.

Trade offers access to new sources of demand and supply; financing and investment; ideas, knowledge and technology. It offers a way for low-income economies to break out of the constraints of their domestic markets. Through trade, developing economies can access new sources of external demand and generate the financial resources, knowledge and production capacity necessary for sustainable development. In short, trade helps enable growth. Without growth, poverty alleviation will remain elusive.

Our joint work with the OECD on global value chains highlights new possibilities to use trade to foster growth, employment and development. The geographical fragmentation of production creates new opportunities to enter today's complex value chains. Realising these new possibilities remains a challenge, though, in particular for the least developed countries.

We can support the post-2015 development agenda by working to connect developing countries, and in particular the least developed countries, to export markets through actions. On the demand side, we can strive to offer more and better market access opportunities both by lowering barriers (including tariffs) and through less market distortion (trade-distortive subsidies, for example, prevent some small countries from tapping the full potential of global agriculture markets). Delivering a meaningful Doha Development Agenda* outcome lies at the core of this work.

The good news on the Doha Development Agenda is that we have momentum, especially from the WTO Trade Facilitation Agreement. This deal, concluded in December 2013 in Bali, will help countries reduce trade-related costs by streamlining border procedures. It contains specific provisions to help developing countries implement commitments, notably by linking implementation to the acquisition of capacity by means of related technical assistance. Aid allocated to trade facilitation has a multiplier effect, helping countries to achieve various development goals.

Trade facilitation support is an integral part of a broader "aid-for-trade" agenda to address supply-side and infrastructure constraints. Effective and durable results from aid-for-trade activities must target the full integration of the smallest and poorest countries into global trade, thereby attracting investments, creating more and better-paid jobs and reducing poverty.

The Bali deal represents the first set of new multilateral trade rules agreed in 18 years. It is important that we now move fast and conclude the Doha Development Agenda. This would improve market access conditions, especially for the least developed countries, and reduce distortions that keep the production and potential production of these countries out of the market.

In my view, the post-2015 development agenda is a defining opportunity to raise awareness about the benefits of trade and the opportunity trade offers to help finance sustainable development in a smart way. We must be ambitious in this agenda. But we must also be effective and tap the full potential of trade and the multilateral trading system to support development.

* The Doha Development Agenda is the latest round of trade negotiations among the WTO membership.

Key recommendations

- Ensure that the World Trade Organization's members implement the Bali Agreement on Trade Facilitation and provide the necessary technical assistance to help poorer countries to streamline their customs procedures.
- Make progress on the remaining items of the Doha Development Round, especially agriculture, in order to further integrate developing countries into the world trading systems.
- Ensure that G20 providers of trade-related assistance meet their pledge to maintain aid-for-trade flows beyond 2011.

Notes

1. The typical low-income country is highly integrated into the world economy, with import and export shares of GDP of about 50% and 30% respectively (World Bank, 2013).
2. Freemantle and Stevens (2012) report a trade increase from USD 20 billion in 2001 to more than USD 250 billion in 2011 between Africa and a group of ten emerging economies.
3. Commercial services include transport; travel; communications; construction; insurance; financial services; computer and information services; royalties and license fees; other business services; personal, cultural and recreational services; and government services.
4. Although some countries found it difficult to replace tariffs with other taxes, such as value added tax (Aizenman and Jinjarak, 2009).
5. The Doha Development Round or Doha Development Agenda is the current trade-negotiation round of the World Trade Organization (WTO) which commenced in November 2001. Its objective is to lower trade barriers around the world, and thus facilitate increased global trade
6. This shift could be partially attributed to the Millennium Development Goals, which helped orientate aid programmes towards the social sectors (primarily health and education) while diverting funds away from the economic sectors and the promotion of investment and international trade, "a trend that was further accentuated by the original Heavily Indebted Poor Countries (HIPC) initiative, which prescribed the promotion of social policies as a precondition for debt relief" (OECD/WTO, 2009).
7. Assessments of aid for trade's impact in specific country situations (see ICTSD's country studies on aid-for-trade effectiveness) and on reducing poverty have generally been less positive (Turner and Rovamaa, 2013).
8. The influence of tied aid on trade can be over-emphasised. Lloyd et al. (2000) looked at data from 1969-95, the heyday of tied aid, and found little evidence that aid created trade, though they found that France was more likely to use trade links as a criterion for aid allocations. Similarly, Tajoli (1999) found that tied aid does not necessarily generate trade flows and that donors' export shares were not correlated with the degree of tying.
9. Amounts tracked by the OECD's Creditor Reporting System.

References

Aizenman, J. and Y. Jinjarak (2009), "Globalisation and developing countries – a shrinking tax base?", *Journal of Development Studies*, Vol. 45, No. 5.

Azevêdo, R. (2014), "Bali is just the start", speech by WTO Director-General delivered in Lisbon on 6 January 2014, *www.wto.org/english/news_e/spra_e/spra4_e.htm*.

Basnett, Y. et al. (2012), "Increasing the effectiveness of aid for trade: The circumstances under which it works best", *ODI Working Paper*, No. 353, Overseas Development Institute, London, *www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/7793.pdf*.

Cali, M. and D.W. te Velde (2011), "Does aid for trade really improve trade performance?", *World Development*, Vol. 39, No. 5, pp. 725-740.

Cirera, X.P. (2013), "What is the economic engagement footprint of rising powers in Africa?", *IDS Rising Power Evidence Report*, No. 43, Institute of Development Studies, University of Sussex, Brighton.

Finger, J.M. and P. Schuler (1999), "Implementation of Uruguay Round Commitments: The development challenge", *World Bank Development Research Group Policy Research Working Paper*, No. 2 215, The World Bank, Washington, DC.

Freemantle, S. and J. Stevens (2012), "EM10 and Africa: New forces broaden Africa's commercial horizon", *Private Perspective*, Edition 1, July, CfC Stanbic Bank.

Helble, M., C. Mann and J. Wilson (2012), "Aid for trade facilitation", *Review of World Economics*, Vol. 148, Issue 2, pp. 357-376.

HLP (2013), *A New Global Partnership: Eradicate Poverty and Transform Economies Through Sustainable Development*, The Report of the High-Level Panel of Eminent Persons on the Post-2015 Development Agenda, High-Level Panel, United Nations, New York, *www.post2015hlp.org/wp-content/uploads/2013/05/UN-Report.pdf*.

Hynes, W. and P. Holden (2013), "What future for the Global Aid for Trade initiative? Towards a fairer assessment of its achievements and limitations", *IIIS Discussion Paper*, No. 421, Institute for International Integration Studies, Trinity College, Dublin, *www.tcd.ie/iiis/documents/discussion/pdfs/iiisdp421.pdf*.

Lamy, P. (2013), "A prominent place for growth in the post-2015 development agenda", speech at the Conference on International Cooperation in 2020 in The Hague, 7 March, *www.wto.org/english/news_e/sppl_e/sppl268_e.htm*.

Lloyd, T. et al. (2000), "Does aid create trade? An investigation for European donors and African recipients", *The European Journal of Development Research*, Vol. 12, Issue 1.

Newfarmer, R. and C. Ugarte (2013), "Evaluating the effectiveness of aid for trade", in OECD/WTO, *Aid for Trade at a Glance – Connecting to Value Chains*, WTO/OECD Publishing, Paris, *http://dx.doi.org/10.1787/aid_glance-2013-9-en*.

OECD (2014), *Aid for Trade in 2012: Increasing Flows, Hardening Terms*, OECD, Paris, *www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DCD/DAC(2014)26&docLanguage=En*.

OECD (2013a), "The costs and benefits of trade facilitation", *OECD Policy Brief*, OECD, Paris, *www.oecd.org/trade/facilitation/35459690.pdf*.

OECD (2013b), *Succeeding with Trade Reforms: The Role of Aid for Trade*, The Development Dimension, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264201200-en*.

OECD (1991), *The Tying of Aid*, OECD Publishing, Paris, *www.oecd.org/dev/pgd/29412505.pdf*.

OECD/AfDB (2013), *African Economic Outlook 2013: Structural Transformation and Natural Resources*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/aeo-2013-en*.

OECD/WTO (2013a), *Aid for Trade at a Glance 2013: Connecting to Value Chains*, WTO/OECD Publishing, Paris, *http://dx.doi.org/10.1787/aid_glance-2013-en*.

OECD/WTO (2013b), *Aid for Trade in Action*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264201453-en*.

OECD/WTO (2011), *Aid for Trade at a Glance 2011: Showing Results*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264117471-en*.

OECD/WTO (2009), *Aid for Trade at a Glance 2009: Maintaining Momentum*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264069022-en*.

Suwa-Eisenmann, A. and T. Verdier (2007), "Aid and trade", *Oxford Economic Policy Review*, No. 23, pp. 481-507.

Tajoli, L. (1999), "The impact of tied aid on trade flows between donor and recipient countries", *Journal of International Trade & Economic Development*, Vol. 8, No. 4, pp. 373-388.

Turner, L. and L. Rovamaa (2013), *Aid for Trade: Reviewing EC and DFID Monitoring and Evaluation Practices*, Saana Consulting, Traidcraft and Catholic Agency for Overseas Development (CAFOD), London.

UNCTAD (2013), *Key Trends in International Merchandise Trade*, United Nations Conference on Trade and Development, Geneva.

UNCTAD (2008), *Aid for Trade and Development: Global and Regional Perspectives*, United Nations Conference on Trade and Development, Geneva.

UNDESA (2002), *Monterrey Consensus on Financing for Development*, United Nations Department for Economic and Social Affairs, New York, *www.un.org/en/events/pastevents/pdfs/MonterreyConsensus.pdf*.

Vijil, M. and L. Wagner (2012), "Does aid for trade enhance export performance? Investigating the infrastructure channel", *The World Economy*, Vol. 35, No. 7, pp. 838-868.

World Bank (2013), *Global Monitoring Report 2013*, The World Bank, Washington, DC.

WTO (2006a), "An enhanced integrated framework: Report of the Chairman of the Task Force on an Enhanced Integrated Framework, including recommendations", WT/IFSC/W/15, World Trade Organization, Geneva.

WTO (2006b), "Recommendations of the Task Force on Aid for Trade", WT/AFT/1, World Trade Organization, Geneva.

PART IV

Profiles of development co-operation providers

© OECD 2014

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

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

* *Full peer reviews include: Australia, Canada, the European Union, Finland, France, Italy, Korea, Luxembourg, Norway, Sweden and Switzerland. Mid-term reviews include: Austria, Belgium, Denmark, Germany, Japan, the Netherlands, New Zealand, Portugal, Spain, the United Kingdom and the United States.*

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

Key messages

1. **Strategic orientations:** This has been a period of unprecedented reform in the strategic orientations and organisation of development co-operation. Development has been increasingly integrated into foreign and trade policy; serving national interests has become a more explicit objective for some reviewed members; and global public goods has risen up the agenda. One consequence of these trends has been a new, or in some cases renewed, focus on middle-income countries.
2. **Policy coherence:** The trend towards integration of foreign trade and development policy has, to some extent, led to stronger whole-of-government approaches to development in most reviewed member countries. However, this has stopped some way short of ensuring domestic and foreign policies are analysed and monitored from a development perspective.
3. **Allocations:** The financial crisis has had a varied impact on official development assistance (ODA) volumes in this period. Most reviewed members, however, continue to fall well short of the 0.7% ODA/GNI commitment. The vast majority of reviewed members have made efforts to concentrate their development co-operation both geographically and thematically. In this context, aid to least developed countries (LDCs) has been declining, despite many reviewed members maintaining a strong policy focus on LDCs and fragile states.
4. **Private sector:** All reviewed members are emphasising the important role of the private sector in development. Many of them have developed private sector strategies and are creating new funding instruments or delivery mechanisms to support this focus. Several reviews caution members against merging development objectives with their own commercial interests as well as against establishing instruments that would lead to an increase in tied aid.
5. **Organisation and management:** The increased integration with foreign policy and trade has led to far-reaching organisational reforms for many reviewed members. In many cases, reviews point to increasing complexity in business practices and procedures, and challenges in protecting a core of development expertise.
6. **Development effectiveness:** Reviewed members have continued efforts towards integrating development effectiveness commitments into their operations. However, incentives are changing. Country-level predictability, alignment and use of country systems are being complicated by dispersed funding streams and actors, and uneven progress in the use of programme-based approaches. This is also affecting commitment to mutual accountability.
7. **Results and evaluation:** Reviewed members, from different starting points, are making good progress in their increasing emphasis on and use of evaluation. However, they are all struggling with embedding results-based management, capable of driving improvements in delivery and management, whilst being respectful of the principles of country ownership and alignment.
8. **Humanitarian assistance:** Reviewed members are implementing the Good Humanitarian Donorship principles in different ways, focusing on their individual strengths, areas of interest and comparative advantage. Clearer, more rigorously applied funding criteria would help avoid this unspoken division of labour and ensure that members are consistently adding value through their humanitarian responses, especially in complex emergencies.

Peer reviews continue to be a relevant and effective tool for DAC members to hold each other to account for delivering on commitments and for learning from one another. In the period covered by this report (January 2012 through April 2014), 90% of peer review recommendations were either implemented or partially implemented (see Annex 22.A1). The rest of this chapter summarises emerging trends from peer review findings and conclusions as they apply to the "DAC Peer Review Reference Guide" components of analysis.

Strategic orientations

All reviewed members have retained an overall objective on poverty reduction or eradication. However, there are strategic shifts in development co-operation from the period under review (and before) that are casting a new light on this objective. More reviewed members are now explicitly linking their development co-operation to serving "national interests". Reviewed members such as Japan and the United States have been developing strategies for the integration of the so-called 3-Ds (defence, diplomacy and development). Many more reviewed members have structurally embedded development co-operation into the work of their foreign ministries. This has helped lay the foundations for integration between development, foreign policy, trade and investment, in countries like France, the Netherlands, New Zealand and Sweden. Reviews note how these shifts are leading to improved "whole-of-government" co-ordination. This is manifested by, for example, the introduction by a few reviewed members of whole-of-government strategies with partner countries (particularly, but not exclusively, in fragile states). The implications of these shifts on aid allocations and organisation are discussed in more detail below.

There has been very limited progress on the policy coherence for development agenda. This is an area where, relatively, most recommendations are not being implemented (see Annex 22.A1); Sweden and Switzerland, however, were praised for their progress. There are a few examples of innovations in advancing policy coherence for development, such as through country-level pilot studies (e.g. Belgium, Finland, Korea and the Netherlands). There are also improvements in domestic, cross-government co-ordination (e.g. Austria, Belgium, Germany, Luxembourg, New Zealand, Portugal, Switzerland and the United States). However, almost all reviewed members are far from establishing a prioritised and time-bound agenda, functioning co-ordination mechanisms and monitoring for ensuring that domestic and foreign policies protect and promote rather than harm development in developing countries.

At least 16 of the reviews in this period noted a new or increasing emphasis on private sector engagement and development from reviewed members. In at least ten of these, reviews mention the creation of new funding instruments or delivery mechanisms to support this focus. For a few reviewed members, the focus is squarely on creating an enabling environment for investment and business in partner countries, as promoted at the Busan High Level Forum. However, for many reviewed members, there is a danger that new instruments will increase tied aid and be mainly supply driven. Several reviewed members in the course of their reviews have been encouraged to avoid merging development objectives with the promotion of their own commercial interests. This is clearly an area where members would benefit from sharing experience and identifying synergies amongst individual efforts.

The reviewed period has seen selected reviewed members placing a strong emphasis and improved mainstreaming practice on the environment and climate change (e.g. Australia, France, Germany, Japan, Korea, Norway, Sweden and the United Kingdom). However, in relation to gender equality and mainstreaming cross-cutting issues in general, full integration into the *modus operandi* of reviewed members is constrained by insufficient leadership commitment, resources and organisational incentives (see OECD, forthcoming).

Allocations

The financial crisis has impacted differently on reviewed members' aid volumes. There is an even split between reviewed members that have increased, maintained or reduced their ODA volume over this period. Those that lag far behind the 0.7% ODA/GNI commitment are not establishing timelines for meeting the target. Several reviewed members have, however, committed to increase ODA in less austere times, towards interim targets if not 0.7%.

All reviews identify attempts towards focusing and concentrating aid programmes, both geographically and thematically. Geographical concentration is helping some reviewed members achieve a stronger focus and scale in a sub-set of priority countries. Some reviewed members, however, have found geographical concentration more challenging, impacting on their focus and scale. There is a continuing, collective challenge around implementing good practice for ensuring responsible exits from countries. In general, members could do more to co-ordinate plans to concentrate their development co-operation, in order to deliver a stronger division of labour and to address the problem of some partner countries being under-funded. For example, in 2012-13, 16 DAC members categorised Ethiopia and Mozambique as priority countries, whilst Madagascar and Togo enjoyed priority status with only 2 DAC members.

In line with the integration between development, foreign policy and trade, among other factors, there has been a noticeable shift in strategies and aid towards middle-income countries (MICs). Many reviewed members are now evolving their relationships with MICs, focusing on capacity building, innovation, triangular co-operation and global public goods (e.g. European Union, France, Japan, the Netherlands, Norway, Spain and the United Kingdom). For a few reviewed members, this shifting emphasis has blurred the clarity of strategy and focus on least developed countries (LDCs). Others are developing more of a continuum of relationships, transitioning and graduating countries out of purely aid and into trading relationships. A strong number of reviewed members retain a clear and explicit policy focus on LDCs and fragile states (for example, Australia, Austria, Finland, Germany, Luxembourg, Norway, Sweden, Switzerland, the United Kingdom and the United States). However, in this mix of contrasting approaches, of concern is the overall decline in the share of aid allocations going to LDCs.

There are no clear patterns emerging from the reviews from this period in the split between bilateral and multilateral funding. The bilateral programme is being reduced in member countries where ODA as a whole is also decreasing rapidly or to a large extent. It is increasing in other counties (for example, Belgium). In terms of multilateral funding, reviews for many member countries point to the welcome adoption of more strategic and differentiated approaches. More members are now making their multilateral strategies transparent and more are basing funding decisions on assessments of performance as well as alignment with bilateral priorities. However, this is, in many cases, leading to more earmarked funding for particular sectors, themes or countries at the expense of core funding, and more demands for customised reporting. Reviewed members are generally encouraged to keep transaction costs as low as possible for multilateral partners, including through participating in joint assessment processes (e.g. MOPAN).

Several reviews point to a lack of strategic involvement of civil society in reviewed members' development co-operation. A symptom of this for some reviewed members is the lack of programmatic funding for civil society organisations (CSOs) and the proliferation of small funding streams, with their associated transaction costs. Australia and Switzerland, in their reviews, were praised for bucking this trend.

Organisation and management

For some reviewed members, further integration into the Ministry of Foreign Affairs has led to more visibility for development co-operation in domestic policy making (e.g. New Zealand). There has also been a trend of strengthened division of labour in countries where there continue to be implementing or executing agencies, between the strategic policy functions of the ministries and the implementation functions of the agencies (e.g. Austria, Belgium, France, Germany, Japan, Korea and Spain). However, several reviewed members continue to face the challenge of co-ordination within their institutional structures, and in co-ordinating the ODA activities of, in some cases, up to 30 other public institutions and ministries across government.

There has been a mixed picture in terms of reviewed members retaining a workforce large enough and capable enough to deliver aid budgets and results, ensuring in the process a balance between generalist and development specialist skills. A few of the reviewed members have good workforce planning systems and practices (e.g. the United Kingdom and the United States). There is a clear overlap between those reviewed members with good medium-term workforce planning and those that have succeeded in protecting or increasing the numbers of development professionals in their ranks. Several reviewed members do not have strong workforce planning. Several reviewed members have seen staff cuts as part of broader public service retrenchments and some suffer from high staff turnover. There is a growing reliance on short-term contracted staff to deliver on particular policy or thematic priorities. All reviewed members face a challenge of maximising the potential contribution of locally engaged staff.

At least ten of the countries reviewed in this period need to go further in their decentralisation of staff and delegation of authority to partner countries. For those reviewed countries, it was observed that further decentralisation would enable them to become stronger and more effective partners for implementation, policy dialogue and aligned approaches in partner countries. Norway stood out as having made good progress in this regard.

A number of reviews have found increasing complexity in business planning processes and procedures. These largely relate to the design, implementation, monitoring and evaluation of programmes in partner countries, some of which place heavy burdens on those partners, particularly in fragile states. At the same time, even more members in the period under review underwent significant internal or business modernisation reforms (e.g. Australia, Canada, New Zealand, Norway, Sweden, Switzerland and the United States), partly to address some of these concerns. Future peer reviews will consider the impact of these reforms and lessons for the DAC, in terms of effective development co-operation.

Operations and delivery

There are no discernible trends in the types of aid instruments reviewed members are deploying. Some provided more aid in budget support, and some less. A couple, notably Germany and Japan, have rich experience in technical co-operation, which they continue to expand. Reviewed members with loan operations are advised to look carefully at the ratio of grants to loans, considering the economic context and financial governance of recipient countries to ensure debt sustainability.

The proliferation of centrally managed funding instruments, however, results in more dispersed actors and funding streams. This presents the risk of aid becoming more fragmented, volatile and unpredictable, by-passing country systems. It could also potentially affect the coherence of reviewed members' efforts in partner countries. A few reviewed members are starting to grapple with this challenge, in terms of being able to capture and show their entire footprint in any one country.

Aside from this emerging trend, there are more long-standing challenges for effective development co-operation at the country level. Many reviewed members need to improve the medium-term predictability of aid for their partner countries. Most reviewed members are far from living up to the Busan commitment of using country systems as the default approach for development co-operation in support of activities managed by the public sector. It is not clear that there are concerted and co-ordinated efforts where partner country systems are considered too risky to build capacity. Relatedly, several reviewed members are still challenged to support more programme-based approaches, reversing the trend seen in many of them of a growing number of small, parallel projects, using a member's own systems. Despite EU member countries' commitments, joint programming is proving a challenge.

Results, transparency and accountability

Reviewed members have been making incremental progress towards establishing a results orientation. A number of them are starting from very limited experience with measuring and managing for results. Others, like Norway and Sweden, have more experience and are reviewed as demonstrating aspects of good practice in results-based management. All reviewed members, however, are facing similar challenges. Whilst reviewed members have been able to develop their management of project and programme-level results, these are not always: 1) defined clearly; 2) credibly linked to country, thematic and corporate-level results; and 3) used optimally for learning and decision making. In many cases, the results systems have become cumbersome and focused on short-term quantitative outputs. Reporting quantifiable results has been driven by domestic accountability pressures, rather than a need for learning. Several reviewed members need to improve on their alignment with partner countries' own results approaches and frameworks.

In contrast, all reviewed members have made good progress in their evaluation culture and practices. The DAC evaluation criteria are well embedded in reviewed members' evaluation strategies. Most reviewed members have brought independence to their evaluation functions, whilst many are now also introducing stronger accountability through management responses to evaluation findings and recommendations. All appear to be making continuous progress towards improving the quality, usefulness and transparency of evaluations. More reviewed members are also now moving towards joint evaluations and evaluation capacity development in partner countries.

The increased focus and attention to results and evaluation, and significant investments in development research, have been accompanied by an acknowledged need for reviewed members to improve their knowledge management systems and practices. Various tools are being experimented with, but there is as of now insufficient evidence that these are making a difference in terms of driving learning and informing management across organisations. The Netherlands, Sweden and Switzerland have perhaps the most to share in terms of their varied experiences with establishing knowledge platforms.

Most reviewed members have made concerted efforts, particularly following Busan, to improve on their transparency practices. A number of countries, such as Australia, Canada, the Netherlands, Norway, Sweden, the United Kingdom and the United States, are praised for these efforts. A few of the reviewed countries need to be more open to improving their practices if they are to meet the Busan commitment on transparency. A common challenge is to ensure that what is published is easily accessible to partner countries and their populations.

By extension of the challenges noted above on domestic accountability partially driving the results and transparency agendas, peer reviews also note a weakening of commitment towards mutual accountability. Most, but not all, reviewed members engage in country-level mutual accountability frameworks where they exist, but there is a lack of co-ordinated effort to support and increase the capacity of recipient countries to develop and administer robust systems through which genuine mutual accountability is fostered.

Reviews of 12 members recommend strengthening and adequately resourcing communications to domestic constituencies, to support commitment towards delivering more and better overseas development assistance. These recommendations were largely in response to declining or wavering public support for ODA in those countries. Norway, Sweden and the United States are praised for the considerable efforts they have channelled into building broad-based political support for ODA.

Humanitarian assistance

There is no one best model for humanitarian donorship; instead, members continue to apply the Principles and Good Practice of Humanitarian Donorship in ways that match their comparative advantage, budget volumes and mandates. Many members are aligning their humanitarian policies more closely to foreign policy, linking aid to issues such as migration and geographical interests. Reviewed members are also increasing efforts to strengthen the resilience of people at risk of crisis – following the lead of Australia, European Union institutions, Japan, the United Kingdom and the United States; however, members need to involve their development programmes and budgets in this work and guard against resilience being treated as a purely humanitarian issue.

Although reviewed members are outlining clear areas of interest, and sometimes funding criteria, in their humanitarian policies, it is difficult to see how the policy criteria have been translated into actual funding decisions. The resulting lack of information about funding interests and intentions can lead to an uneven distribution of funding and create or reinforce neglected emergency situations. Nearly all peer reviews during this period have noted that clearer, more rigorously applied funding criteria would help avoid this unspoken division of labour and allow members to focus more consistently on their areas of expertise in humanitarian assistance.

Peer reviews have documented a broad range of tools and partnership models, although funding complex emergencies remains problematic. Most reviewed members have the right tools to ensure early funding for rapid response, including pre-positioned funds and stocks, rapid draw-down mechanisms, rapid response teams and the deployment of civil protection teams; Australia, Canada, Norway, Sweden and Switzerland were all praised for this. Tools for complex emergencies are less advanced, with the one-size-fits-all funding model no longer adequate to address the wide range of crises in today's world. On the positive side, more members are capitalising on the benefits of multi-annual funding, including, increasingly, to non-governmental organisations (NGOs) (e.g. Australia, Germany, Ireland, the Netherlands, Norway, Sweden, the United Kingdom and the United States); others could learn from these experiences.

Many members have restructured their humanitarian systems and staff, often in response to budgetary pressures, but also to ensure that their systems are fit for purpose. However, few members measure and report on their own performance as a humanitarian donor, and there is not yet proportionality in the monitoring of partner activities and results.

References

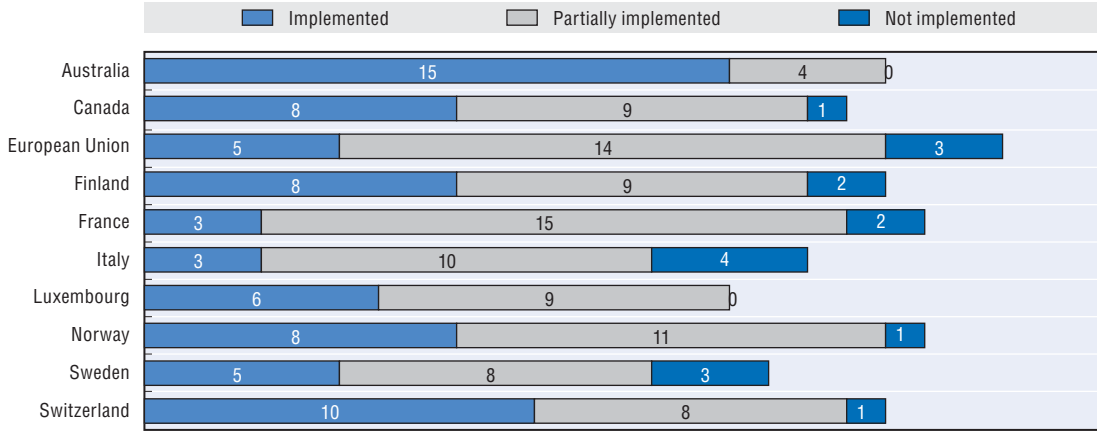
OECD (forthcoming), *Mainstreaming Cross-Cutting Issues: 12 Lessons from DAC Peer Reviews*, OECD Publishing, Paris.

OECD (2013), "DAC Peer Review Reference Guide", DCD/DAC(2013)19, OECD, Paris, *www.oecd.org/dac/peer-reviews/DAC(2013)19_1.pdf*.

ANNEX 22.A1

Status of peer review recommendations

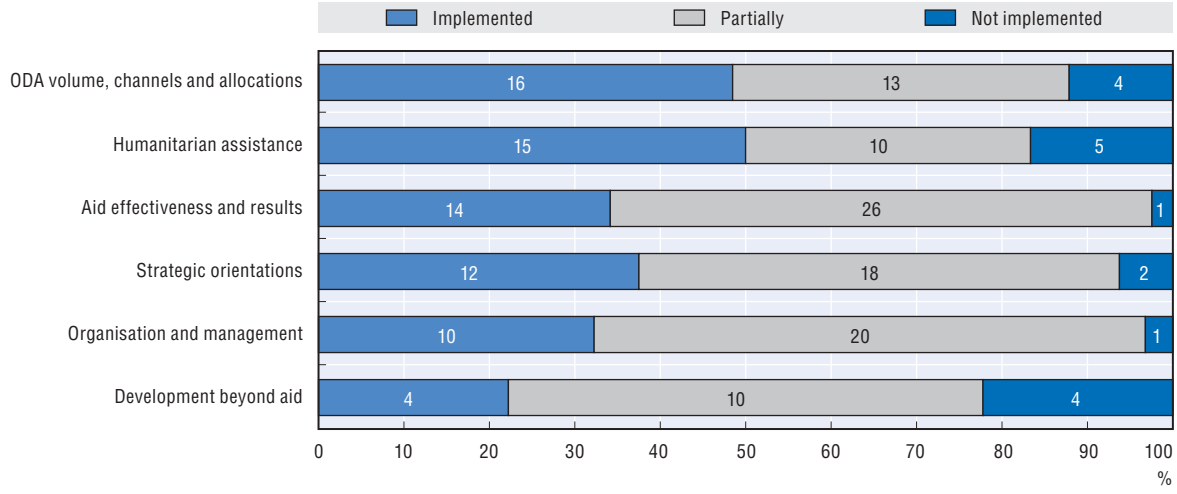
Figure 22.A1.1. **Status of peer review recommendations by reviewed member,[1] January 2012-April 2014**



1. The peer review of Korea in 2012 was its first, and there were therefore no recommendations to act upon.

StatLink http://dx.doi.org/10.1787/888933121981

Figure 22.A1.2. **Status of peer review recommendations by chapter, January 2012-April 2014**



StatLink http://dx.doi.org/10.1787/888933122000

© OECD 2014

Development Assistance Committee members' ODA performance in 2013

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

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

Overall aid trends

In 2013, DAC member countries provided USD 134.8 billion in net official development assistance (ODA), an increase of 6.1% in real terms over 2012 and representing 0.30% of their combined gross national income (GNI). ODA in 2013 made a rebound after two years of falling volumes, as a number of members stepped up their spending on foreign aid.

ODA to developing countries grew steadily from 1997 to a first peak in 2010. It fell in 2011 and 2012 as many governments took austerity measures and trimmed aid budgets. The rebound in aid budgets in 2013 meant that even when the contribution of the five countries that joined the DAC in 2013 (the Czech Republic, Iceland, Poland, the Slovak Republic and Slovenia) is excluded, DAC ODA was still at an all-time high in 2013.

The year 2013 was also an exceptional one for the DAC, with five OECD members joining the committee. It took more than 25 years for these five countries to join the DAC. With its 29 members, currently, and strengthened collaboration with other providers of development co-operation, notably the People's Republic of China and Arab countries and institutions, the DAC is positioning itself as an important player as it moves into a new era when the Millennium Development Goals (MDGs) expire. 2013 proved that the DAC is a heterogeneous group that welcomes different development actors, including those that may still receive official development assistance and whose bilateral programmes may focus on sharing their own recent development experience through technical co-operation.

The accession of new members enriches discussions within the DAC. The countries that joined the committee in 2013 may represent a small part of concessional development flows but they have achieved impressive development results and have valuable experience to share in many areas that are central to the DAC's work. These include political and economic transformation, smooth integration into the global economy as well as the promotion of democracy and human rights. Membership of the DAC will further reinforce the position of these countries as important providers of development co-operation and help them to enhance the effectiveness of their development activities.

In order to stay relevant for the development community and to play an important role post-2015, the DAC will continue evolving towards a forum where a wide range of development partners learn from each other's experiences and explore new ways of working together to achieve common goals, such as through triangular co-operation.

DAC members' performance

In 2013, the largest providers of ODA by volume were the United States, the United Kingdom, Germany, Japan and France. Denmark, Luxembourg, Norway and Sweden continued to exceed the United Nations' ODA target of 0.7% of GNI, and the United Kingdom met it for the first time. The Netherlands fell below 0.7% for the first time since 1974.

Net ODA rose in 17 countries, with the largest increases recorded in Iceland, Italy, Japan, Norway and the United Kingdom. It fell in 11 countries, with the biggest decreases in Canada, France and Portugal.

Among DAC member countries, G7 countries provided 70% of total net DAC ODA in 2013, and the DAC-EU countries provided 52%.

Further outlook

The annual DAC Survey on Donors' Forward Spending Plans aims to reduce some of the uncertainty around aid at the global, regional and country level. The most recent survey provides estimates of future gross aid receipts of country programmable aid (CPA)[1] for all DAC members and major non-DAC and multilateral donors up to 2017.

The increase in country programmable aid predicted last year for 2013 did translate into increased overall ODA, and affected lower-income as well as middle-income groups. Global CPA rose by 10% in real terms in 2013 to USD 103 billion, but with widely differing increases from DAC members (+0.2%), multilateral agencies (+17.5%) and non-DAC donors (+160%). CPA is projected to increase slightly by 4.4% in real terms in 2014, due to continued increases by a few DAC donors and multilateral agencies, and is expected to remain stable beyond 2014.

The survey suggests a continued focus in the medium term on middle-income countries – many with large populations in extreme poverty – in particular countries such as Brazil, China, Chile, Georgia, India, Mexico, Pakistan, Sri Lanka and Uzbekistan, where programmed increases above 5% are expected up to 2017. It is most likely that aid to these countries will be in the form of soft loans.

By contrast, the survey suggests a continuation of the worrying trend of declines in programmed aid to least developed countries (LDCs) and other low-income countries, in particular in Africa. CPA to LDCs and other low-income countries is set to decrease by 4%, reflecting reduced access to grant resources on which these countries are highly dependent.

Some Asian countries may see increases, however, so that by 2017 overall allocations to Asia are expected to equal those towards Africa.

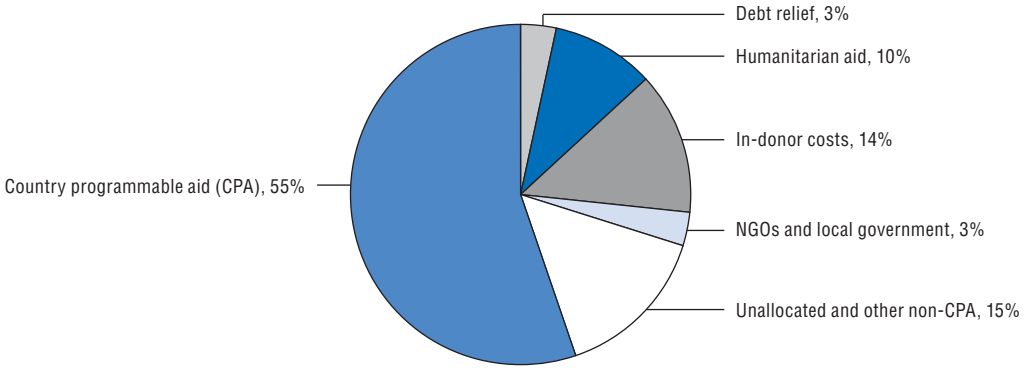
As data for 2013 are only preliminary, the analysis and detail presented in the country profiles are based on data up to 2012. These are shown for each DAC member in Part IV.

Aggregate aid trends by aid types and channels

Country programmable aid

DAC countries' total CPA, excluding the EU institutions, was USD 56 billion in 2012, a 2.5% decrease from 2011. This volume represents 55% of DAC countries' gross bilateral ODA. CPA as a share of total bilateral ODA has been fairly stable since 2004, apart from a temporary drop in 2005 and 2006 when the DAC gave exceptionally large amounts of debt relief to Iraq and several African countries.

Figure 23.1. **Composition of DAC countries' bilateral ODA, 2012, gross disbursements**

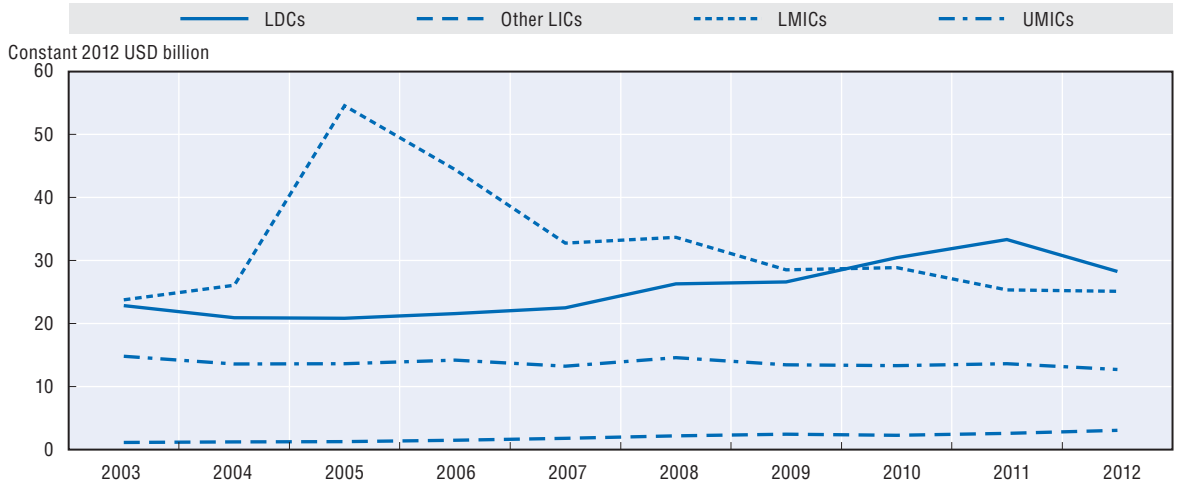


StatLink http://dx.doi.org/10.1787/888933122019

Aid by income group

The increase in ODA over the past decade benefitted countries in all income groups, including the least developed countries; however, close to two-thirds of the increase in ODA to LDCs benefitted only four countries (Afghanistan, the Democratic Republic of Congo, Ethiopia and Sudan/South Sudan). A worrying trend is that in recent years, ODA to LDCs has been decreasing.

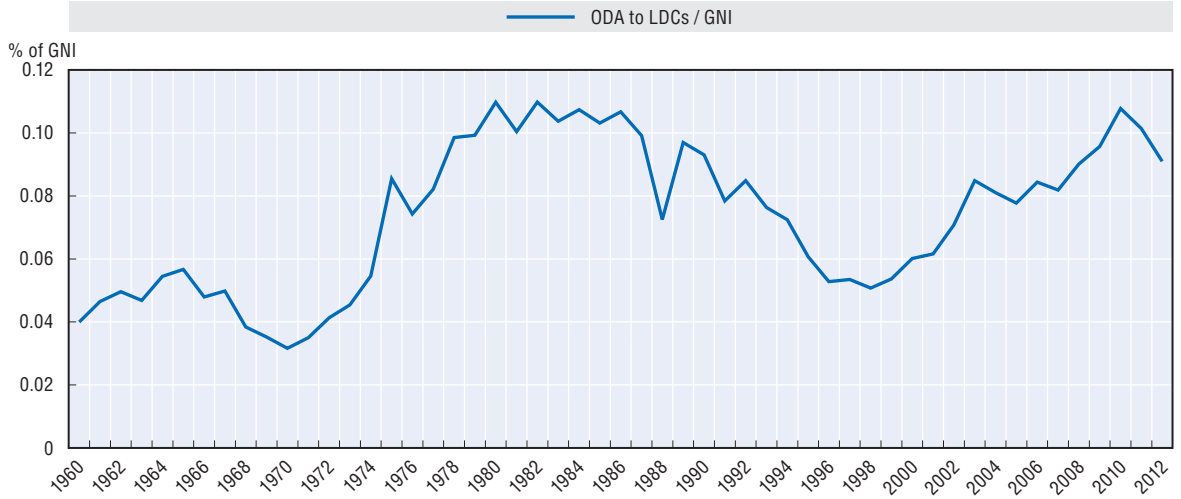
Figure 23.2. **Bilateral ODA by income group, 2003-12, gross disbursements**



StatLink http://dx.doi.org/10.1787/888933122038

The majority of DAC countries still fall short of the UN target of allocating 0.15% of their GNI as net ODA to LDCs.[2] In 2012, only eight member countries reached this target (Denmark, Finland, Ireland, Luxembourg, the Netherlands, Norway, Sweden and the United Kingdom). On average, DAC countries provided 0.09% of their GNI as ODA to LDCs in 2012. This figure takes into account both DAC countries' bilateral ODA and imputed multilateral ODA. While the current level, as shown in Figure 23.3, is historically still relatively high, there has been a sharp decrease from the most recent peak year in 2010, when 0.11% of DAC countries' GNI was allocated to LDCs.

Figure 23.3. **DAC countries' net ODA to least developed countries as a % of GNI, 1960-2012**



StatLink http://dx.doi.org/10.1787/888933122057

Untied aid

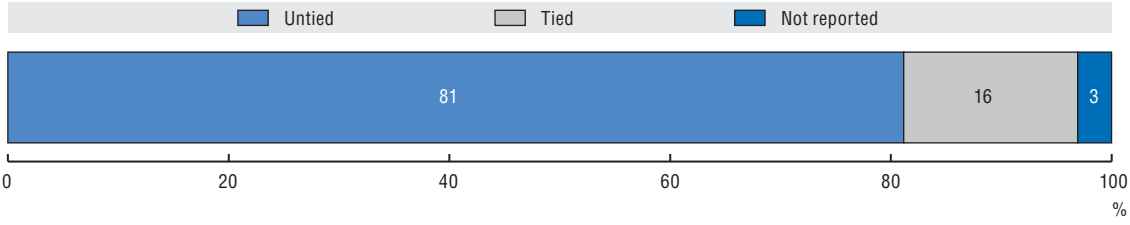
Untied aid is defined by the DAC as loans and grants whose proceeds are fully and freely available to finance procurement from all OECD countries and substantially all developing countries. All other loans and grants are classified either as tied aid (procurement open only to suppliers in the donor country) or partially untied aid (procurement open to a restricted number of countries which must include substantially all developing countries and can include the donor). These definitions apply whether aid is tied formally or through informal arrangements.

The DAC has focused on the issue of untying aid since its inception in 1961. The purpose of reporting the tying status of aid is to show how much of members' aid is open for procurement through international competition. Internationally competitive procurement promotes cost-effective sourcing of aid inputs, promotes free and open trade, and facilitates the implementation of Paris Declaration commitments in areas such as co-ordination and alignment. DAC reporting on tying status does not include multilateral ODA (core contributions to multilateral agencies), as multilateral ODA is treated as untied by convention. In this field, as in others, the DAC has for many years given special consideration to the needs of LDCs. In 2001, the DAC agreed the Recommendation on Untying ODA to the Least Developed Countries. In 2008, it expanded this Recommendation to include those heavily indebted poor countries beyond those in the LDC group (OECD, 2001; 2008).

The Paris Declaration committed OECD Development Assistance Committee (DAC) providers "to continue making progress to untie aid as encouraged by the 2001 DAC Recommendation on Untying ODA to the Least Developed Countries", while the Accra Agenda for Action encouraged co-operation providers to "elaborate plans to further untie aid to the maximum extent". The Busan Partnership agreement urges providers to "accelerate efforts to untie aid" and to "improve the quality, consistency and transparency of reporting on the tying status of aid" (Busan Partnership for Effective Development Co-operation: para 18e, 2011). Overall, reporting on the tying status of ODA has greatly improved. In 2012, only 3.5% of ODA did not have its tying status reported, even though reporting on the tying status of free-standing technical co-operation[3] is not mandatory (except for ODA to the LDCs and heavily indebted poor countries). Most (but not all) DAC members now fully report the tying status of their technical co-operation, filling a major reporting gap which was hindering accurate and comparative analysis of individual members' untying performance (OECD/UNDP, 2014).

The country notes in the following chapters refer to the share of untied aid in DAC members' total bilateral ODA (excluding donors' administrative costs and in-donor refugee costs) to all partner countries. In 2012, 81% of DAC countries' bilateral ODA was untied (Figure 23.4).

Figure 23.4. **Untying status of DAC countries' bilateral aid, 2012**



Note: This measure of untied aid excludes donors' administrative costs and in-donor refugee costs.
Source: OECD-DAC statistics 2013.

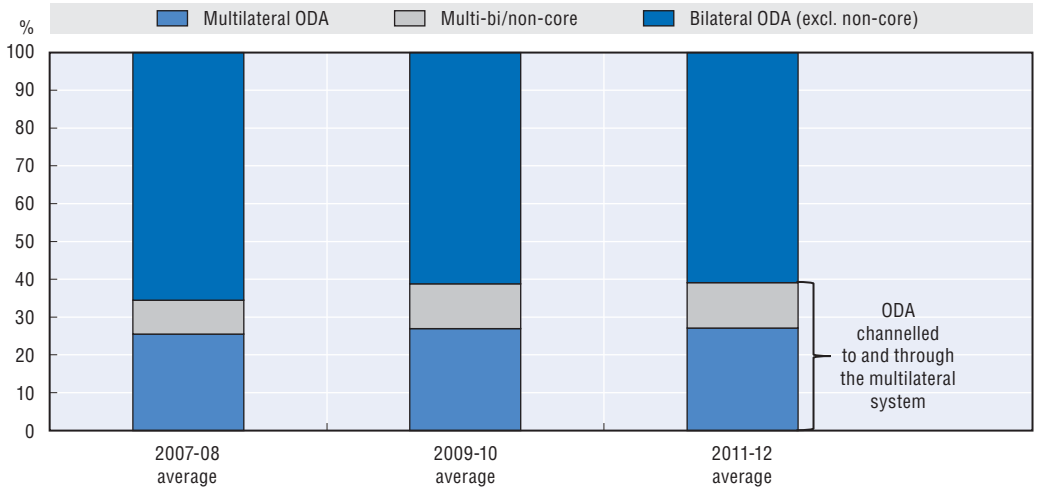
StatLink http://dx.doi.org/10.1787/888933122076

ODA to and through the multilateral aid system

In 2011-12, DAC countries channelled 39% of their ODA to and through the multilateral aid system, up from 34% in 2007-08. This increase was mainly due to larger ODA shares allocated to the multilateral system for specific themes, sectors or country/regions (multi-bi/non-core). While the share of multi-bi

went from 9% in 2007-08 to 12% in 2009-10 and 2011-12, the share of core contributions increased only marginally, from 26% in 2007-08 to 27% in both 2009-10 and 2011-12 (Figure 23.5). In 2012, the DAC country average of core contributions to multilateral organisations was 27%.

Figure 23.5. **DAC countries' share of ODA channelled to and through the multilateral system, two year averages, gross disbursements**

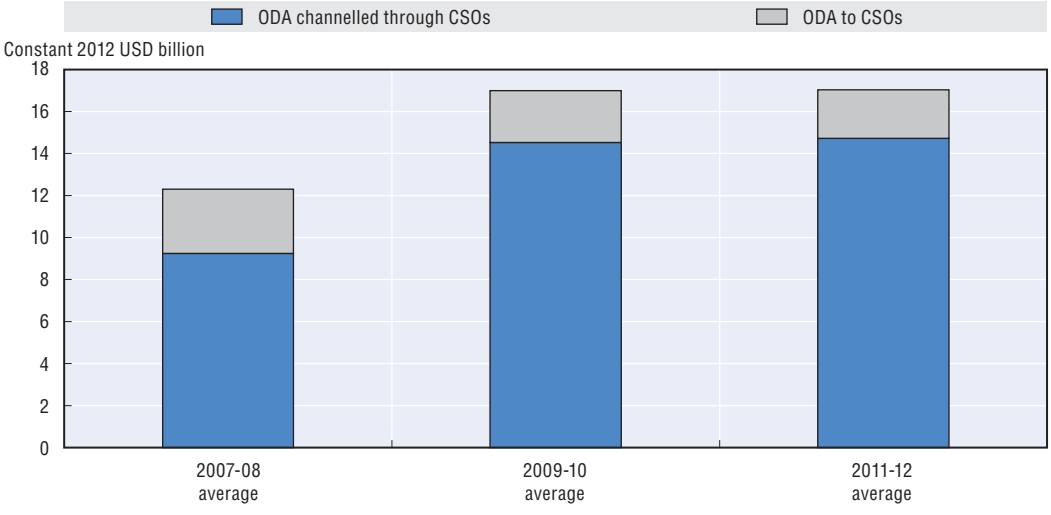


StatLink http://dx.doi.org/10.1787/888933122095

ODA allocations to and through civil society organisations

In 2012, DAC countries channelled USD 17 billion in official development assistance to and through civil society organisations (CSOs) (Figure 23.6). This accounted for 16.8% of total bilateral aid; slightly higher than the DAC country average of 16.2% in 2011. While the share of bilateral aid allocated to and through CSOs differs widely among DAC members, the average share of total bilateral aid for all DAC countries appears to be stabilising at 16-17%.

Figure 23.6. **Bilateral ODA to and through CSOs, total DAC countries, two year averages, gross disbursements**



StatLink http://dx.doi.org/10.1787/888933122114

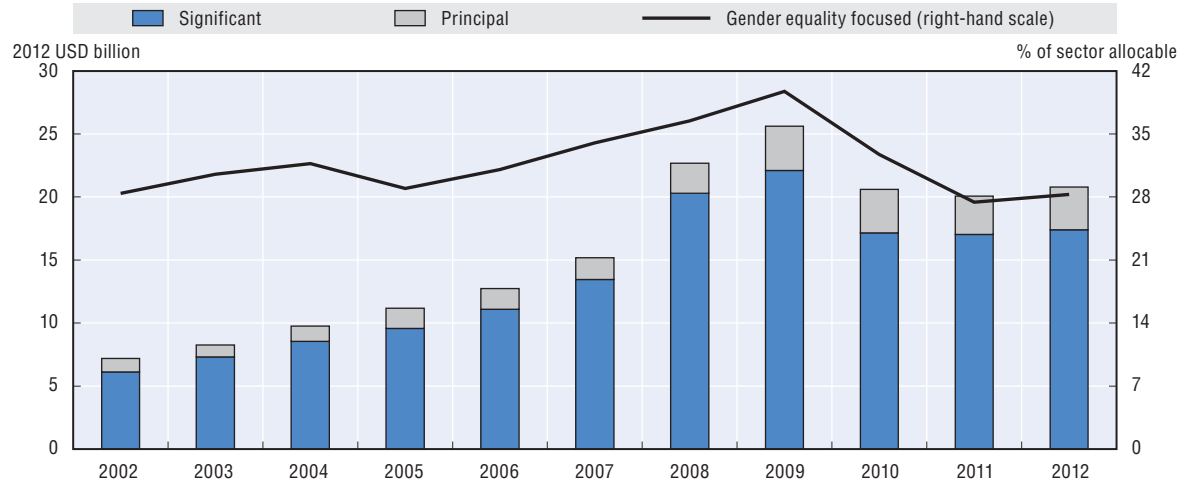
Development co-operation for gender equality and women's empowerment

Gender equality is widely recognised as an important end in its own right and a prerequisite for sustainable development. The Busan Partnership agreement calls for a re-doubling of efforts to implement commitments in this area. Adequate financing for gender equality and women's rights will be critical for making the gender equality commitments of the Busan Global Partnership a reality and accelerating progress towards gender equality and women's rights beyond 2015.

The DAC Gender Equality Policy Marker is a statistical instrument to measure aid that is focused on achieving gender equality and women's empowerment. Activities are classified as "principal" when gender equality is a primary objective, "significant" when gender equality is an important but secondary objective, or "not targeted". All DAC members except the United States[4] screen their activities against the DAC gender marker. The marker is an important tool for strengthening accountability and transparency in DAC donor financing for gender equality and women's rights.

In the profiles of DAC members that follow, ODA supporting gender equality and women's empowerment is presented for each country in terms of: 1) the volume of ODA in support of gender equality; 2) the share of sector-allocable ODA committed for significant or principal activities; and 3) the share of bilateral ODA in support of gender equality by sector. In some cases, fluctuations in a DAC countries' ODA for gender equality may be partly due to variations in the way the gender marker has been applied from one year to the next. As shown in Figure 23.7, in 2012 DAC countries committed funds for gender equality and women's empowerment for a total of USD 23.5 billion. The DAC country average for the share of aid that had a gender equality and women's empowerment objective was 28% in 2012.

Figure 23.7. **Total DAC countries' ODA for gender equality and women's empowerment, 2002-12, commitments**



Source: OECD-DAC statistics 2013.

StatLink http://dx.doi.org/10.1787/888933122133

Development co-operation for the environment, including the Rio conventions

The United Nations Framework Convention on Climate Change (UNFCCC), the Convention on Biological Diversity (CBD) and the United Nations Convention to Combat Desertification (UNCCD), collectively known as the Rio conventions, were established following the 1992 United Nations Conference on Environment and Development in Rio de Janeiro. Signatory countries committed to incorporating the principles of sustainable development and global environmental concerns into

their national development agendas, while providing developing countries with financial and technical resources for this purpose. The developed countries that signed the three Rio conventions in 1992 committed themselves to assist developing countries in implementing them.

Since 1998, the DAC has monitored ODA commitments targeting the objectives of the Rio conventions through its Creditor Reporting System using the "Rio markers". Every bilateral development co-operation activity reported to the Creditor Reporting System should be screened and marked as either: 1) targeting the conventions as a "principal objective" or a "significant objective"; or 2) not targeting the objective. The Rio markers are descriptive and allow for an approximate quantification of financial flows targeting the objectives of the Rio conventions. Finance reported to the UNFCCC and the Convention on Biological Diversity may be based on alternative definitions and measurement methodologies, and may not be comparable to Rio marker data. In analysing finance flows we recommend looking at trends, over at least three years, in particular to smooth fluctuations from large multi-year projects programmed and committed in a given year, such as observed in 2010.

In 2012, total commitments of bilateral ODA by OECD-DAC countries targeting the global environmental objectives of the three Rio conventions totalled USD 27.1 billion, which corresponded to 26% of total ODA (see Figure 18.1, Chapter 18). This is higher than 2011 (USD 23.9 billion in 2012 constant prices and exchange rates), but remains below the historic high reached in 2010 (USD 31.3 billion). Of the different global environmental objectives, climate change mitigation received the largest commitments of bilateral ODA in 2012, totalling USD 13.7 billion (17% of total ODA).[5]

External development finance beyond ODA

Most DAC members also provide developing countries with official finance that does not qualify as ODA either because the operations are not primarily development-motivated (e.g. export-related operations) or because they are extended at non-concessional terms (e.g. non-concessional loans from bilateral development finance institutions). In recent years, the DAC has been paying more attention to these flows, in particular with the aim of exploring ways to better monitor total official support for development in the post-2015 measurement framework. In 2012, DAC members' gross disbursements of other official flows (OOF) decreased by 28% with respect to 2011, after having recorded a general upward trend during the last decade. Japan, the United States, Canada and Korea were the largest providers of OOF in 2012.

Beyond official finance, developing countries also receive external financial resources from DAC members' private sector. Total net private flows to developing countries at market terms recorded a slight decrease in 2012 (-6%) totalling USD 307.8 billion, with the United States, the United Kingdom, Japan and Germany being the largest providers.

With regard to net private grants mobilised by non-governmental organisations and foundations, developing countries received from DAC countries USD 30 billion in 2012 compared with USD 32 billion in 2011 and USD 30.8 billion in 2010. Funds raised privately by non-governmental organisations based in DAC member countries appear to have stabilised since 2010 and are the equivalent of 25% of total ODA. The United States alone accounted for 74% of these flows.

Notes

1. Country programmable aid (CPA), also known as "core" aid, is the portion of aid donors' bilateral programme for individual countries and over which partner countries could have a significant say. CPA is much closer than ODA to capturing the flows of aid that goes to the partner country, and has been proven in several studies to be a good proxy of aid recorded at country level. CPA is defined through exclusions by subtracting from total gross bilateral ODA activities that: 1) are inherently unpredictable (e.g. humanitarian aid and debt relief); 2) entail no cross-border flows (e.g. administrative costs, imputed student costs, promotion of development awareness, and costs related to research and refugees in donor countries); 3) do not form part of co-operation agreements between governments (e.g. food aid, development co-operation from local governments, core funding to NGOs, ODA equity investments, development co-operation through secondary agencies and ODA which is not allocable by country or region). Read more on CPA at: *www.oecd.org/dac/aid-architecture/cpa.htm*.
2. Total net ODA to LDCs calculated as DAC countries' bilateral net ODA and imputed multilateral ODA. Imputed multilateral ODA is a way of estimating the geographical distribution of donors' core contributions to multilateral agencies, based on the geographical breakdown of multilateral agencies' disbursements for the year of reference. For more information, see: *www.oecd.org/dac/stats/oecdmethodologyforcalculatingimputedmultilateraloda.htm*.
3. Free-standing technical co-operation refers to the provision of resources aimed at the transfer of technical and managerial skills or of technology for the purpose of building up general national capacity without reference to the implementation of any specific investment projects.
4. In the case of the United States, gender equality-focused aid is not comparable with what is reported by other donors. The United States has implemented an improved data collection system for the gender equality marker, and data for 2011 will be available in 2014.
5. This calculation excludes the United States which did not report on the climate mitigation marker in 2012.

References

Busan Partnership for Effective Development Co-operation (2011), endorsed at the Fourth High-Level Forum on Aid Effectiveness, Busan Partnership for Effective Development Co-operation, Busan, the Republic of Korea, 29 November-1 December 2011, Busan Partnership for Effective Development Co-operation, *http://effectivecooperation.org*.

OECD (2014), "Targeting ODA towards countries in greatest need", DCD/DAC(2014)20, OECD, Paris, *www.oecd.org/dac/stats/documentupload/DAC(2014)20.pdf*.

OECD (2008), "DAC Recommendation on Untying ODA to Least Developed Countries and Heavily Indebted Poor Countries", OECD, Paris, *www.oecd.org/countries/nicaragua/41707972.pdf*.

OECD (2001), "Untying aid to the least developed countries", *OECD Policy Brief*, July, OECD Publishing, Paris, *www.oecd.org/dataoecd/16/24/2002959.pdf*.

OECD (1996), *Development Co-operation Report 1996*, OECD Publishing, Paris, *www.oecd.org/bookshop?9789264154001*.

OECD/UNDP (2014), *Making Development Co-operation More Effective: 2014 Progress Report*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264209305-en*.

© OECD 2014

Profiles of Development Assistance Committee members

This section was prepared by Ida Mc Donnell *and* Julie Seghers, in collaboration with Pawel Baginski, Elena Bernaldo, Olivier Bouret, Gregory de Paepe, Sylvie Dewit, Fredrik Ericsson, Emily Esplen, Masato Hayashikawa, Valerie Gaveau, Georgia Hewitt, William Hynes, Karen Jorgensen, Hetty Kovach, Rahul Malhotra, Aimée Nichols, Stephanie Ockenden, Giovanni Maria Semeraro, Guillaume Simon, Andrzej Suchodolski, Elisabeth Thioleron, Piera Tortora and Chantal Verger of the Development Co-operation Directorate, OECD.

AUSTRALIA

Financial flows from Australia to developing countries

Type of flows from Australia to developing countries

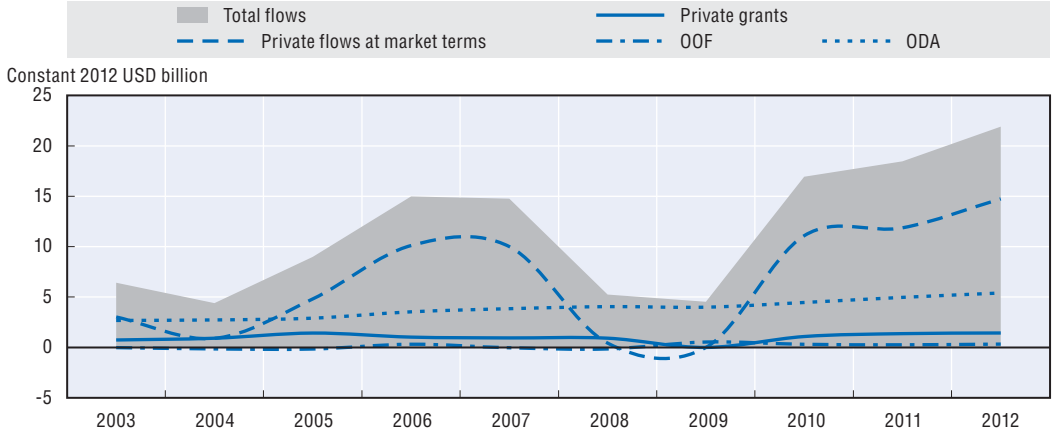
14.7 billion USD of private flows at market terms in 2012. These flows were mainly composed of foreign direct investment (59%).

4.9 billion USD of official development assistance (ODA) in 2013 (preliminary data).

0.33 billion USD of other official flows (OOF) in 2012.

1.4 billion USD of private grants in 2012. These resources were mobilised by non-governmental organisations and foundations.

Figure 24.1. **Net resource flows to developing countries, 2003-12, Australia**



Note: Data on private flows at market terms and private grants are not available for 2009.

StatLink http://dx.doi.org/10.1787/888933122152

Australia uses ODA to mobilise resources for sustainable development

Australia has a strong focus on private sector development, and seeks to maximise the impact of its ODA by leveraging knowledge and finance from the private sector and other partners. Strengthening private sector development is one of two strategic outcomes in its new aid policy framework. Australia will work to expand trade and business opportunities for developing countries, focusing on improving the business-enabling environment and helping to create better functioning markets. It is also increasing its focus on engaging with the business community in Australia and in developing countries.

It contributes to the mobilisation of domestic resources in developing countries by supporting their tax systems. In 2012, it committed USD 10.4 million of its ODA to tax-related activities in partner countries.

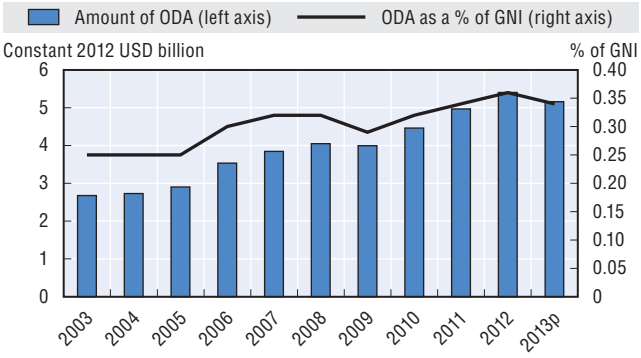
It promotes aid for trade to improve developing countries' trade performance and integration into the world economy. It committed USD 567 million (15% of its sector-allocable ODA) to trade-related activities in 2012, a decline of 2.7% from 2011. The trend has been decreasing since 2010. The government's new aid policy places a greater emphasis on aid for trade.

The government's development co-operation policy highlights the need for remittances to help reduce poverty. Australia has led the charge to secure G20 commitments to work towards reducing the global average costs of transferring remittances to 5% by 2014. In 2012, remittances exiting Australia to developing countries amounted to USD 8.6 billion.

Australia's official development assistance

Australia provided USD 4.9 billion ODA in 2013 (preliminary data), which represented 0.34% of gross national income (GNI) and a fall of -4.5% in real terms from 2012. The government intends to stabilise the aid budget at the current level, with adjustment only in line with the consumer price index. This is likely to keep the ODA/GNI ratio below the target of 0.5%, which remains an aspiration of the government. Australia is the 10th largest donor of the Development Assistance Committee (DAC) in terms of volume. In 2012, its ODA (excluding administrative costs and in-donor refugee costs) was fully untied. The grant element of total ODA was 99.8% in 2012.

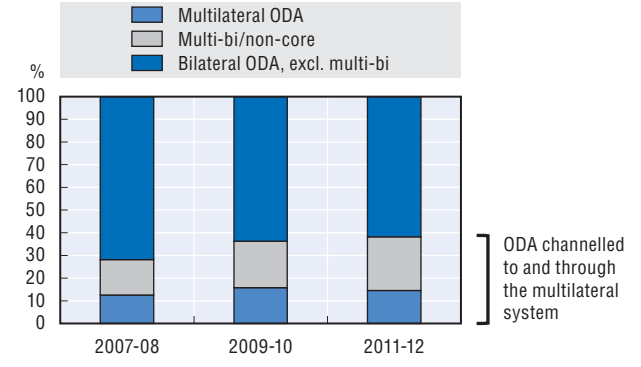
Figure 24.2. **Net ODA: Trends in volume and as a share of GNI, 2003-13, Australia**



StatLink http://dx.doi.org/10.1787/888933122171

In 2012, 85% of ODA was provided bilaterally. Australia allocated 15% of total ODA as core contributions to multilateral organisations, compared with the DAC country average of 27%. It channelled a further 25% of its bilateral ODA for projects implemented by multilateral organisations (multi-bi/non-core). Australia's use of the multilateral system has been growing in recent years.

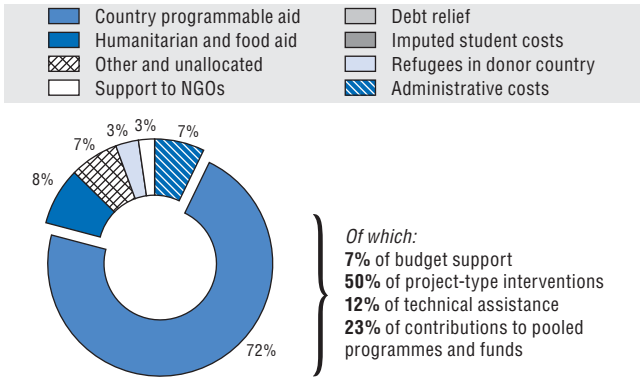
Figure 24.3. **Share of ODA channelled to and through the multilateral system, two year averages, gross disbursements, Australia**



StatLink http://dx.doi.org/10.1787/888933122190

In 2012, 72% of bilateral ODA was programmed at partner country level. Australia's share of country programmable aid (CPA) was well above the DAC country average (55%). Fifty percent of CPA consisted of project-type interventions.

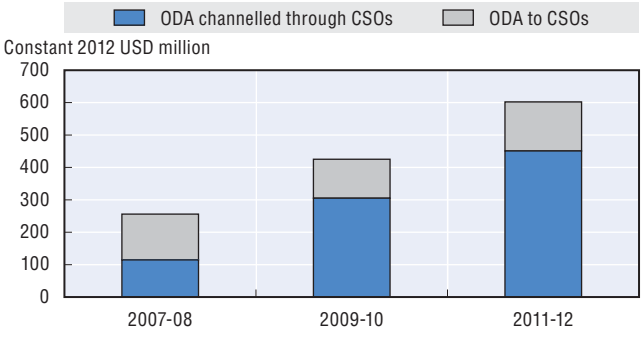
Figure 24.4. **Composition of bilateral ODA, 2012, gross disbursements, Australia**



StatLink http://dx.doi.org/10.1787/888933122209

In 2012, USD 618 million of bilateral ODA was channelled to and through civil society organisations (CSOs). This was equivalent to 13% of bilateral ODA, compared with the DAC average of 16.8%. Aid to and through CSOs has increased in recent years, both in terms of volume (+ 6% between 2011 and 2012) and as a share of bilateral ODA.

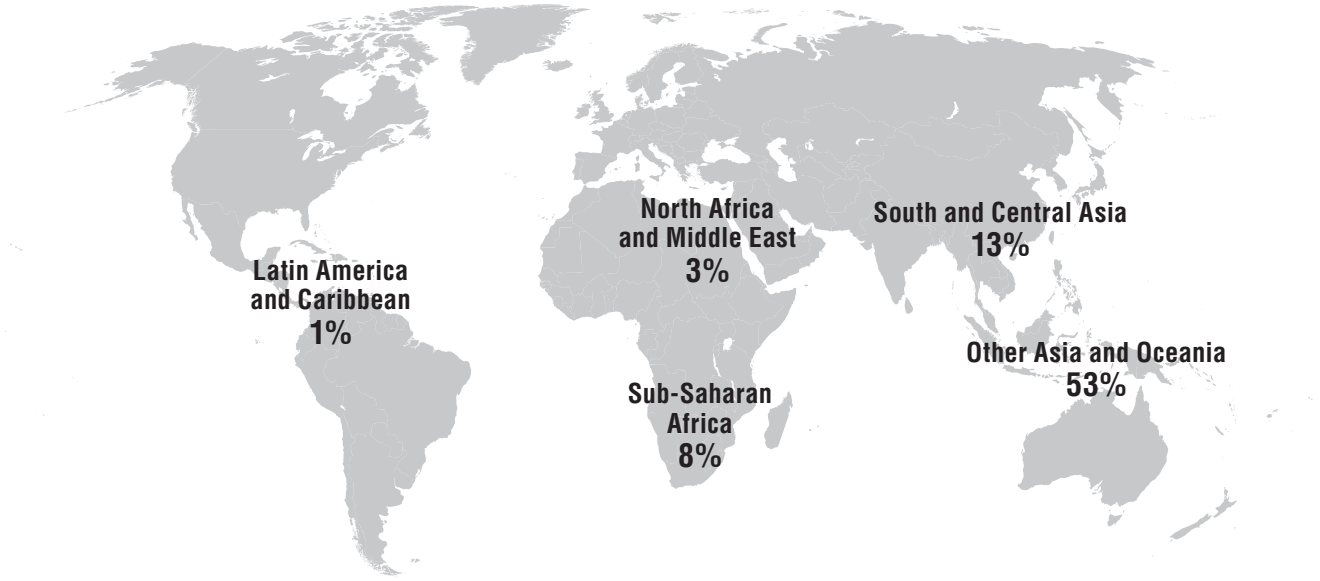
Figure 24.5. **Bilateral ODA to and through CSOs, two year averages, gross disbursements, Australia**



StatLink http://dx.doi.org/10.1787/888933122228

In 2012, bilateral ODA was primarily focused on Asia and Oceania. USD 1.3 billion was allocated to Far East Asia, USD 1.1 billion to Oceania and USD 658 million to South and Central Asia. USD 374 million was allocated to sub-Saharan Africa. Bilateral allocations to sub-Saharan Africa are set to decrease in the future in line with government policy.

Figure 24.6. **Share of bilateral ODA by region, 2011-12 average, gross disbursements, Australia**

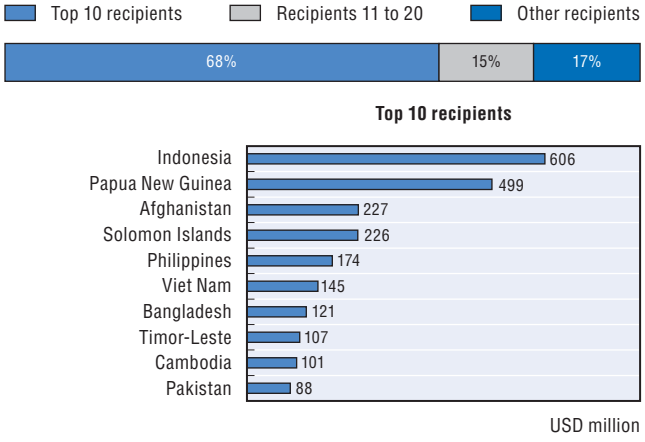


Note: 23% of bilateral ODA allocated was unspecified by region in 2011-12. This share is not represented on the map.

StatLink http://dx.doi.org/10.1787/888933122247

68% of bilateral country-allocable ODA went to Australia's top 10 recipients. Its top 10 recipients are in the Indo-Pacific region where Australia has programmes with 30 countries. Its support to fragile states reached USD 1.3 billion in 2012 (28% of total bilateral ODA).

Figure 24.7. **Bilateral country-allocable ODA to top recipients, 2012, gross disbursements, Australia**



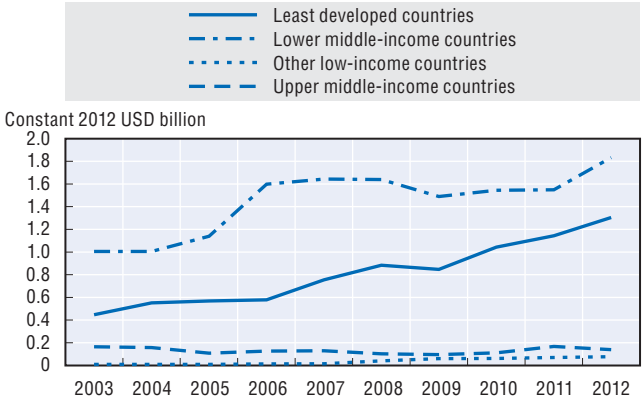
Note: Totals do not add up to total bilateral ODA. A further USD 1.3 billion was unallocated by country.

StatLink http://dx.doi.org/10.1787/888933122266

In 2012, 28% of bilateral ODA was allocated to least developed countries (LDCs), reaching USD 1.3 billion. It has been relatively steady as a share of bilateral ODA in recent years (28% in 2012). Lower middle-income countries received the highest share of bilateral ODA in 2012 (39%).

At 0.11% of GNI in 2012, total ODA to LDCs was less than the UN target of 0.15% of GNI.

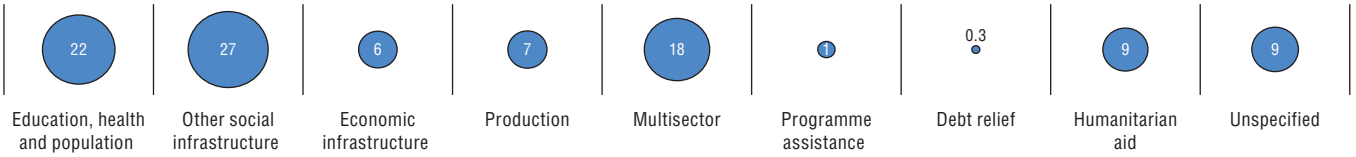
Figure 24.8. **Bilateral ODA by income group, 2003-12, gross disbursements, Australia**



StatLink http://dx.doi.org/10.1787/888933122285

Half of bilateral ODA in 2012 was allocated to social infrastructure and services, representing USD 2.3 billion of bilateral ODA. There was a strong focus on support to government and civil society (USD 988 million), education (USD 563 million) and health (USD 338 million).

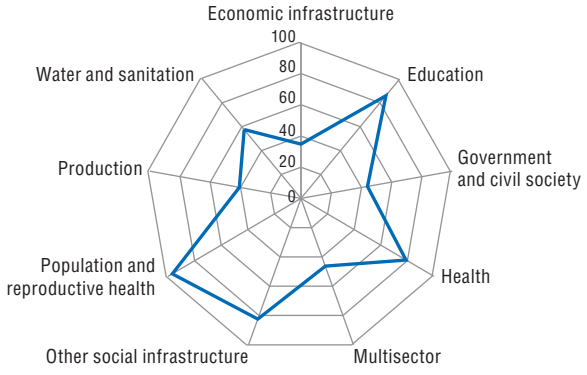
Figure 24.9. **Share of bilateral ODA by sector, 2011-12 average, commitments, Australia**



StatLink http://dx.doi.org/10.1787/888933122304

USD 2 billion of bilateral ODA supported gender equality. Gender equality continues to be solidly integrated into Australia's projects and programmes, with a strong emphasis on economic empowerment, leadership and ending violence against women. In 2012, 59% of its aid had gender equality and women's empowerment as a principal or significant objective. This is a slight increase compared to 56% in 2011 and is higher than the 2012 DAC country average of 28%. A high share of Australia's aid to population, reproductive health and education focuses on gender.

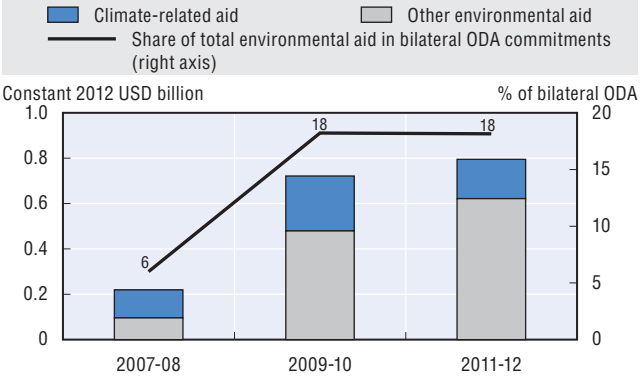
Figure 24.10. **Share of bilateral ODA in support of gender equality by sector, 2012, commitments, Australia**



StatLink http://dx.doi.org/10.1787/888933122323

USD 795 million of bilateral ODA supported the environment. Australia is committed to promoting economic development that benefits the poor, effectively manages natural resources and social capital, and attracts private investment. In 2012, 17% of its aid had environment as a principal or significant objective, compared with the DAC country average of 26%. In 2012, 13% of Australian aid focused particularly on climate change, compared with the DAC country average of 24%.

Figure 24.11. **Bilateral ODA in support of global and local environment objectives, two year averages, commitments, Australia**



StatLink http://dx.doi.org/10.1787/888933122342

Note to reader: Annex B provides "Methodological notes on definitions and measurement for the Profiles of Development Assistance Committee members".

Reference

OECD (2014), *OECD Development Co-operation Peer Reviews: Australia 2013*, OECD Development Co-operation Peer Reviews, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264196186-en*.

AUSTRIA

Financial flows from Austria to developing countries

Type of flows from Austria to developing countries

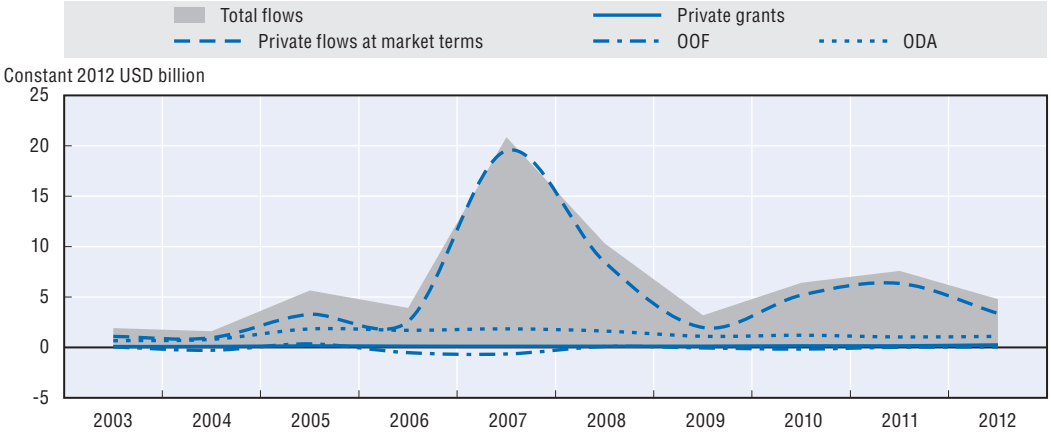
3.4 billion USD of private flows at market terms in 2012.

1.2 billion USD of official development assistance (ODA) in 2013 (preliminary data).

5 million USD of other official flows (OOF) in 2012.

263 million USD of private grants in 2012. These resources were mobilised by non-governmental organisations and foundations.

Figure 25.1. **Net resource flows to developing countries, 2003-12, Austria**



StatLink http://dx.doi.org/10.1787/888933122361

Austria uses ODA to mobilise resources for sustainable development

Austria promotes ODA as a catalyst to bring private sector investment to support development efforts in partner countries, in particular through its development finance institution, the Development Bank of Austria (OeEB). The Austrian government has developed a Guideline on Private Sector and Development (ADA, 2010) and engages with the Austrian business community on private sector development initiatives.

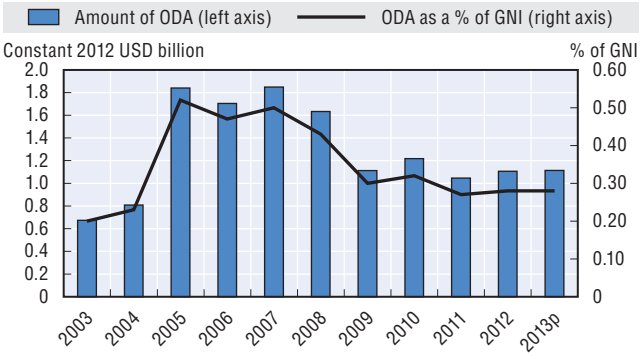
It promotes aid for trade to improve developing countries' trade performance and integration into the world economy. It committed USD 72 million to trade-related activities in 2012 (15% of its sector-allocable ODA), an 8% increase from 2011. The trend has been fluctuating over the past few years.

In addition, remittances exiting Austria to developing countries amounted to USD 2.7 billion in 2012.

Austria's official development assistance

In 2013, Austria provided USD 1.2 billion ODA (preliminary data), which represented 0.28% of gross national income (GNI) and a 0.7% increase in real terms from 2012. The Austrian government committed to achieving the 0.7% ODA/GNI target in its Work Programme 2013-18, which will require large and sustained efforts. Austria's share of untied ODA (excluding administrative costs and in-donor refugee costs) has declined, from 44% in 2011 to 37% in 2012, compared to the 2012 DAC average of 81%. The grant element of total ODA was 100% in 2012.

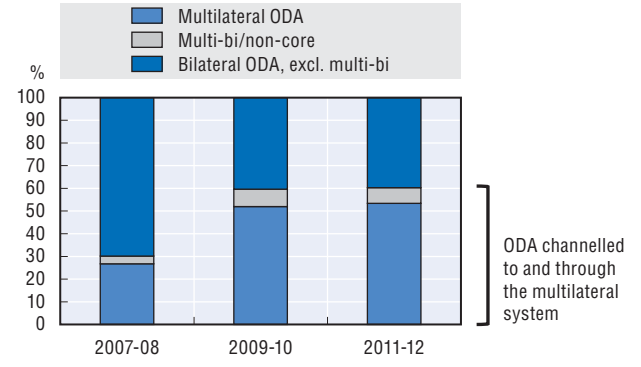
Figure 25.2. **Net ODA: Trends in volume and as a share of GNI, 2003-13, Austria**



StatLink http://dx.doi.org/10.1787/888933122380

In 2012, 49% of Austria's ODA was provided bilaterally. Austria allocated 51% of total ODA as core contributions to multilateral organisations, compared with the DAC country average of 27%. It channelled a further 13% of its bilateral ODA for specific projects implemented by multilateral organisations (multi-bi/non-core). Austria's use of the multilateral system has increased in recent years.

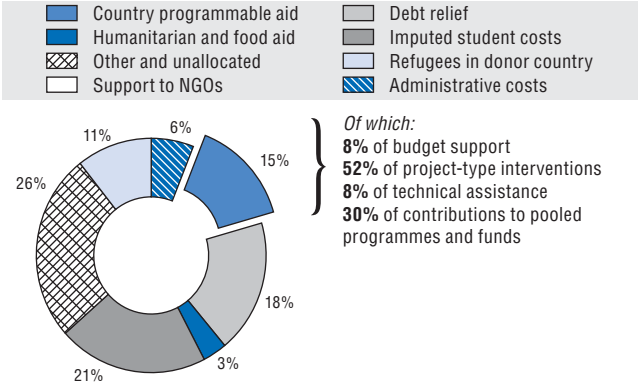
Figure 25.3. **Share of ODA channelled to and through the multilateral system, two year averages, gross disbursements, Austria**



StatLink http://dx.doi.org/10.1787/888933122399

Only 15% of Austria's bilateral ODA was programmed at partner country level. Austria's share of country programmable aid (CPA) was low compared to the DAC country average (55%) in 2012. Project-type interventions accounted for 52% of CPA. ODA allocated to debt relief was particularly high in 2012 (18%). In addition, imputed students cost, refugees in donor country and administrative costs accounted for 38% of Austria's bilateral aid in 2012.

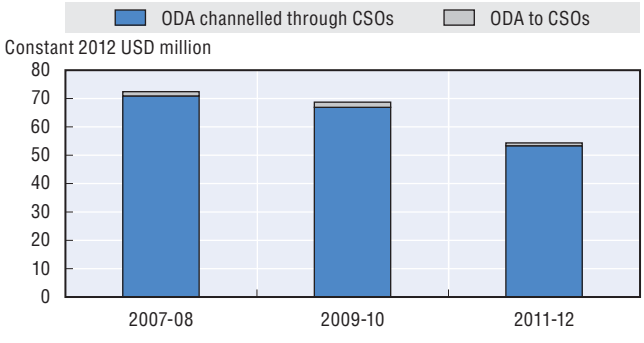
Figure 25.4. **Composition of bilateral ODA, 2012, gross disbursements, Austria**



StatLink http://dx.doi.org/10.1787/888933122418

USD 49 million of bilateral ODA was channelled to and through civil society organisations (CSOs). Between 2011 and 2012, Austrian ODA channelled to and through CSOs decreased, both in terms of volume (-19%) and as a share of bilateral ODA (from 13% in 2011 to 9% in 2012). This share was lower than the 2012 DAC country average of 16.8%.

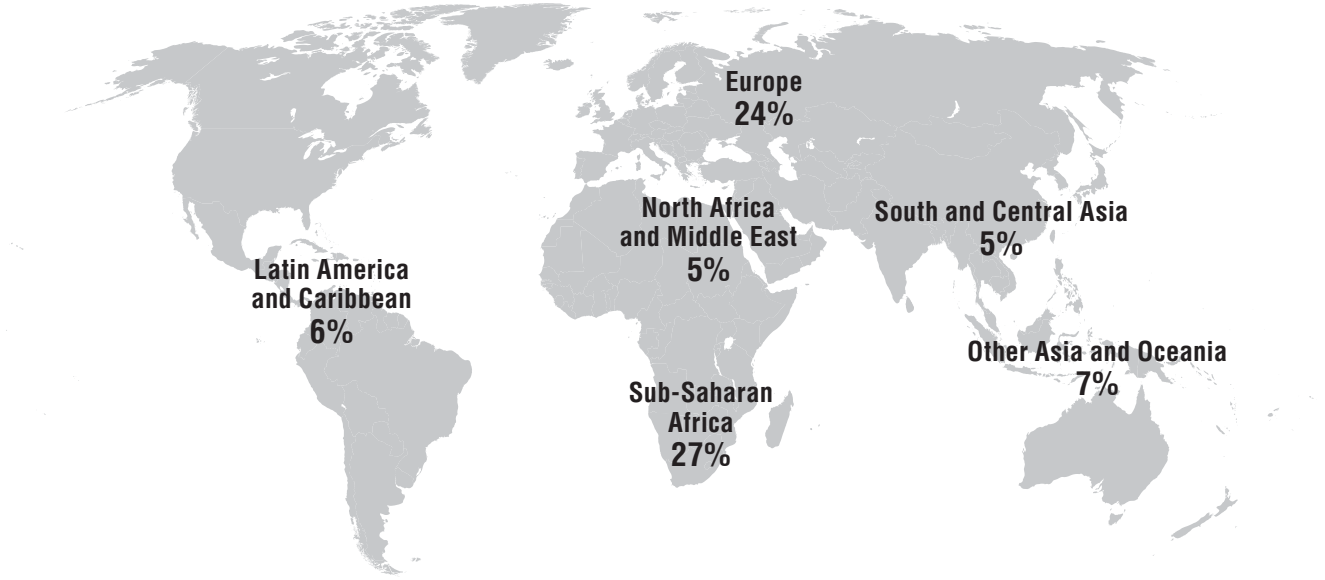
Figure 25.5. **Bilateral ODA to and through CSOs, two year averages, gross disbursements, Austria**



StatLink http://dx.doi.org/10.1787/888933122437

In 2012, bilateral ODA was primarily focused on sub-Saharan Africa and Eastern Europe, representing USD 166 million to sub-Saharan Africa and USD 131 million to Eastern Europe.

Figure 25.6. **Share of bilateral ODA by region, 2011-12 average, gross disbursements, Austria**

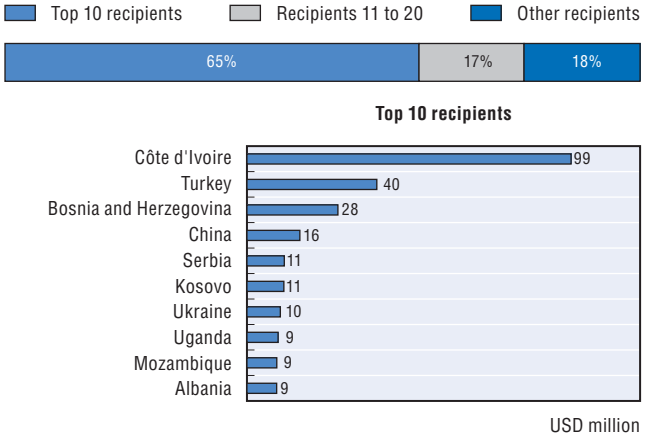


Note: 26% of bilateral ODA allocated was unspecified by region in 2011-12. This share is not represented on the map.

StatLink http://dx.doi.org/10.1787/888933122456

65% of bilateral country-allocable ODA went to Austria's top 10 recipients. Four of Austria's 11 priority partner countries are among its top 10 recipients. The Côte d'Ivoire received high debt relief in 2012. Austria's support to fragile states reached USD 196 million in 2012 (36% of total bilateral ODA).

Figure 25.7. **Bilateral country-allocable ODA to top recipients, 2012, gross disbursements, Austria**



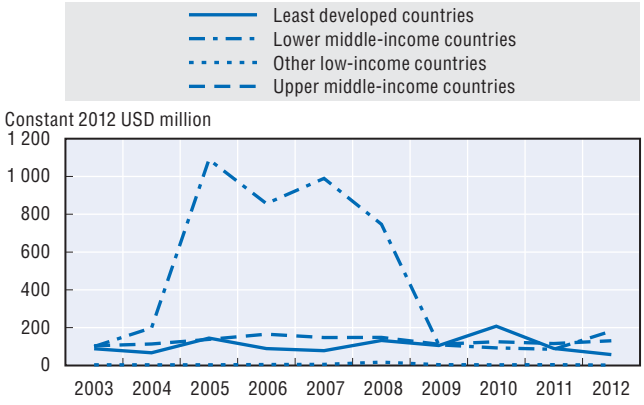
Note: Totals do not add up to total bilateral ODA. A further USD 170 million was unallocated by country. Reference to Kosovo is without prejudice to its status under international law.

StatLink http://dx.doi.org/10.1787/888933122475

In 2012, 11% of Austria's bilateral ODA was allocated to least developed countries (LDCs), amounting to USD 57 million. As a share of bilateral ODA, it has fallen, from 33% in 2010 to 11% in 2012. Lower middle-income countries received the highest share of bilateral ODA in 2012 (33%).

At 0.06% of GNI in 2012, total ODA to LDCs was less than the UN target of 0.15% GNI.

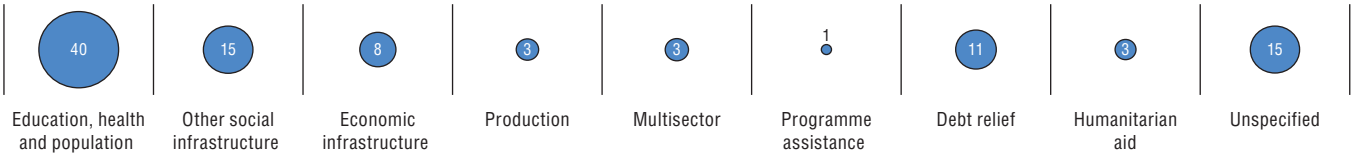
Figure 25.8. **Bilateral ODA by income group, 2003-12, gross disbursements, Austria**



StatLink http://dx.doi.org/10.1787/888933122494

In 2012, 56% of bilateral ODA was allocated to social infrastructure and services. A total of USD 394 million of bilateral ODA was allocated to social sectors, with a strong focus on support to education (USD 183 million) and health (USD 99 million). Debt relief amounted to USD 100 million.

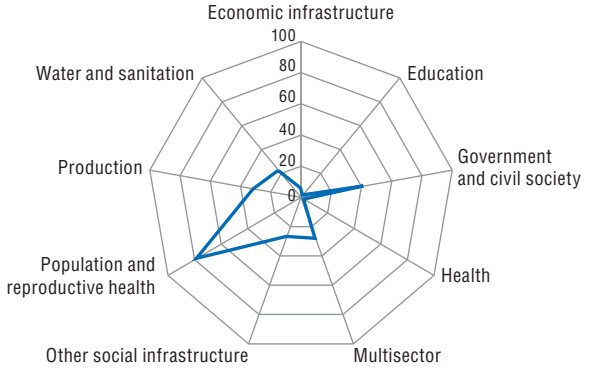
Figure 25.9. **Share of bilateral ODA by sector, 2011-12 average, commitments, Austria**



StatLink http://dx.doi.org/10.1787/888933122513

USD 57 million of bilateral ODA supported gender equality in 2012. Support for gender equality is a priority cross-cutting issue for all Austrian development co-operation. In 2012, 12% of Austrian aid had gender equality and women's empowerment as a principal or significant objective, compared with the DAC country average of 28%. This is a decrease compared to previous years (15% in 2011 and 17% in 2010). A high share of Austria's aid to population and reproductive health focuses on gender.

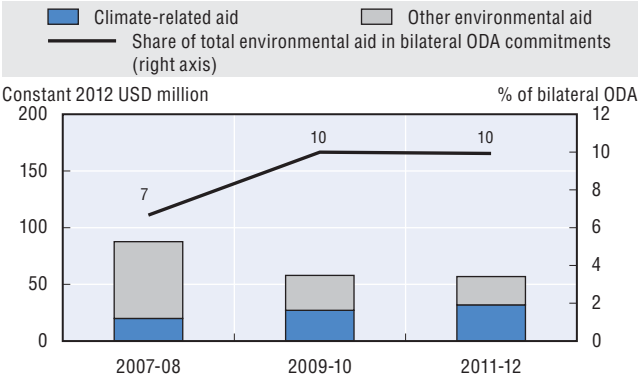
Figure 25.10. **Share of bilateral ODA in support of gender equality by sector, 2012, commitments, Austria**



StatLink http://dx.doi.org/10.1787/888933122532

USD 46 million of bilateral ODA supported the environment. Tackling global environmental issues is a top priority for Austria. In 2012, 7% of its aid had environment as a principal or significant objective and 3% focused particularly on climate change, compared with the respective DAC country averages of 26% and 24%. The share of Austria's aid in support of the environment has declined since 2007.

Figure 25.11. **Bilateral ODA in support of global and local environment objectives, two year averages, commitments, Austria**



StatLink http://dx.doi.org/10.1787/888933122551

Note to reader: Annex B provides "Methodological notes on definitions and measurement for the Profiles of Development Assistance Committee members".

Reference

ADA (2010), *Guidelines on Private Sector and Development*, Austrian Development Agency, Vienna.

BELGIUM

Financial flows from Belgium to developing countries

Type of flows from Belgium to developing countries

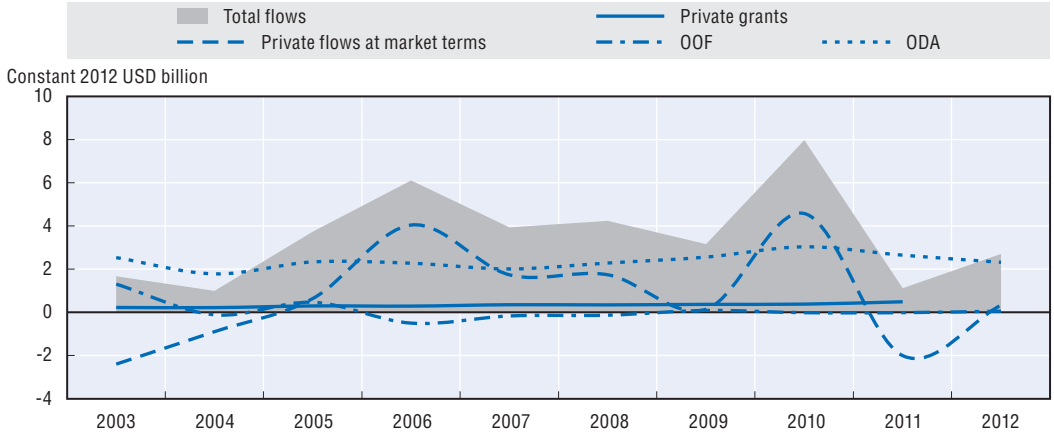
0.3 billion USD of private flows at market terms in 2012. These flows were composed of private export credits (100%).

2.3 billion USD of official development assistance (ODA) in 2013 (preliminary data).

55 million USD of other official flows (OOF) in 2012.

519 million USD of private grants in 2011. These were mobilised by non-governmental organisations and foundations. Data concerning private grants are not available for 2012.

Figure 26.1. **Net resource flows to developing countries, 2003-12, Belgium**



Note: Data on private grants are not available for 2012.

StatLink http://dx.doi.org/10.1787/888933122570

Belgium uses ODA to mobilise resources for sustainable development

Belgium promotes ODA as a catalyst to bring private sector investment to support development efforts in partner countries, in particular through its development finance institution, the Belgium Company for Developing Countries (BIO). Belgium's private sector development strategy aims at creating an enabling environment for business investment and facilitating private investment in developing countries (DGDC, 2004). The strategy also focuses on raising the awareness of Belgian businesses concerning development in partner countries and corporate social responsibility.

It contributes to the mobilisation of domestic resources in developing countries by supporting their tax systems. In 2012, it committed USD 125 000 of its ODA to tax-related activities in partner countries.

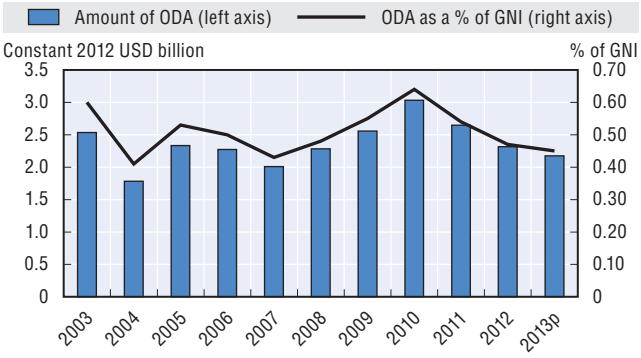
It promotes aid for trade to improve developing countries' trade performance and integration into the world economy. It committed USD 138 million to aid for trade activities in 2012 (20% of its sector-allocable ODA), a 69% decline from 2011. Commitments have been decreasing since 2009.

Belgium partners with the International Organisation of Migration's special programme of Migration for Development in Africa in the Great Lakes, which supports immigrants wishing to invest their knowledge, expertise and resources in the sustainable development of their country of origin. In 2012, remittances exiting Belgium to developing countries amounted to USD 1.1 billion.

Belgium's official development assistance

In 2013, Belgium delivered USD 2.3 billion ODA (preliminary data), which represented 0.45% of gross national income (GNI) and a fall of 6.1% in real terms from 2012. It is the 9th largest donor of the Development Assistance Committee (DAC) in terms of ODA as a percentage of GNI; however, the aid volume and its share of GNI have been decreasing yearly from a peak in 2010. Belgium's share of untied ODA (excluding administrative costs and in-donor refugee costs) was 96% in 2012, compared to the DAC average of 81%. The grant element of total ODA was 99.7% in 2012.

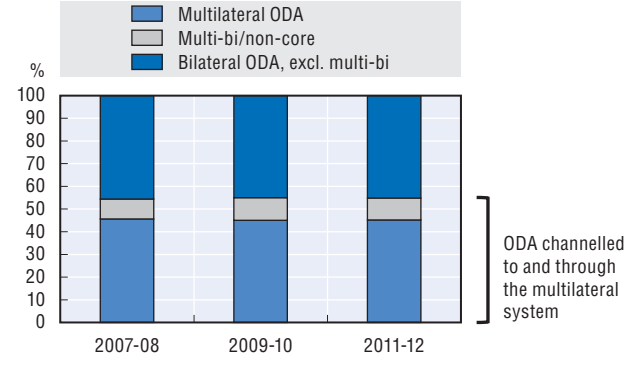
Figure 26.2. **Net ODA: Trends in volume and as a share of GNI, 2003-13, Belgium**



StatLink http://dx.doi.org/10.1787/888933122589

In 2012, 63% of ODA was provided bilaterally. Belgium allocated 37% of total ODA as core contributions to multilateral organisations, compared with the DAC country average of 27%. It channelled a further 10% of its bilateral ODA for specific projects implemented by multilateral organisations (multi-bi/non-core).

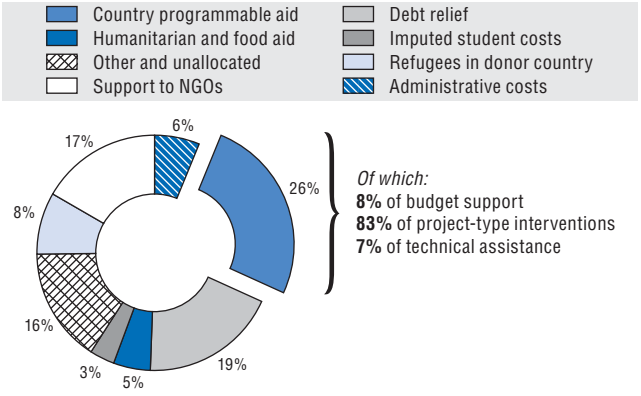
Figure 26.3. **Share of ODA channelled to and through the multilateral system, two year averages, gross disbursements, Belgium**



StatLink http://dx.doi.org/10.1787/888933122608

Only 26% of bilateral ODA was programmed at partner country level. The share of country programmable aid (CPA) was low compared with the DAC country average (55%) in 2012. A high share of bilateral ODA went to debt relief and support to non-governmental organisations (NGOs). Project-type interventions accounted for 83% of CPA.

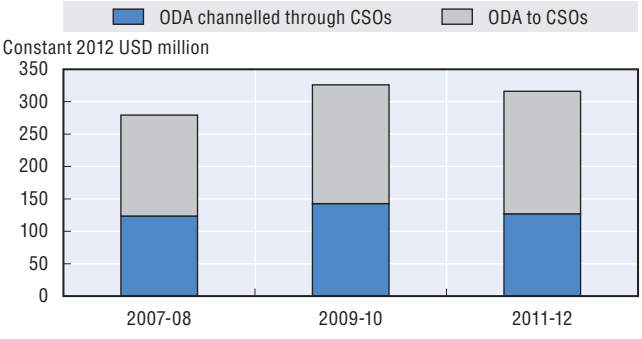
Figure 26.4. **Composition of bilateral ODA, 2012, gross disbursements, Belgium**



StatLink http://dx.doi.org/10.1787/888933122627

USD 300 million of bilateral ODA was channelled to and through civil society organisations (CSOs). Belgium's aid channelled to and through CSOs fell by 10% between 2011 and 2012; however, as a share of bilateral ODA, it increased from 17.7% in 2011 to 20.3% in 2012. This share was higher than the 2012 DAC country average of 16.8%.

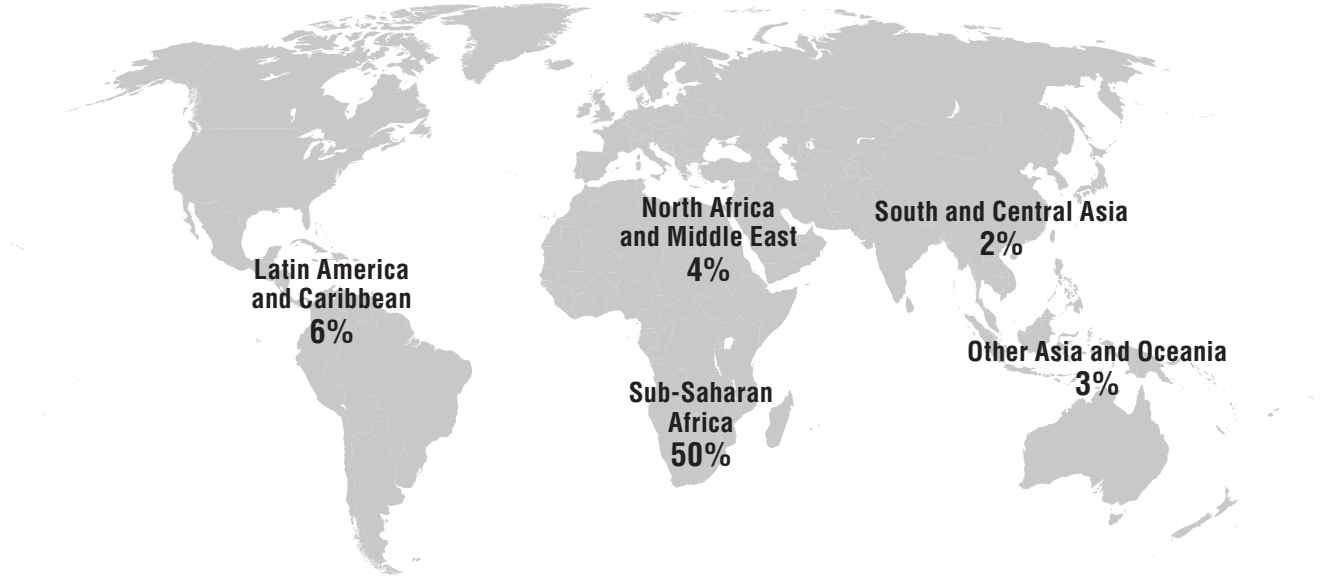
Figure 26.5. **Bilateral ODA to and through CSOs, two year averages, gross disbursements, Belgium**



StatLink http://dx.doi.org/10.1787/888933122646

Bilateral ODA in 2012 was primarily focused on sub-Saharan Africa, with USD 755 million allocated to sub-Saharan Africa, 39% (USD 295 million) of which was allocated to the Great Lakes area – a priority region for Belgian development co-operation.

Figure 26.6. **Share of bilateral ODA by region, 2011-12 average, gross disbursements, Belgium**

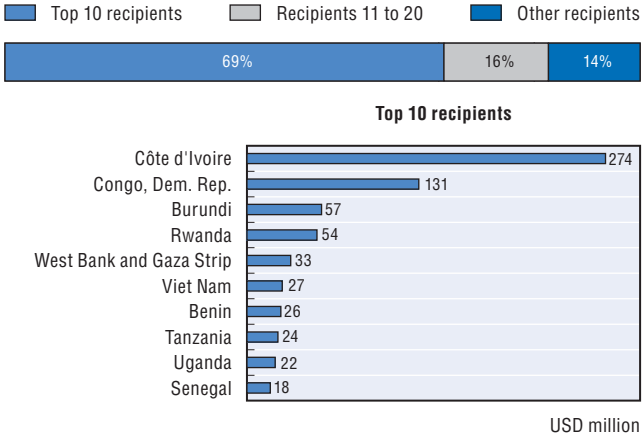


Note: 35% of bilateral ODA allocated was unspecified by region in 2011-12. This share is not represented on the map.

StatLink http://dx.doi.org/10.1787/888933122665

69% of bilateral country-allocable ODA went to Belgium's top 10 recipients. Nine of its 18 priority partner countries are among its top 10 recipients. The Côte d'Ivoire – not a priority country – received high debt relief in 2012. Belgium's support to fragile states reached USD 634 million in 2012 (43% of total bilateral ODA).

Figure 26.7. **Bilateral country-allocable ODA to top recipients, 2012, gross disbursements, Belgium**



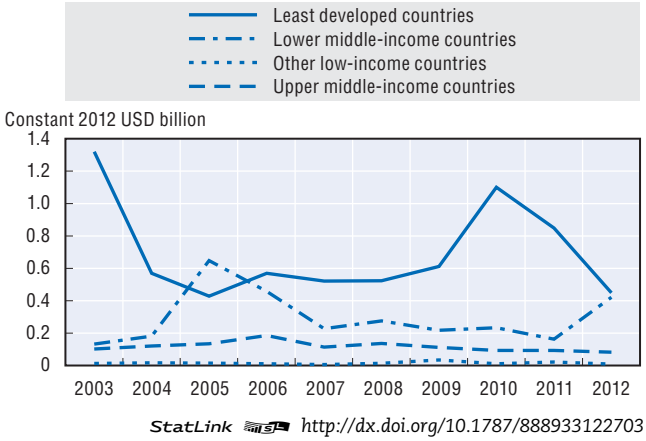
Note: Totals do not add up to total bilateral ODA. A further USD 516 million was unallocated by country.

StatLink http://dx.doi.org/10.1787/888933122684

In 2012, 30% of Belgium's bilateral ODA was allocated to least developed countries (LDCs), amounting to USD 449 million. The share has decreased from 52% in 2010 to 30% in 2012. LDCs, however, still receive the highest share of bilateral ODA, noting that 35% was unallocated by income compared with the DAC average of 32%.

At 0.14% of GNI in 2012, total ODA to LDCs was slightly less than the UN target of 0.15% GNI.

Figure 26.8. **Bilateral ODA by income group, 2003-12, gross disbursements, Belgium**



StatLink http://dx.doi.org/10.1787/888933122703

In 2012, 37% of bilateral ODA was allocated to social infrastructure and services, for a total of USD 501 million, with a strong focus on support to education (USD 250 million). Debt relief amounted to USD 272 million.

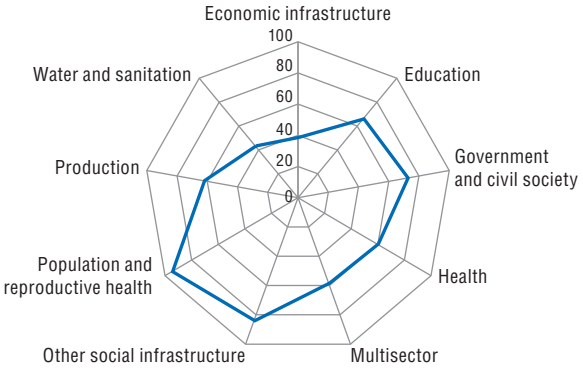
Figure 26.9. **Share of bilateral ODA by sector, 2011-12 average, commitments, Belgium**



StatLink http://dx.doi.org/10.1787/888933122722

USD 397 million of bilateral ODA supported gender equality. Gender equality is a cross-cutting theme of Belgian development co-operation. In 2012, 63% of Belgium's aid had gender equality and women's empowerment as a principal or significant objective, compared with the DAC country average of 28%. This is an increase compared to 62% in 2011 and 52% in 2010. A high share of Belgium's aid to population and reproductive health focuses on gender.

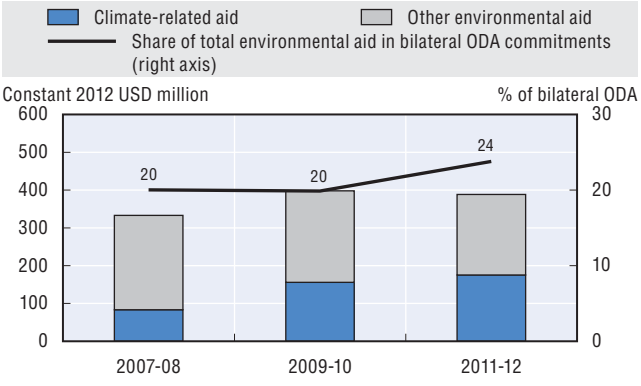
Figure 26.10. **Share of bilateral ODA in support of gender equality by sector, 2012, commitments, Belgium**



StatLink http://dx.doi.org/10.1787/888933122741

USD 248 million of bilateral ODA supported the environment. Environment is a cross-cutting theme for Belgium. The share of environment-focused ODA has been increasing since 2007. In 2012, 19% of its aid had environment as a principal or significant objective, and 9% focused particularly on climate change, compared with the respective DAC country averages of 26% and 24%.

Figure 26.11. **Bilateral ODA in support of global and local environment objectives, two year averages, commitments, Belgium**



StatLink http://dx.doi.org/10.1787/888933122760

Note to reader: Annex B provides "Methodological notes on definitions and measurement for the Profiles of Development Assistance Committee members".

Reference

DGDC (2004), *Entreprendre contre la pauvreté et pour le développement*, April, Directorate General for Development Co-operation, Brussels.

CANADA

Financial flows from Canada to developing countries

Type of flows from Canada to developing countries

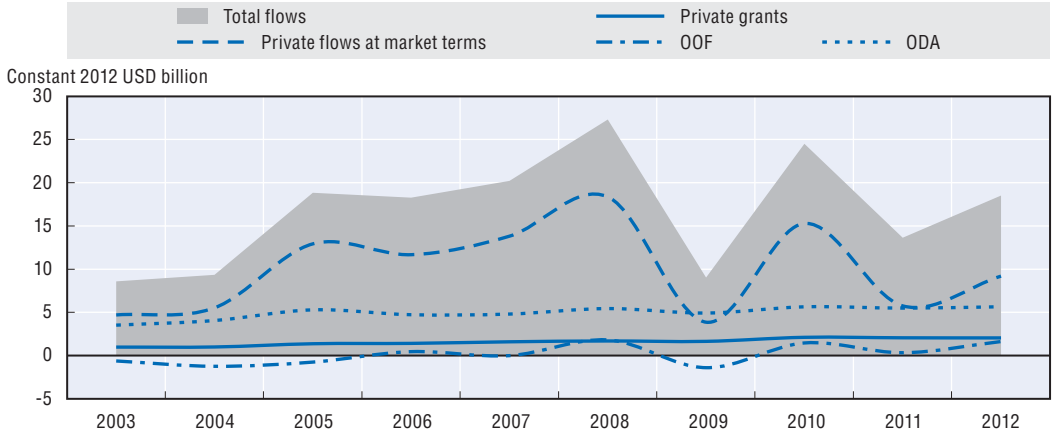
9.2 billion USD of private flows at market terms in 2012. These flows were mainly composed of foreign direct investments.

4.9 billion USD of official development assistance (ODA) in 2013 (preliminary data).

1.6 billion USD of other official flows (OOF) in 2012.

2 billion USD of private grants in 2012. These resources were mobilised by non-governmental organisations (NGOs) and foundations.

Figure 27.1. **Net resource flows to developing countries, 2003-12, Canada**



StatLink http://dx.doi.org/10.1787/888933122779

Canada uses ODA to mobilise resources for sustainable development

Canada promotes ODA as a catalyst to bring private sector investment to support development efforts in partner countries. Through its Sustainable Economic Growth strategy (CIDA, 2011), Canada aims at engaging the private sector in development, particularly by supporting an enabling environment for business and access to markets for developing countries. It supports the leveraging of local, Canadian and international investment in private sector-led growth.

It contributes to the mobilisation of domestic resources in developing countries by supporting their tax systems. In 2012, it committed USD 5 million of its ODA to tax-related activities in partner countries.

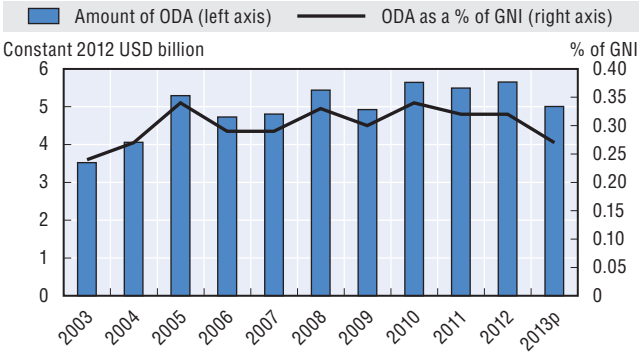
It promotes aid for trade to improve developing countries' trade performance and integration into the world economy. It committed USD 593 million to trade-related activities in 2012 (27% of its sector-allocable ODA), a 27% increase from 2011. The trend has been fluctuating in recent years.

In addition, remittances exiting Canada to developing countries amounted to USD 15.6 billion in 2012.

Canada's official development assistance

In 2013, Canada provided USD 4.9 billion ODA (preliminary data), a fall of 11.4% in real terms from 2012. It is the 9th largest donor of the Development Assistance Committee (DAC) in terms of volume. Canada's ODA as a percentage of gross national income (GNI) has fallen, from 0.34% in 2010 to 0.27% in 2013. Canada's share of untied ODA (excluding administrative costs and in-donor refugee costs) was 92% in 2012, well above the DAC average of 81%. The grant element of total ODA was 100% in 2012.

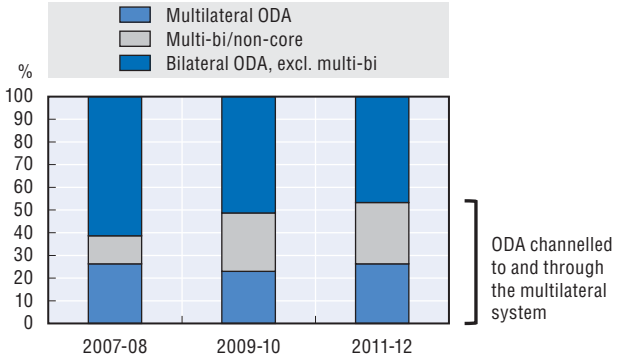
Figure 27.2. **Net ODA: Trends in volume and as a share of GNI, 2003-13, Canada**



StatLink http://dx.doi.org/10.1787/888933122798

In 2012, 72% of ODA was provided bilaterally. In 2012, Canada allocated 28% of total ODA as core contributions to multilateral organisations, which was close to the DAC country average of 27%. It channelled a further 41% of its bilateral ODA for specific projects implemented by multilateral organisations (multi-bi/non-core).

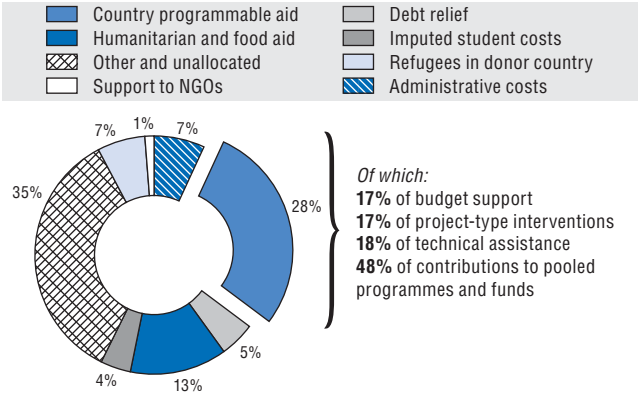
Figure 27.3. **Share of ODA channelled to and through the multilateral system, two year averages, gross disbursements, Canada**



StatLink http://dx.doi.org/10.1787/888933122817

28% of bilateral ODA was programmed at partner country level. Canada's share of country programmable aid (CPA) was less than the DAC country average (55%) in 2012. A high share of Canada's bilateral ODA was categorised as "other and unallocated". Contributions to pooled programmes and funds accounted for 48% of CPA.

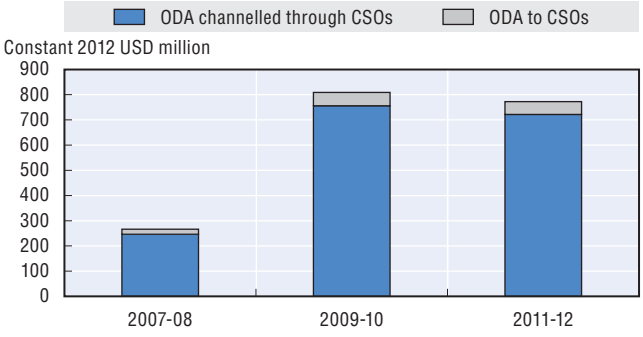
Figure 27.4. **Composition of bilateral ODA, 2012, gross disbursements, Canada**



StatLink http://dx.doi.org/10.1787/888933122836

USD 767 million of bilateral ODA was channelled to and through civil society organisations (CSOs). Aid channelled to and through CSOs slightly decreased between 2011 and 2012, both in terms of volume and as a share of bilateral ODA. This share amounted to 19% in 2012, which was higher than the DAC country average of 16.8%.

Figure 27.5. **Bilateral ODA to and through CSOs, two year averages, gross disbursements, Canada**

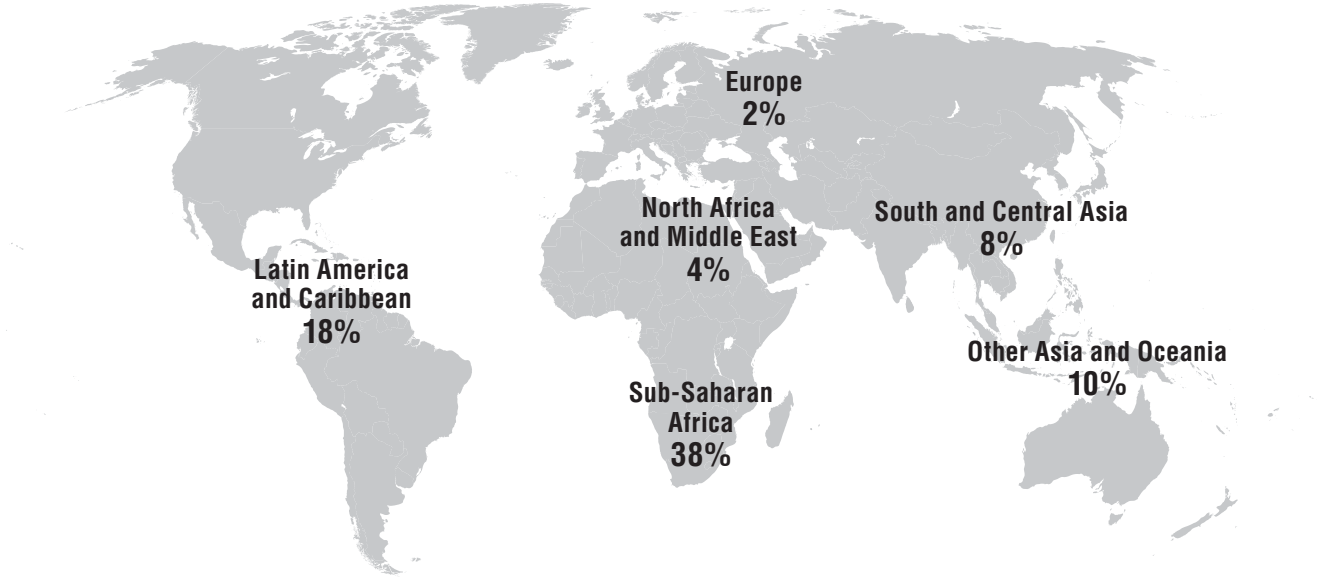


Note: Data on ODA channelled through CSOs are not available for 2007.

StatLink http://dx.doi.org/10.1787/888933122855

Bilateral ODA primarily focused on sub-Saharan Africa and Latin America and the Caribbean. In 2012, USD 1.7 billion of bilateral ODA was allocated to sub-Saharan Africa and USD 862 million to Latin America and the Caribbean.

Figure 27.6. **Share of bilateral ODA by region, 2011-12 average, gross disbursements, Canada**

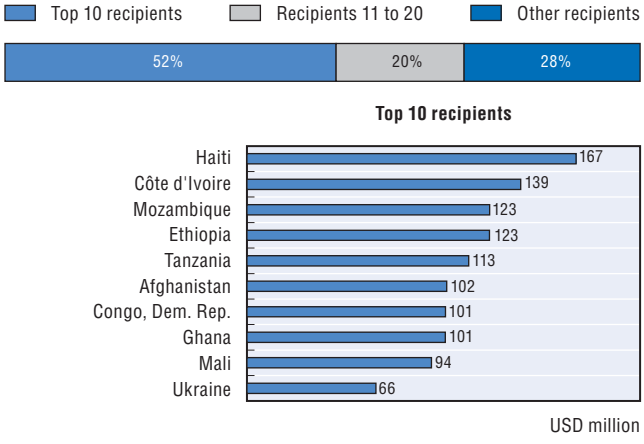


Note: 21% of bilateral ODA allocated was unspecified by region in 2011-12. This share is not represented on the map.

StatLink http://dx.doi.org/10.1787/888933122874

52% of bilateral country-allocable ODA went to Canada's top 10 recipients. Canada has 20 "countries of focus", 8 of which are among the top 10 recipients. Côte d'Ivoire and the Democratic Republic of Congo – not focus countries – received exceptional debt relief in 2012. Its support to fragile states reached USD 1.3 billion (32% of total bilateral ODA) in 2012.

Figure 27.7. **Bilateral country-allocable ODA to top recipients, 2012, gross disbursements, Canada**



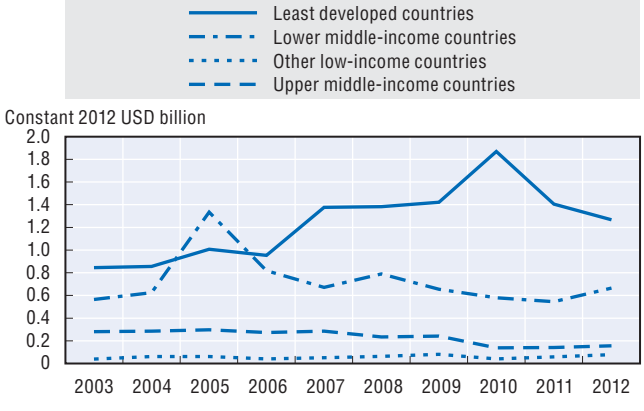
Note: Totals do not add up to total bilateral ODA. A further USD 1.9 billion was unallocated by country.

StatLink http://dx.doi.org/10.1787/888933122893

In 2012, 31% of bilateral ODA was allocated to least developed countries (LDCs), amounting to USD 1.3 billion. The share has decreased in recent years, from 43% in 2010 to 31% in 2012. LDCs, however, still receive the highest share of bilateral ODA, noting that 47% was unallocated by income.

At 0.11% of GNI in 2012, total ODA to LDCs was slightly less than the UN target of 0.15% GNI.

Figure 27.8. **Bilateral ODA by income group, 2003-12, gross disbursements, Canada**



StatLink http://dx.doi.org/10.1787/888933122912

In 2012, 40% of bilateral ODA was allocated to social infrastructure and services, amounting to USD 1.2 billion. There was a strong focus on support to health (USD 482 million). Humanitarian aid amounted to USD 424 million.

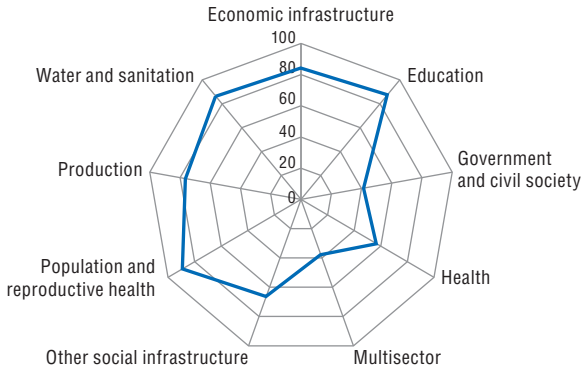
Figure 27.9. **Share of bilateral ODA by sector, 2011-12 average, commitments, Canada**



StatLink http://dx.doi.org/10.1787/888933122931

USD 1.4 billion of bilateral ODA supported gender equality. Canada has made a long-term effort to mainstream gender equality across its programmes and to bring gender equality into its policy dialogue with partners (OECD, 2013). In 2012, 63% of its aid had gender equality and women's empowerment as a principal or significant objective, compared with the DAC country average of 28%. This was a slight decrease compared to 66% in 2011.

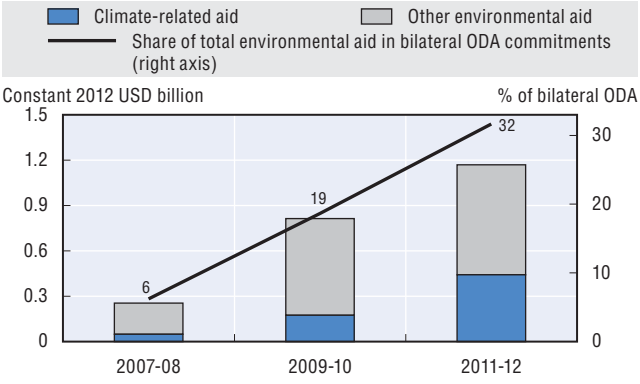
Figure 27.10. **Share of bilateral ODA in support of gender equality by sector, 2012, commitments, Canada**



StatLink http://dx.doi.org/10.1787/888933122950

USD 1.1 billion of bilateral ODA supported the environment. Environmental sustainability is a cross-cutting priority for Canada. The share of environment-focused ODA has been increasing since 2007. In 2012, 32% of Canadian aid had environment as a principal or significant objective and 17% focused particularly on climate change, compared with the respective DAC country averages of 26% and 24%.

Figure 27.11. **Bilateral ODA in support of global and local environment objectives, two year averages, commitments, Canada**



StatLink http://dx.doi.org/10.1787/888933122969

Note to reader: Annex B provides "Methodological notes on definitions and measurement for the Profiles of Development Assistance Committee members".

References

CIDA (2011), "Stimulating sustainable economic growth: CIDA's sustainable economic growth strategy", Canadian International Development Agency, Ottawa, Ontario, *www.acdi-cida.gc.ca/INET/IMAGES.NSF/vLUImages/EconomicGrowth/$file/Sustainable-Economic-Growth-e.pdf*.

OECD (2013), *OECD Development Assistance Peer Reviews: Canada 2012*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264200784-en*.

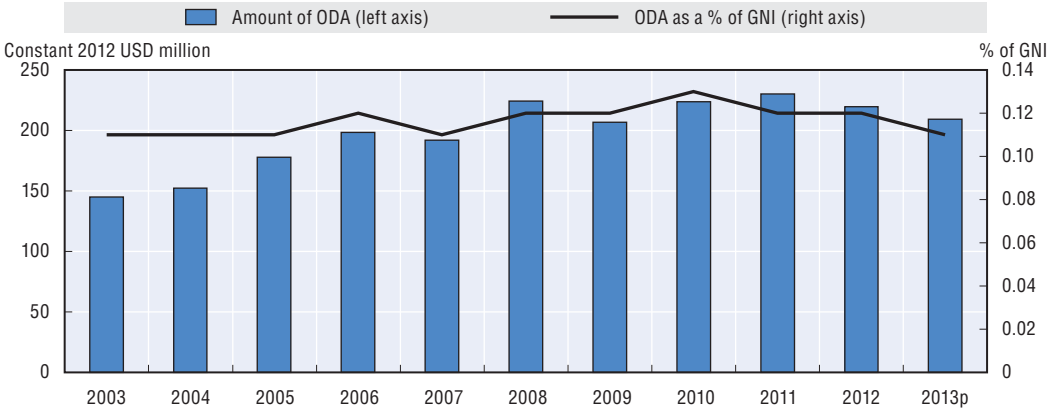
CZECH REPUBLIC

Financial flows from the Czech Republic to developing countries

Type of flows from the Czech Republic to developing countries

In 2013, the Czech Republic provided USD 212 million ODA (preliminary data). This represented 0.11% of gross national income (GNI) and a fall of 4.7% in real terms from 2012. In its Development Co-operation Strategy (Ministry of Foreign Affairs, 2010), the Czech Republic committed to maintaining a gradual increase in its ODA as a percentage of GNI. While the share of ODA to GNI averaged 0.12% in 2010-12, it decreased in 2013 due mainly to the termination of activities supported by the Czech Republic in Afghanistan. The Czech Republic's share of untied ODA (excluding administrative costs and in-donor refugee costs) was 45% in 2012, compared to the DAC average of 81%. The grant element of total ODA was 100% in 2012. At present, data on other official flows, private grants (funds raised by non-governmental organisations and foundations) and private flows at market terms from the Czech Republic to developing countries are not available.

Figure 28.1. **Net ODA: Trends in volume and as a share of GNI, 2003-13, Czech Republic**



StatLink http://dx.doi.org/10.1787/888933122988

The Czech Republic uses ODA to mobilise resources for sustainable development

Czech development co-operation gives considerable emphasis to the role of the private sector. Private companies implement an important share of Czech bilateral development projects. The Ministry of Foreign Affairs and the Platform of Businesses for Development Co-operation strive to motivate Czech business companies to get involved in development co-operation, to respect corporate social responsibility principles and to develop inclusive business models that offer the potential for both commercial success and development impact.

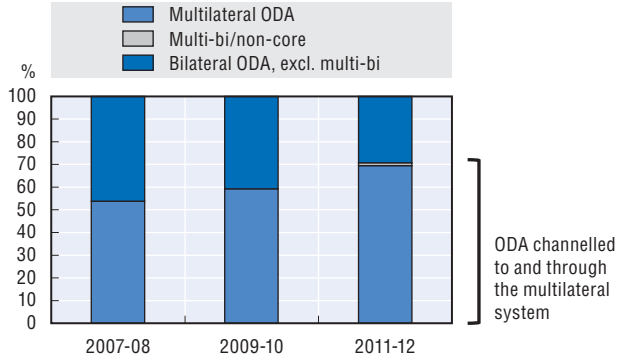
The Czech Republic promotes aid for trade to improve developing countries' trade performance and integration in the world economy. It committed USD 10 million (22% of its sector-allocable ODA) to trade-related activities in 2012, a 16% decrease from 2011.

In addition, remittances exiting the Czech Republic to developing countries amounted to USD 125 million in 2012.

The Czech Republic's official development assistance

In 2012, 30% of ODA was provided bilaterally, totalling USD 66 million. The Czech Republic allocated 70% of total ODA as core contributions to multilateral organisations (USD 153 million), compared with the DAC country average of 27%. It channelled a further 5% of its bilateral ODA (USD 3 million) for specific projects implemented by multilateral organisations (multilateral non-core contributions). While most multilateral ODA is channelled through the EU, it is also channelled through the UN and other multilateral organisations.

Figure 28.2. **Share of ODA channelled to and through the multilateral system, two year averages, gross disbursements, Czech Republic**

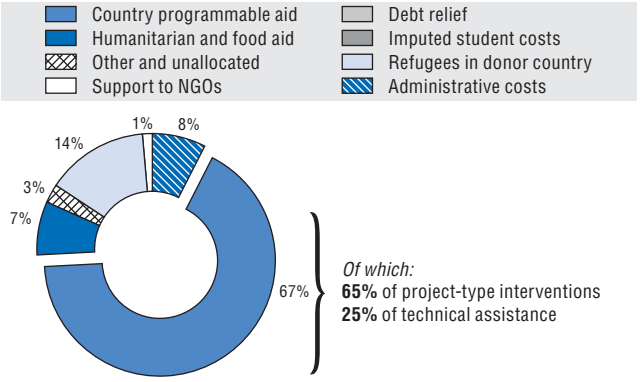


Note: Data on multi-bi/non-core ODA are not available prior to 2011.

StatLink http://dx.doi.org/10.1787/888933123007

67% of bilateral ODA was programmed at partner country level. The Czech Republic's share of country programmable aid (CPA) was above the DAC country average (55%) in 2012. Project-type interventions made up 65% of CPA. In-donor refugee costs accounted for 14% of bilateral ODA.

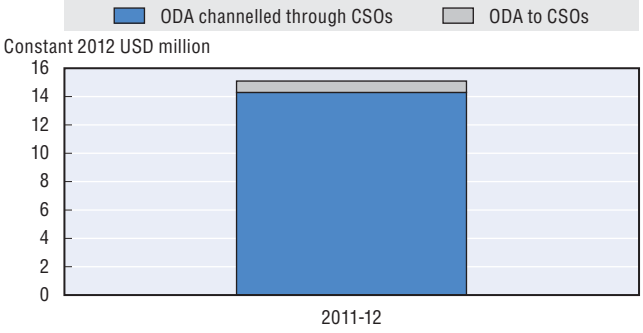
Figure 28.3. **Composition of bilateral ODA, 2012, gross disbursements, Czech Republic**



StatLink http://dx.doi.org/10.1787/888933123026

USD 15 million of bilateral ODA was channelled to and through civil society organisations (CSOs). The Czech Republic's ODA channelled to and through CSOs slightly decreased in terms of volume between 2011 and 2012 (-4%), but increased as a share of bilateral ODA, from 21.8% in 2011 to 22.2% in 2012. This share was higher than the 2012 DAC country average of 16.8%.

Figure 28.4. **Bilateral ODA to and through CSOs, 2011-12 average, gross disbursements, Czech Republic**

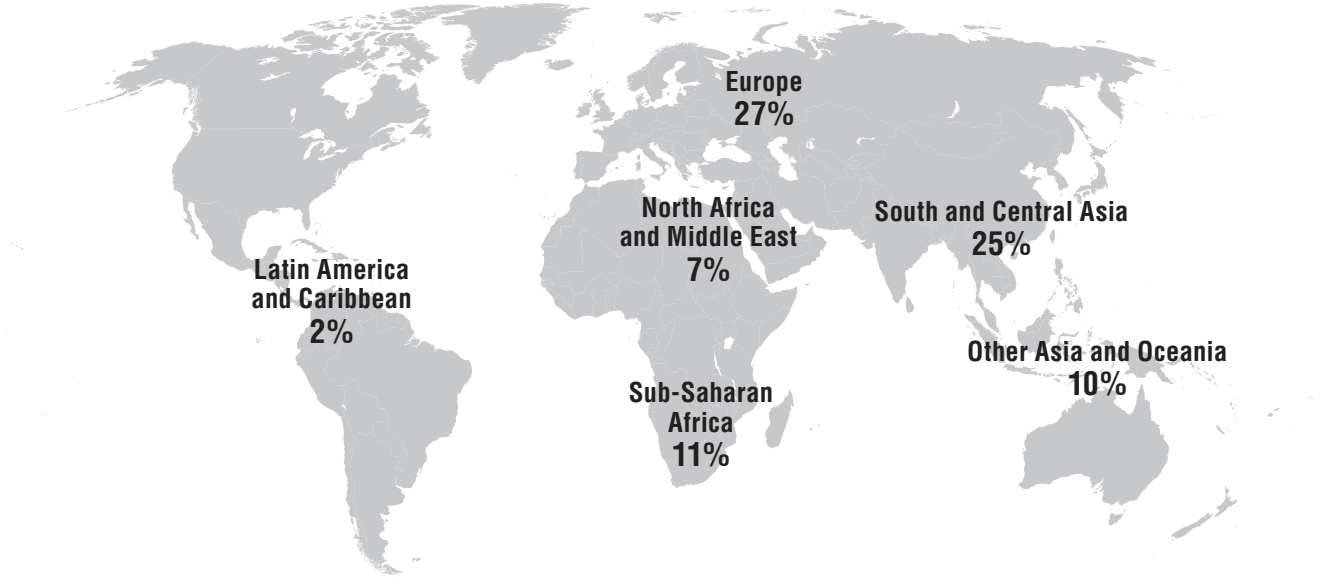


Note: Data are not available prior to 2011.

StatLink http://dx.doi.org/10.1787/888933123045

Bilateral ODA primarily focused on Eastern Europe and South and Central Asia. In 2012, USD 19 million of bilateral ODA was allocated to Eastern Europe, and USD 19 million to South and Central Asia.

Figure 28.5. **Share of bilateral ODA by region, 2011-12 average, gross disbursements, Czech Republic**

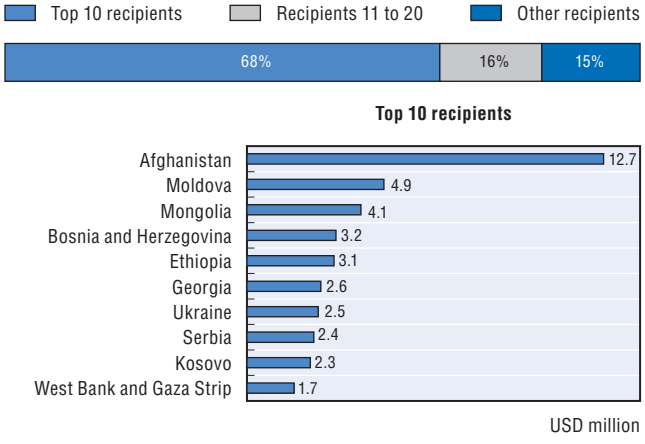


Note: 17% of bilateral ODA allocated was unspecified by region in 2011-12. This share is not represented on the map. Data are not available prior to 2011.

StatLink http://dx.doi.org/10.1787/888933123064

68% of bilateral country-allocable ODA went to the Czech Republic's top 10 recipients. Nine of its priority programme countries and project countries are among its top 10 recipients. Its support to fragile states reached USD 31 million in 2012 (47% of total bilateral ODA).

Figure 28.6. **Bilateral country-allocable ODA to top recipients, 2012, gross disbursements, Czech Republic**



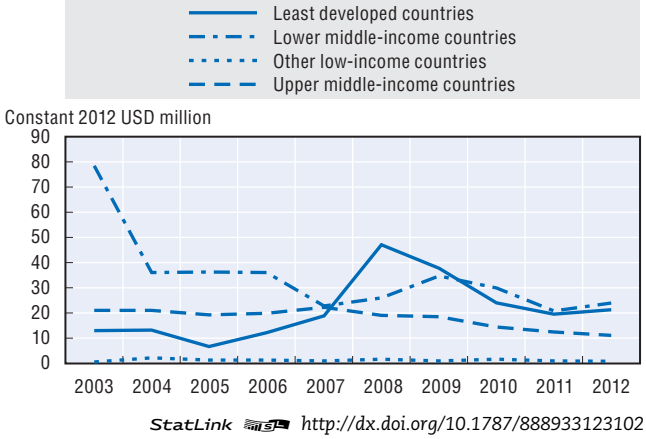
Note: Totals do not add up to total bilateral ODA. A further USD 8.9 million was unallocated by country. Reference to Kosovo is without prejudice to its status under international law.

StatLink http://dx.doi.org/10.1787/888933123083

In 2012, 32% of bilateral ODA was allocated to least developed countries (LDCs), amounting to USD 21 million. As a share of bilateral ODA, it has fluctuated around 30% since 2010. Lower middle-income countries received the highest share of bilateral ODA in 2012 (36%).

At 0.03% of GNI in 2012, total ODA to LDCs was far from the UN target of 0.15% of GNI.

Figure 28.7. **Bilateral ODA by income group, 2003-12, gross disbursements, Czech Republic**



StatLink http://dx.doi.org/10.1787/888933123102

Half of bilateral ODA was allocated to social infrastructure and services. In 2010, the Czech Republic identified five priority areas for development co-operation: environment, agriculture, social development, economic development and the support of democracy, human rights and social transition. In 2012, USD 33 million of bilateral ODA was allocated to social sectors, with a strong focus on support to government and civil society (USD 13 million), education (USD 8 million) and water and sanitation (USD 7 million).

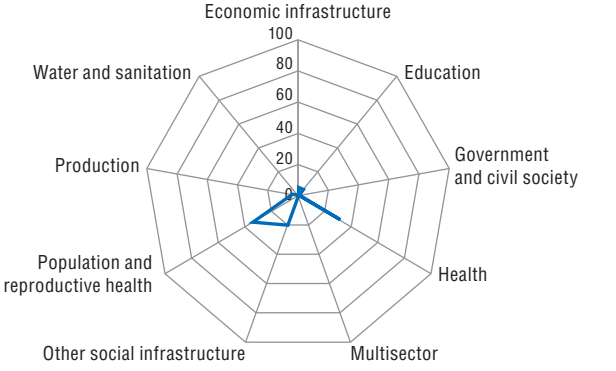
Figure 28.8. **Share of bilateral ODA by sector, 2011-12 average, commitments, Czech Republic**



StatLink http://dx.doi.org/10.1787/888933123121

USD 2 million of bilateral ODA supported gender equality. Gender equality is one of the cross-cutting issues in the Czech Republic's development co-operation. In 2012, 5% of Czech aid had gender equality and women's empowerment as a principal or significant objective, compared with the DAC country average of 28%. Over a third of Czech aid to health, population and reproductive health focuses on gender.

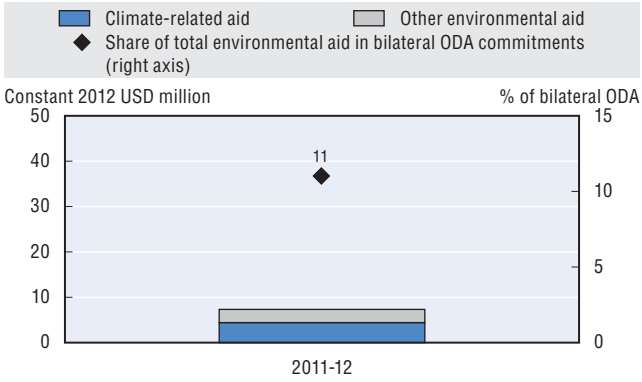
Figure 28.9. **Share of bilateral ODA in support of gender equality by sector, 2012, commitments, Czech Republic**



StatLink http://dx.doi.org/10.1787/888933123140

USD 14 million of bilateral ODA supported environment. Protection of the environment and the fight against climate change is a priority cross-cutting issue for the Czech Republic and is reflected in all development activities. In 2012, 21% of Czech aid had environment as a principal or significant objective and 8% focused particularly on climate change, compared with the respective DAC country averages of 26% and 24%.

Figure 28.10. **Bilateral ODA in support of global and local environment objectives, 2011-12 average, commitments, Czech Republic**



Note: Data are not available prior to 2011.

StatLink http://dx.doi.org/10.1787/888933123159

Note to reader: Annex B provides "Methodological notes on definitions and measurement for the Profiles of Development Assistance Committee members".

Reference

Ministry of Foreign Affairs (2010), *The Development Cooperation Strategy of the Czech Republic 2010-17*, October, Ministry of Foreign Affairs, Prague.

DENMARK

Financial flows from Denmark to developing countries

Type of flows from Denmark to developing countries

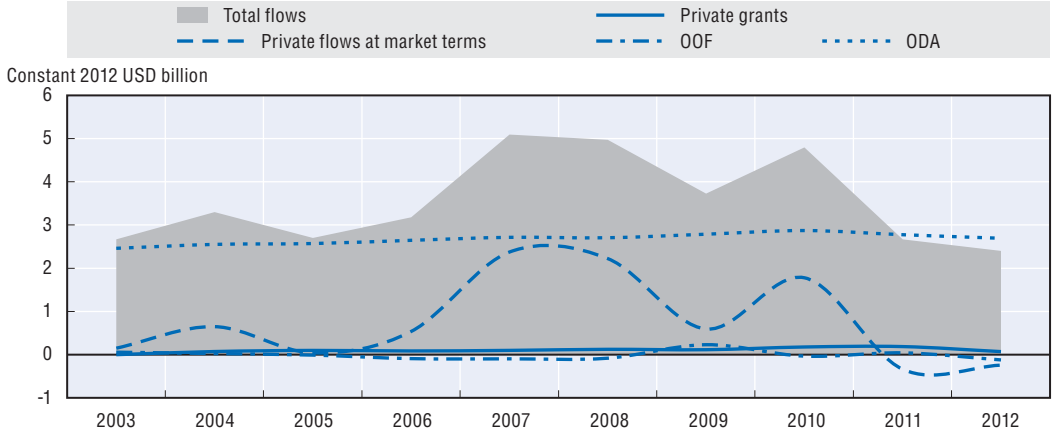
-242 million USD of private flows at market terms in 2012. These flows were mostly composed of foreign direct investment.

2.9 billion USD of official development assistance (ODA) in 2013 (preliminary data).

-121 million USD of other official flows (OOF) in 2012.

71 million USD of private grants in 2012. These resources were mobilised by non-governmental organisations and foundations.

Figure 29.1. **Net resource flows to developing countries, 2003-12, Denmark**



Note: Data on private grants are not available for 2003.

StatLink http://dx.doi.org/10.1787/888933123178

Denmark uses ODA to mobilise resources for sustainable development

Denmark promotes ODA as a catalyst to bring private sector investment to support development efforts in partner countries. Its private sector development strategy aims at creating an enabling environment for private sector development in developing countries (Ministry of Foreign Affairs of Denmark, 2011). It uses several tools for engaging with the Danish business community as partners for development, including Danida Business Partnerships which support the development of commercial partnerships between Danish companies and partners in developing countries aimed at creating decent jobs and promoting corporate social responsibility.

Denmark's Implementation Plan for Tax and Development, aims, among other things, to increase developing country public sector capacity for tax development and management. In its general budget support contracts, Denmark will also focus more on efforts to strengthen tax systems and national capacity to collect taxes.

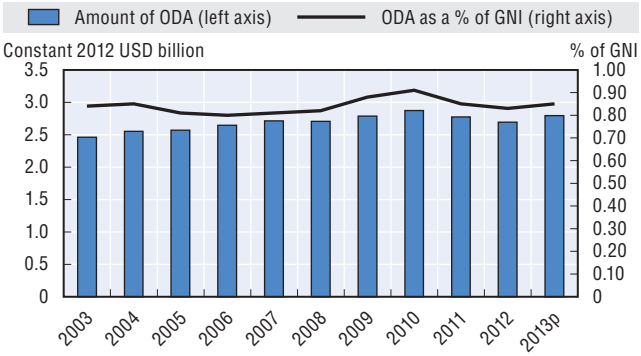
Denmark promotes aid for trade to improve developing countries' trade performance and integration into the world economy. It committed USD 384 million to trade-related activities in 2012 (28% of its sector-allocable ODA), a 34% increase from 2011. The trend has been fluctuating over the past few years.

In addition, remittances exiting Denmark to developing countries amounted to USD 1 billion in 2012.

Denmark's official development assistance

In 2013, Denmark provided USD 2.9 billion ODA (preliminary data), which represented a 3.8% increase in real terms from 2012. After a slight decrease between 2010 and 2012, Denmark's ODA/GNI share increased from 0.83% in 2012 to 0.85% in 2013. It is the 4th largest donor of the Development Assistance Committee (DAC) in terms of ODA/GNI share (0.85%) and one of five DAC members meeting the UN target of 0.7%. The Danish government has committed to reaching a 1% target over several years. In 2012, 96% of Danish ODA (excluding administrative costs and in-donor refugee costs) was untied. The grant element of total ODA was 100% in 2012.

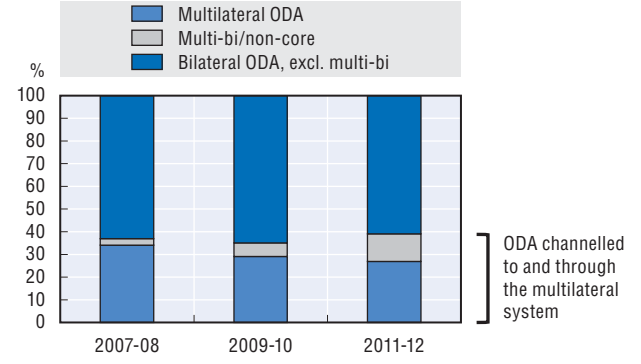
Figure 29.2. **Net ODA: Trends in volume and as a share of GNI, 2003-13, Denmark**



StatLink http://dx.doi.org/10.1787/888933123197

In 2012, 72% of ODA was provided bilaterally. Denmark allocated 28% of total ODA as core contributions to multilateral organisations, compared to the DAC country average of 27%. It also channelled 17% of its bilateral ODA for specific projects implemented by multilateral organisations (multi-bi/non-core).

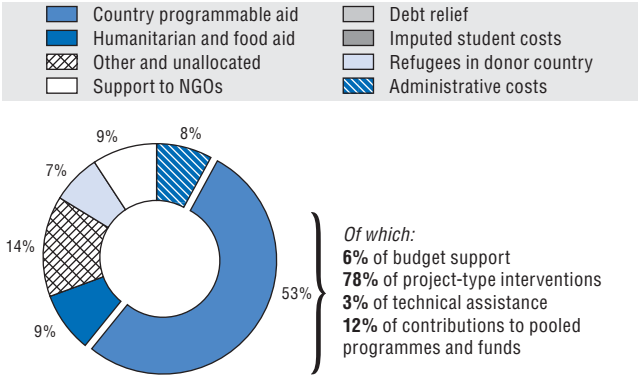
Figure 29.3. **Share of ODA channelled to and through the multilateral system, two year averages, gross disbursements, Denmark**



StatLink http://dx.doi.org/10.1787/888933123216

In 2012, 53% of bilateral ODA was programmed at partner country level. Denmark's share of country programmable aid (CPA) was close to the DAC country average (55%). Project-type interventions made up 78% of CPA.

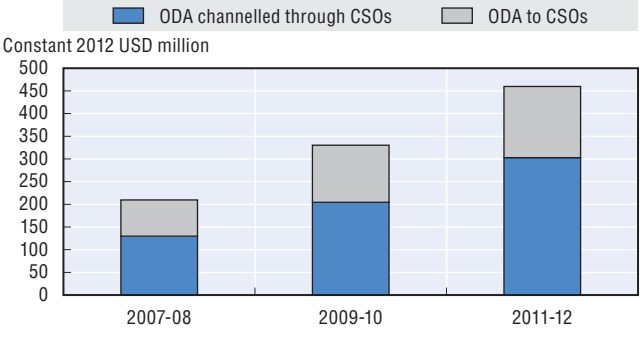
Figure 29.4. **Composition of bilateral ODA, 2012, gross disbursements, Denmark**



StatLink http://dx.doi.org/10.1787/888933123235

USD 480 million of bilateral ODA was channelled to and through civil society organisations (CSOs). Denmark channelled 24% of its bilateral ODA to and through CSOs in 2012, compared with the DAC country average of 16.8%. In recent years, aid to and through CSOs has increased both in volume (+9% between 2011 and 2012) and as a share of bilateral ODA (it stood at 21% in 2011).

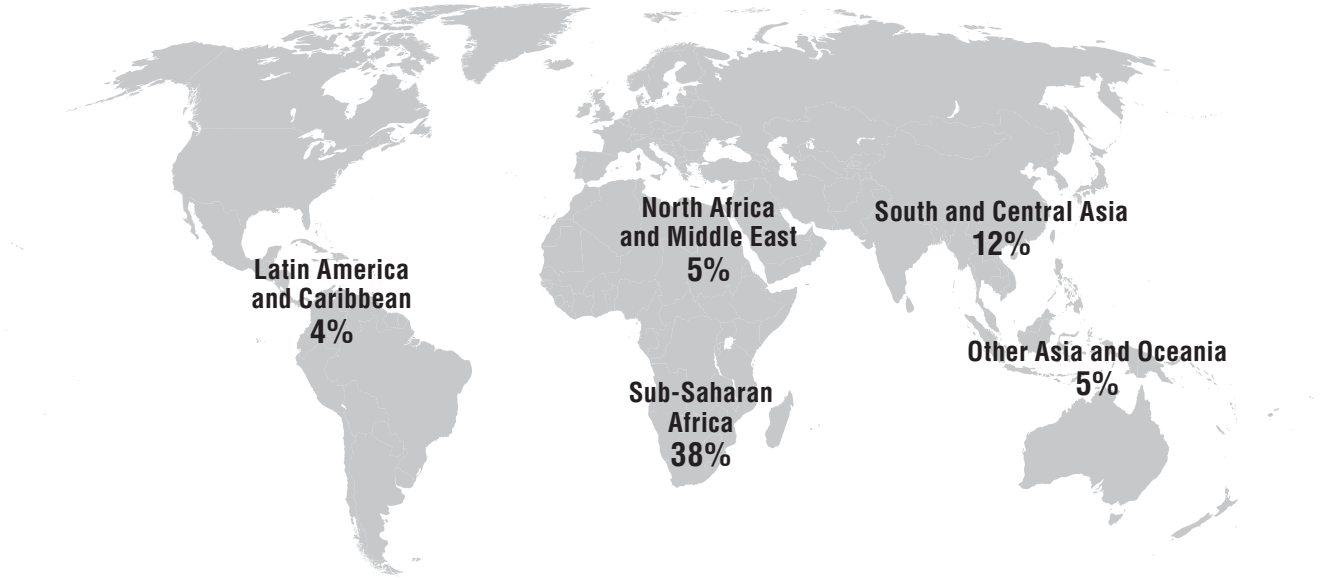
Figure 29.5. **Bilateral ODA to and through CSOs, two year averages, gross disbursements, Denmark**



StatLink http://dx.doi.org/10.1787/888933123254

Bilateral ODA primarily focused on sub-Saharan Africa. In 2012, Denmark allocated USD 753 million to sub-Saharan Africa and USD 249 million to South and Central Asia.

Figure 29.6. **Share of bilateral ODA by region, 2011-12 average, gross disbursements, Denmark**

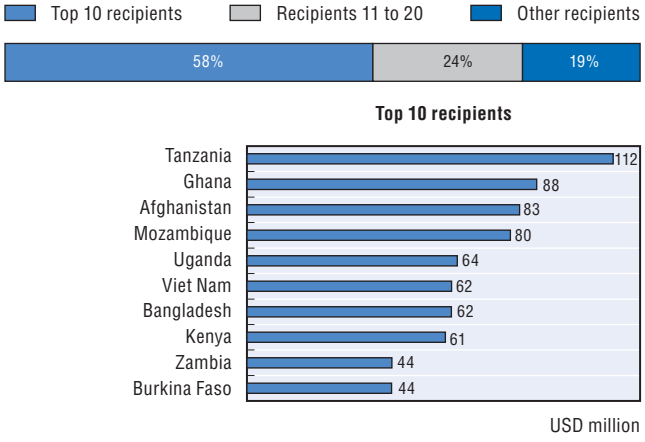


Note: 35% of bilateral ODA allocated was unspecified by region in 2011-12. This share is not represented on the map.

StatLink http://dx.doi.org/10.1787/888933123273

58% of bilateral country-allocable ODA went to the top 10 recipients. All of the top 10 recipients of Danish aid in 2012 were priority countries – Denmark has a total of 22 priority countries. Its support to fragile states reached USD 650 million in 2012 (32% of total bilateral ODA).

Figure 29.7. **Bilateral country-allocable ODA to top recipients, 2012, gross disbursements, Denmark**



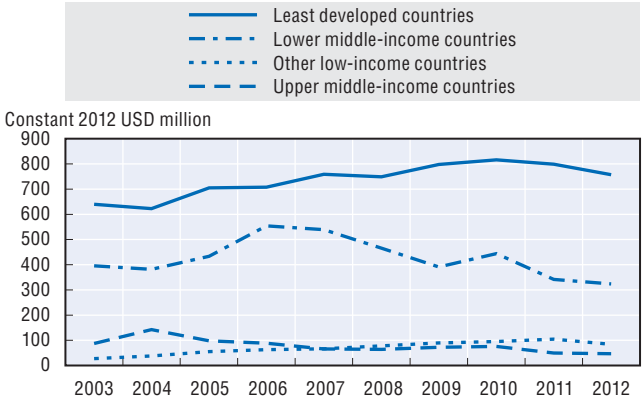
Note: Totals do not add up to total bilateral ODA. A further USD 830 million was unallocated by country.

StatLink http://dx.doi.org/10.1787/888933123292

In 2012, 37% of bilateral ODA was allocated to least developed countries (LDCs) amounting to USD 757 million. LDCs received the highest, even if decreasing, share of bilateral ODA in 2012 noting that in 2012 41% was unallocated by income group compared to the DAC average of 32%.

At 0.31% of gross national income (GNI), total ODA to LDCs was well above the UN target of 0.15% of GNI.

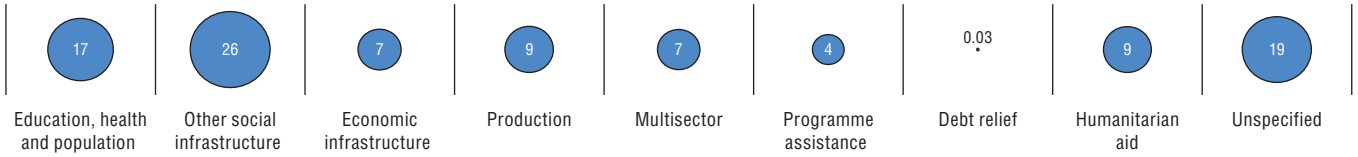
Figure 29.8. **Bilateral ODA by income group, 2003-12, gross disbursements, Denmark**



StatLink http://dx.doi.org/10.1787/888933123311

Over 40% of bilateral ODA was allocated to social infrastructure and services in 2012, reaching USD 798 million. There was a strong focus on support to government and civil society (USD 306 million) and education (USD 206 million). USD 213 million was allocated to the production sector (mainly to agriculture).

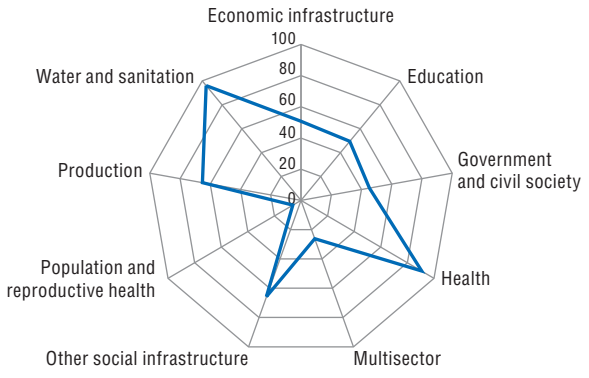
Figure 29.9. **Share of bilateral ODA by sector, 2011-12 average, commitments, Denmark**



StatLink http://dx.doi.org/10.1787/888933123330

USD 745 million of bilateral ODA supported gender equality. Advancing gender equality and women's rights is a major strategic priority for Denmark. In 2012, 55% of Danish aid had gender equality and women's empowerment as a principal or significant objective, compared with the DAC country average of 28%. This is a decrease compared to previous years (67% in 2009). A high share of Denmark's aid to water, sanitation and health focuses on gender.

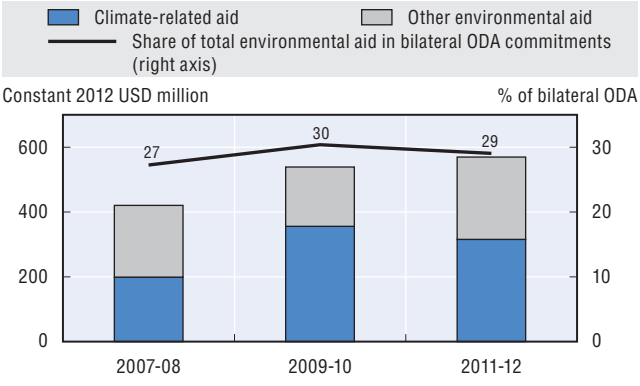
Figure 29.10. **Share of bilateral ODA in support of gender equality by sector, 2012, commitments, Denmark**



StatLink http://dx.doi.org/10.1787/888933123349

USD 650 million of bilateral ODA supported the environment. Promoting green growth based on sustainable management and use of natural resources is one of the four overall goals of Danish development co-operation. In 2012, 34% of Danish aid had environment as a principal or significant objective and 19% focused particularly on climate change, compared with the respective DAC country averages of 26% and 24%.

Figure 29.11. **Bilateral ODA in support of global and local environment objectives, two year averages, commitments, Denmark**



StatLink http://dx.doi.org/10.1787/888933123368

Note to reader: Annex B provides "Methodological notes on definitions and measurement for the Profiles of Development Assistance Committee members".

Reference

Ministry of Foreign Affairs of Denmark (2011), *Growth and Employment 2011-15, Strategic Framework*, March, Ministry of Foreign Affairs of Denmark, Copenhagen.

EUROPEAN UNION INSTITUTIONS

Financial flows from the European Union institutions to developing countries

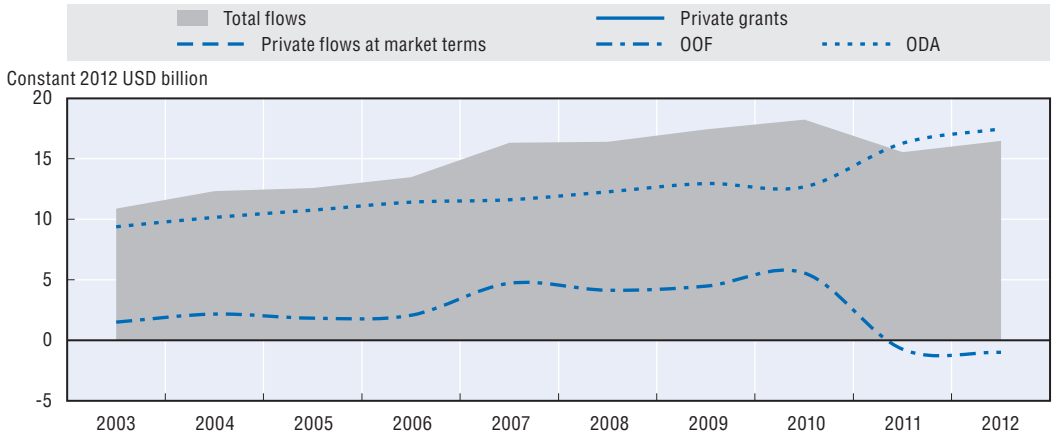
Type of flows from the EU institutions to developing countries

15.9 billion USD of official development assistance (ODA) in 2013 (preliminary data).

-1 billion USD of other official flows (OOF) in 2012.

Flows to developing countries from the EU institutions are limited to ODA and OOF.

Figure 30.1. **Net resource flows to developing countries, 2003-12, EU institutions**



StatLink http://dx.doi.org/10.1787/888933123387

The EU institutions use ODA to mobilise resources for sustainable development

The EU institutions promote ODA as a catalyst to bring private sector investment to support development efforts in partner countries. They have developed policies and instruments supporting private investment and the expansion of partner countries' private sector in order to ensure inclusive and sustainable economic growth (OECD, 2013).

They contribute to the mobilisation of domestic resources in developing countries by supporting their tax systems and fighting illicit financial flows. In 2012, they committed USD 8.6 million of their ODA to tax-related activities in partner countries.

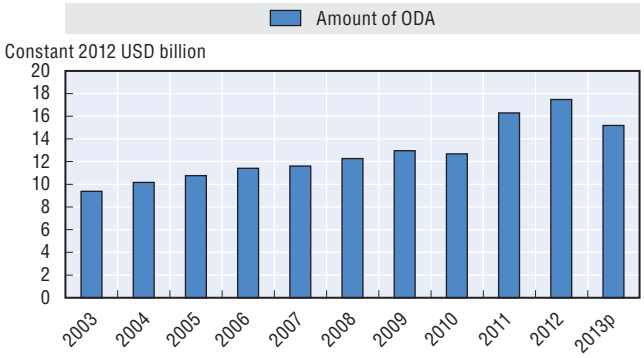
They promote aid for trade to improve developing countries' trade performance and integration into the world economy. They committed USD 11.3 billion to trade-related activities in 2012 (55% of their sector-allocable ODA), a 56% increase from 2011. This strong increase is due to the DAC's decision to include loans of the European Investment Bank in the ODA statistics.

They acknowledge the importance of remittances sent by migrants in the EU back to developing countries and how fluctuations in these flows can have an impact on the living conditions of recipients. The EU therefore stresses the need to pursue efforts towards reducing costs of transferring remittances (COM, 2011).

The European Union institutions' official development assistance

In 2013, the EU institutions provided USD 15.9 billion ODA (preliminary data), a fall of 13.1% in real terms from 2012. The level of ODA managed by the EU institutions is determined within the EU multi-year financial framework. It steadily grew from 2003 to 2012, reaching a peak of USD 17.5 billion. The trend was, however, reversed in 2013. In 2012, the percentage of untied aid was 66% of EU's ODA (excluding administrative costs and in-donor refugee costs).

Figure 30.2. **Net ODA: Trends in volume, 2003-13, EU institutions**

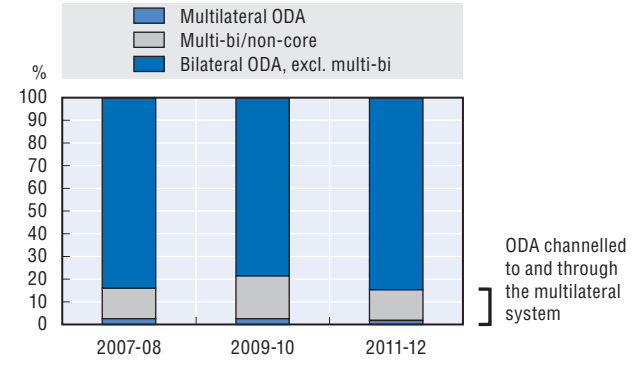


StatLink http://dx.doi.org/10.1787/888933123406

In 2012, 98% of ODA was provided bilaterally. In 2012, the EU institutions allocated 2% of total ODA as core contributions to multilateral organisations. They channelled a further 13% of their bilateral ODA for projects implemented by multilateral organisations (multi-bi/non-core).

The EU institutions are unique among DAC members because of the dual role they play in development assistance. In contrast to multilateral organisations that exclusively receive transfers from members, the EU institutions are donors in their own right with their own resources and budgetary authority.

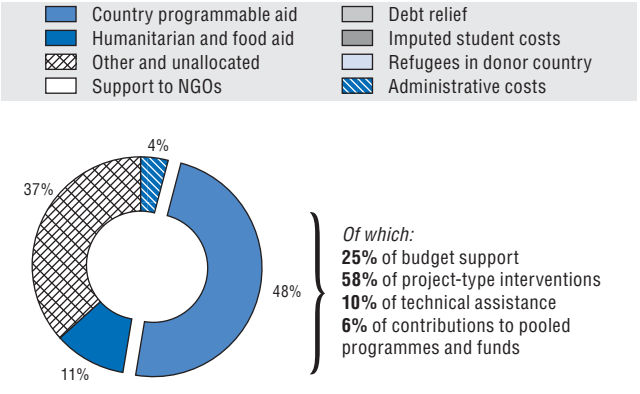
Figure 30.3. **Share of ODA channelled to and through the multilateral system, two year averages, gross disbursements, EU institutions**



StatLink http://dx.doi.org/10.1787/888933123425

In 2012, 48% of the EU institutions' bilateral ODA was programmed at partner country level. The share of country programmable aid (CPA) totalled 48% of its bilateral aid. A high share of bilateral ODA was categorised as "other and unallocated". Project-type interventions accounted for 58% of CPA.

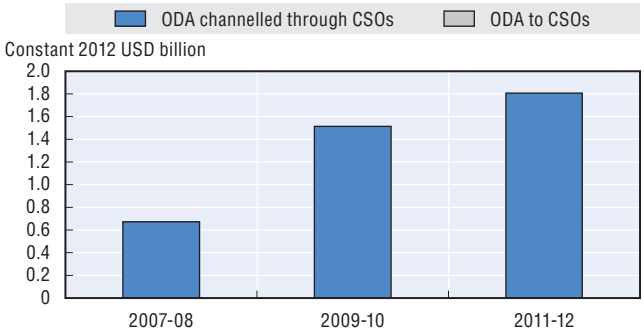
Figure 30.4. **Composition of bilateral ODA, 2012, gross disbursements, EU institutions**



StatLink http://dx.doi.org/10.1787/888933123444

USD 1.9 billion of bilateral ODA was channelled to and through civil society organisations (CSOs). In 2012, 10% of bilateral ODA was channelled to and through CSOs. Although aid to and through CSOs has increased in terms of volume in recent years (6% increase between 2011 and 2012), it has slightly decreased as a share of bilateral ODA since 2010, when it stood at 13%.

Figure 30.5. **Bilateral ODA to and through CSOs, two year averages, gross disbursements, EU institutions**

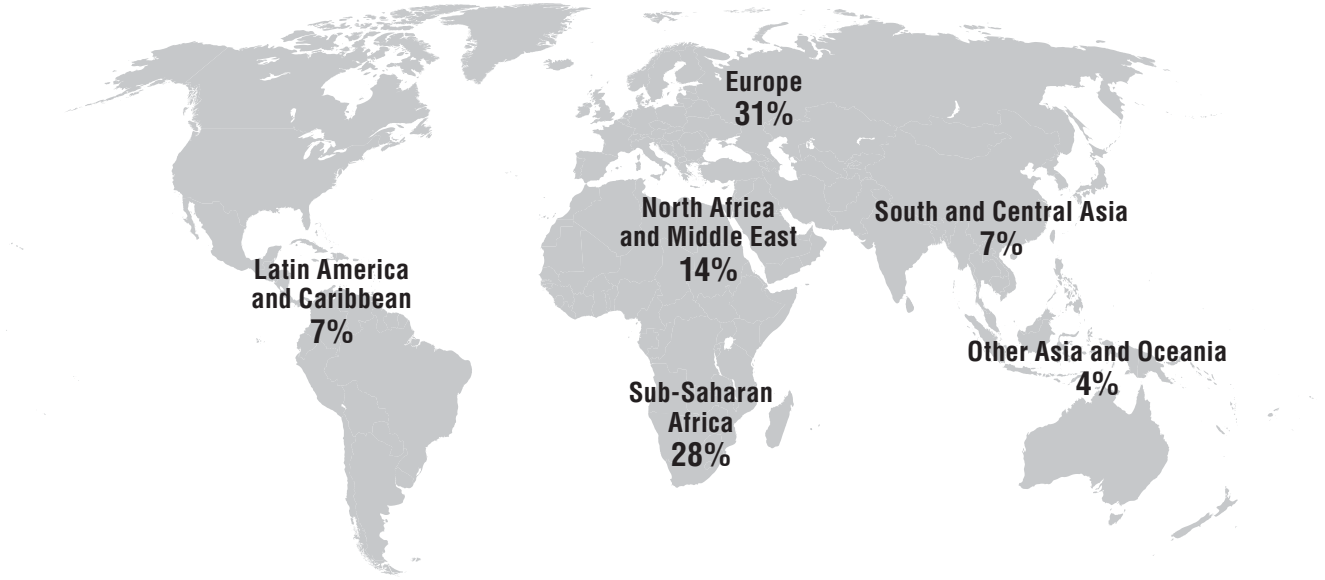


Note: Data on ODA to CSOs are not available for 2010 and 2011.

StatLink http://dx.doi.org/10.1787/888933123463

Bilateral ODA primarily focused on Eastern Europe and sub-Saharan Africa. In 2012, USD 5.6 billion was allocated to Eastern Europe and USD 5 billion to sub-Saharan Africa.

Figure 30.6. **Share of bilateral ODA by region, 2011-12 average, gross disbursements, EU institutions**

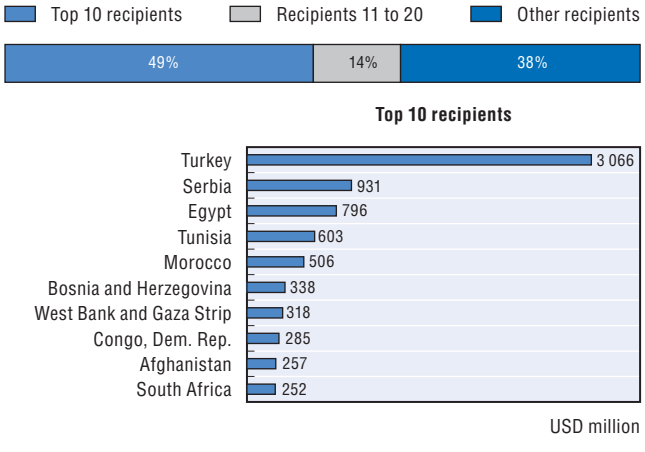


Note: 9% of bilateral ODA allocated was unspecified by region in 2011-12. This share is not represented on the map.

StatLink http://dx.doi.org/10.1787/888933123482

49% of bilateral country-allocable ODA went to the top 10 recipients. The European Commission has specific agreements and instruments with 79 Africa, Caribbean and Pacific countries and 9 European accession countries.

Figure 30.7. **Bilateral country-allocable ODA to top recipients, 2012, gross disbursements, EU institutions**

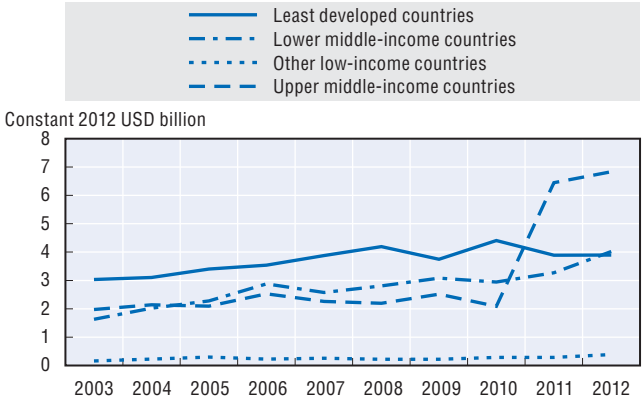


Note: Totals do not add up to total bilateral ODA. A further USD 2.9 billion was unallocated by country.

StatLink http://dx.doi.org/10.1787/888933123501

22% of bilateral ODA was allocated to least developed countries (LDCs) which amounted to USD 3.9 billion in 2012. The share has decreased from 35% in 2010 to 22% in 2012. ODA allocated to upper middle-income countries has strongly increased in recent years, in terms of volume (USD 6.8 billion in 2012) and as a share of bilateral ODA (38% in 2012). This is mainly due to the instrument for pre-accession with nine European countries.

Figure 30.8. **Bilateral ODA by income group, 2003-12, gross disbursements, EU institutions**



StatLink http://dx.doi.org/10.1787/888933123520

Two-thirds of bilateral ODA was allocated to social and economic infrastructure and services. In 2012, USD 3.2 billion of bilateral ODA was allocated to government and civil society, USD 3.1 billion to transport and storage and USD 2.2 billion to energy generation and supply.

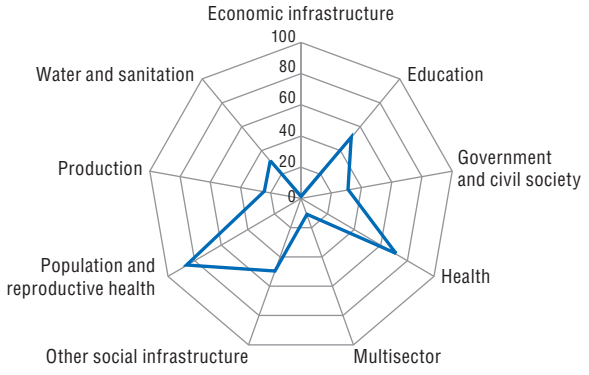
Figure 30.9. **Share of bilateral ODA by sector, 2011-12 average, commitments, EU institutions**



StatLink http://dx.doi.org/10.1787/888933123539

USD 3.5 billion of bilateral ODA supported gender equality. The EU is strongly committed to promoting gender equality. It has adopted an innovative three-pronged approach with political dialogue as a key dimension, along with mainstreaming and focused programmes (OECD, 2013). In 2012, 28% of its aid had gender equality and women's empowerment as a principal or significant objective, compared to 20% in 2011 and 14% in 2009. A high share of the EU's aid to population and reproductive health focuses on gender.

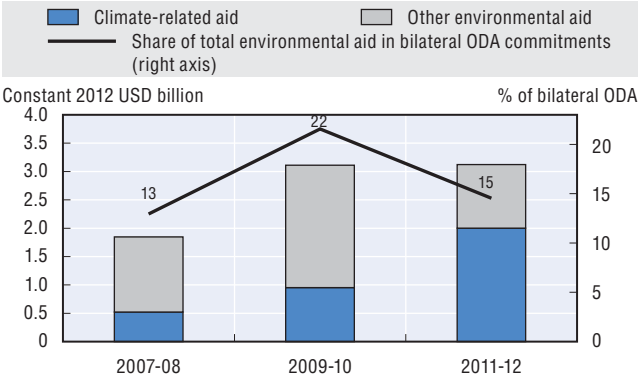
Figure 30.10. **Share of bilateral ODA in support of gender equality by sector, 2012, commitments, EU institutions**



StatLink http://dx.doi.org/10.1787/888933123558

USD 3.2 billion of bilateral ODA supported the environment. The European Commission has made an important effort to promote international consensus for reducing emissions and for helping developing countries adapt to climate change. At the same time, progress in mainstreaming environment was slow up to 2012 in the absence of a strategy. In 2012, 13% of the EU's aid had environment as a principal or significant objective and 10% focused particularly on climate change.

Figure 30.11. **Bilateral ODA in support of global and local environment objectives, two year averages, commitments, EU institutions**



StatLink http://dx.doi.org/10.1787/888933123577

Note to reader: Annex B provides "Methodological notes on definitions and measurement for the Profiles of Development Assistance Committee members".

References

COM (2011), *Study on Legal Instruments and Lessons Learned from the Evaluations Managed by the Joint Evaluation Unit*, Vol. 1, 2 and 3, COM, Brussels.

OECD (2013), *OECD Development Assistance Peer Reviews: European Union 2012*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264196124-en*.

FINLAND

Financial flows from Finland to developing countries

Type of flows from Finland to developing countries

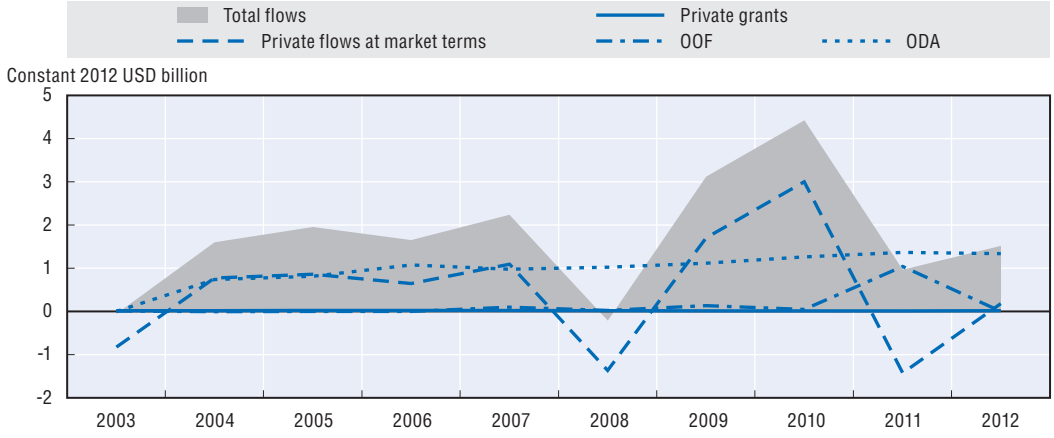
180 million USD of private flows at market terms in 2012. These flows were composed of foreign direct investment (100%).

1.4 billion USD of official development assistance (ODA) in 2013 (preliminary data).

3 million USD of other official flows (OOF) in 2012.

17 million USD of private grants in 2012. These resources were mobilised by non-governmental organisations and foundations.

Figure 31.1. **Net resource flows to developing countries, 2003-12, Finland**



Note: Data on OOF are not available for 2005 and 2006.

StatLink http://dx.doi.org/10.1787/888933123596

Finland uses ODA to mobilise resources for sustainable development

Finland promotes ODA as a catalyst to support private sector investment in developing countries. It has a series of instruments to enable it to do this, including: Finnfund, Finland's Development Finance Institution; FinnPartnership, the Finnish Business Partnership Programme; and a concessional credit scheme. It has a clear strategy for working with the private sector to promote jobs and trade development (Ministry of Foreign Affairs of Finland, 2012a).

It contributes to the mobilisation of domestic resources in developing countries by supporting their tax systems (Ministry of Foreign Affairs of Finland, 2012b).

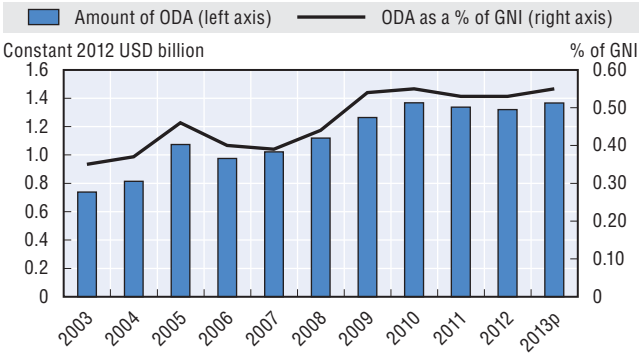
It promotes aid for trade to improve developing countries' trade performance and integration into the world economy. It committed USD 127 million to trade-related activities in 2012 (26% of its sector-allocable ODA), a decline of 60% from 2011. The trend has been fluctuating over the past few years.

In addition, remittances exiting Finland to developing countries amounted to USD 185 million in 2012.

Finland's official development assistance

In 2013, Finland provided USD 1.4 billion ODA (preliminary data), a 3.5% increase in real terms from 2012. It is the 7th largest donor of the Development Assistance Committee (DAC) in terms of ODA/GNI share (0.55%). Finland's ODA has increased considerably since 2007, both in terms of volume and share of ODA/GNI. Despite this success, Finland is aware that it will be a challenge to meet its commitment to 0.7% of ODA/GNI by 2015. Finland's share of untied ODA (excluding administrative costs and in-donor refugee costs) was 95% in 2012, which is higher than the DAC average of 81%. The grant element of total ODA was 100% in 2012.

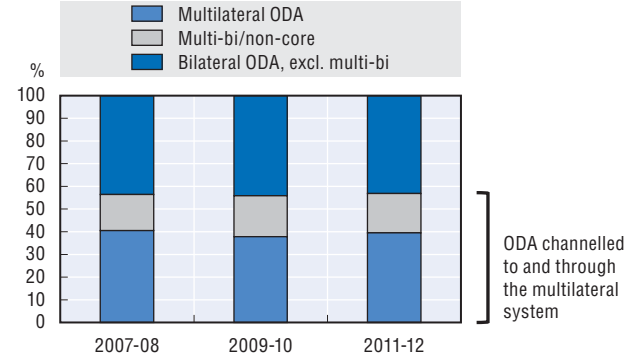
Figure 31.2. **Net ODA: Trends in volume and as a share of GNI, 2003-13, Finland**



StatLink http://dx.doi.org/10.1787/888933123615

In 2012, 61% of ODA was provided bilaterally. Finland allocated 39% of total ODA as core contributions to multilateral organisations, compared with the DAC country average of 27%. It channelled a further 29% of its bilateral ODA for specific projects implemented by multilateral organisations (multi-bi/non-core).

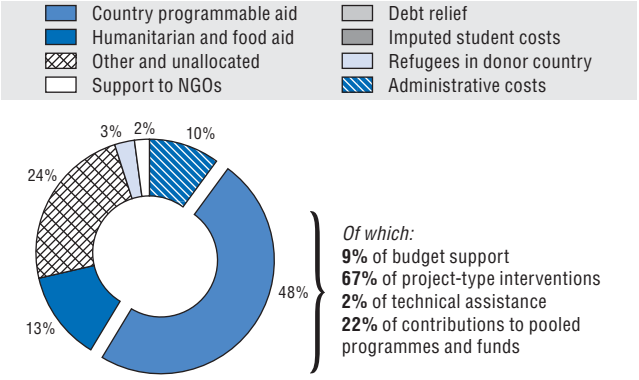
Figure 31.3. **Share of ODA channelled to and through the multilateral system, two year averages, gross disbursements, Finland**



StatLink http://dx.doi.org/10.1787/888933123634

48% of bilateral ODA provided by Finland was programmed at partner country level. Finland's share of country programmable aid (CPA) was lower than the DAC country average (55%) in 2012, due to high spending on humanitarian and food aid and a large amount of unallocated aid by region or income. Project-type interventions accounted for 67% of CPA.

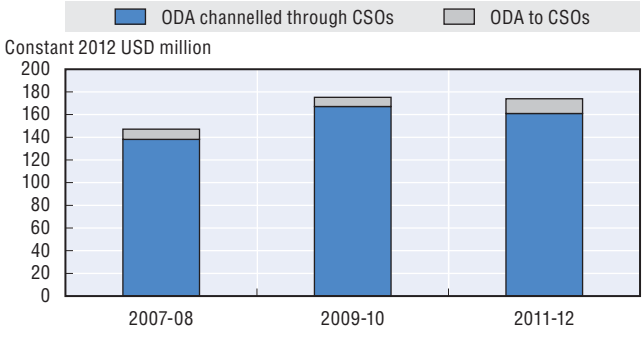
Figure 31.4. **Composition of bilateral ODA, 2012, gross disbursements, Finland**



StatLink http://dx.doi.org/10.1787/888933123653

USD 173 million of bilateral ODA was channelled to and through civil society organisations (CSOs). In 2012, 22% of bilateral ODA was channelled to and through CSOs, compared with the DAC country average of 16.8%. The level of aid to and through CSOs has been relatively steady since 2009, both in terms of volume and as a share of bilateral ODA.

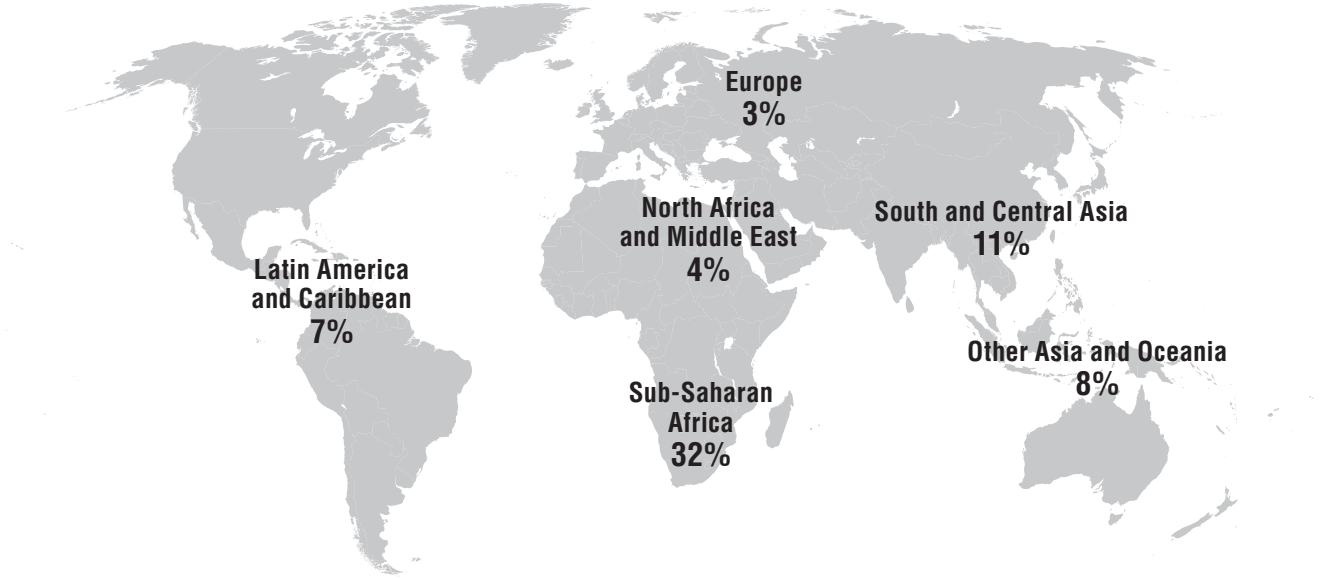
Figure 31.5. **Bilateral ODA to and through CSOs, two year averages, gross disbursements, Finland**



StatLink http://dx.doi.org/10.1787/888933123672

Bilateral ODA primarily focused on sub-Saharan Africa. In 2012, USD 261 million was allocated to sub-Saharan Africa and USD 88 million to South and Central Asia.

Figure 31.6. **Share of bilateral ODA by region, 2011-12 average, gross disbursements, Finland**

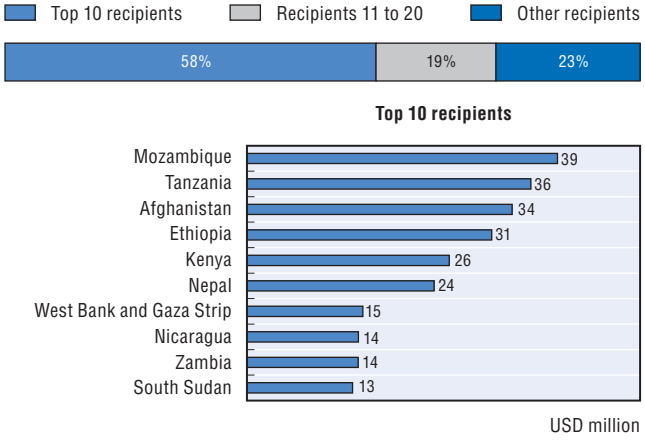


Note: 35% of bilateral ODA allocated was unspecified by region in 2011-12. This share is not represented on the map.

StatLink http://dx.doi.org/10.1787/888933123691

58% of bilateral country-allocable ODA went to Finland's top 10 recipients. It has long-lasting partnerships with eight countries, all of which are among its top 10 recipients. In 2012, its support to fragile states reached USD 222 million (28% of total bilateral ODA).

Figure 31.7. **Bilateral country-allocable ODA to top recipients, 2012, gross disbursements, Finland**



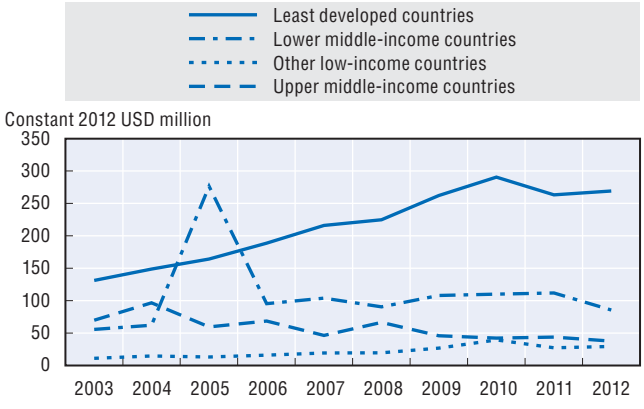
Note: Totals do not add up to total bilateral ODA. A further USD 383 million was unallocated by country.

StatLink http://dx.doi.org/10.1787/888933123710

33% of bilateral ODA was allocated to least developed countries (LDCs), amounting to USD 269 million in 2012. The share has been relatively steady in recent years. LDCs received the highest share of bilateral ODA compared with other income groups, noting that 48% was unallocated by income group in 2012 compared with the 32% DAC average.

At 0.18% of gross national income (GNI) in 2012, total ODA to LDCs was above the UN target of 0.15% GNI.

Figure 31.8. **Bilateral ODA by income group, 2003-12, gross disbursements, Finland**



StatLink http://dx.doi.org/10.1787/888933123729

Over a third of bilateral ODA was allocated to social infrastructure and services. In 2012, USD 269 million of bilateral ODA was allocated to social sectors, with a strong focus on support to government and civil society (USD 141 million), USD 94 million to humanitarian aid and USD 68 million to production sectors.

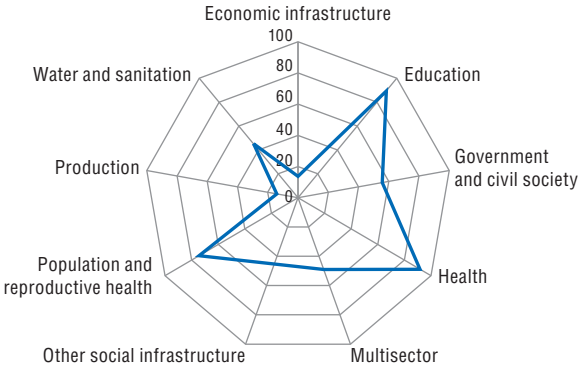
Figure 31.9. **Share of bilateral ODA by sector, 2011-12 average, commitments, Finland**



StatLink http://dx.doi.org/10.1787/888933123748

USD 222 million of bilateral ODA supported gender equality. Finland is committed to integrating gender equality into its projects and programmes. In 2012, 46% of its aid had gender equality and women's empowerment as a principal or significant objective, compared with the DAC country average of 28%. This was a decrease compared with 55% in 2011 and 54% in 2010. A high share of Finland's aid to health, education, population and reproductive health focuses on gender.

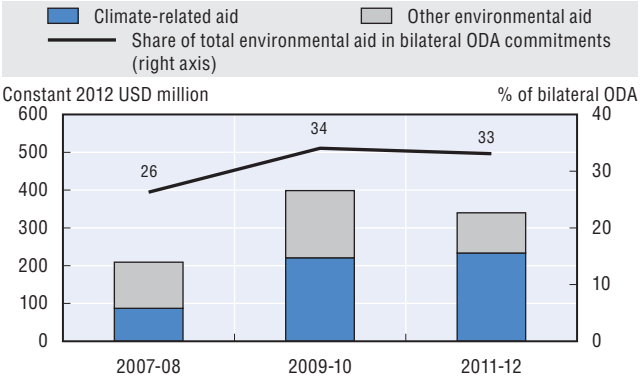
Figure 31.10. **Share of bilateral ODA in support of gender equality by sector, 2012, commitments, Finland**



StatLink http://dx.doi.org/10.1787/888933123767

USD 170 million of bilateral ODA supported the environment. Finland is committed to mainstreaming the environment into its programming, but challenges remain in ensuring it is done systematically. In 2012, 21% of its aid had environment as a principal or significant objective, and 15% focused on climate change, compared with respective DAC country averages of 26% and 24%.

Figure 31.11. **Bilateral ODA in support of global and local environment objectives, two year averages, commitments, Finland**



StatLink http://dx.doi.org/10.1787/888933123786

Note to reader: Annex B provides "Methodological notes on definitions and measurement for the Profiles of Development Assistance Committee members".

References

Ministry for Foreign Affairs of Finland (2012a), *Creating Jobs Through Private Sector and Trade Development. Aid for Trade – Finland's Action Plan 2012-2015*, Ministry for Foreign Affairs of Finland, Helsinki, *http://formin.finland.fi/public/default.aspx?contentid=263729&culture=en-US*.

Ministry for Foreign Affairs of Finland (2012b), Finland's Development Policy Programme, February, Ministry for Foreign Affairs of Finland, Helsinki.

FRANCE

Financial flows from France to developing countries

Type of flows from France to developing countries

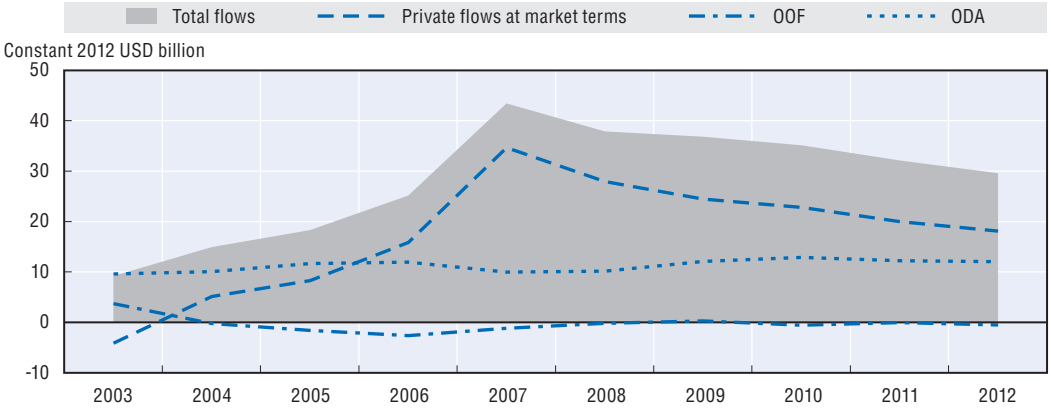
18 billion USD of private flows at market terms in 2012. These flows were mainly composed of foreign direct investment (53%).

11.4 billion USD of official development assistance (ODA) in 2013 (preliminary data).

-0.5 billion USD of other official flows (OOF) in 2012.

Data on private grants – resources mobilised by non-governmental organisations and foundations – are not available.

Figure 32.1. **Net resource flows to developing countries, 2003-12, France**



StatLink http://dx.doi.org/10.1787/888933123805

France uses ODA to mobilise resources for sustainable development

France promotes ODA as a catalyst to bring private sector investment to support development efforts in partner countries, particularly through its development finance institution, PROPARCO. France has developed a varied range of instruments in order to steer investments toward developing countries. It supports local private sector development and strengthens the banking system as well as meso and micro-finance in partner countries (OECD, 2014).

It contributes to the mobilisation of domestic resources in developing countries by supporting their tax systems. In 2012, France committed USD 514 000 of its ODA to tax-related activities in partner countries.

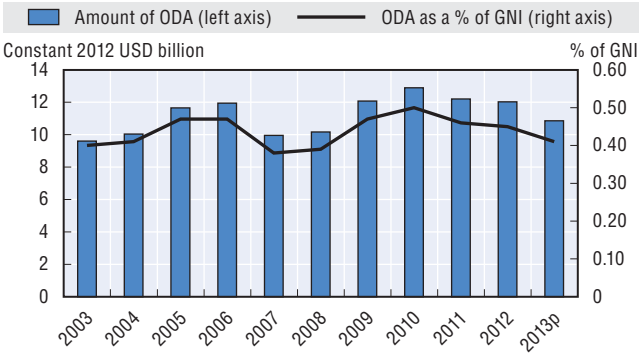
It promotes aid for trade to improve developing countries' trade performance and integration into the world economy. France committed USD 3.5 billion to trade-related activities in 2012 (44% of its sector-allocable ODA), almost three times as much as in 2011. The trend has been fluctuating over the past few years.

It has developed tools to facilitate transfers of remittances by migrants and encourage productive investments (OECD, 2014). In 2012, remittances exiting France to developing countries amounted to USD 8.4 billion.

France's official development assistance

In 2013, France provided USD 11.4 billion ODA (preliminary data), which represented 0.41% of gross national income (GNI) and a 9.8% decrease in real terms from 2012. It is the 5th largest donor of the Development Assistance Committee (DAC) in terms of volume. France plans to reach a 0.48% ODA/GNI ratio by 2015. In 2012, 96% of French ODA (excluding administrative costs and in-donor refugee costs) was untied, well above the DAC average of 81%. The grant element of total ODA was 79.5% in 2012, which is lower than the DAC compliance grant element norm of 86%.

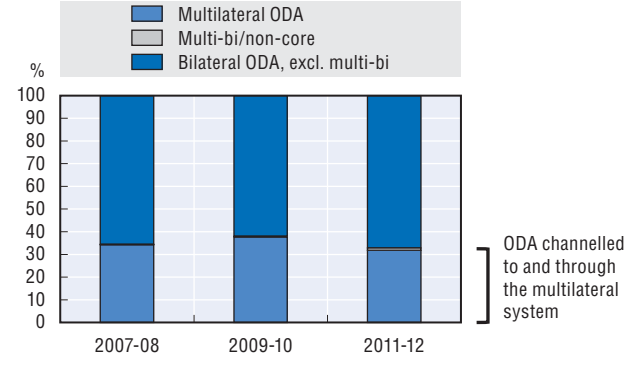
Figure 32.2. **Net ODA: Trends in volume and as a share of GNI, 2003-13, France**



StatLink http://dx.doi.org/10.1787/888933123824

In 2012, 69% of ODA was provided bilaterally. France allocated 31% of total ODA as core contributions to multilateral organisations, compared with the DAC country average of 27%. It channelled a further 1% of its bilateral ODA for specific projects implemented by multilateral organisations (multi-bi/non-core).

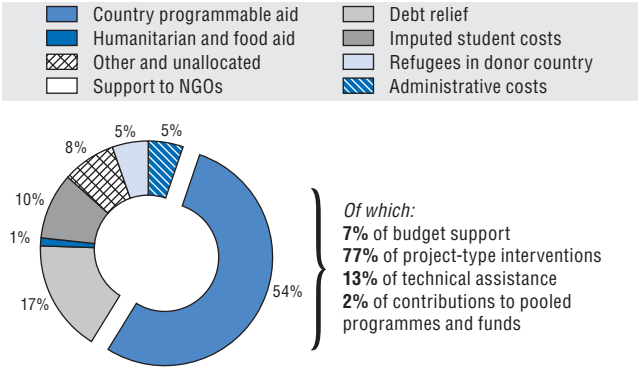
Figure 32.3. **Share of ODA channelled to and through the multilateral system, two year averages, gross disbursements, France**



StatLink http://dx.doi.org/10.1787/888933123843

54% of bilateral ODA programmed by France was at partner country level. France's share of country programmable aid (CPA) was close to the DAC country average (55%) in 2012. A high share of French bilateral ODA went to debt relief and imputed student costs. Project-type interventions made up 77% of CPA.

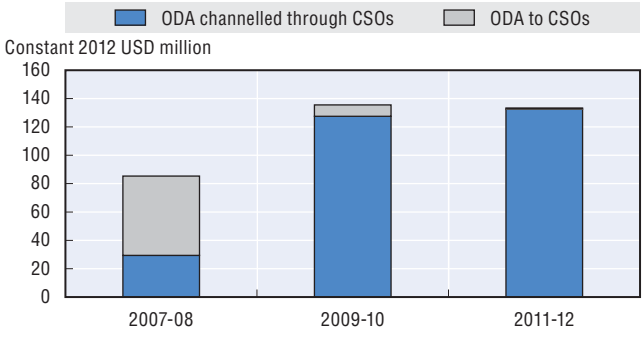
Figure 32.4. **Composition of bilateral ODA, 2012, gross disbursements, France**



StatLink http://dx.doi.org/10.1787/888933123862

USD 122 million of bilateral ODA was channelled to and through civil society organisations (CSOs). France's ODA to and through CSOs has been relatively steady since 2009, both in terms of volume and as a share of bilateral ODA. This share (1.5% in 2012) was low compared with the DAC country average of 16.8%.

Figure 32.5. **Bilateral ODA to and through CSOs, two year averages, gross disbursements, France**

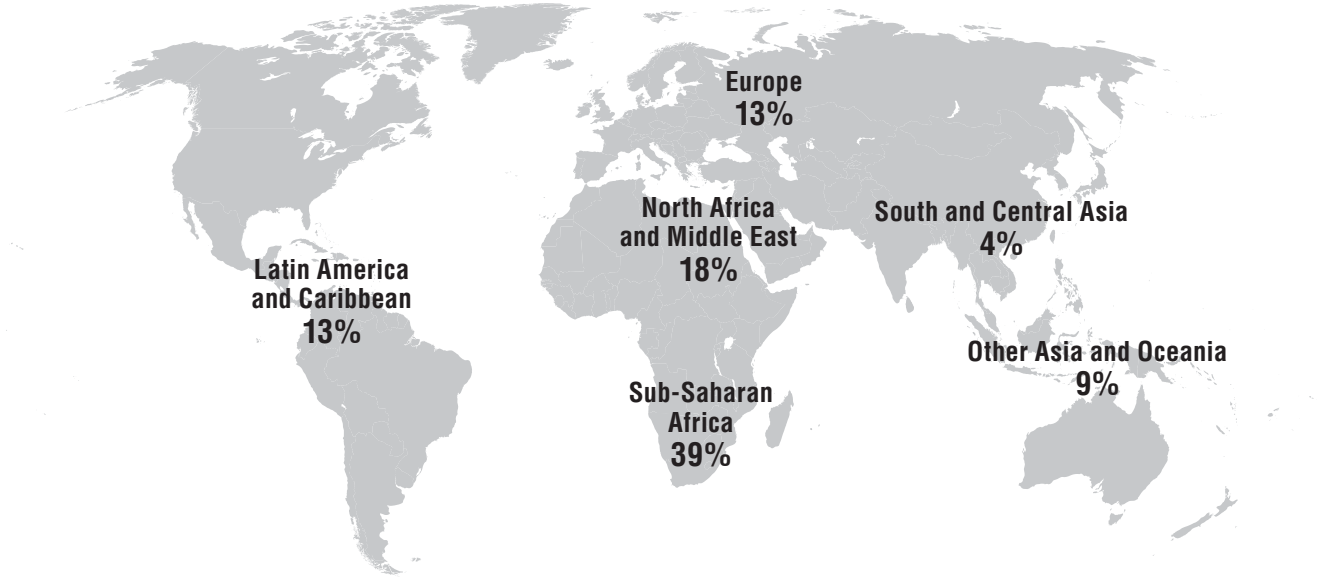


Note: Data on ODA to CSOs are not available for 2012.

StatLink http://dx.doi.org/10.1787/888933123881

Bilateral ODA primarily focused on sub-Saharan Africa. In 2012, France allocated USD 3.6 billion to sub-Saharan Africa and USD 1.4 billion to North Africa.

Figure 32.6. **Share of bilateral ODA by region, 2011-12 average, gross disbursements, France**

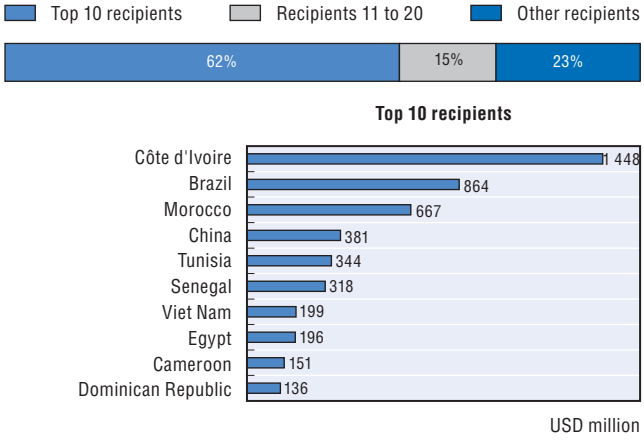


Note: 14% of bilateral ODA allocated was unspecified by region in 2011-12. This share is not represented on the map.

StatLink http://dx.doi.org/10.1787/888933123900

62% of bilateral country-allocable ODA went to France's top 10 recipients. France had 17 priority partner countries in sub-Saharan Africa in 2012. The Côte d'Ivoire received high debt relief in 2012. Its support to fragile states reached USD 3 billion in 2012 (32% of total bilateral ODA).

Figure 32.7. **Bilateral country-allocable ODA to top recipients, 2012, gross disbursements, France**



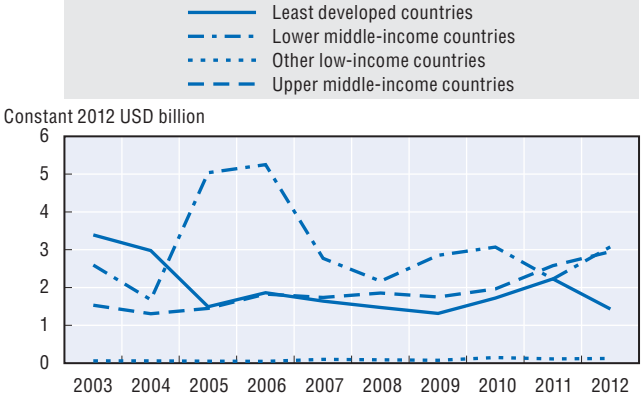
Note: Totals do not add up to total bilateral ODA. A further USD 1.8 billion was unallocated by country.

StatLink http://dx.doi.org/10.1787/888933123919

In 2012, 15% of bilateral ODA was allocated to least developed countries (LDCs), amounting to USD 1.4 billion. The share has generally decreased over the past decade (its peak was at 38% in 2004). Lower middle-income countries received the highest share of bilateral ODA in 2012 (33%).

At 0.10% of GNI in 2012, ODA to LDCs was less than the UN target of 0.15% GNI.

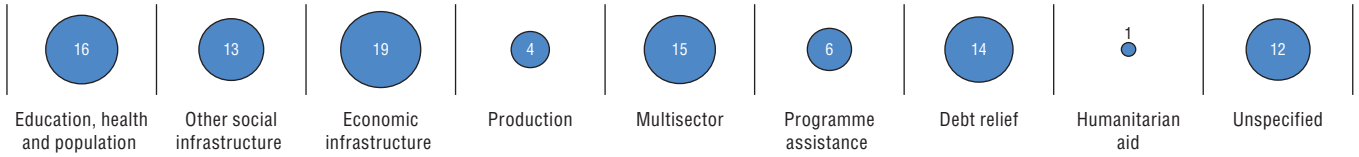
Figure 32.8. **Bilateral ODA by income group, 2003-12, gross disbursements, France**



StatLink http://dx.doi.org/10.1787/888933123938

Almost half of bilateral ODA was allocated to social and economic infrastructure and services. In 2012, USD 3.2 billion of France's bilateral ODA was allocated to social sectors, with a strong focus on support to education (USD 1.4 billion). USD 2.9 billion was allocated to economic infrastructure and services, mainly to energy generation and supply (USD 1.5 billion), transport and storage (USD 1.4 billion).

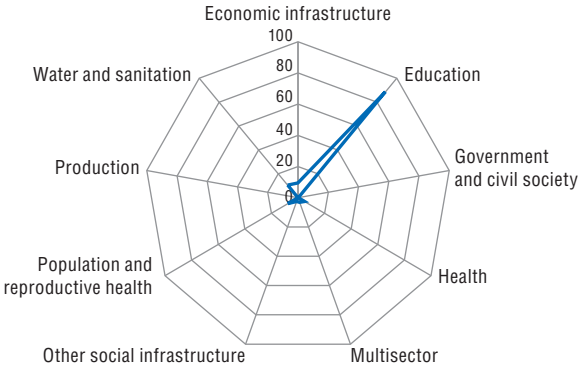
Figure 32.9. **Share of bilateral ODA by sector, 2011-12 average, commitments, France**



StatLink http://dx.doi.org/10.1787/888933123957

USD 1.7 billion of bilateral ODA supported gender equality. Gender equality is not yet integrated into France's projects and programmes (OECD, 2014). In 2012, 23% of French aid had gender equality and women's empowerment as a principal or significant objective, compared with the DAC country average of 28%. This was a decrease compared with 36% in 2011 and 30% in 2010. Education is the only sector in which the focus on gender is strong.

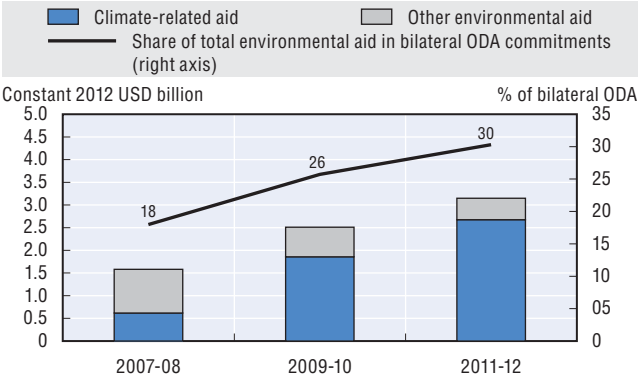
Figure 32.10. **Share of bilateral ODA in support of gender equality by sector, 2012, commitments, France**



StatLink http://dx.doi.org/10.1787/888933123976

USD 4.5 billion of bilateral ODA supported the environment. France has made positive steps to integrate the environment and climate change into its development co-operation (OECD, 2014). In 2012, 39% of French aid had environment as a principal or significant objective and 33% focused on climate change, compared with the respective DAC country averages of 26% and 24%.

Figure 32.11. **Bilateral ODA in support of global and local environment objectives, two year averages, commitments, France**



StatLink http://dx.doi.org/10.1787/888933123995

Note to reader: Annex B provides "Methodological notes on definitions and measurement for the Profiles of Development Assistance Committee members".

Reference

OECD (2014), *OECD Development Co-operation Peer Reviews: France 2013*, OECD Development Co-operation Peer Reviews, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264196193-en*.

GERMANY

Financial flows from Germany to developing countries

Type of flows from Germany to developing countries

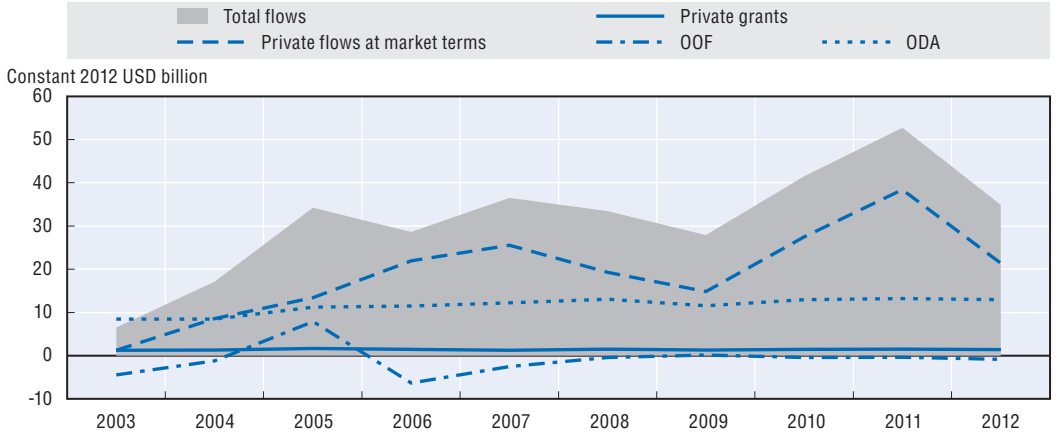
21.4 billion USD of private flows at market terms in 2012. These flows were mainly composed of foreign direct investment (74%).

14.1 billion USD of official development assistance (ODA) in 2013 (preliminary data).

-0.85 million USD of other official flows (OOF) in 2012.

1.4 billion USD of private grants in 2012. These resources were mobilised by non-governmental organisations and foundations.

Figure 33.1. **Net resource flows to developing countries, 2003-12, Germany**



StatLink http://dx.doi.org/10.1787/888933124014

Germany uses ODA to mobilise resources for sustainable development

Germany promotes ODA as a catalyst to bring private sector investment to support development efforts in partner countries, particularly through its development finance institution, DEG. Germany has developed a private sector development strategy (BMZ, 2011), which aims at creating an enabling environment for business investment in partner countries. It also encourages the German business community's involvement in development with a new range of services and initiatives, such as the Service Point for the Private Sector established within BMZ.

It contributes to the mobilisation of domestic resources in developing countries by supporting their tax systems and fighting tax evasion. In 2012, it committed USD 3.4 million of its ODA to tax-related activities in partner countries.

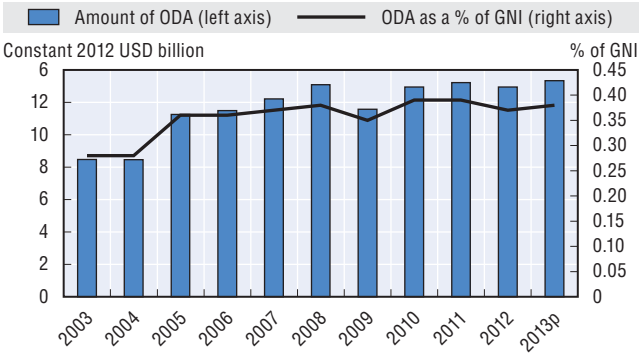
It promotes aid for trade to increase developing countries' trade performance and integration into the world economy. It committed USD 3.3 billion to trade-related activities in 2012 (32% of its sector-allocable ODA), a decline of 5% from 2011. The trend has been decreasing since 2010.

Germany helps to shape national and international frameworks for migration in ways that reflect the needs of poor countries, pushing for rules that make it easier for workers from developing countries to migrate legally to another country (BMZ, n.d.). In 2012, remittances exiting Germany to developing countries amounted to USD 7.2 billion.

Germany's official development assistance

In 2013, Germany provided USD 14.1 billion ODA (preliminary data), a 3% increase in real terms from 2012 due to a rise in bilateral lending and higher contributions to international organisations. It is the third largest donor of the Development Assistance Committee (DAC) in terms of volume. Germany's ODA/GNI ratio was 0.38% in 2013, up from 0.37% in 2012. The share of untied ODA (excluding administrative costs and in-donor refugee costs) was 79% in 2012, compared to the DAC average of 81%. The grant element of total ODA was 88.4% in 2012.

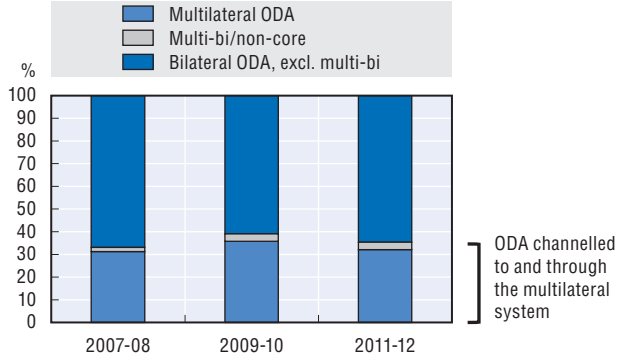
Figure 33.2. **Net ODA: Trends in volume and as a share of GNI, 2003-13, Germany**



StatLink http://dx.doi.org/10.1787/888933124033

In 2012, 70% of ODA was provided bilaterally. Germany allocated 30% of total ODA as core contributions to multilateral organisations, compared with the DAC country average of 27%. It channelled a further 5% of its bilateral ODA for specific projects implemented by multilateral organisations (multi-bi/non-core contributions).

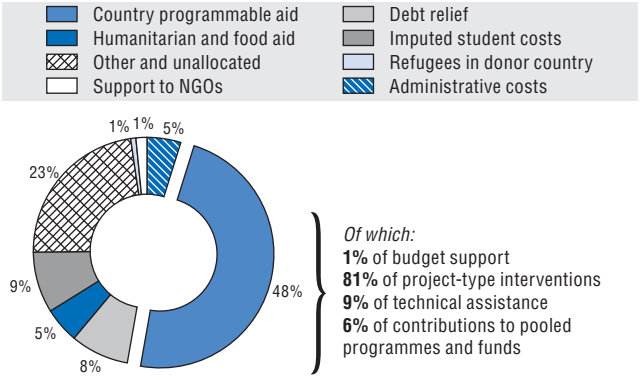
Figure 33.3. **Share of ODA channelled to and through the multilateral system, two year averages, gross disbursements, Germany**



StatLink http://dx.doi.org/10.1787/888933124052

48% of bilateral ODA was programmed at partner country level. Germany's share of country programmable aid (CPA) was less than the DAC country average (55%) in 2012. A high share of German bilateral ODA was categorised as "other and unallocated". Project-type interventions accounted for 81% of CPA.

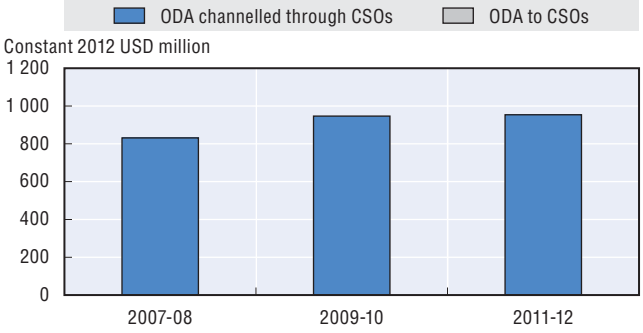
Figure 33.4. **Composition of bilateral ODA, 2012, gross disbursements, Germany**



StatLink http://dx.doi.org/10.1787/888933124071

USD 1 billion of bilateral ODA was channelled through civil society organisations (CSOs). In 2012, 10% of German bilateral ODA was channelled through CSOs, compared with the DAC country average of 16.8%. Between 2011 and 2012, ODA through CSOs increased both in terms of volume (+13%) and as a share of bilateral ODA (+6%).

Figure 33.5. **Bilateral ODA to and through CSOs, two year averages, gross disbursements, Germany**

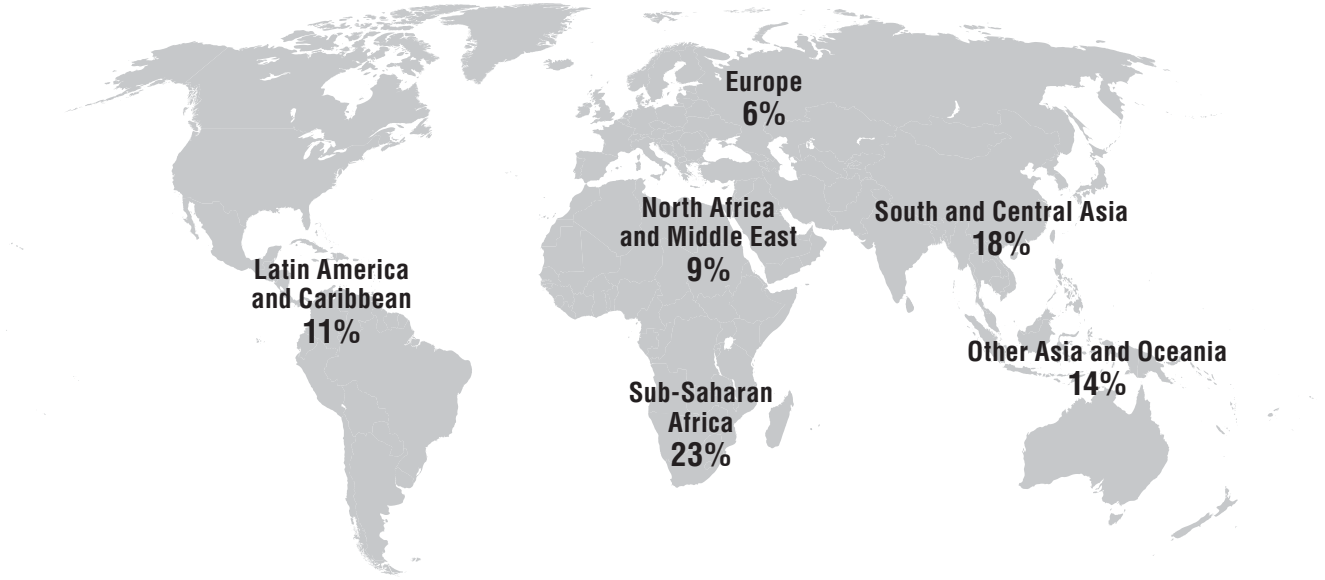


Note: Data on ODA to civil society organisations are not available after 2007.

StatLink http://dx.doi.org/10.1787/888933124090

Bilateral ODA primarily focused on sub-Saharan Africa. In 2012, USD 2.5 billion was allocated to sub-Saharan Africa and USD 1.7 billion to South and Central Asia.

Figure 33.6. **Share of bilateral ODA by region, 2011-12 average, gross disbursements, Germany**

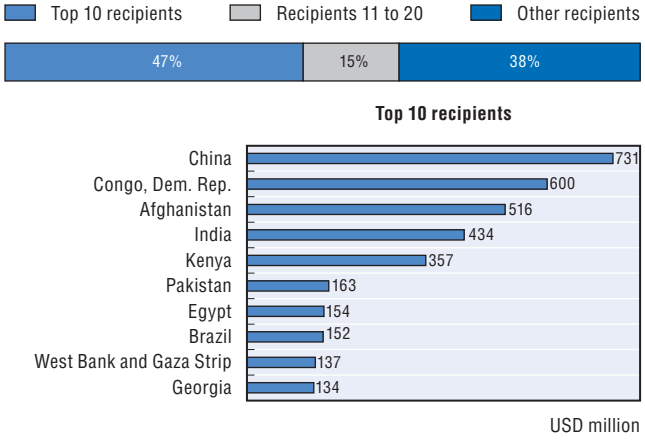


Note: 19% of bilateral ODA allocated was unspecified by region in 2011-12. This share is not represented on the map.

StatLink http://dx.doi.org/10.1787/888933124109

47% of bilateral country-allocable ODA went to Germany's top 10 recipients. Germany has bilateral programmes with 50 partner countries. It has regional/thematic programmes with an additional 29 countries. In 2012, its support to fragile states reached USD 3.2 billion (32% of total bilateral ODA).

Figure 33.7. **Bilateral country-allocable ODA to top recipients, 2012, gross disbursements, Germany**



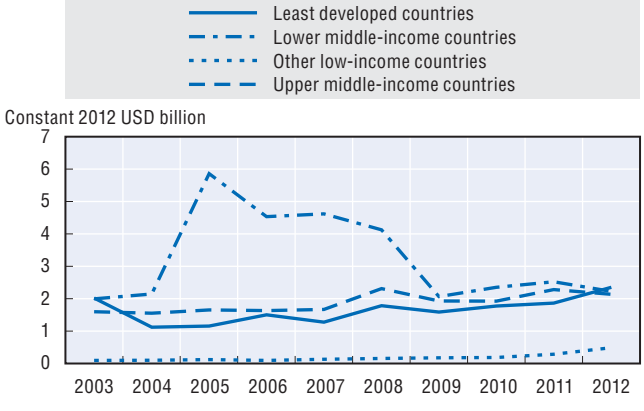
Note: Totals do not add up to total bilateral ODA. A further USD 3 billion was unallocated by country.

StatLink http://dx.doi.org/10.1787/888933124128

In 2012, 23% of bilateral ODA was allocated to least developed countries (LDCs), amounting to USD 2.4 billion. In 2012, LDCs received the highest share of bilateral ODA compared with other income groups, noting that 30% was unallocated by income group compared with the 32% DAC average.

At 0.11% of gross national income (GNI) in 2012, total ODA to LDCs was less than the UN target of 0.15% of GNI.

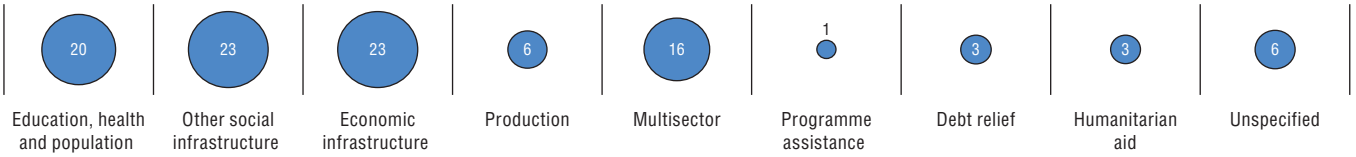
Figure 33.8. **Bilateral ODA by income group, 2003-12, gross disbursements, Germany**



StatLink http://dx.doi.org/10.1787/888933124147

Over 40% of bilateral ODA was allocated to social infrastructure and services, amounting to USD 5.5 billion, with a strong focus on education (USD 2 billion) and support to government and civil society (USD 1.4 billion). USD 2.7 billion was allocated to economic infrastructure and services, mainly to energy generation and supply.

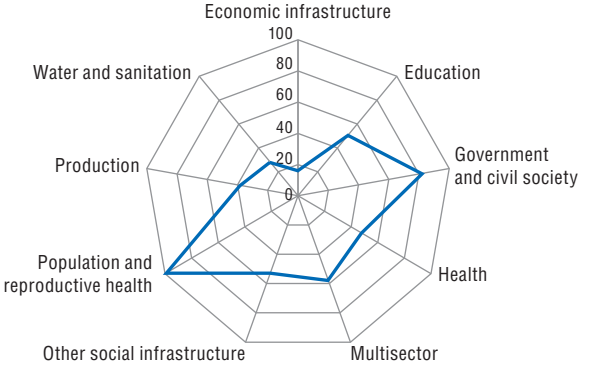
Figure 33.9. **Share of bilateral ODA by sector, 2011-12 average, commitments, Germany**



StatLink http://dx.doi.org/10.1787/888933124166

USD 4.2 billion of bilateral ODA supported gender equality. Germany considers gender issues as a key poverty factor, and therefore targets support to women and girls as an integral element of its programme. In 2012, 45% of German aid had gender equality and women's empowerment as a principal or significant objective, compared with 50% in 2011 and 45% in 2010. The DAC country average was 28% in 2012. A high share of Germany's aid to population and reproductive health and government and civil society focuses on gender.

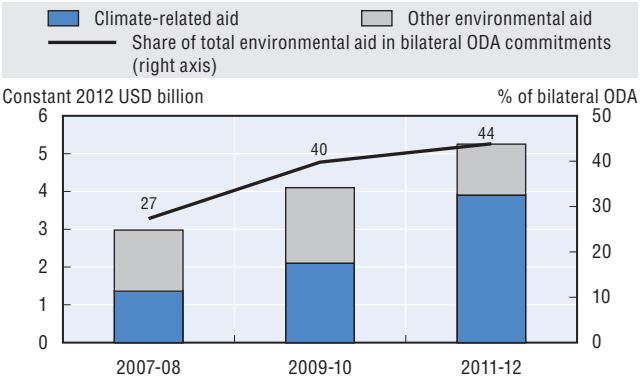
Figure 33.10. **Share of bilateral ODA in support of gender equality by sector, 2012, commitments, Germany**



StatLink http://dx.doi.org/10.1787/888933124185

USD 5.1 billion of bilateral ODA supported the environment. Germany focuses on climate change mitigation and adaptation, conservation of biodiversity and sustainable management of natural resources. The share of environment-focused ODA – as a principal or significant objective – has increased since 2007. It reached 41% in 2012, compared to the DAC country average of 26%. Germany's financial commitment to climate change mitigation and adaptation has doubled over recent years (USD 3.5 billion in 2012) and represented 28% of its ODA in 2012 compared to the DAC country average of 24%.

Figure 33.11. **Bilateral ODA in support of global and local environment objectives, two year averages, commitments, Germany**



StatLink http://dx.doi.org/10.1787/888933124204

Note to reader: Annex B provides "Methodological notes on definitions and measurement for the Profiles of Development Assistance Committee members".

References

BMZ (2011), "Developing markets, creating wealth, reducing poverty, taking responsibility – The private sector as a partner of development policy", BMZ, April, Berlin.

BMZ (n.d.), "Benefiting from migration: Development policy approaches", BMZ, Berlin, *www.bmz.de/en/what_we_do/issues/migration/Benefiting-from-migration-Development-policy-approaches/index.html*.

GREECE

Financial flows from Greece to developing countries

Type of flows from Greece to developing countries

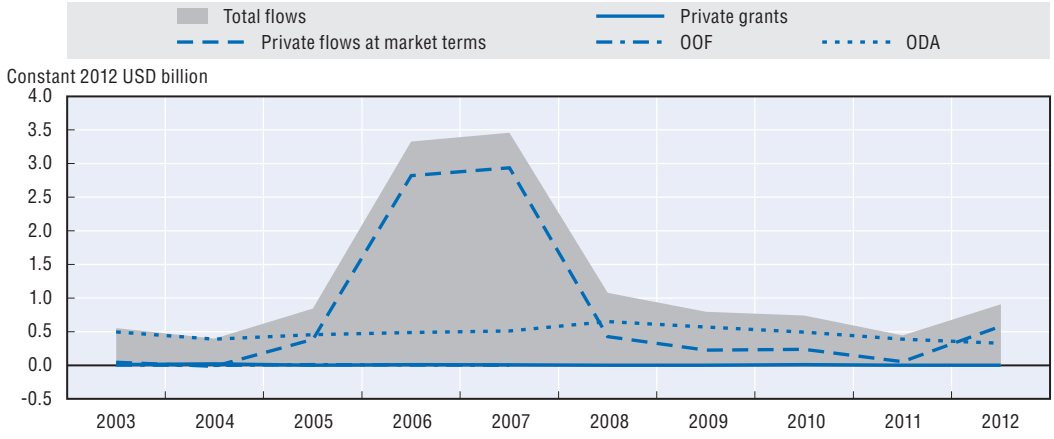
579 million USD of private flows at market terms in 2012. These flows were composed of foreign direct investment (100%).

305 million USD of official development assistance (ODA) in 2013 (preliminary data).

0.7 million USD of private grants 2012. These resources were mobilised by non-governmental organisations and foundations.

There were no other official flows (OOF) from Greece in 2012. The latest available data goes back to 2008, when OOF amounted to USD 1 million.

Figure 34.1. **Net resource flows to developing countries, 2003-12, Greece**



Note: Other official flows (OOF) were provided by Greece in 2004, 2006, 2007 and 2008 only.

StatLink http://dx.doi.org/10.1787/888933124223

Greece uses ODA to mobilise resources for sustainable development

Greece supports the crucial role that can be played by the private sector, both in developing countries (development activities of local private enterprises and local funds originating from savers and investors) and internationally in the form of private international funds. Greece also supports further mobilisation of government funds at the national (local) level in the form of taxes and tariffs.

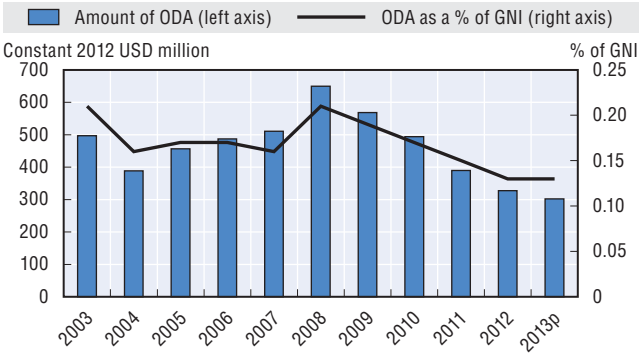
Greece promotes aid for trade to improve developing countries' trade performance and integration into the world economy. Its ODA committed to trade-related activities fell from USD 19 million in 2011 to USD 109 000 in 2012 (0.14% of its sector-allocable ODA).

In 2012, remittances exiting Greece to developing countries amounted to USD 988 million.

Greece's official development assistance

In 2013, Greece provided USD 305 million ODA (preliminary data), which represented 0.13% of gross national income (GNI) and a fall of 7.7% in real terms from 2012, compared to a decrease of 17% between 2011 and 2012. Greece's aid budget started to decline in 2009 as a direct consequence of the severe economic crisis. Greece's share of untied ODA (excluding administrative costs and in-donor refugee costs) was 6% in 2012, compared with the DAC average of 81%. The high amount of tied aid is due to the composition of Greece's aid with a high share of tied technical co-operation in its aid portfolio. The grant element of total ODA was 100% in 2012.

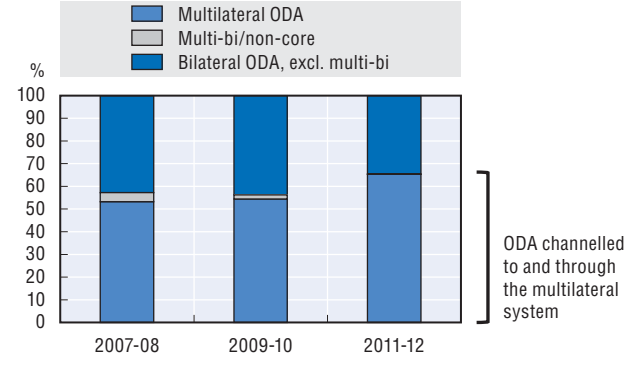
Figure 34.2. **Net ODA: Trends in volume and as a share of GNI, 2003-13, Greece**



StatLink http://dx.doi.org/10.1787/888933124242

In 2012, 33% of ODA was provided bilaterally. Greece allocated 67% of total ODA as core contributions to multilateral organisations, compared with the DAC country average of 27%.

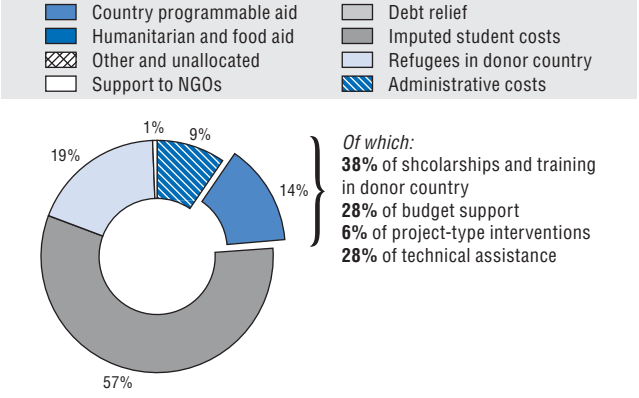
Figure 34.3. **Share of ODA channelled to and through the multilateral system, two year averages, gross disbursements, Greece**



StatLink http://dx.doi.org/10.1787/888933124261

14% of Greece's bilateral ODA was programmed at partner country level. Greece's share of country programmable aid (CPA) was lower than the DAC country average (55%) in 2012. This is due to high spending on imputed student costs and refugees in donor country costs. Scholarships and training in donor country accounted for 38% of CPA.

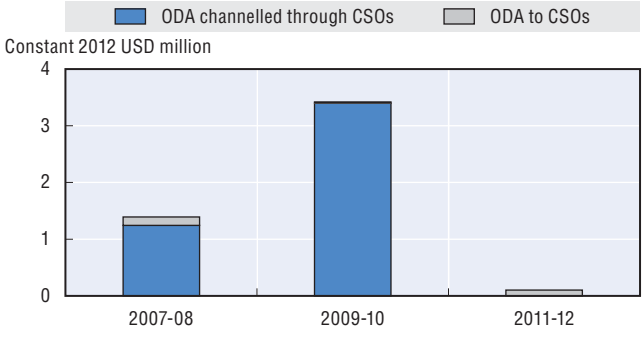
Figure 34.4. **Composition of bilateral ODA, 2012, gross disbursements, Greece**



StatLink http://dx.doi.org/10.1787/888933124280

USD 0.1 million of bilateral ODA was channelled to and through civil society organisations (CSOs). Greece's ODA channelled to and through CSOs has fallen sharply, from USD 3.4 million in 2009-10 to USD 0.1 million in 2012. This represented 0.1% of bilateral aid in 2012 compared with the DAC country average of 16.8%.

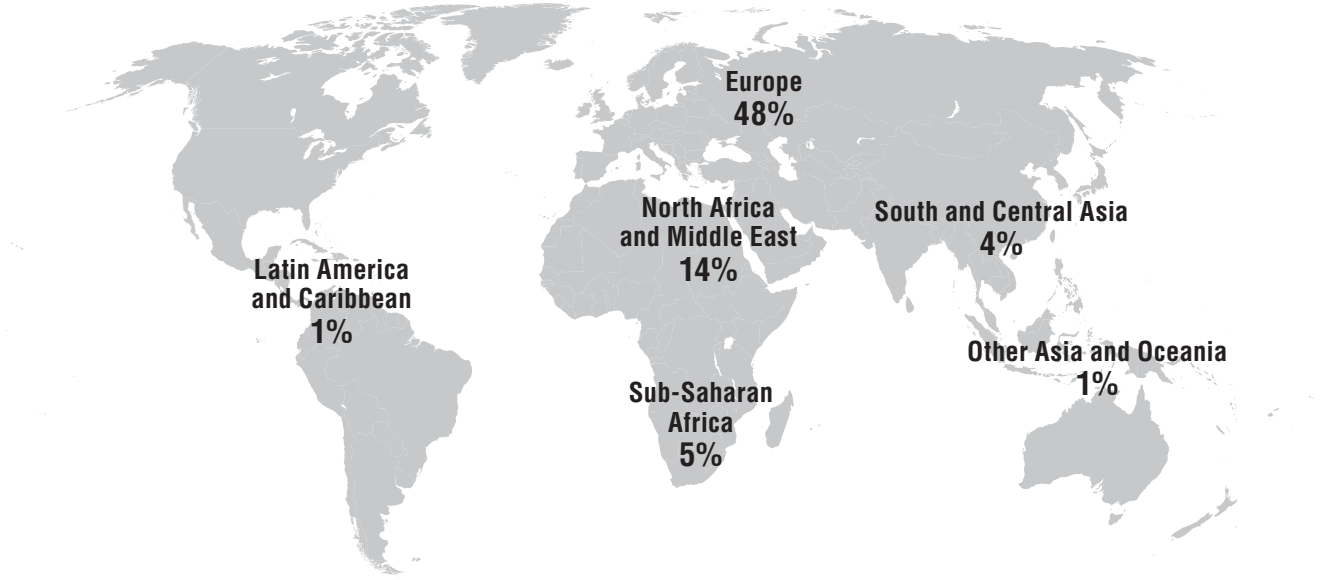
Figure 34.5. **Bilateral ODA to and through CSOs, two year averages, gross disbursements, Greece**



StatLink http://dx.doi.org/10.1787/888933124299

Bilateral ODA primarily focused on Eastern Europe. In 2012, USD 49 million was allocated to Eastern Europe and USD 11 million to the Middle East.

Figure 34.6. **Share of bilateral ODA by region, 2011-12 average, gross disbursements, Greece**

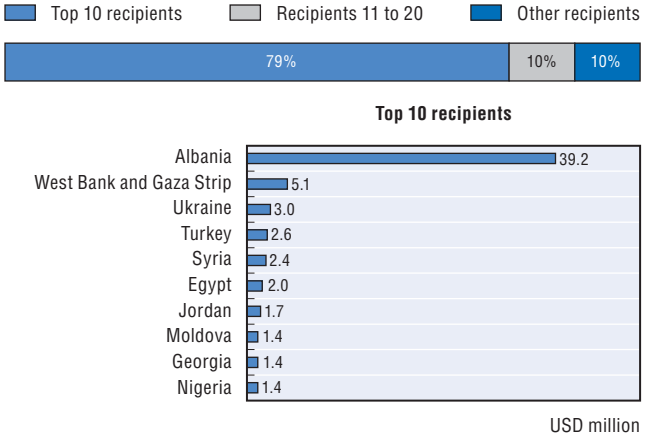


Note: 27% of bilateral ODA allocated was unspecified by region in 2011-12. This share is not represented on the map.

StatLink http://dx.doi.org/10.1787/888933124318

79% of bilateral country-allocable ODA went to Greece's top 10 recipients. It has 18 priority partner countries. All Greece's priority countries feature in the list of top 10 recipients below. In 2012, its support to fragile states reached USD 18 million (16% of total bilateral ODA).

Figure 34.7. **Bilateral country-allocable ODA to top recipients, 2012, gross disbursements, Greece**



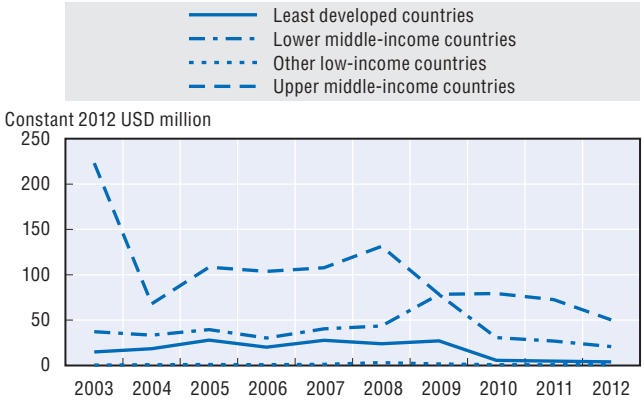
Note: Totals do not add up to total bilateral ODA. A further USD 31 million was unallocated by country.

StatLink http://dx.doi.org/10.1787/888933124337

4% of bilateral ODA was allocated to least developed countries (LDCs), amounting to USD 4 million in 2012. The share fell from 10% in 2009 to 3% in 2010, and since then has remained relatively steady. Upper middle-income countries received the highest share of bilateral ODA in 2012 (47%).

At 0.02% of GNI, total ODA to LDCs was far from the UN target of 0.15% of GNI.

Figure 34.8. **Bilateral ODA by income group, 2003-12, gross disbursements, Greece**



StatLink http://dx.doi.org/10.1787/888933124356

In 2012, two-thirds of bilateral ODA was allocated to social infrastructure and services, equal to USD 71 million, with a strong focus on education (USD 67 million).

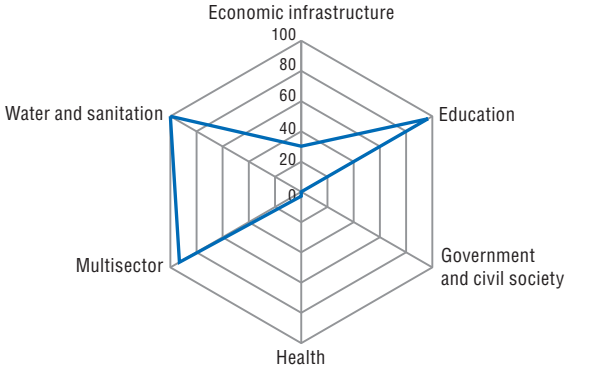
Figure 34.9. **Share of bilateral ODA by sector, 2011-12 average, commitments, Greece**



StatLink http://dx.doi.org/10.1787/888933124375

USD 71 million of bilateral ODA supported gender equality. Greece has made gender equality a sector priority over the past decade. In 2012, 93% of its aid had gender equality and women's empowerment as a principal or significant objective, compared to the DAC country average of 28%. This is an increase compared to 71% in 2012 and 66% in 2011. A high share of Greece's aid to education, water and sanitation focuses on gender.

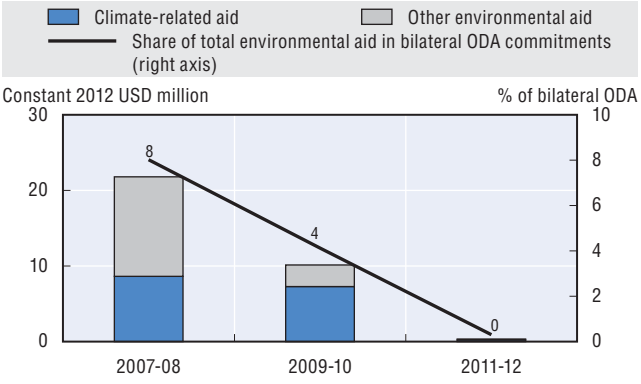
Figure 34.10. **Share of bilateral ODA in support of gender equality by sector, 2012, commitments, Greece**



StatLink http://dx.doi.org/10.1787/888933124394

USD 0.6 million of bilateral ODA supported the environment. In 2012, 0.5% of Greek aid had environment as a principal or significant objective, compared to a 10% average in 2007-08 and 26% DAC country average in 2012. The proportion of its aid focused on climate change was 0.4%, compared to the DAC country average of 24%. Greece will consider mainstreaming the environment in programming, as domestic fiscal conditions relax.

Figure 34.11. **Bilateral ODA in support of global and local environment objectives, two year averages, commitments, Greece**



StatLink http://dx.doi.org/10.1787/888933124413

Note to reader: Annex B provides "Methodological notes on definitions and measurement for the Profiles of Development Assistance Committee members".

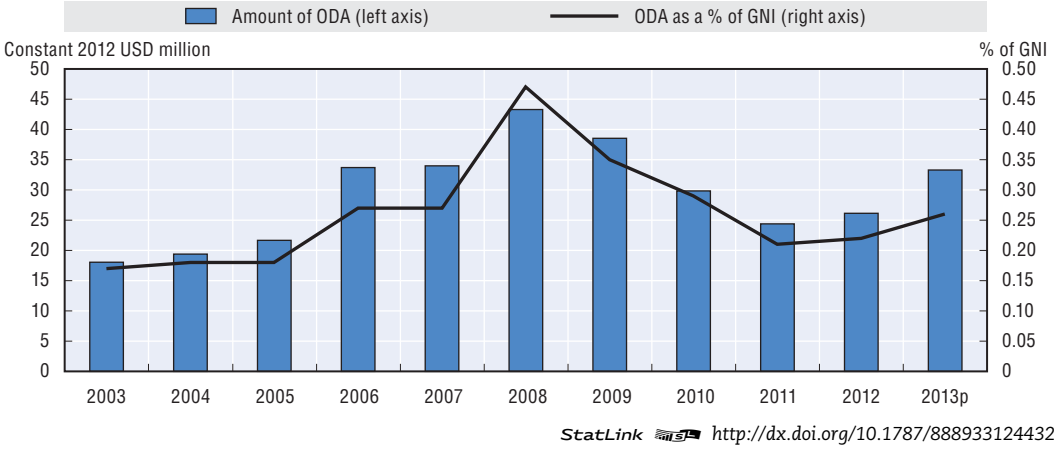
ICELAND

Financial flows from Iceland to developing countries

Type of flows from Iceland to developing countries

In 2013, Iceland delivered USD 35 million ODA (preliminary data), which represented 0.26% of gross national income (GNI) and a 27.4% increase in real terms from 2012. Iceland's ODA has been increasing since 2011, both in volume and as a share of GNI to ODA. It is committed to achieve 0.7% ODA/GNI. All of its ODA (excluding administrative costs and in-donor refugee costs) was untied in 2012, compared with the DAC average of 81%. The grant element of total ODA was 100% in 2012. At present, data on other official flows, private grants and private flows at market terms from Iceland to developing countries are not available.

Figure 35.1. **Net ODA: Trends in volume and as a share of GNI, 2003-13, Iceland**



StatLink http://dx.doi.org/10.1787/888933124432

Iceland uses ODA to mobilise resources for a sustainable development

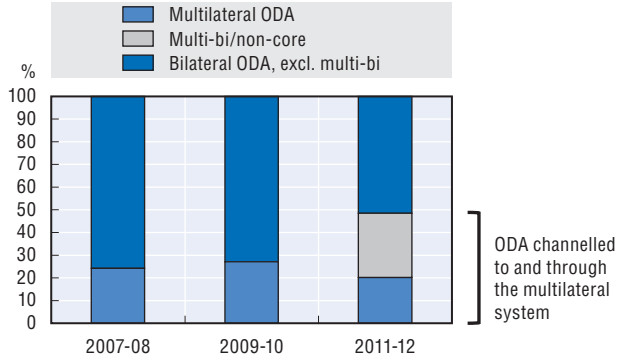
Iceland promotes aid for trade to improve developing countries' trade performance and integration in the world economy. It committed USD 8 million (46% of its sector-allocable ODA) to trade-related activities in 2012, a 13% increase from 2011.

In 2012, remittances exiting Iceland to developing countries amounted to USD 30 million.

Iceland's official development assistance

In 2012, 81% of ODA was provided bilaterally, totalling USD 21 million. Iceland allocated 19% of total ODA as core contributions to multilateral organisations (USD 5 million), compared with the DAC country average of 27%. It channelled a further 36% of its bilateral ODA (USD 8 million) for specific projects implemented by multilateral organisations (multi-bi/non-core contributions). Iceland provides contributions to multilateral organisations such as the United Nations agencies and the World Bank.

Figure 35.2. **Share of ODA channelled to and through the multilateral system, two year averages, gross disbursements, Iceland**

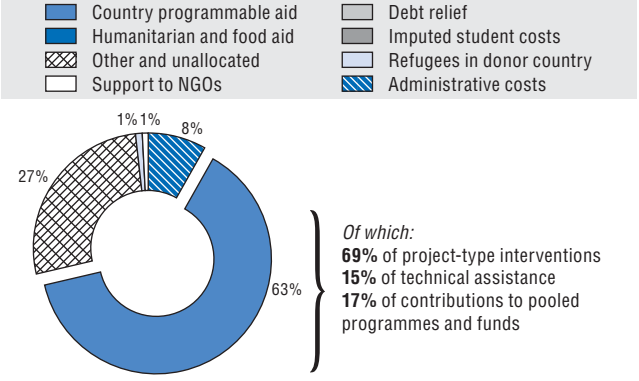


Note: Data on multi-bi/non-core ODA are not available prior to 2011.

StatLink http://dx.doi.org/10.1787/888933124451

63% of bilateral ODA was programmed at partner country level. Iceland's share of country programmable aid (CPA) was higher than the DAC country average (55%) in 2012. Project-type interventions made up 69% of CPA. The proportion of bilateral ODA categorised as other and unallocated by channel equalled 27%.

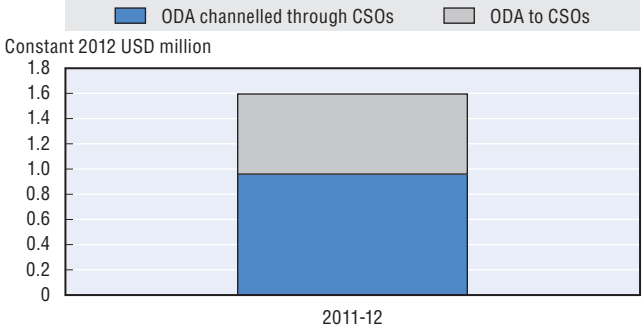
Figure 35.3. **Composition of bilateral ODA, 2012, gross disbursements, Iceland**



StatLink http://dx.doi.org/10.1787/888933124470

USD 2 million of bilateral ODA was channelled to and through civil society organisations (CSOs). Iceland's aid channelled to and through CSOs increased between 2011 and 2012, both in terms of volume and as a share of bilateral ODA (from 6% in 2011 to 9.7% in 2012). This share was lower than the DAC country average of 16.8%.

Figure 35.4. **Bilateral ODA to and through CSOs, 2011-12 average, gross disbursements, Iceland**

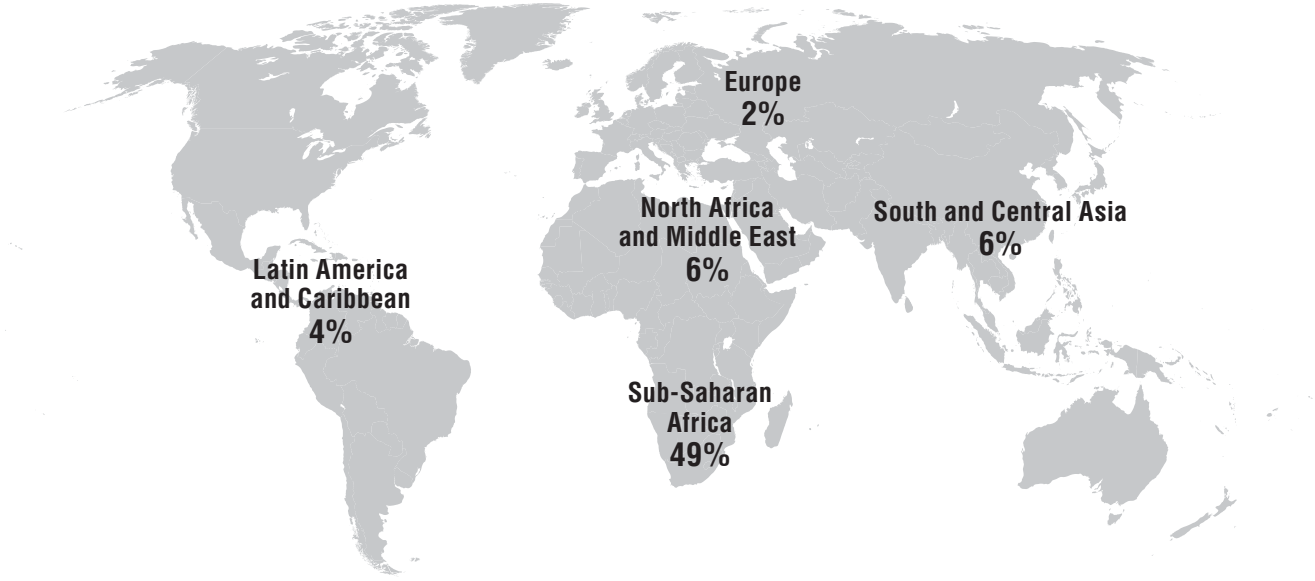


Note: Data on ODA to CSOs are not available prior to 2011.

StatLink http://dx.doi.org/10.1787/888933124489

Almost half of bilateral ODA focused on sub-Saharan Africa. In 2012, USD 10 million was allocated to sub-Saharan Africa.

Figure 35.5. **Share of bilateral ODA by region, 2011-12 average, gross disbursements, Iceland**

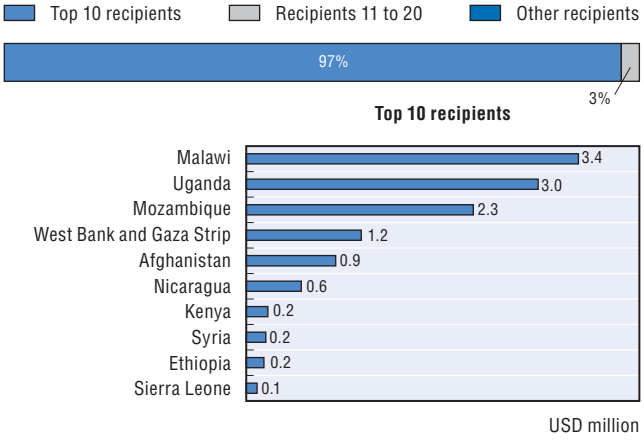


Note: 34% of ODA allocated was unspecified by region in 2011-12. This share is not represented on the map.

StatLink http://dx.doi.org/10.1787/888933124508

97% of bilateral country-allocable ODA went to Iceland's top 10 recipients. Its three priority partner countries – Malawi, Uganda and Mozambique – are the top three recipients of its ODA. In 2012, its support to fragile states reached USD 9.5 million (45% of total bilateral ODA).

Figure 35.6. **Bilateral country-allocable ODA to top recipients, 2012, gross disbursements, Iceland**



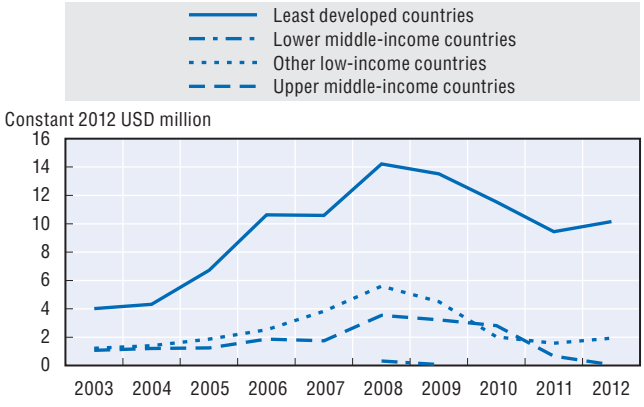
Note: Totals do not add up to total bilateral ODA. A further USD 8.8 million of total bilateral ODA was unallocated by country.

StatLink http://dx.doi.org/10.1787/888933124527

In 2012, 48% of bilateral ODA was allocated to least developed countries (LDCs), amounting to USD 10 million. The share has been decreasing since 2010, when it stood at 54%. LDCs received the highest share of bilateral ODA in 2012, noting that 42% was unallocated by income group, compared to the total DAC average of 32% in 2012.

At 0.10% of GNI in 2012, total ODA to LDCs was less than the UN target of 0.15% of GNI.

Figure 35.7. **Bilateral ODA by income group, 2003-12, gross disbursements, Iceland**

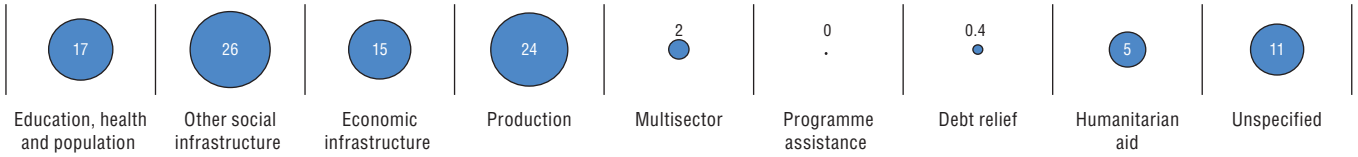


Note: Data concerning other low-income countries are only available for 2008 and 2009.

StatLink http://dx.doi.org/10.1787/888933124546

In 2012, over 40% of bilateral ODA was allocated to social infrastructure and services. USD 9.3 million of bilateral ODA was allocated to social sectors, with a strong focus on government and civil society (USD 2.7 million). USD 4.9 million was allocated to the production sectors and USD 3.5 million to economic infrastructure and services.

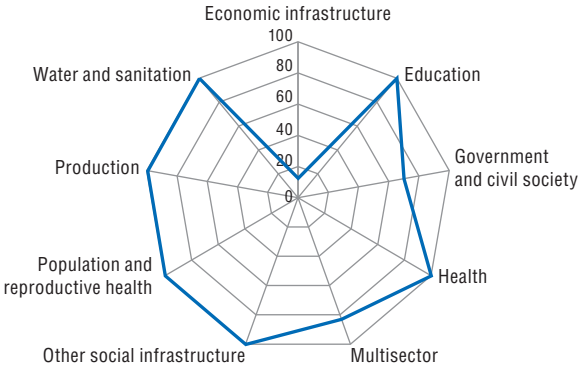
Figure 35.8. **Share of bilateral ODA by sector, 2011-12 average, commitments, Iceland**



StatLink http://dx.doi.org/10.1787/888933124565

USD 14 million of bilateral ODA supported gender equality. Iceland has solidly integrated gender equality into its projects and programmes. In 2012, 78% of Iceland's aid had gender equality and women's empowerment as a principal or significant objective, compared with the DAC country average of 28%. Iceland has also been striving to promote gender equality in its multilateral support, mainly through the United Nations and the World Bank.

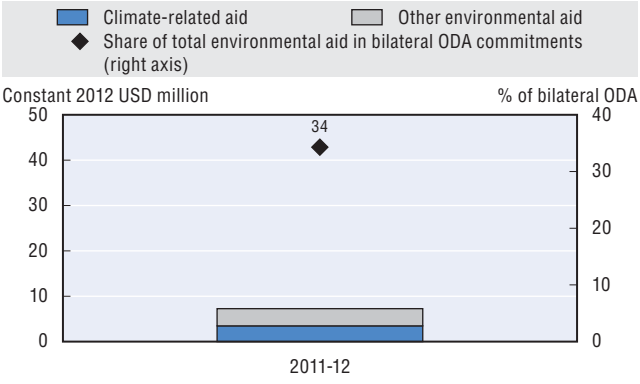
Figure 35.9. **Share of bilateral ODA in support of gender equality by sector, 2012, commitments, Iceland**



StatLink http://dx.doi.org/10.1787/888933124584

USD 14 million of bilateral ODA supported the environment. Iceland has also solidly integrated the environment into its projects and programmes. In 2012, 68% of Iceland's aid had environment as a principal or significant objective, and 36% focused particularly on climate change, compared with the respective DAC country averages of 26% and 24%.

Figure 35.10. **Bilateral ODA in support of global and local environment objectives, 2011-12 average, commitments, Iceland**



Note: Data are not available prior to 2011.

StatLink http://dx.doi.org/10.1787/888933124603

Note to reader: Annex B provides "Methodological notes on definitions and measurement for the Profiles of Development Assistance Committee members".

IRELAND

Financial flows from Ireland to developing countries

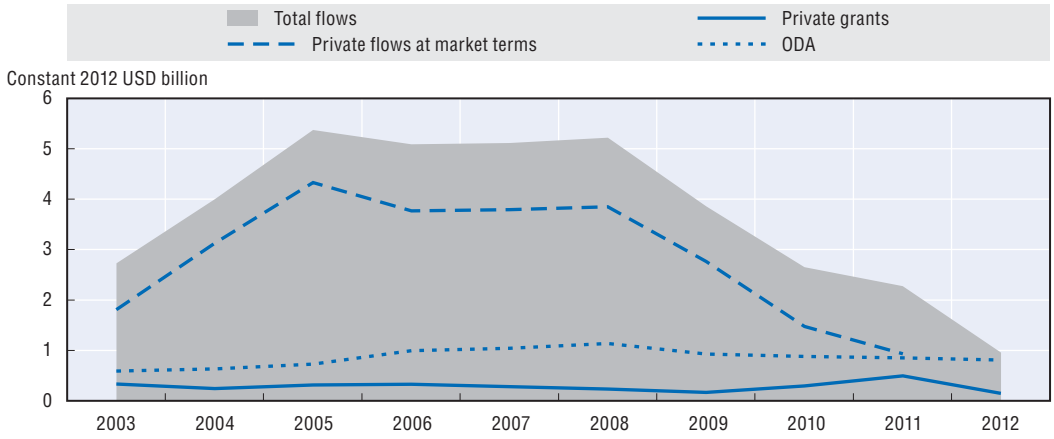
Type of flows from Ireland to developing countries

931 million USD of private flows at market terms in 2011.

822 million USD of official development assistance (ODA) in 2013 (preliminary data).

148 million USD of private grants in 2012. These resources were mobilised by non-governmental organisations and foundations.

Figure 36.1. **Net resource flows to developing countries, 2003-12, Ireland**



Note: Data on other official flows (OOF) are not available for this period. Data on private flows at market terms are not available for 2012.

StatLink http://dx.doi.org/10.1787/888933124622

Ireland uses ODA to mobilise resources for sustainable development

Ireland's policy for international development One World, One Future acknowledges that additional development finance, beyond aid, is required. It increasingly promotes private sector development in its key partner countries by placing a greater focus on an enabling environment for investment and trade, tourism and people-to-people links (Government of Ireland, 2013). Ireland is also facilitating linkages between Irish and African business communities.

In 2013, Ireland issued a new International Tax Strategy and Charter that places a strong emphasis on tackling international tax evasion and avoidance. In its development co-operation, Ireland is placing a greater emphasis on supporting partner countries to raise domestic revenues.

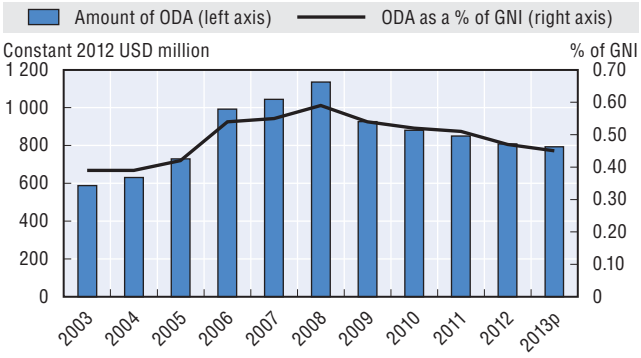
It promotes aid for trade to improve developing countries' trade performance and integration into the world economy. It committed USD 52 million (16% of sector-allocable ODA) to trade-related activities in 2012, a 20% fall from 2011.

In addition, remittances exiting Ireland to developing countries amounted to USD 1 billion in 2012.

Ireland's official development assistance

In 2013, Ireland provided USD 822 million ODA (preliminary data), which represented 0.45% of gross national income (GNI) and a 1.9% decrease in real terms from 2012. This decrease compares favourably to the 2010-12 three-year average decrease of 4.4% and the 18.4% decrease in 2009. At 0.45%, Ireland's ratio of ODA to GNI ranked 10th among DAC donors in 2013. Ireland is committed to meeting the 0.7% ODA/GNI target as soon as economic circumstances permit. All of its ODA (excluding administrative costs and in-donor refugee costs) was untied in 2012. The grant element of total ODA was 100% in 2012.

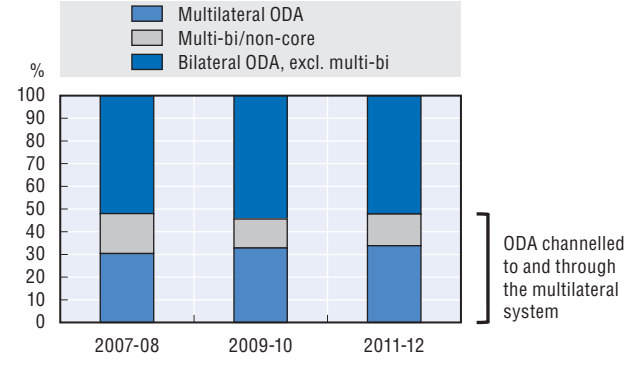
Figure 36.2. **Net ODA: Trends in volume and as a share of GNI, 2003-13, Ireland**



StatLink http://dx.doi.org/10.1787/888933124641

In 2012, 66% of ODA was provided bilaterally. In 2012, Ireland allocated 34% of total ODA as core contributions to multilateral organisations, compared with the DAC country average of 27%. It channelled a further 23% of its bilateral ODA for specific projects implemented by multilateral organisations (multi-bi/non-core contributions).

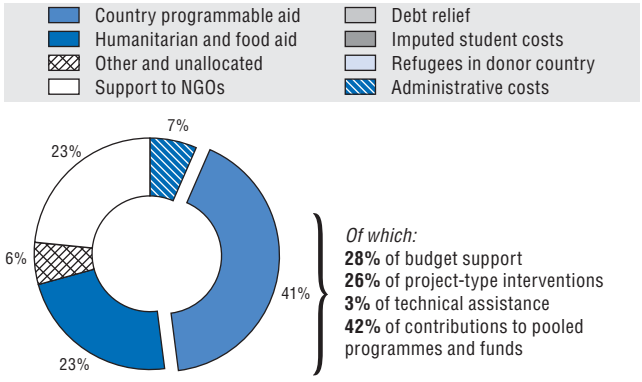
Figure 36.3. **Share of ODA channelled to and through the multilateral system, two year averages, gross disbursements, Ireland**



StatLink http://dx.doi.org/10.1787/888933124660

In 2012, 41% of bilateral ODA was programmed at partner country level. Ireland's share of country programmable aid (CPA) was less than the DAC country average (55%). Forty-two percent of its CPA consisted of contributions to pooled programmes and funds. Core aid to non-governmental organisations (NGOs) and humanitarian assistance accounted for almost a quarter of bilateral ODA.

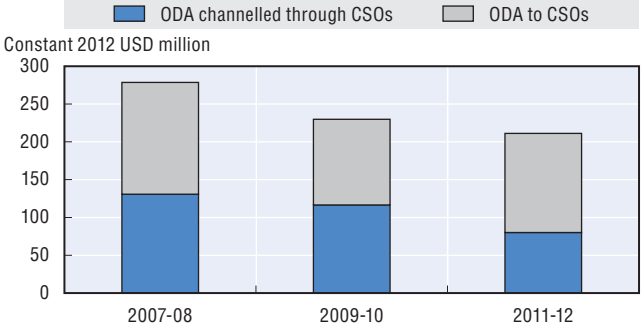
Figure 36.4. **Composition of bilateral ODA, 2012, gross disbursements, Ireland**



StatLink http://dx.doi.org/10.1787/888933124679

In 2012, USD 207 million of bilateral ODA was channelled to and through civil society organisations (CSOs). This equalled 39% of bilateral ODA compared with the DAC average of 16.8%. While Irish aid for CSOs has declined since 2009 in terms of volume, as a share of bilateral ODA it has remained relatively high and constant.

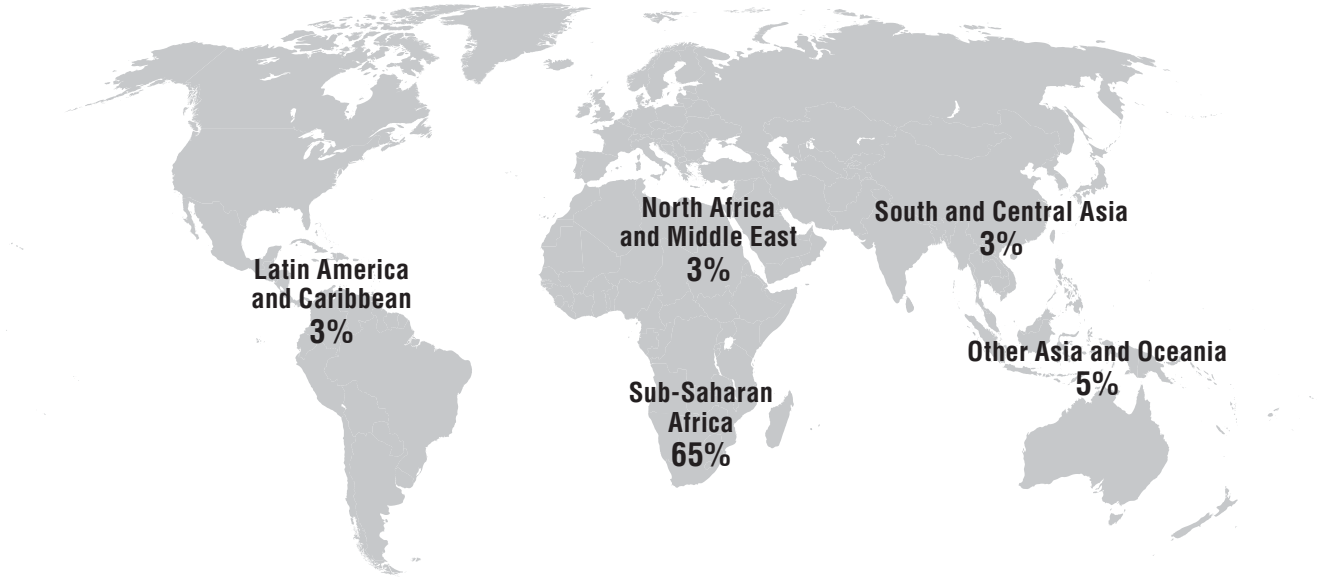
Figure 36.5. **Bilateral ODA to and through CSOs, two year averages, gross disbursements, Ireland**



StatLink http://dx.doi.org/10.1787/888933124698

Bilateral ODA primarily focused on sub-Saharan Africa. In 2012, Ireland allocated USD 345 million to sub-Saharan Africa and USD 26 million to Far East Asia.

Figure 36.6. **Share of bilateral ODA by region, 2011-12 average, gross disbursements, Ireland**

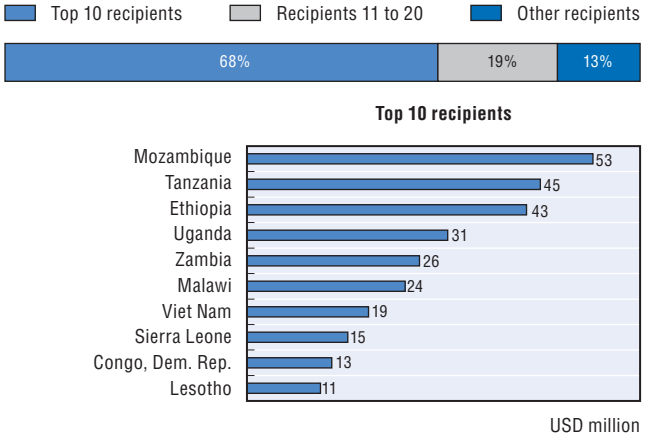


Note: 21% of bilateral ODA allocated was unspecified by region in 2011-12. This share is not represented on the map.

StatLink http://dx.doi.org/10.1787/888933124717

68% of bilateral country-allocable ODA went to Ireland's top 10 recipients. All of its nine key partner countries are among the top 10 recipients. Sierra Leone became a new key partner country in 2014. Irish support to fragile states is increasing and reached USD 227 million in 2012 (42% of total bilateral ODA).

Figure 36.7. **Bilateral country-allocable ODA to top recipients, 2012, gross disbursements, Ireland**



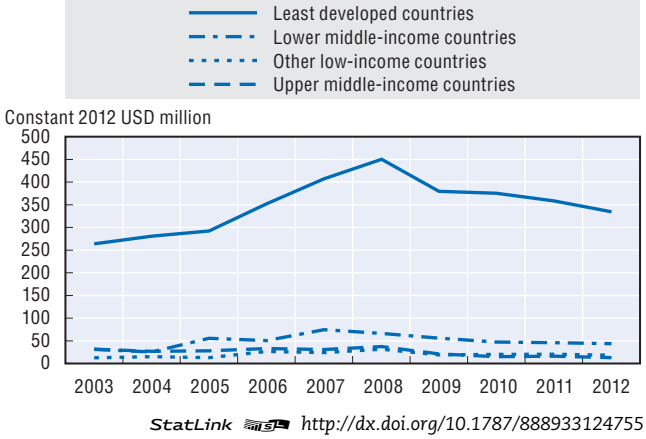
Note: Totals do not add up to total bilateral ODA. A further USD 126 million was unallocated by country.

StatLink http://dx.doi.org/10.1787/888933124736

In 2012, 62% of bilateral ODA was allocated to least developed countries (LDCs), amounting to USD 335 million. The share has slightly fallen since 2010, when it stood at 65%. Ireland ranked highest among DAC members for the share of bilateral ODA allocated to LDCs in 2012.

At 0.24% of GNI in 2012, total ODA to LDCs exceeds the UN target of 0.15% of GNI.

Figure 36.8. **Bilateral ODA by income group, 2003-12, gross disbursements, Ireland**



StatLink http://dx.doi.org/10.1787/888933124755

Half of bilateral ODA was allocated to social infrastructure and services in 2012, or USD 252 million, with a strong focus on support to government and civil society (USD 72 million) and health (USD 66 million). Humanitarian aid amounted to USD 105 million.

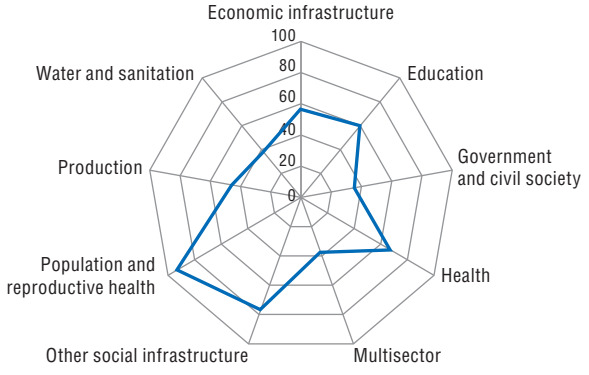
Figure 36.9. **Share of bilateral ODA by sector, 2011-12 average, commitments, Ireland**



StatLink http://dx.doi.org/10.1787/888933124774

USD 186 million of bilateral ODA supported gender equality. Ireland plays an agenda-setting role on gender equality and women's empowerment and continues to strengthen its mainstreaming approaches. In 2012, 56% of its aid had gender equality and women's empowerment as a principal or significant objective, compared with the DAC country average of 28%. In particular, about 90% of its aid to "population and reproductive health" and 80% of aid to "other social infrastructure" targets gender equality.

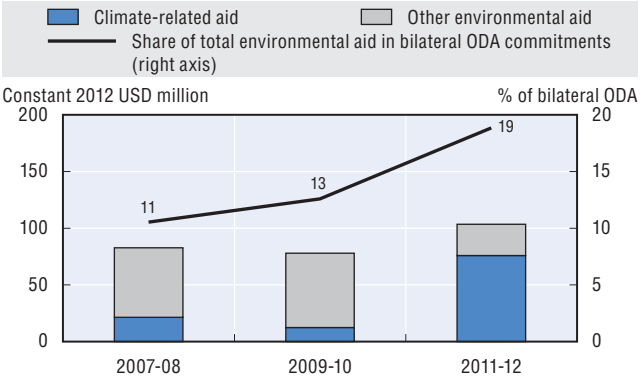
Figure 36.10. **Share of bilateral ODA in support of gender equality by sector, 2012, commitments, Ireland**



StatLink http://dx.doi.org/10.1787/888933124793

USD 112 million of bilateral ODA supported the environment. Environmental sustainability and climate change and development are priority issues for Ireland. In 2012, 21% of its aid had environment as a principal or significant objective compared with the DAC country average of 26%. Also, 17% of Irish aid focused on climate change compared with the DAC country average of 24%, and adaptation in particular.

Figure 36.11. **Bilateral ODA in support of global and local environment objectives, two year averages, commitments, Ireland**



StatLink http://dx.doi.org/10.1787/888933124812

Note to reader: Annex B provides "Methodological notes on definitions and measurement for the Profiles of Development Assistance Committee members".

Reference

Government of Ireland (2013), *One World, One Future: Ireland's Policy for International Development*, Department of Foreign Affairs and Trade, Dublin, *www.irishaid.ie/about-us/policy-for-international-development*.

ITALY

Financial flows from Italy to developing countries

Type of flows from Italy to developing countries

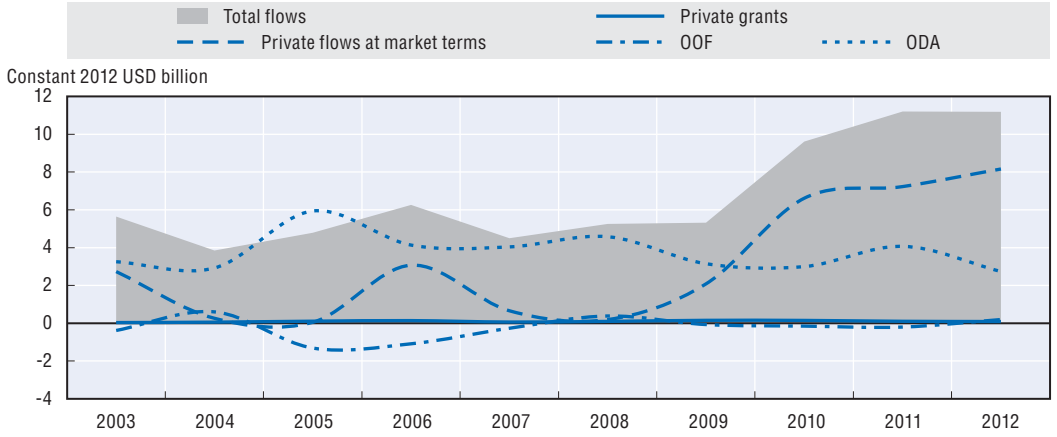
8.1 billion USD of private flows at market terms in 2012. These flows were mainly composed of foreign direct investment (98%).

3.3 billion USD of official development assistance (ODA) in 2013 (preliminary data).

196 million USD of other official flows (OOF) in 2012.

91 million USD of private grants in 2012. These resources were mobilised by non-governmental organisations and foundations.

Figure 37.1. **Net resource flows to developing countries, 2003-12, Italy**



StatLink http://dx.doi.org/10.1787/888933124831

Italy uses ODA to mobilise resources for sustainable development

In 2013, Italy amended the legislation in order to foster the use of joint ventures and other facilities to promote ODA as a catalyst for private sector-led development. It particularly supports private Italian companies investing in developing countries through its development finance institution, the Società Italiana per le Imprese all'Estero S.p.A (SIMEST) (OECD, 2014).

It contributes to the mobilisation of domestic resources in developing countries by supporting their tax systems. In 2012, it committed USD 388 000 of its ODA to tax-related activities in partner countries.

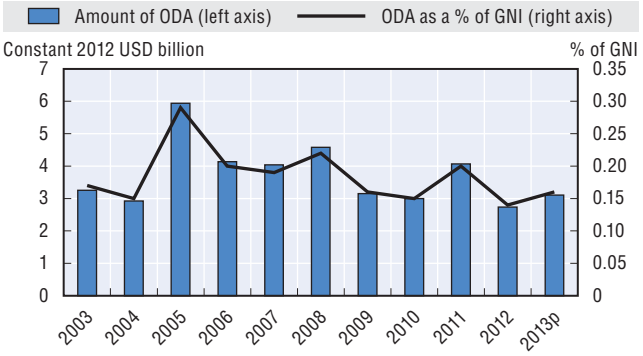
It promotes aid for trade to improve developing countries' trade performance and integration into the world economy. It committed USD 190 million (46% of sector-allocable ODA) to trade-related activities in 2012, an 80% increase from 2011. The trend has been fluctuating over the past few years.

It has led charge to secure a G8/G20 commitment to work towards reducing the global cost of transferring remittances, from 10% in 2009 to 5% in 2014. In 2012, remittances exiting Italy to developing countries amounted to USD 9.2 billion.

Italy's official development assistance

In 2013, Italy provided USD 3.3 billion ODA (preliminary data), a 13.4% increase in real terms from 2012. It is the 11th donor of the Development Co-operation Committee (DAC) in terms of volume. It has committed to raising the ODA/GNI ratio, which was 0.16% in 2013, to 0.28-0.31% in 2017. The proportion of Italy's untied ODA (excluding administrative costs and in-donor refugee costs) was 82% in 2012, compared with the DAC average of 81%. The grant element of total ODA was 99.4% in 2012.

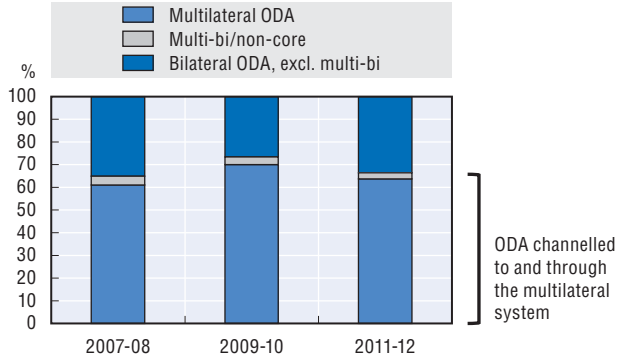
Figure 37.2. **Net ODA: Trends in volume and as a share of GNI, 2003-13, Italy**



StatLink http://dx.doi.org/10.1787/888933124850

In 2012, 26% of ODA was provided bilaterally. Italy allocated 74% of total ODA as core contributions to multilateral organisations, compared with the DAC country average of 27%. It channelled a further 12% of its bilateral ODA for specific projects implemented by multilateral organisations (multi-bi/non-core contributions).

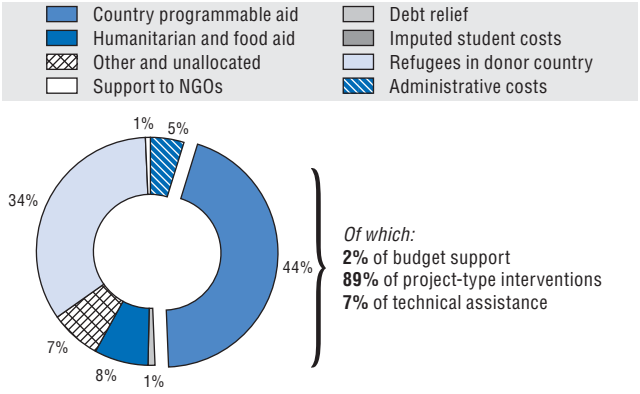
Figure 37.3. **Share of ODA channelled to and through the multilateral system, two year averages, gross disbursements, Italy**



StatLink http://dx.doi.org/10.1787/888933124869

In 2012, 44% of bilateral ODA was programmed at partner country level. Italy's share of country programmable aid (CPA) was less than the DAC country average (55%) (this share was only 27% in 2011). The share of bilateral ODA allocated to refugees in donor country was 34%. Project-type interventions accounted for 89% of CPA.

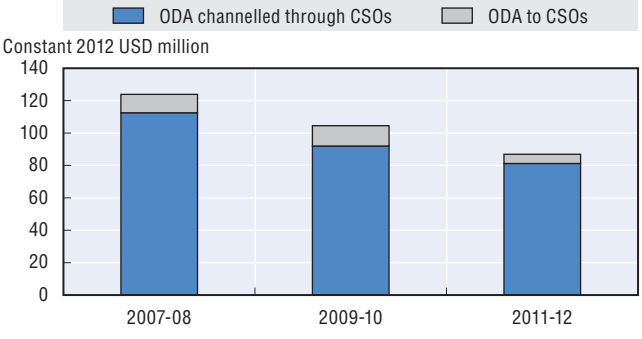
Figure 37.4. **Composition of bilateral ODA, 2012, gross disbursements, Italy**



StatLink http://dx.doi.org/10.1787/888933124888

USD 67 million of bilateral ODA was channelled to and through civil society organisations (CSOs). Between 2011 and 2012, aid channelled to and through CSOs fell by 37% in terms of volume, but it increased as a share of bilateral ODA (from 6% in 2011 to 9% in 2012; the DAC country average was 16.8% in 2012).

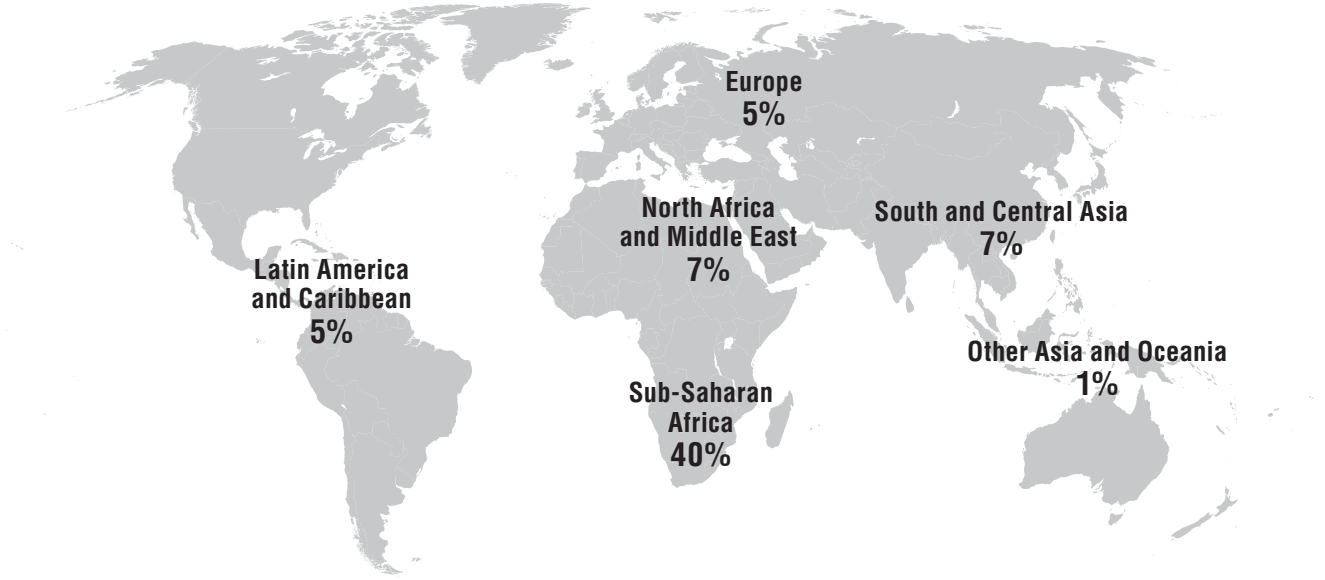
Figure 37.5. **Bilateral ODA to and through CSOs, two year averages, gross disbursements, Italy**



StatLink http://dx.doi.org/10.1787/888933124907

Bilateral ODA primarily focused on sub-Saharan Africa. In 2012, USD 133 million was allocated to sub-Saharan Africa (falling from USD 550 million in 2011) and USD 100 million to South and Central Asia.

Figure 37.6. **Share of bilateral ODA by region, 2011-12 average, gross disbursements, Italy**

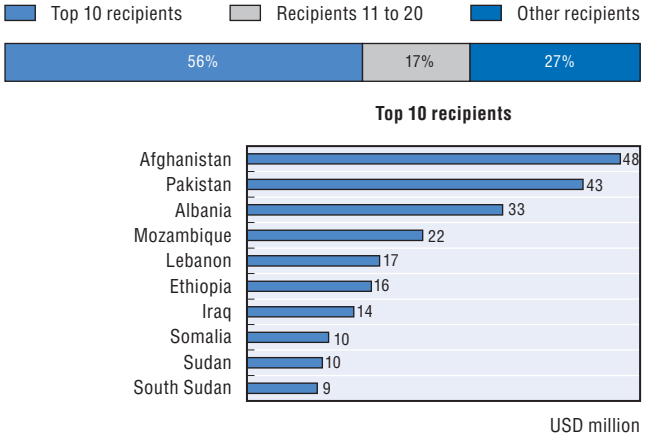


Note: 35% of bilateral ODA allocated was unspecified by region in 2011-12. This share is not represented on the map.

StatLink http://dx.doi.org/10.1787/888933124926

56% of bilateral country-allocable ODA went to Italy's top 10 recipients. It has reduced its number of priority countries from 35 in 2010 to 24 in 2014. Its support to fragile states reached USD 221 million (31% of total bilateral ODA).

Figure 37.7. **Bilateral country-allocable ODA to top recipients, 2012, gross disbursements, Italy**



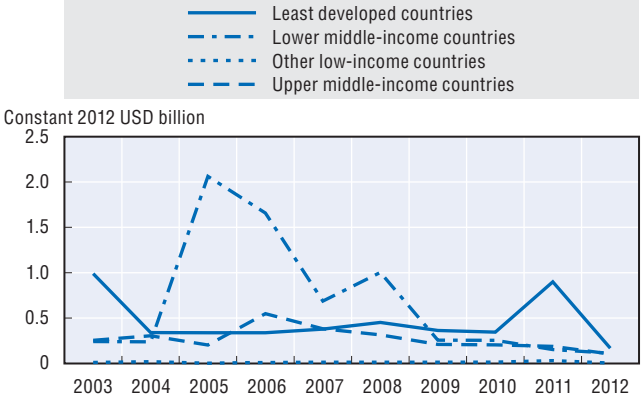
Note: Totals do not add up to total bilateral ODA. A further USD 333 million was unallocated by country.

StatLink http://dx.doi.org/10.1787/888933124945

In 2012, 23% of bilateral ODA was allocated to least developed countries (LDCs), amounting to USD 168 million. The share has fallen from 48% in 2011. LDCs received the highest share of bilateral ODA, noting that 46% was unallocated by income group in 2012 compared to the 32% DAC average.

At 0.04% of gross national income (GNI) in 2012, total ODA to LDCs was far from the UN target of 0.15% of GNI.

Figure 37.8. **Bilateral ODA by income group, 2003-12, gross disbursements, Italy**



StatLink http://dx.doi.org/10.1787/888933124964

Almost 20%, or USD 164 million, of bilateral ODA was allocated to social infrastructure and services in 2012 with a strong focus on education (USD 55 million). While humanitarian aid rose to USD 145 million, action related to debt fell to USD 7 million (this amount was much higher in 2011, due to an important debt relief operation with the Democratic Republic of Congo).

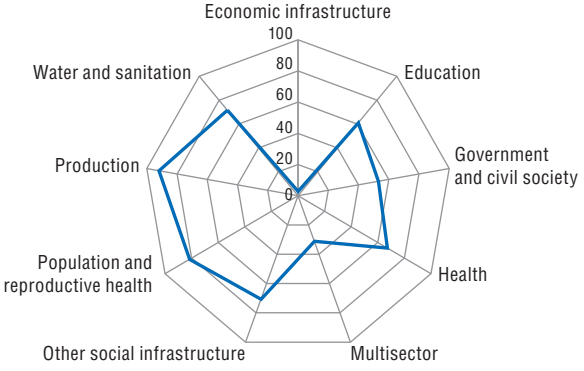
Figure 37.9. **Share of bilateral ODA by sector, 2011-12 average, commitments, Italy**



StatLink http://dx.doi.org/10.1787/888933124983

USD 124 million of bilateral ODA supported gender equality. Italy approved new guidelines on gender equality in 2010. Nevertheless, mainstreaming gender remains challenging (OECD, 2014). In 2012, 30% of Italian aid had gender equality and women's empowerment as a principal or significant objective, compared with 42% in 2011 and 10% in 2010. The DAC country average was 28% in 2012. A high share of Italy's aid to production sectors focuses on gender.

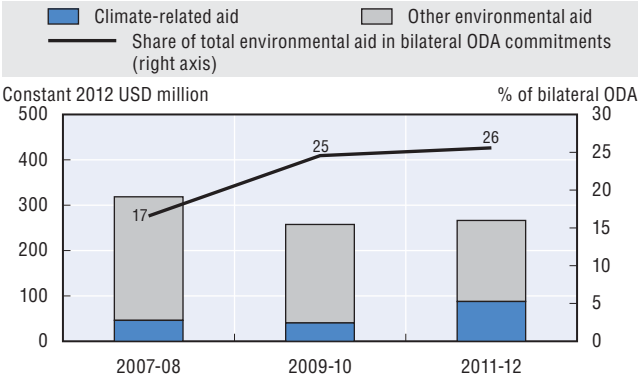
Figure 37.10. **Share of bilateral ODA in support of gender equality by sector, 2012, commitments, Italy**



StatLink http://dx.doi.org/10.1787/888933125002

USD 330 million of bilateral ODA supported the environment. Italy issued environmental guidelines in 2011 and the share of environment-focused ODA has been increasing in recent years. In 2012, 39% of Italian aid had environment as a principal or significant objective and 10% focused particularly on climate change, compared with respective DAC country averages of 26% and 24%.

Figure 37.11. **Bilateral ODA in support of global and local environment objectives, two year averages, commitments, Italy**



StatLink http://dx.doi.org/10.1787/888933125021

Note to reader: Annex B provides "Methodological notes on definitions and measurement for the Profiles of Development Assistance Committee members".

Reference

OECD (2014), *OECD Development Co-operation Peer Reviews: Italy 2014*, OECD Development Co-operation Peer Reviews, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264213241-en*.

JAPAN

Financial flows from Japan to developing countries

Type of flows from Japan to developing countries

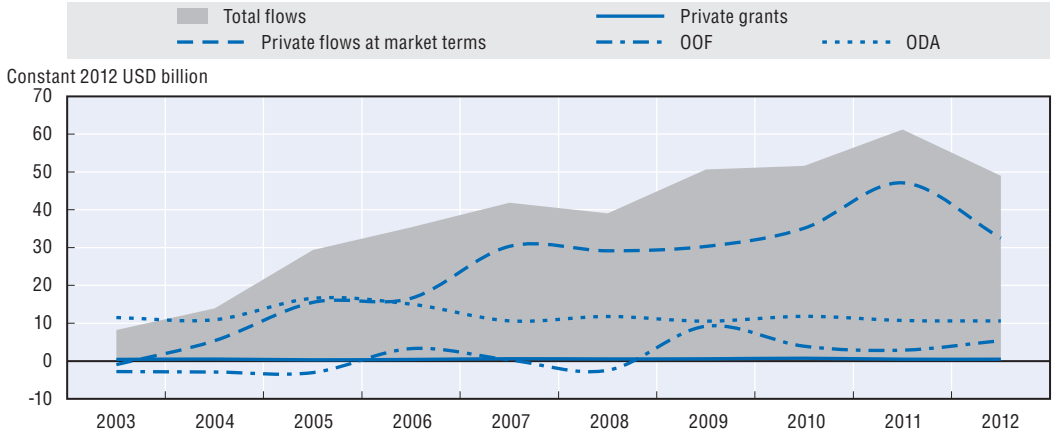
32.5 billion USD of private flows at market terms in 2012. These flows were mainly composed of foreign direct investment (96%).

11.8 billion USD of official development assistance (ODA) in 2013 (preliminary data).

5.4 billion USD of other official flows (OOF) in 2012.

487 million USD of private grants in 2012. These resources were mobilised by non-governmental organisations and foundations.

Figure 38.1. **Net resource flows to developing countries, 2003-12, Japan**



StatLink http://dx.doi.org/10.1787/888933125040

Japan uses ODA to mobilise resources for sustainable development

Japan promotes ODA as a catalyst to bring private sector investment to support development efforts in partner countries. Japan has long been engaged in private sector development and has effective financial instruments to leverage private investments for developing countries.

It contributes to the mobilisation of domestic resources in developing countries by supporting their tax systems. In 2012, it committed USD 38 million of its ODA to tax-related activities in partner countries.

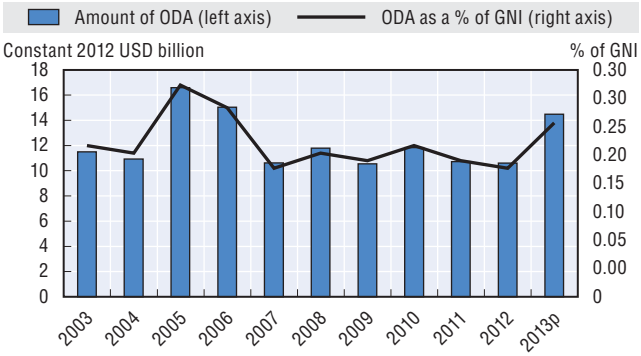
It promotes aid for trade to improve developing countries' trade performance and integration into the world economy. It committed USD 8.7 billion (58% of its sector-allocable ODA) to trade-related activities in 2012, an 11% increase from 2011. The trend has been increasing in recent years.

In addition, remittances exiting Japan to developing countries amounted to USD 7.7 billion in 2012.

Japan's official development assistance

In 2013, Japan provided USD 11.8 billion ODA (preliminary data), which represented 0.23% of gross national income (GNI) and a 36.6% increase in real terms from 2012. It is the 4th largest donor of the Development Assistance Committee (DAC) in terms of volume. The welcome increase in 2013 follows five years of stagnation. The untied share of Japanese ODA excluding technical co-operation was 86% in 2012. (Japan's ODA includes a large technical co-operation programme, but Japan does not report its tying status. The share of total Japanese bilateral aid reported as untied was 71% in 2012). The grant element of total ODA was 88.5% in 2012.

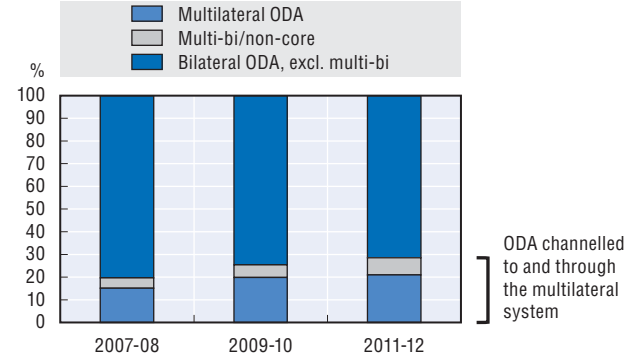
Figure 38.2. **Net ODA: Trends in volume and as a share of GNI, 2003-13, Japan**



StatLink http://dx.doi.org/10.1787/888933125059

In 2012, 77% of ODA was provided bilaterally. Japan allocated 23% of total ODA as core contributions to multilateral organisations, compared with the DAC country average of 27%. It channelled a further 9% of its bilateral ODA for specific projects implemented by multilateral organisations (multi-bi/non-core contributions).

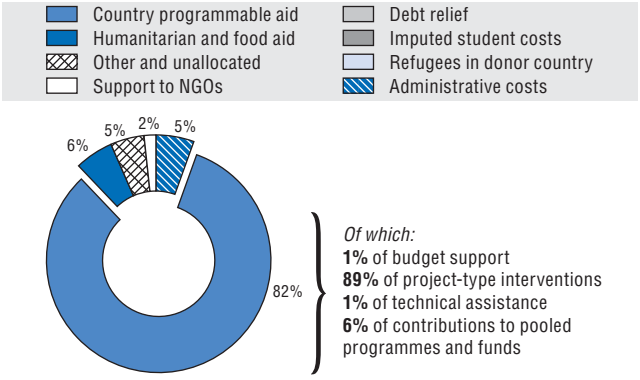
Figure 38.3. **Share of ODA channelled to and through the multilateral system, two year averages, gross disbursements, Japan**



StatLink http://dx.doi.org/10.1787/888933125078

Japan programmed 82% of bilateral ODA at partner country level. Japan's share of country programmable aid (CPA) was well above the DAC country average (55%) in 2012. Project-type interventions totalled 89% of CPA.

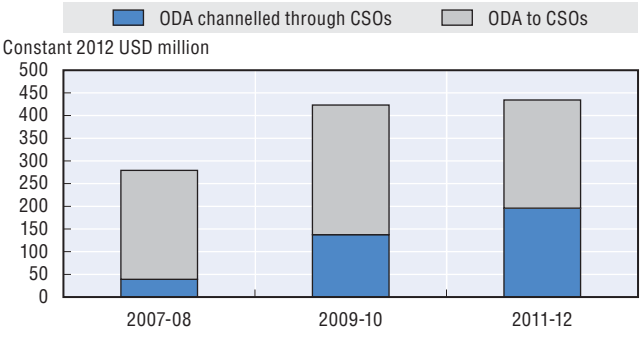
Figure 38.4. **Composition of bilateral ODA, 2012, gross disbursements, Japan**



StatLink http://dx.doi.org/10.1787/888933125097

USD 503 million of bilateral ODA was channelled to and through civil society organisations (CSOs). Japan's aid channelled to and through CSOs has increased both in terms of volume (+38% between 2011 and 2012) and as a share of bilateral ODA (from 2.4% in 2011 to 3.5% in 2012). The DAC country average for aid to and through CSOs was 16.8% in 2012.

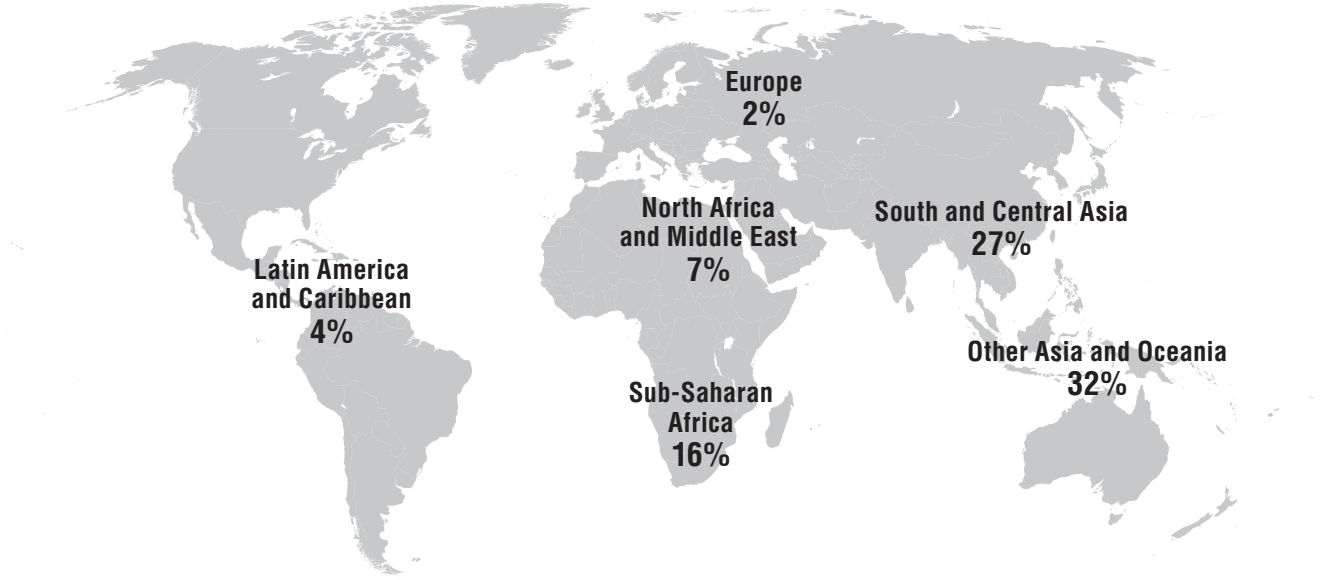
Figure 38.5. **Bilateral ODA to and through CSOs, two year averages, gross disbursements, Japan**



StatLink http://dx.doi.org/10.1787/888933125116

Bilateral ODA heavily focused on Asia. In 2012, USD 4.8 billion was allocated to Far East Asia and USD 4.1 billion to South and Central Asia. USD 1.8 billion was allocated to sub-Saharan Africa.

Figure 38.6. **Share of bilateral ODA by region, 2011-12 average, gross disbursements, Japan**

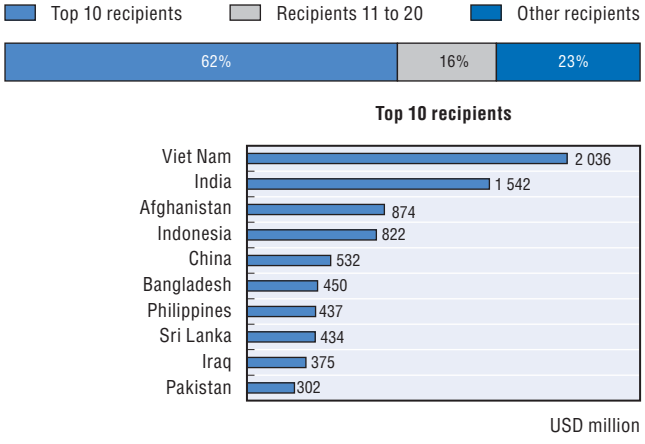


Note: 13% of bilateral ODA allocated was unspecified by region in 2011-12. This share is not represented on the map.

StatLink http://dx.doi.org/10.1787/888933125135

62% of bilateral country-allocable ODA went to Japan's top 10 recipients. Japan works in over 140 countries; however, the concentration on the top 10 recipients is strong. Japan's support to fragile states reached USD 4.2 billion in 2012 (29% of total bilateral ODA).

Figure 38.7. **Bilateral country-allocable ODA to top recipients, 2012, gross disbursements, Japan**



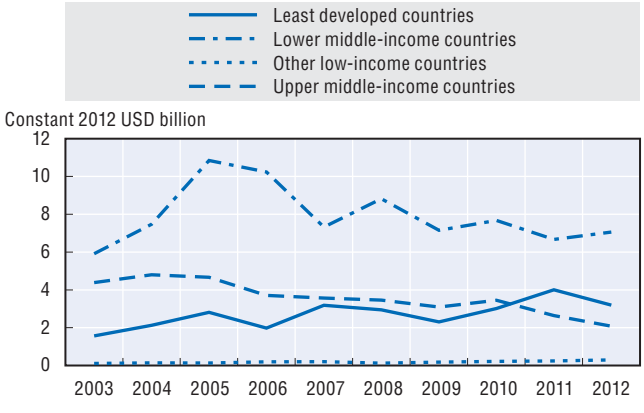
Note: Totals do not add up to total bilateral ODA. A further USD 1.8 billion was unallocated by country.

StatLink http://dx.doi.org/10.1787/888933125154

In 2012, 22% of bilateral ODA was provided to least developed countries (LDCs), amounting to USD 3.2 billion. The share has slightly fallen from 2011 (when it stood at 25%), but it remains relatively high compared to previous years. Lower middle-income countries received the highest share of bilateral ODA in 2012 (49%).

At 0.08% of GNI in 2012, total ODA to LDCs was less than the UN target of 0.15% of GNI.

Figure 38.8. **Bilateral ODA by income group, 2003-12, gross disbursements, Japan**



StatLink http://dx.doi.org/10.1787/888933125173

Over 40% of bilateral ODA was allocated to economic infrastructure and services in 2012, or a total of USD 7 billion, with a strong focus on transport and storage (USD 5.5 billion) and energy generation and supply (USD 1.2 billion). USD 2.1 billion was allocated to water and sanitation, as a part of social sector allocation.

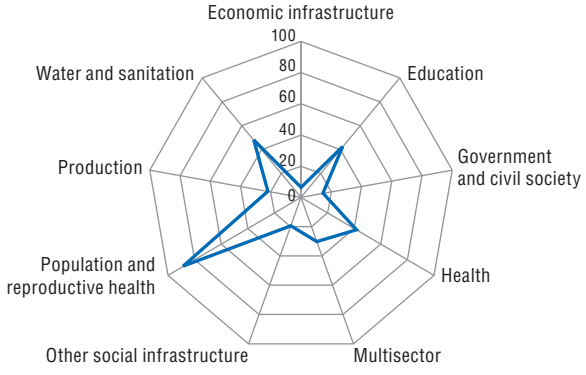
Figure 38.9. **Share of bilateral ODA by sector, 2011-12 average, commitments, Japan**



StatLink http://dx.doi.org/10.1787/888933125192

USD 2.7 billion of bilateral ODA supported gender equality. In 2012, 21% of Japan's aid had gender equality and women's empowerment as a principal or significant objective, compared to the DAC country average of 28%. This was an increase compared with 18% in 2011 and 11% in 2010. A high share of Japan's aid to population and reproductive health focuses on gender. In 2013, the government of Japan announced a new and significant emphasis on women's empowerment in its development co-operation.

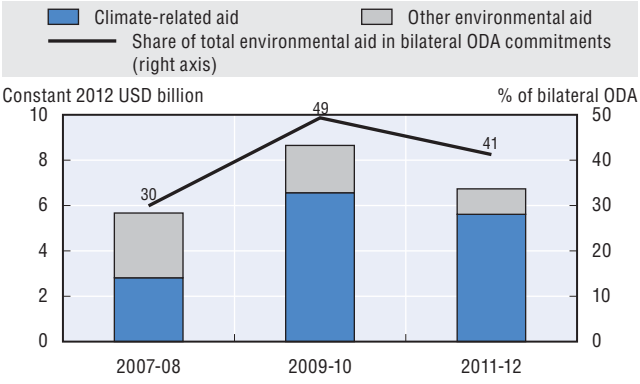
Figure 38.10. **Share of bilateral ODA in support of gender equality by sector, 2012, commitments, Japan**



StatLink http://dx.doi.org/10.1787/888933125211

USD 7.5 billion of bilateral ODA supported the environment. Japan has maintained strong financial commitments on the environment and climate. Environmental safeguards were introduced in 2010. In 2012, 43% of its aid had environment as a principal or significant objective, and 38% focused particularly on climate change, compared with the relative DAC country averages of 26% and 24%.

Figure 38.11. **Bilateral ODA in support of global and local environment objectives, two year averages, commitments, Japan**



StatLink http://dx.doi.org/10.1787/888933125230

Note to reader: Annex B provides "Methodological notes on definitions and measurement for the Profiles of Development Assistance Committee members".

KOREA

Financial flows from Korea to developing countries

Type of flows from Korea to developing countries

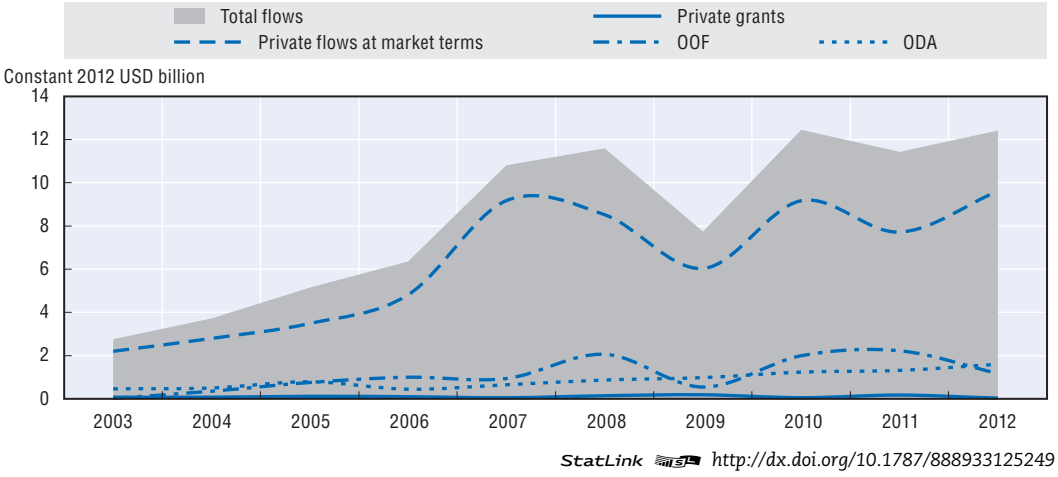
9.6 billion USD of private flows at market terms in 2012. These flows were composed of foreign direct investment (99%).

1.7 billion USD of official development assistance (ODA) in 2013 (preliminary data).

1.2 billion USD of other official flows (OOF) in 2012.

30 million USD of private grants in 2012. These resources were mobilised by non-governmental organisations and foundations.

Figure 39.1. **Net resource flows to developing countries, 2003-12, Korea**



StatLink http://dx.doi.org/10.1787/888933125249

Korea uses ODA to mobilise resources for sustainable development

Korea's foreign and aid policies present opportunities for it to engage with the private sector and to use ODA to leverage private resources for development. It particularly focuses on promoting public-private partnerships in partner countries, and corporate social responsibility among Korean businesses operating in developing countries (OECD, 2013).

It contributes to the mobilisation of domestic resources in developing countries by supporting their tax systems. In 2012, it committed USD 3 million of its ODA to tax-related activities in partner countries.

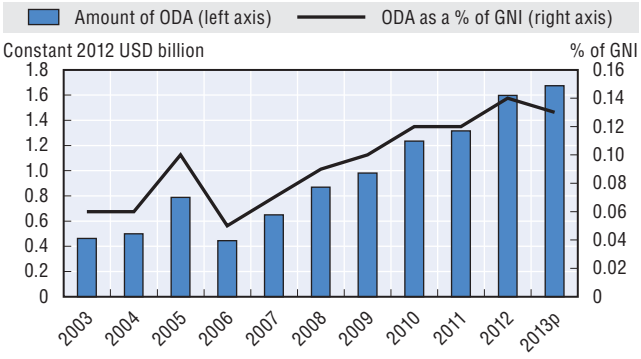
It promotes aid for trade to improve developing countries' trade performance and integration into the world economy. It committed USD 778 million (47% of its sector-allocable ODA) to trade-related activities in 2012, a 4% increase from 2011. After having sharply fallen in 2010, this amount has been slightly increasing.

In addition, remittances exiting Korea to developing countries amounted to USD 2.6 billion in 2012.

Korea's official development assistance

In 2013, Korea provided USD 1.7 billion ODA (preliminary data), a 4.8% increase in real terms from 2012. Its ODA to gross national income (GNI) ratio dropped slightly from 0.14% in 2012 to 0.13% in 2013.* However, the Korean government is firmly committed to achieving its national ODA/GNI target of 0.25% by 2015. The share of Korean untied ODA (excluding administrative costs and in-donor refugee costs) was 49% in 2012, compared to the DAC average of 81%. The grant element of total ODA was 94.2% in 2012.

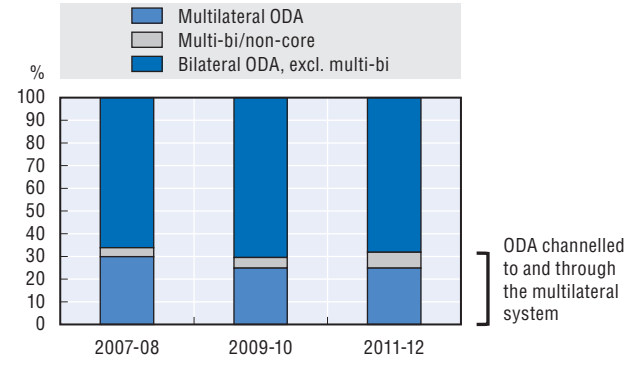
Figure 39.2. **Net ODA: Trends in volume and as a share of GNI, 2003-13, Korea**



StatLink http://dx.doi.org/10.1787/888933125268

In 2012, 75% of ODA was provided bilaterally. Korea allocated 25% of total ODA as core contributions to multilateral organisations, compared with the DAC country average of 27%. It channelled a further 11% of its bilateral ODA for specific projects implemented by multilateral organisations (multi-bi/non-core contributions).

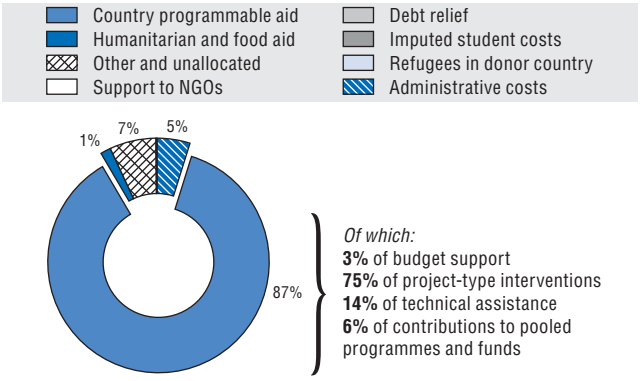
Figure 39.3. **Share of ODA channelled to and through the multilateral system, two year averages, gross disbursements, Korea**



StatLink http://dx.doi.org/10.1787/888933125287

In 2012, 87% of bilateral ODA was programmed at partner country level. Korea's bilateral programme is characterised by a high proportion of country programmable aid (CPA), which was well above the DAC country average (55%) in 2012. Korea's high CPA figure is caused mainly by its low levels of other bilateral costs, such as in-donor refugee costs, humanitarian assistance and debt relief. Project-type interventions amounted to 75% of CPA.

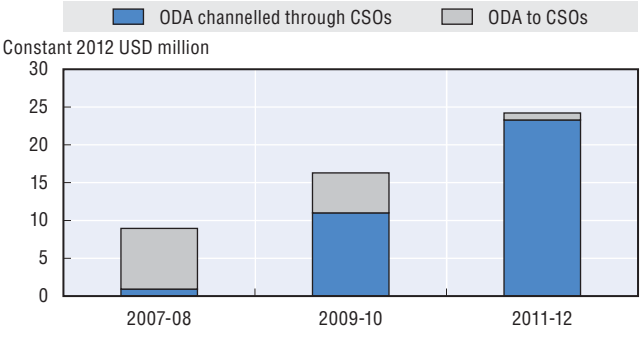
Figure 39.4. **Composition of bilateral ODA, 2012, gross disbursements, Korea**



StatLink http://dx.doi.org/10.1787/888933125306

USD 26 million of bilateral ODA was channelled to and through civil society organisations (CSOs). Korea's ODA channelled to and through CSOs has increased in terms of volume in recent years. It has, however, been relatively steady as a share of bilateral ODA since 2010. This share amounted to 2% in 2012, compared with the DAC country average of 16.8%.

Figure 39.5. **Bilateral ODA to and through CSOs, two year averages, gross disbursements, Korea**

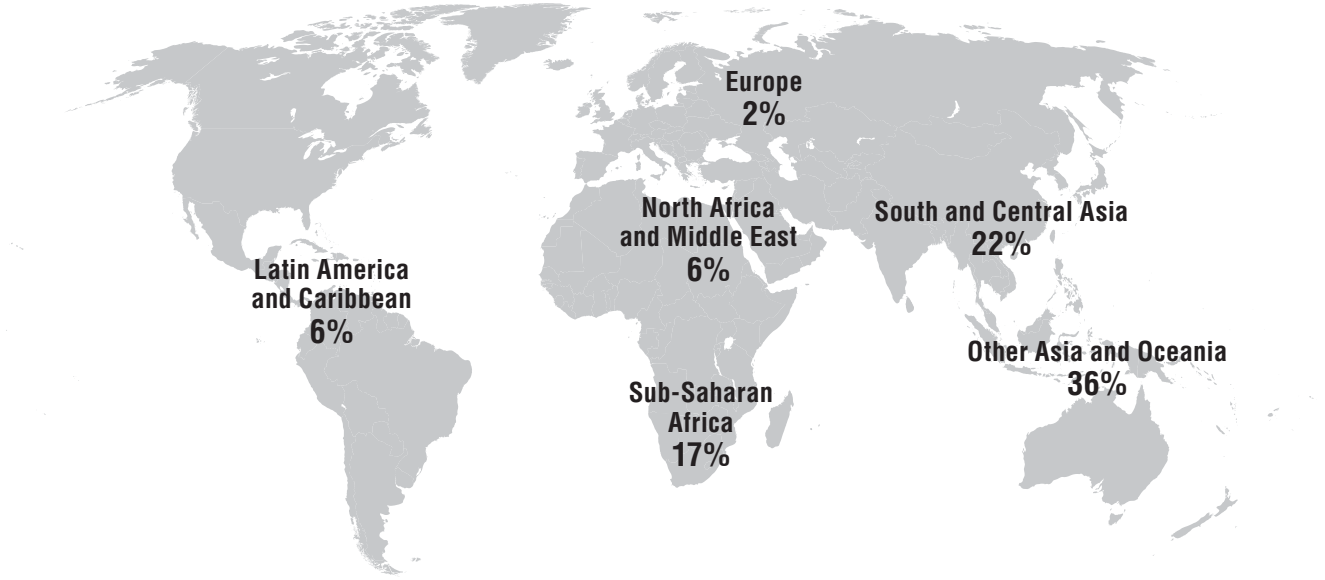


StatLink http://dx.doi.org/10.1787/888933125325

* Korea does not report to the DAC on ODA eligible assistance to the Democratic People's Republic of Korea (North Korea). The ODA eligible portion of its assistance to North Korea was estimated at approximately USD 12.3 million in 2013.

Bilateral ODA primarily focused on Asia. In 2012, USD 416 million was allocated to Far East Asia and USD 255 million to South and Central Asia.

Figure 39.6. **Share of bilateral ODA by region, 2011-12 average, gross disbursements, Korea**

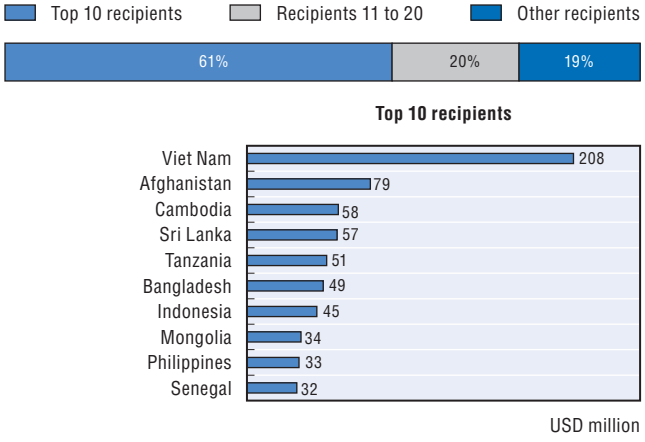


Note: 12% of bilateral ODA allocated was unspecified by region in 2011-12. This share is not represented on the map.

StatLink http://dx.doi.org/10.1787/888933125344

61% of bilateral country-allocable ODA went to Korea's top 10 recipients. Seven of its 26 priority partner countries are among its top 10 recipients. Korea's support to fragile states reached USD 355 million in 2012 (29% of total bilateral ODA).

Figure 39.7. **Bilateral country-allocable ODA to top recipients, 2012, gross disbursements, Korea**



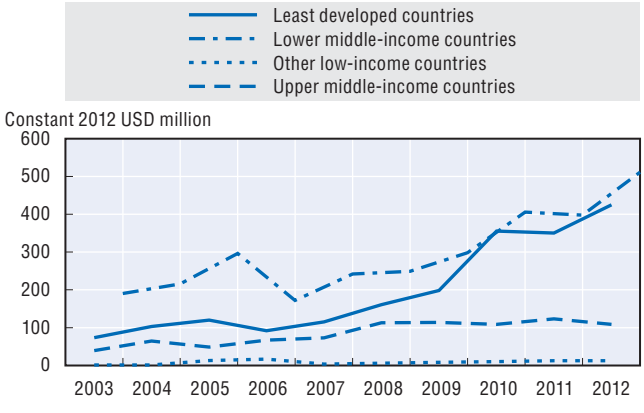
Note: Totals do not add up to total bilateral ODA. A further USD 175 million was unallocated by country.

StatLink http://dx.doi.org/10.1787/888933125363

In 2012, 34% of bilateral ODA was allocated to least developed countries (LDCs), reaching USD 425 million. The share has progressively increased over the past decade (from 22% in 2003 to 34% in 2012). Lower middle-income countries received the highest share of bilateral ODA in 2012 (41%).

At 0.05% of GNI in 2012, total ODA to LDCs was less than the UN target of 0.15% of GNI.

Figure 39.8. **Bilateral ODA by income group, 2003-12, gross disbursements, Korea**



StatLink http://dx.doi.org/10.1787/888933125382

Over 40% of bilateral ODA was allocated to social infrastructure and services in 2012, amounting to USD 768 million, with a strong focus on support to government and civil society (USD 228 million). USD 488 million was allocated to economic infrastructure, mainly to transport and storage (USD 325 million).

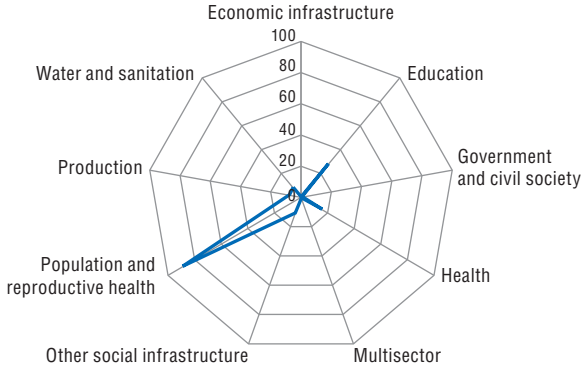
Figure 39.9. **Share of bilateral ODA by sector, 2011-12 average, commitments, Korea**



StatLink http://dx.doi.org/10.1787/888933125401

USD 117 million of bilateral ODA supported gender equality. Gender equality is placed centrally in Korea's Mid-term ODA Policy for 2011-15 as a critical element of its development co-operation programme. In 2012, 7% of its aid had gender equality and women's empowerment as a principal or significant objective, compared with the DAC country average of 28%. This share has been fluctuating in recent years. A high share of Korea's aid to population and reproductive health focuses on gender.

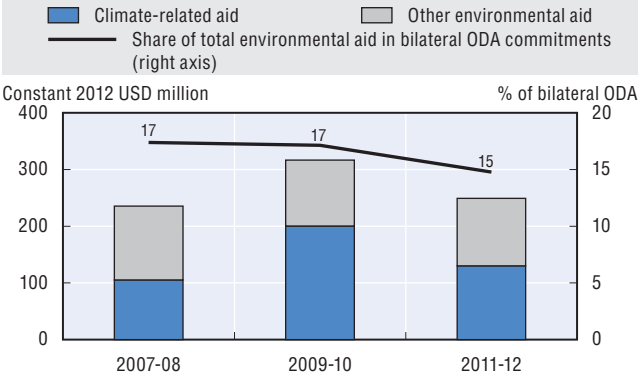
Figure 39.10. **Share of bilateral ODA in support of gender equality by sector, 2012, commitments, Korea**



StatLink http://dx.doi.org/10.1787/888933125420

USD 271 million of bilateral ODA supported the environment. Korea committed to increase its green ODA to 30% by 2020 and is making an effort to improve the integration of environment and climate change into its development co-operation. In 2012, 15% of its aid had environment as a principal or significant objective, and 10% focused on climate change, compared with the respective DAC country averages of 26% and 24%.

Figure 39.11. **Bilateral ODA in support of global and local environment objectives, two year averages, commitments, Korea**



StatLink http://dx.doi.org/10.1787/888933125439

Note to reader: Annex B provides "Methodological notes on definitions and measurement for the Profiles of Development Assistance Committee members".

Reference

OECD (2013), *OECD Development Assistance Peer Reviews: Korea 2012*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264196056-en*.

LUXEMBOURG

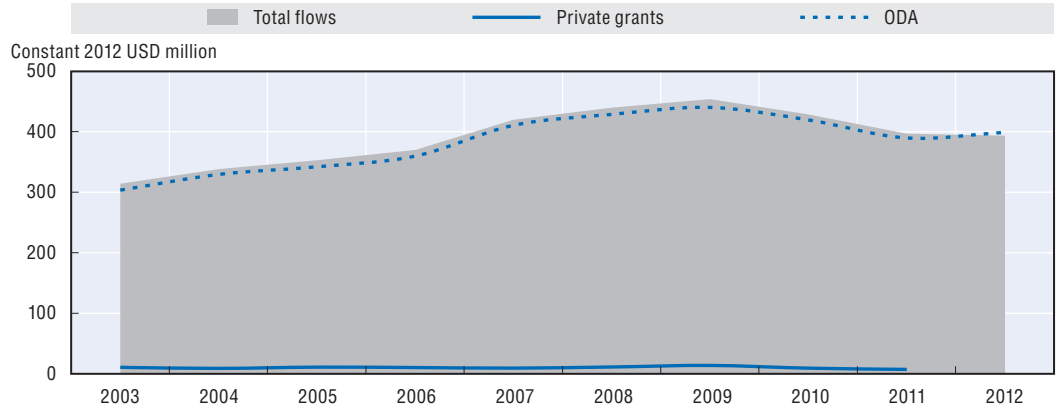
Financial flows from Luxembourg to developing countries

Type of flows from Luxembourg to developing countries

431 million USD of official development assistance (ODA) in 2013 (preliminary data).

7 million USD of private grants in 2011 (the data are not available for 2012). These resources were mobilised by non-governmental organisations and foundations.

Figure 40.1. **Net resource flows to developing countries, 2003-12, Luxembourg**



Note: Data on private flows at market terms and other official flows (OOF) are not available.

StatLink http://dx.doi.org/10.1787/888933125458

Luxembourg uses ODA to mobilise resources for sustainable development

Luxembourg promotes ODA as a catalyst to bring private sector investment to support development efforts in partner countries. It particularly draws on its experience in financial matters to promote the development of micro-finance systems, with a significant potential for mobilising private financing. The government has established effective partnerships with private finance players, including specialised agencies such as LuxFlag and private enterprises (OECD, 2012).

On 6 May 2014 it adopted the OECD Declaration on Automatic Exchange of Information in Tax Matters, thereby contributing to stop bank secrecy for tax purposes. This is an important step as tax fraud and tax evasion deprive governments of revenues needed to fight poverty and promote sustainable development.

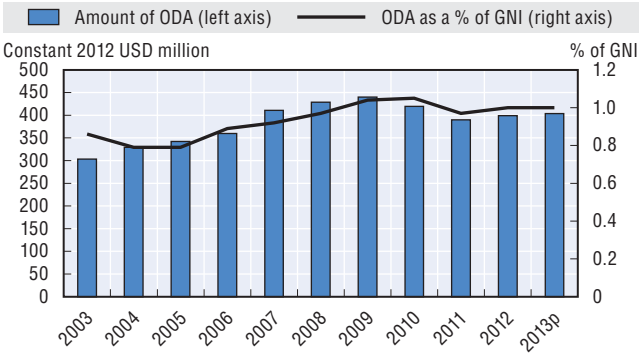
It promotes aid for trade to improve developing countries' trade performance and integration into the world economy. It committed USD 41 million (22% of sector-allocable ODA) to trade-related activities in 2012, a 5% increase from 2011. The trend has been steady in recent years.

As a part of its development co-operation policy, Luxembourg strives to facilitate financial transfers from migrants to their home countries (OECD, 2012). In 2012, remittances exiting Luxembourg to developing countries amounted to USD 45 million.

Luxembourg's official development assistance

In 2013, Luxembourg provided USD 431 million ODA (preliminary data), a 1.2% increase in real terms from 2012. It has maintained its level of ODA as a percentage of gross national income (GNI) at 1% in 2013. It is the 3rd largest donor of the Development Assistance Committee (DAC) in terms of ODA/GNI share and one of five DAC members meeting the UN target of 0.7%. The share of Luxembourg's untied ODA (excluding administrative costs and in-donor refugee costs) was 94% in 2012, compared with the DAC average of 81%. The grant element of total ODA was 100% in 2012.

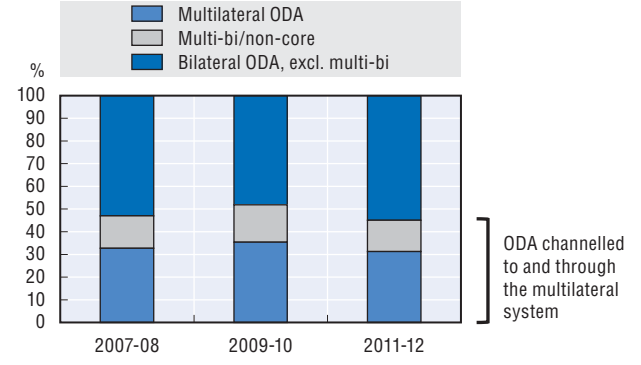
Figure 40.2. **Net ODA: Trends in volume and as a share of GNI, 2003-13, Luxembourg**



StatLink http://dx.doi.org/10.1787/888933125477

In 2012, 70% of ODA was provided bilaterally. Luxembourg allocated 30% of total ODA as core contributions to multilateral organisations, compared with the DAC country average of 27%. It channelled a further 20% of its bilateral ODA for specific projects implemented by multilateral organisations (multi-bi/non-core contributions).

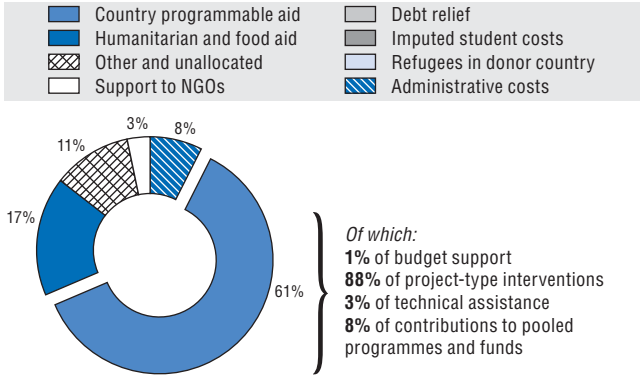
Figure 40.3. **Share of ODA channelled to and through the multilateral system, two year averages, gross disbursements, Luxembourg**



StatLink http://dx.doi.org/10.1787/888933125496

In 2012, 61% of bilateral ODA was programmed at partner country level. Luxembourg's share of country programmable aid (CPA) was above the DAC country average (55%). Humanitarian and food aid amounted to 17%. Project-type interventions made up 88% of CPA.

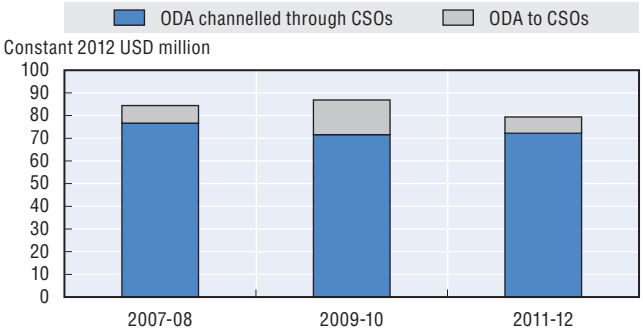
Figure 40.4. **Composition of bilateral ODA, 2012, gross disbursements, Luxembourg**



StatLink http://dx.doi.org/10.1787/888933125515

USD 82 million of bilateral ODA was channelled to and through civil society organisations (CSOs). ODA channelled to and through CSOs has been relatively steady in recent years, in terms of volume and as a share of bilateral ODA. This share amounted to 29.5% in 2012, compared with the DAC country average of 16.8%.

Figure 40.5. **Bilateral ODA to and through CSOs, two year averages, gross disbursements, Luxembourg**

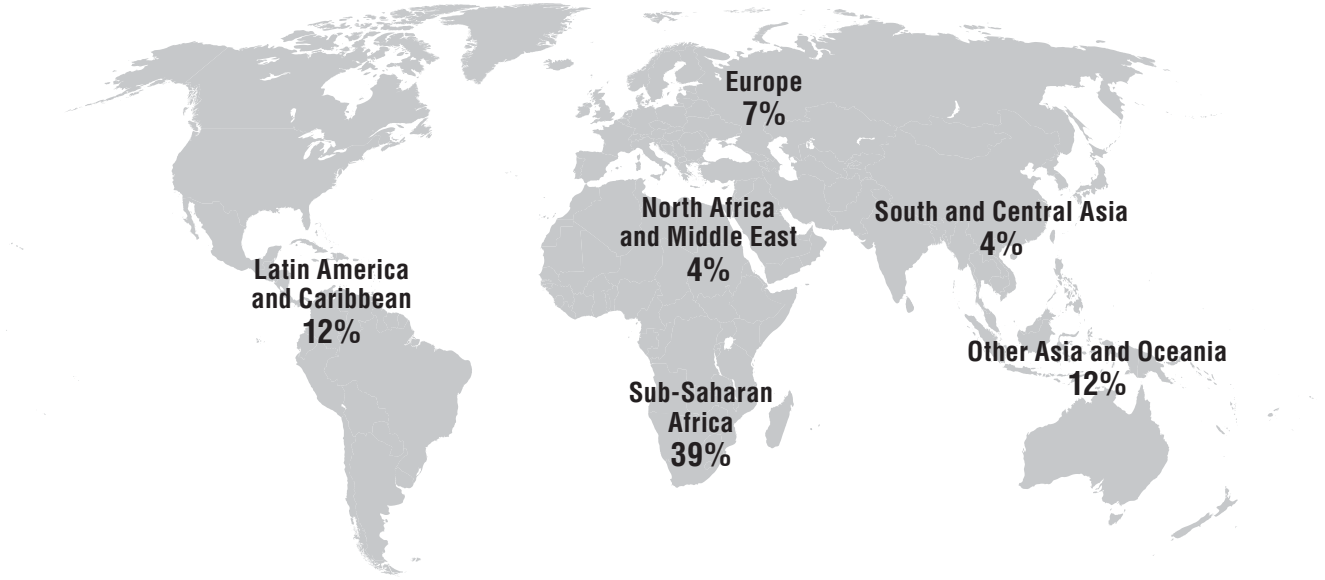


Note: Data on ODA channelled through CSOs are not available for 2007.

StatLink http://dx.doi.org/10.1787/888933125534

Bilateral ODA primarily focused on sub-Saharan Africa. In 2012, USD 102 million was allocated to sub-Saharan Africa and USD 34 million to Far East Asia.

Figure 40.6. **Share of bilateral ODA by region, 2011-12 average, gross disbursements, Luxembourg**

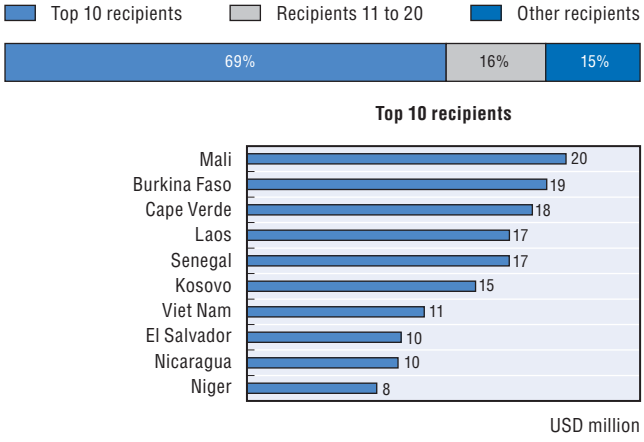


Note: 23% of bilateral ODA allocated was unspecified by region in 2011-12. This share is not represented on the map.

StatLink http://dx.doi.org/10.1787/888933125553

69% of bilateral country-allocable ODA went to Luxembourg's top 10 recipients. Luxembourg has nine priority partner countries, all of which are among the top 10 recipients. In 2012, its support to fragile states reached USD 89 million (32% of total bilateral ODA).

Figure 40.7. **Bilateral country-allocable ODA to top recipients, 2012, gross disbursements, Luxembourg**



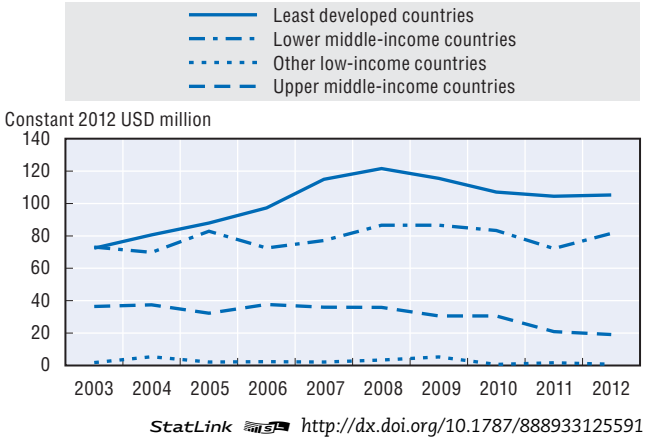
Note: Totals do not add up to total bilateral ODA. A further USD 72 million was unallocated by country. Reference to Kosovo is without prejudice to its status under international law.

StatLink http://dx.doi.org/10.1787/888933125572

In 2012, 38% of bilateral ODA was allocated to least developed countries (LDCs), amounting to USD 105 million. The share has been relatively steady in recent years. LDCs received the highest share of bilateral ODA in 2012, compared with other income groups.

At 0.37% of Luxembourg's GNI in 2012, total ODA to LDCs was well above the UN target of 0.15% of GNI.

Figure 40.8. **Bilateral ODA by income group, 2003-12, gross disbursements, Luxembourg**



StatLink http://dx.doi.org/10.1787/888933125591

Over 40% of bilateral ODA was allocated to social infrastructure and services in 2012, or USD 120 million, with a strong focus on education (USD 42 million) and health (USD 36 million). Humanitarian aid amounted to USD 46 million.

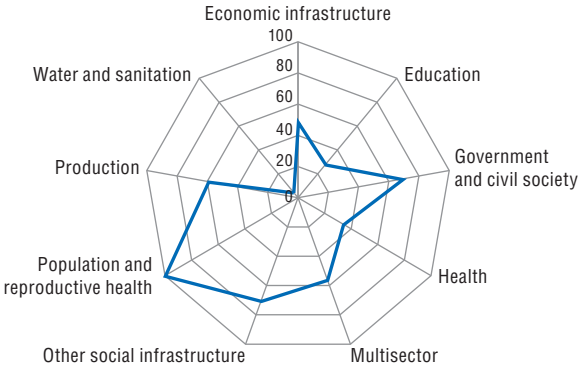
Figure 40.9. **Share of bilateral ODA by sector, 2011-12 average, commitments, Luxembourg**



StatLink http://dx.doi.org/10.1787/888933125610

USD 44 million of bilateral ODA supported gender equality. Luxembourg mainstreams gender in its programmes while also promoting standard-setting in international bodies (OECD, 2012). In 2012, 38% of its aid had gender equality and women's empowerment as a principal or significant objective, compared with the DAC country average of 28%. This is an increase compared with 32% in 2011. A high share of Luxembourg's aid to population and reproductive health, "other social infrastructure" and production focuses on gender.

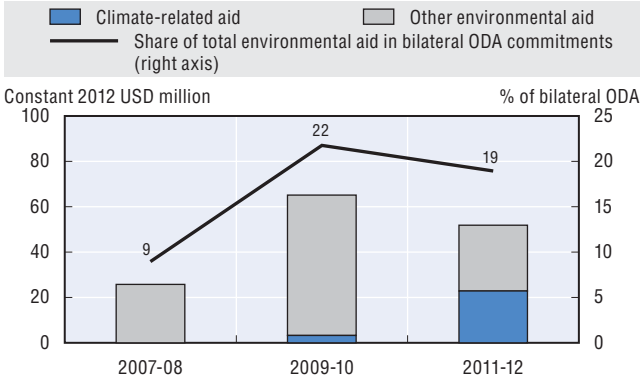
Figure 40.10. **Share of bilateral ODA in support of gender equality by sector, 2012, commitments, Luxembourg**



StatLink http://dx.doi.org/10.1787/888933125629

USD 55 million of bilateral ODA supported the environment. Luxembourg has developed a holistic approach to the environment and climate change in its development co-operation. It is using impact analysis and environmental evaluation more systematically. In 2012, 20% of its aid had environment as a principal or significant objective and 9% focused particularly on climate change, compared with the respective DAC country averages of 26% and 24%.

Figure 40.11. **Bilateral ODA in support of global and local environment objectives, two year averages, commitments, Luxembourg**



Note: Data on climate-related aid are not available for 2007-08.

StatLink http://dx.doi.org/10.1787/888933125648

Reference

OECD (2012), *DAC Peer Review of Luxembourg 2012*, OECD, Paris, *www.oecd.org/dac/peer-reviews/LUXEMBOURG.htm*.

NETHERLANDS

Financial flows from the Netherlands to developing countries

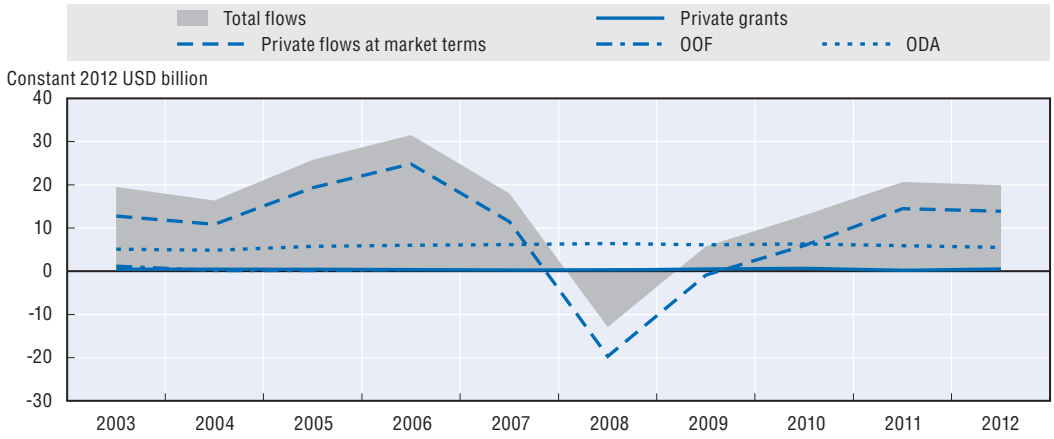
Type of flows from the Netherlands to developing countries

13.9 billion USD of private flows at market terms in 2012. Foreign direct investment made up 23% of these flows.

5.4 billion USD of official development assistance (ODA) in 2013 (preliminary data).

528 million USD of private grants in 2012. These resources were mobilised by non-governmental organisations and foundations.

Figure 41.1. **Net resource flows to developing countries, 2003-12, Netherlands**



Note: Data on other financial flows are not available after 2006.

StatLink http://dx.doi.org/10.1787/888933125667

The Netherlands uses ODA to mobilise resources for sustainable development

The Netherlands promotes ODA as a catalyst to bring private sector investment to support development efforts in partner countries, in particular through its development finance institution, the Entrepreneurial Development Bank (FMO). With its new development co-operation strategy (Ministry of Foreign Affairs, 2013), the government clearly links aid to trade and investment, and stresses the role of the Dutch business community as an important development partner.

It contributes to the mobilisation of domestic resources in developing countries by supporting their tax systems. In 2012, it committed USD 1.3 million of its ODA to tax-related activities in partner countries.

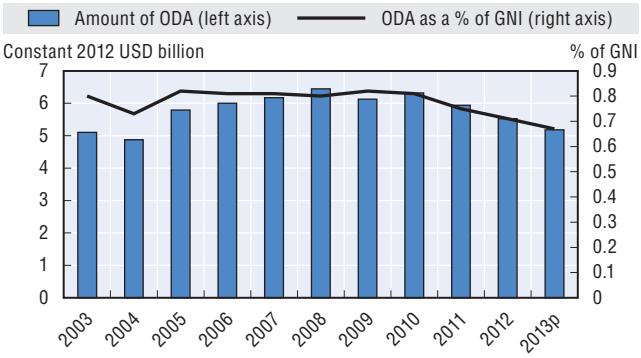
It promotes aid for trade to improve developing countries' trade performance and integration in the world economy. It committed USD 1.1 billion (29% of its sector-allocable ODA) to trade-related activities in 2012, reaching a standstill after having almost doubled between 2010 and 2011.

The government's development co-operation policy acknowledges the increasing importance of remittances as a source of income for partner countries (Ministry of Foreign Affairs, 2013). In 2012, remittances exiting the Netherlands to developing countries amounted to USD 2.2 billion.

The Netherlands' official development assistance

In 2013, the Netherlands provided USD 5.4 billion ODA (preliminary data), which represented 0.67% of gross national income (GNI) and a fall of 6.2% in real terms from 2012. It is the 6th largest donor of the Development Assistance Committee (DAC) in terms of ODA as a percentage of GNI. Although ODA dropped below the 0.7% commitment in 2013 for the first time since 1975 due to overall budget cuts necessary to put public finances in order, the Netherlands remains committed to the 0.7% target. The Netherlands' share of untied ODA (excluding administrative costs and in-donor refugee costs) was 98% in 2012, compared with the DAC average of 81%. The grant element of total ODA was 100% in 2012.

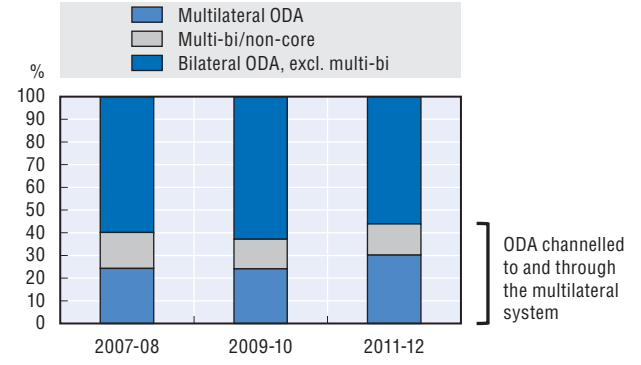
Figure 41.2. **Net ODA: Trends in volume and as a share of GNI, 2003-13, Netherlands**



StatLink http://dx.doi.org/10.1787/888933125686

In 2012, 70% of ODA was provided bilaterally. The Netherlands allocated 30% of total ODA as core contributions to multilateral organisations, compared with the DAC country average of 27%. It channelled a further 20% of its bilateral ODA for specific projects implemented by multilateral organisations (multi-bi/non-core contributions).

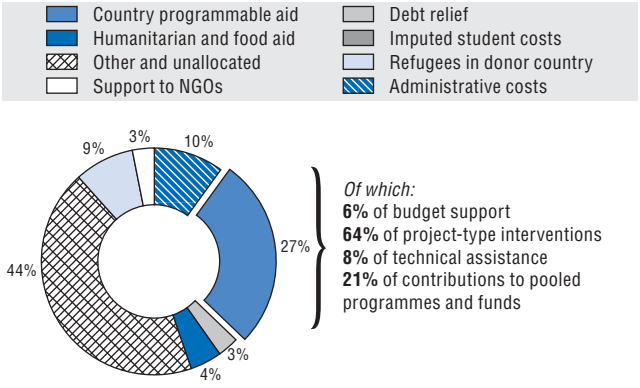
Figure 41.3. **Share of ODA channelled to and through the multilateral system, two year averages, gross disbursements, Netherlands**



StatLink http://dx.doi.org/10.1787/888933125705

In 2012, 27% of bilateral ODA was programmed at partner country level, less than the DAC country average of 55%. Project-type interventions accounted for 64% of CPA. This low level of CPA is due to a high amount of unallocated bilateral ODA provided through central funds, especially through civil society.

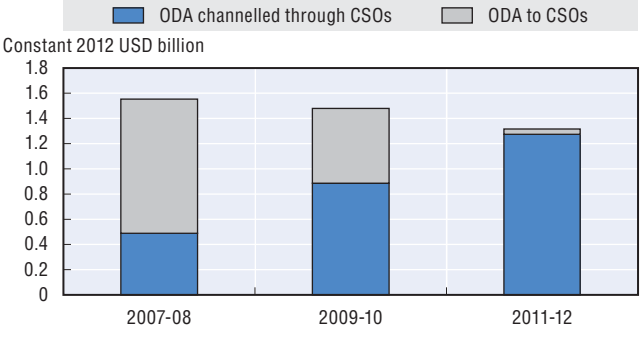
Figure 41.4. **Composition of bilateral ODA, 2012, gross disbursements, Netherlands**



StatLink http://dx.doi.org/10.1787/888933125724

USD 1.2 billion of bilateral ODA was channelled to and through civil society organisations (CSOs). Since 2010, aid channelled to and through CSOs has decreased in terms of volume (-10% between 2011 and 2012). The share of bilateral ODA delivered by CSOs has, however, remained relatively steady in recent years. It amounted to 31% in 2012, almost twice as much as the DAC country average (16.8%).

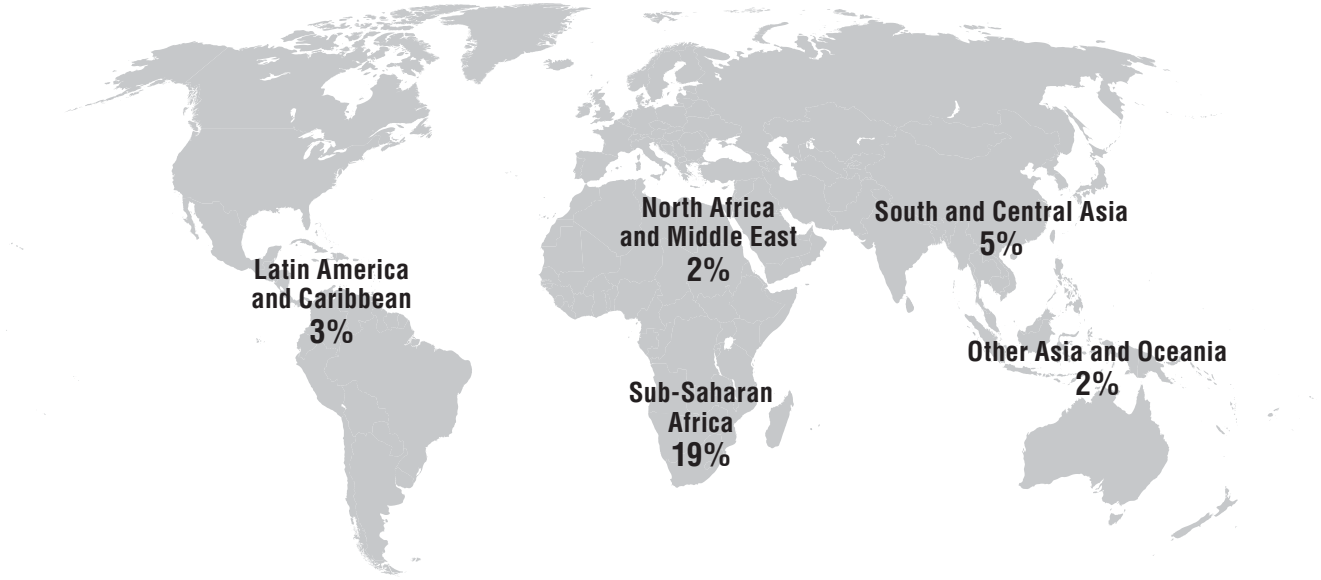
Figure 41.5. **Bilateral ODA to and through CSOs, two year averages, gross disbursements, Netherlands**



StatLink http://dx.doi.org/10.1787/888933125743

The largest share of bilateral ODA was directed towards sub-Saharan Africa. In 2012, USD 703 million was allocated to sub-Saharan Africa and USD 176 million to South and Central Asia.

Figure 41.6. **Share of bilateral ODA by region, 2011-12 average, gross disbursements, Netherlands**

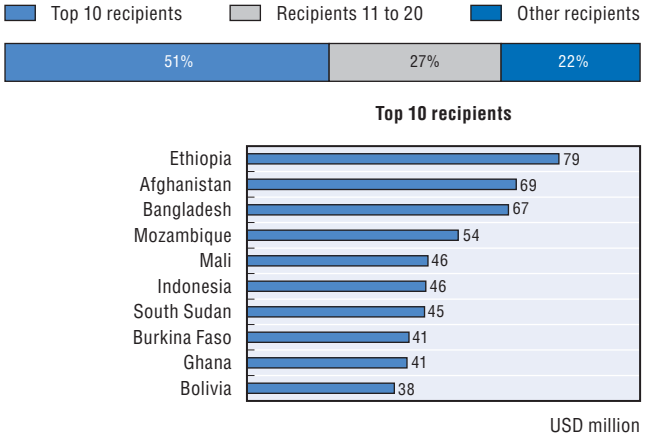


Note: 67% of bilateral ODA allocated was unspecified by region in 2011-12. This share is not represented on the map.

StatLink http://dx.doi.org/10.1787/888933125762

51% of bilateral country-allocable ODA went to the Netherlands' top 10 recipients. Eight of its 15 priority partner countries are in the list top 10 recipients. It has taken steps to concentrate its bilateral ODA on fewer countries. In 2012, its support to fragile states reached USD 645 million (16% of total bilateral ODA).

Figure 41.7. **Bilateral country-allocable ODA to top recipients, 2012, gross disbursements, Netherlands**



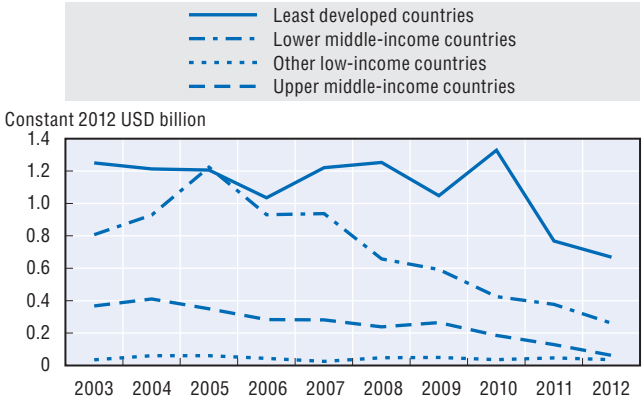
Note: Totals do not add up to total bilateral ODA. A further USD 2.9 billion was unallocated by country.

StatLink http://dx.doi.org/10.1787/888933125781

In 2012, 17% of bilateral ODA was allocated to least developed countries (LDCs), amounting to USD 668 million. The share has decreased from 27% in 2010 to 17% in 2012. LDCs received the highest share of bilateral ODA, noting that 74% of bilateral ODA was unallocated by income in 2012, compared to the 32% total DAC average.

At 0.15% of the Netherlands' GNI in 2012, total ODA to LDCs met the UN target of ODA to LDCs.

Figure 41.8. **Bilateral ODA by income group, 2003-12, gross disbursements, Netherlands**



StatLink http://dx.doi.org/10.1787/888933125800

Over 40% of bilateral ODA was allocated to social infrastructure and services in 2012, for a total of USD 2.3 billion, with a strong focus on support to government and civil society (USD 973 million) and water and sanitation (USD 465 million). USD 553 million was allocated to agriculture (accounted as ODA to production sectors).

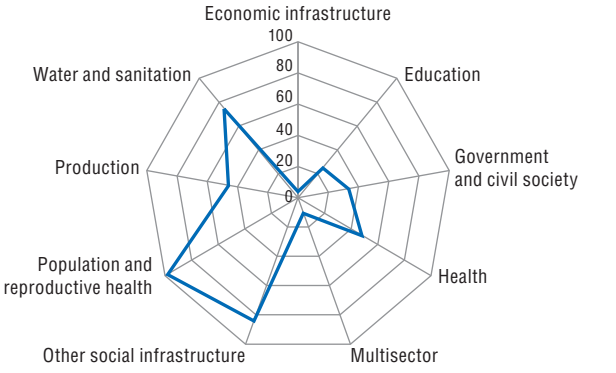
Figure 41.9. **Share of bilateral ODA by sector, 2011-12 average, commitments, Netherlands**



StatLink http://dx.doi.org/10.1787/888933125819

USD 1.6 billion of bilateral ODA supported gender equality. The Netherlands systematically integrates gender issues in its development co-operation policies. In 2012, 43% of its aid had gender equality and women's empowerment as a principal or significant objective, compared with the DAC country average of 28%. This is an increase compared to 24% in 2011 and 14% in 2010. A high share of the Netherlands' aid to population, reproductive health, water and sanitation focuses on gender.

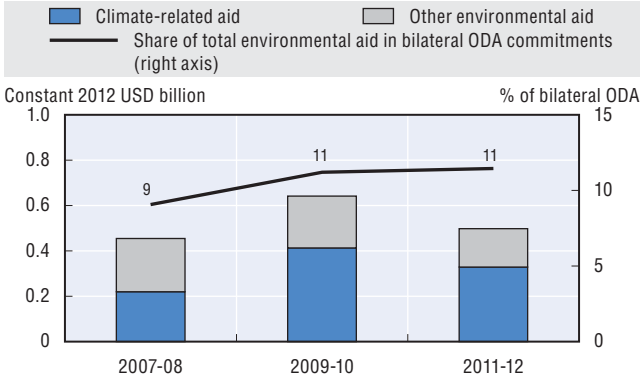
Figure 41.10. **Share of bilateral ODA in support of gender equality by sector, 2012, commitments, Netherlands**



StatLink http://dx.doi.org/10.1787/888933125838

USD 583 million of bilateral ODA supported the environment. The Netherlands focuses on mitigating the effects of climate change on low- and middle-income countries. Adaptation is also a priority, notably water management, climate-smart agriculture and emergency preparedness in LDCs. In 2012, 12% of its aid had environment as a principal or significant objective and 9% focused on climate change, compared with the respective DAC country averages of 26% and 24%.

Figure 41.11. **Bilateral ODA in support of global and local environment objectives, two year averages, commitments, Netherlands**



StatLink http://dx.doi.org/10.1787/888933125857

Note to reader: Annex B provides "Methodological notes on definitions and measurement for the Profiles of Development Assistance Committee members".

Reference

Ministry of Foreign Affairs (2013), *A World to Gain, A New Agenda for Aid, Trade and Investment*, April, Ministry of Foreign Affairs, The Hague.

NEW ZEALAND

Financial flows from New Zealand to developing countries

Type of flows from New Zealand to developing countries

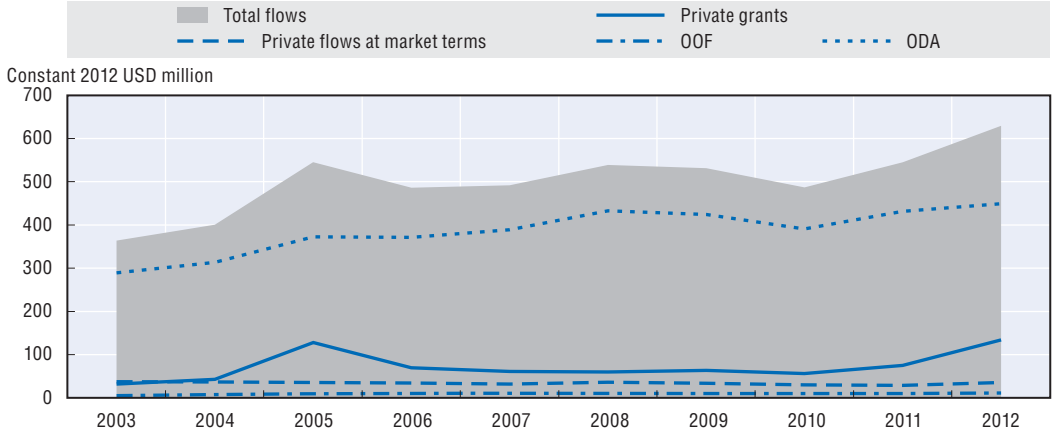
35 million USD of private flows at market terms in 2012. These flows were composed of foreign direct investment (100%).

461 million USD of official development assistance (ODA) in 2013 (preliminary data).

11 million USD of other official flows (OOF) in 2012.

134 million USD of private grants 2012. These resources were mobilised by non-governmental organisations and foundations.

Figure 42.1. **Net resource flows to developing countries, 2003-12, New Zealand**



StatLink http://dx.doi.org/10.1787/888933125876

New Zealand uses ODA to mobilise resources for sustainable development

New Zealand is currently increasing its focus on public-private partnerships and using the capabilities of New Zealand businesses, and is strengthening its own capacity in this area.

It contributes to the mobilisation of domestic resources in developing countries by supporting their tax systems. In 2012, it committed USD 194 000 of its ODA to tax-related activities in partner countries.

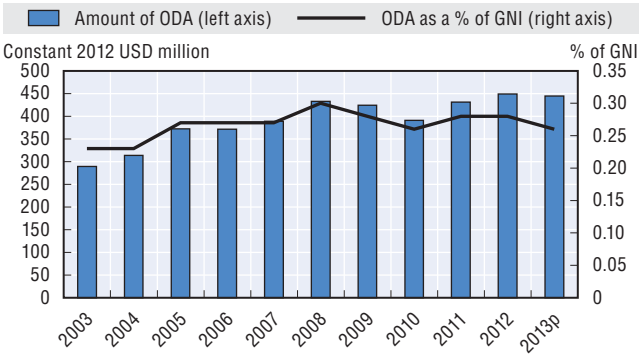
It promotes aid for trade to improve developing countries' trade performance and integration into the world economy. It committed USD 83 million (37% of its sector-allocable ODA) to trade-related activities in 2012, a 56% decrease from the 2011 peak.

In addition, remittances exiting New Zealand to developing countries amounted to USD 1.3 billion in 2012.

New Zealand's official development assistance

In 2013, New Zealand provided USD 461 million ODA (preliminary data), which represented 0.26% of gross national income (GNI) and a fall of 1% in real terms from 2012. This is a reverse on the increases in ODA seen since 2010. New Zealand's share of untied ODA (excluding administrative costs and in-donor refugee costs) was 84% in 2012, compared with the DAC average of 81%. The grant element of total ODA was 100% in 2012.

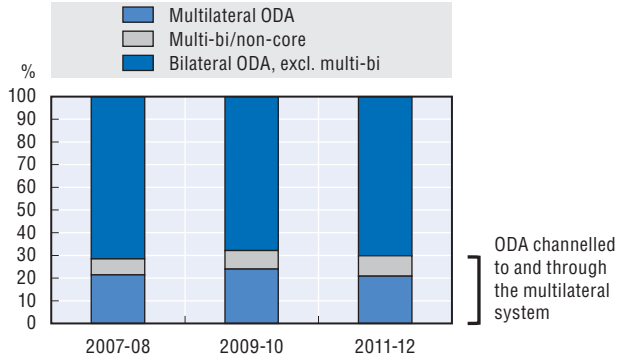
Figure 42.2. **Net ODA: Trends in volume and as a share of GNI, 2003-13, New Zealand**



StatLink http://dx.doi.org/10.1787/888933125895

In 2012, 81% of ODA was provided bilaterally. New Zealand allocated 19% of total ODA as core contributions to multilateral organisations, compared with the DAC country average of 27%. It channelled a further 10% of its bilateral ODA for specific projects implemented by multilateral organisations (multi-bi/non-core contributions).

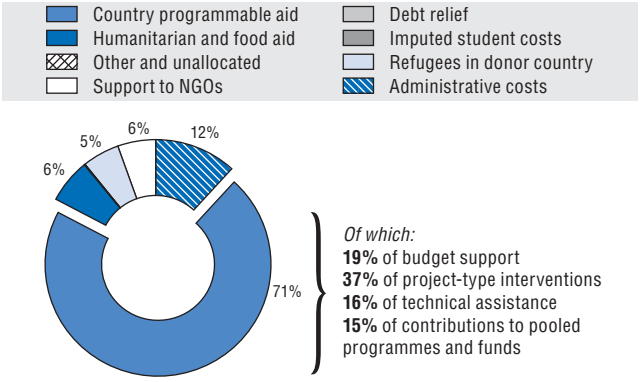
Figure 42.3. **Share of ODA channelled to and through the multilateral system, two year averages, gross disbursements, New Zealand**



StatLink http://dx.doi.org/10.1787/888933125914

In 2012, New Zealand programmed 71% of bilateral ODA at partner country level. New Zealand's share of country programmable aid (CPA) was well above the DAC country average (55%). Project-type interventions accounted for 37% of CPA.

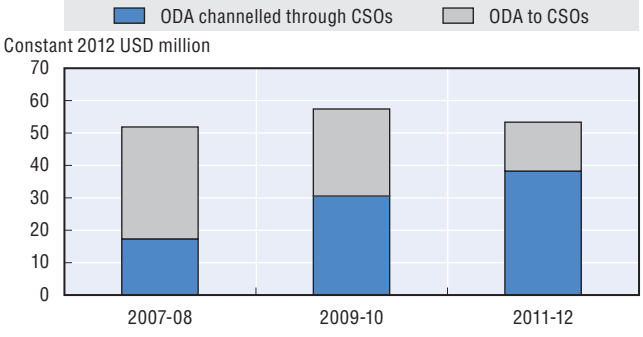
Figure 42.4. **Composition of bilateral ODA, 2012, gross disbursements, New Zealand**



StatLink http://dx.doi.org/10.1787/888933125933

USD 49 million of bilateral ODA was channelled to and through civil society organisations (CSOs). ODA channelled to and through CSOs declined between 2011 and 2012, both in terms of volume (-17%) and as a share of bilateral ODA (from 17% in 2011 to 13% in 2012). This share was lower than the 2012 DAC country average of 16.8%.

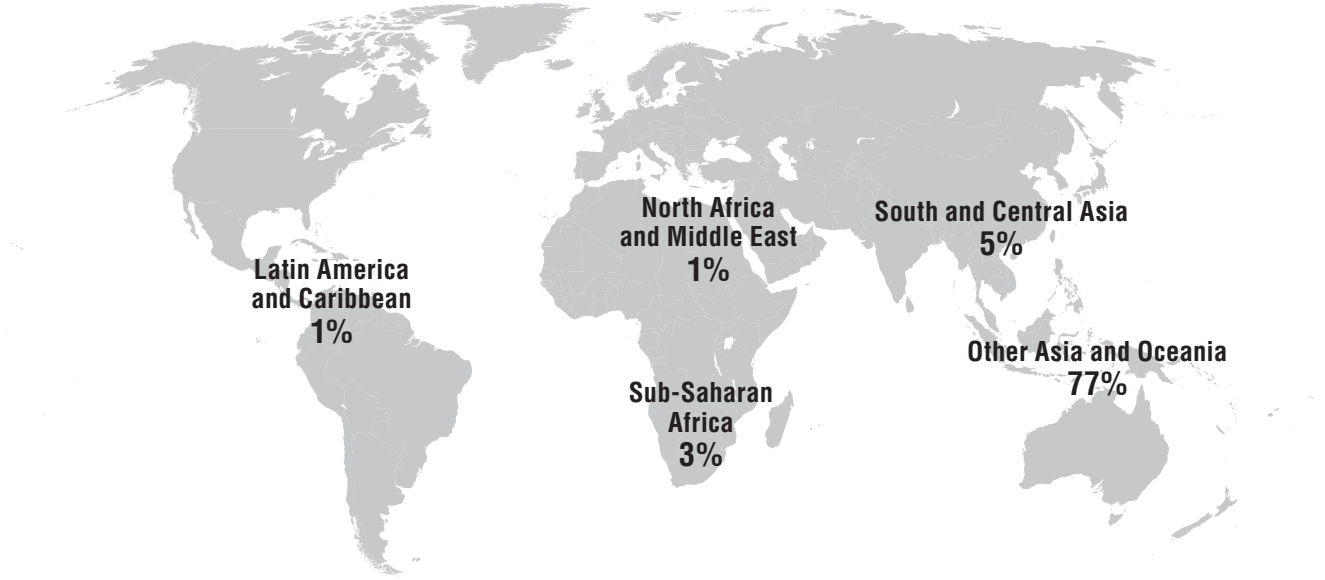
Figure 42.5. **Bilateral ODA to and through CSOs, two year averages, gross disbursements, New Zealand**



StatLink http://dx.doi.org/10.1787/888933125952

Bilateral ODA strongly focused on Oceania and Asia. In 2012, USD 228 million was allocated to Oceania, USD 52 million to Far East Asia and USD 22 million to South and Central Asia.

Figure 42.6. **Share of bilateral ODA by region, 2011-12 average, gross disbursements, New Zealand**

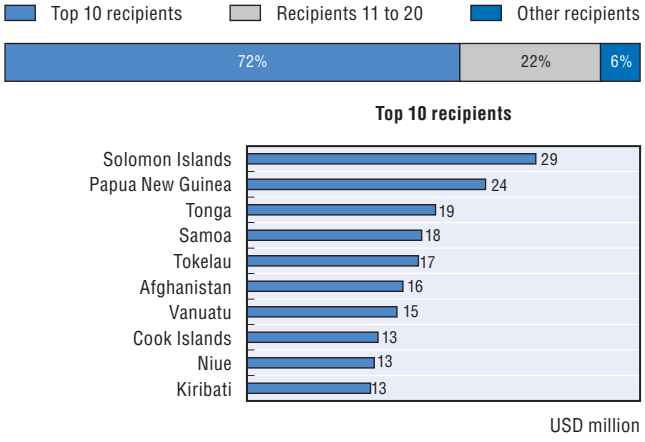


Note: 13% of bilateral ODA allocated was unspecified by region in 2011-12. This share is not represented on the map.

StatLink http://dx.doi.org/10.1787/888933125971

72% of bilateral country-allocable ODA went to New Zealand's top 10 recipients. New Zealand has 15 priority partner countries, all of which are among its top 10 ODA recipients. Its support to fragile states reached USD 81 million in 2012 (23% of total bilateral ODA).

Figure 42.7. **Bilateral country-allocable ODA to top recipients, 2012, gross disbursements, New Zealand**



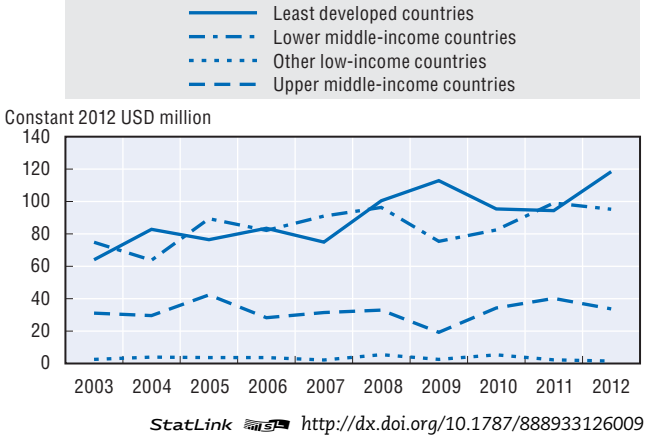
Note: Totals do not add up to total bilateral ODA. A further USD 113 million was unallocated by country.

StatLink http://dx.doi.org/10.1787/888933125990

In 2012, 33% of bilateral ODA allocated to least developed countries (LDCs), reaching USD 118 million. As a share of bilateral ODA, it has been fluctuating around 30% in recent years. LDCs received the highest share of bilateral ODA in 2012, compared with other income groups.

At 0.09% of New Zealand's GNI in 2012, total ODA to LDCs was less than the UN target of 0.15% of GNI.

Figure 42.8. **Bilateral ODA by income group, 2003-12, gross disbursements, New Zealand**



StatLink http://dx.doi.org/10.1787/888933126009

Over half of bilateral ODA was allocated to social and economic infrastructure and services in 2012, representing USD 112 million, with a strong focus on education (USD 52 million) and support to government and civil society (USD 37 million). USD 25 million was allocated to transport and storage (accounted as ODA to economic infrastructure).

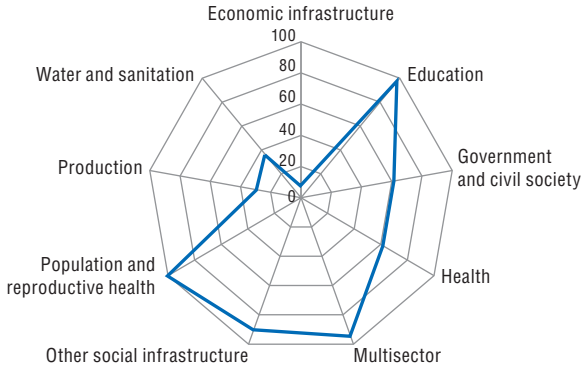
Figure 42.9. **Share of bilateral ODA by sector, 2011-12 average, commitments, New Zealand**



StatLink http://dx.doi.org/10.1787/888933126028

USD 128 million of bilateral ODA supported gender equality. In 2012, 57% of New Zealand's aid had gender equality and women's empowerment as a principal or significant objective, compared with the DAC country average of 28%. This share has been fluctuating in recent years. A high share of aid to population, reproductive health, education and other social infrastructure focuses on gender.

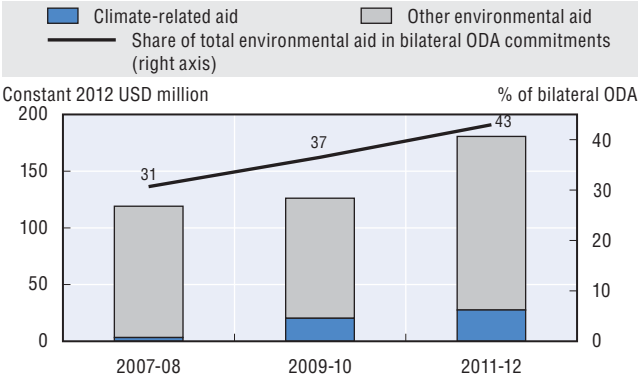
Figure 42.10. **Share of bilateral ODA in support of gender equality by sector, 2012, commitments, New Zealand**



StatLink http://dx.doi.org/10.1787/888933126047

USD 126 million of bilateral ODA supported the environment. In 2012, 39% of New Zealand's aid had environment as a principal or significant objective and 6% focused particularly on climate change (mostly on adaptation), compared with the respective DAC country averages of 26% and 24%.

Figure 42.11. **Bilateral ODA in support of global and local environment objectives, two year averages, commitments, New Zealand**



StatLink http://dx.doi.org/10.1787/888933126066

Note to reader: Annex B provides "Methodological notes on definitions and measurement for the Profiles of Development Assistance Committee members".

NORWAY

Financial flows from Norway to developing countries

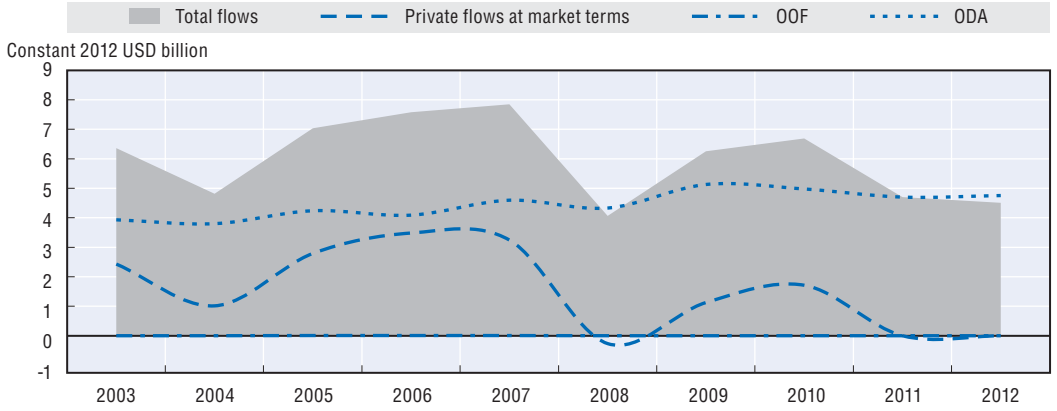
Type of flows from Norway to developing countries

-0.7 million USD of private flows at market terms in 2012. Foreign direct investment made up 23% of these flows.

5.6 billion USD of official development assistance (ODA) in 2013 (preliminary data).

-0.2 million USD of other official flows (OOF).

Figure 43.1. **Net resource flows to developing countries, 2003-12, Norway**



Note: Data on OOF are not available for 2011. Data on private grants – resources mobilised by non-governmental organisations and foundations – are not available for this period.

StatLink http://dx.doi.org/10.1787/888933126085

Norway uses ODA to mobilise resources for sustainable development

Norway promotes ODA as a catalyst for stimulating private investment in partner countries, in particular through its development finance institution, the Norwegian Investment Fund for Development (Norfund). It has developed a range of aid-funded support programmes to increase partnership with the private sector, including equity investments in renewable energy, finance and agribusiness (Norwegian Ministry of Foreign Affairs, 2012). Through its Oil for Development programme, it assists countries in managing their petroleum resources in a sustainable way.

It contributes to the mobilisation of domestic resources in developing countries by supporting their tax systems. In 2012, it committed USD 18 million of its ODA to tax-related activities in partner countries.

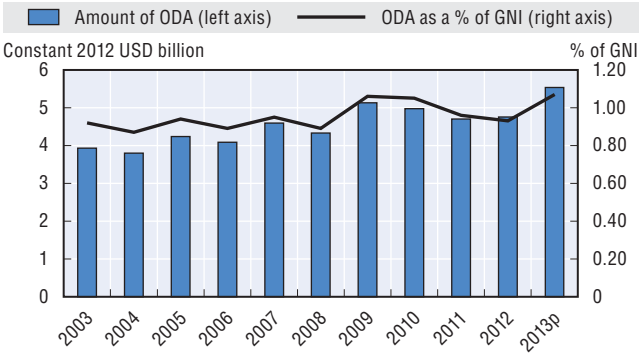
It promotes aid for trade to improve developing countries' trade performance and integration into the world economy. It committed USD 990 million (39% of its sector-allocable ODA) to trade-related activities in 2012, an 8% fall from 2011. The trend has been relatively steady in recent years.

Norway has developed innovative programmes to reduce the cost of transferring remittances (OECD, 2014). In 2012, remittances exiting Norway to developing countries amounted to USD 685 million.

Norway's official development assistance

In 2013, Norway provided USD 5.6 billion ODA (preliminary data), a 16.4% increase in real terms from 2012. Its ODA as a percentage of gross national income (GNI) has increased, from 0.93% in 2012 to 1.07% in 2013. Norway is the most generous donor of the Development Assistance Committee (DAC) measured as a share of GNI. It has consistently maintained its level of development assistance, having spent about 1% of GNI on ODA every year since 2009. All of Norway's ODA (excluding administrative costs and in-donor refugee costs) was untied in 2012, compared with the DAC average of 81%. The grant element of total ODA was 100% in 2012.

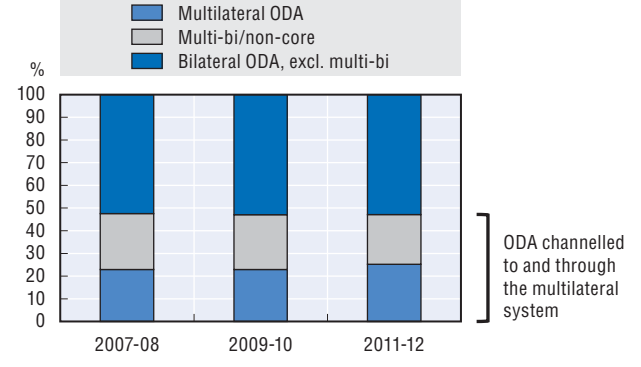
Figure 43.2. **Net ODA: Trends in volume and as a share of GNI, 2003-13, Norway**



StatLink http://dx.doi.org/10.1787/888933126104

In 2012, 75% of ODA was provided bilaterally. Norway allocated 25% of total ODA as core contributions to multilateral organisations, compared with the DAC country average of 27%. It channelled a further 29% of its bilateral ODA for specific projects implemented by multilateral organisations (multi-bi/non-core contributions).

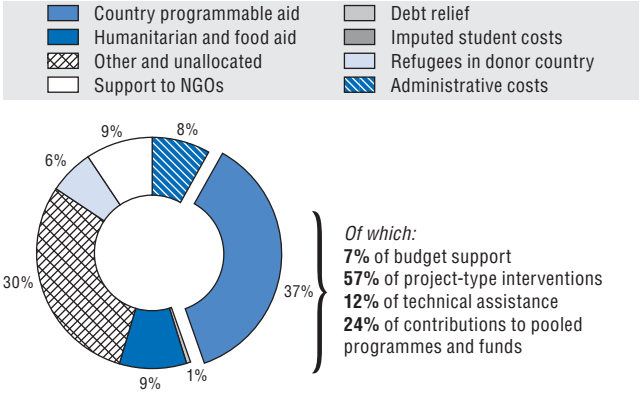
Figure 43.3. **Share of ODA channelled to and through the multilateral system, two year averages, gross disbursements, Norway**



StatLink http://dx.doi.org/10.1787/888933126123

In 2012, 37% of bilateral ODA was programmed at partner country level. Norway's share of country programmable aid (CPA) was less than the DAC country average (55%). This low CPA figure is caused by, among other things, a high level of in-donor refugee costs and a large share of its ODA channelled to non-governmental organisations (NGOs) and local government. Project-type interventions account for 57% of CPA.

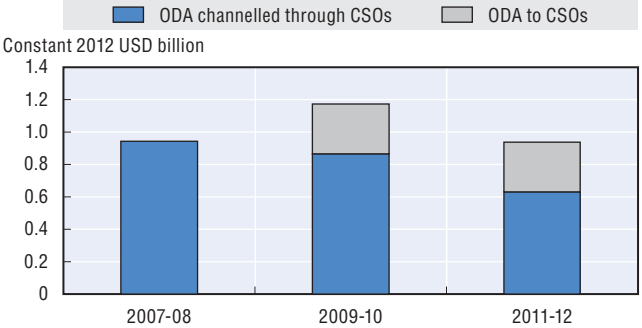
Figure 43.4. **Composition of bilateral ODA, 2012, gross disbursements, Norway**



StatLink http://dx.doi.org/10.1787/888933126142

USD 934 million of Norway's bilateral ODA was channelled to and through civil society organisations (CSOs). Norway's ODA channelled to and through CSOs has slightly decreased in terms of volume in recent years. However, it remains relatively steady as a share of bilateral ODA. This share amounted to 25.8% in 2012, compared with the DAC country average of 16.8%.

Figure 43.5. **Bilateral ODA to and through CSOs, two year averages, gross disbursements, Norway**

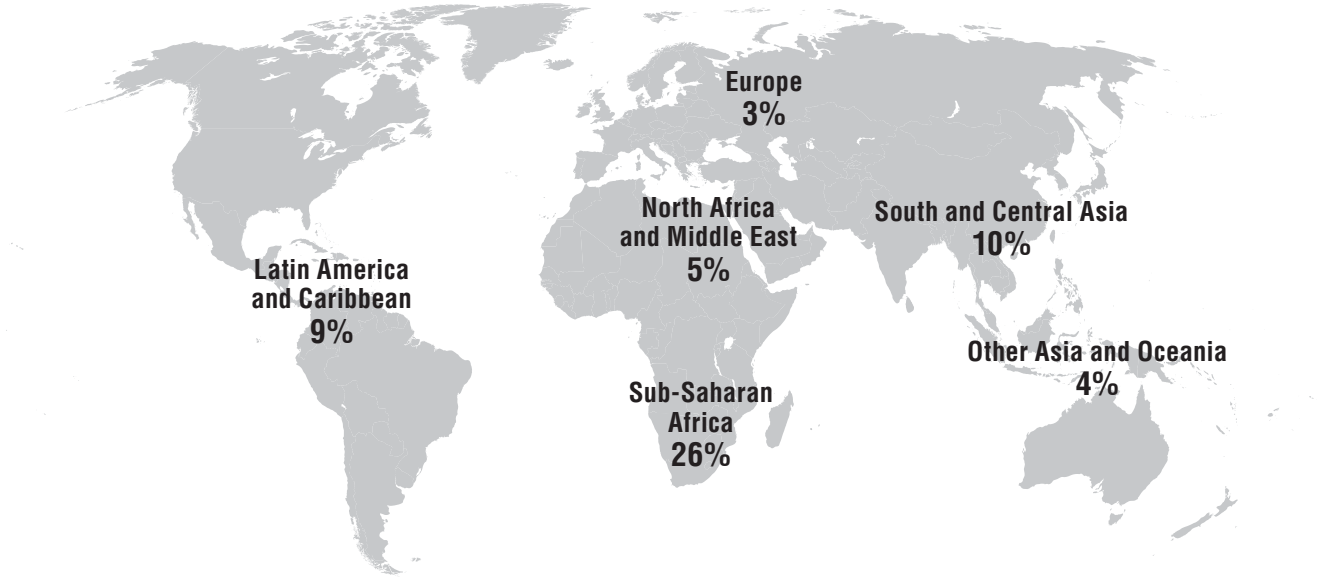


Note: Data on ODA to CSOs are not available between 2007 and 2009.

StatLink http://dx.doi.org/10.1787/888933126161

Bilateral ODA primarily focused on sub-Saharan Africa. In 2012, USD 917 million was allocated to sub-Saharan Africa and USD 334 million to South and Central Asia.

Figure 43.6. **Share of bilateral ODA by region, 2011-12 average, gross disbursements, Norway**

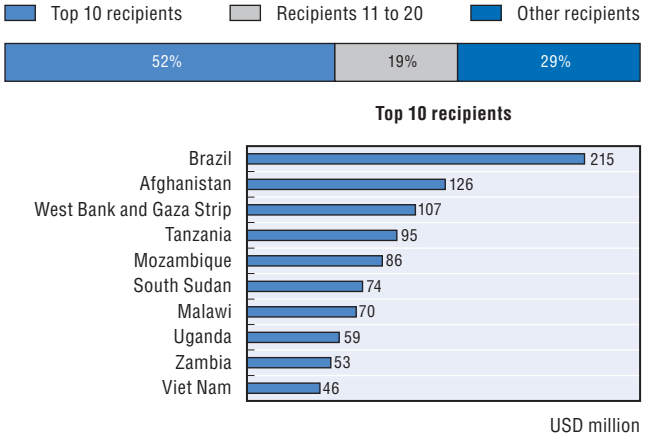


Note: 43% of bilateral ODA allocated was unspecified by region in 2011-12. This share is not represented on the map.

StatLink http://dx.doi.org/10.1787/888933126180

52% of bilateral country-allocable ODA went to Norway's top 10 recipients. It does not identify priority countries. Still, its ODA is relatively concentrated on the top recipients. In 2012, its support to fragile states reached USD 980 million (27% of total bilateral ODA).

Figure 43.7. **Bilateral country-allocable ODA to top recipients, 2012, gross disbursements, Norway**



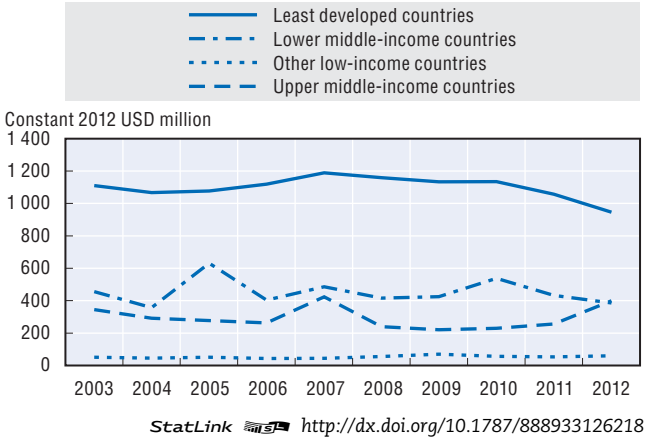
Note: Totals do not add up to total bilateral ODA. A further USD 1.8 billion was unallocated by country.

StatLink http://dx.doi.org/10.1787/888933126199

In 2012, 26% of bilateral ODA allocated to least developed countries (LDCs), amounting to USD 946 million. The share has decreased over the past decade, from 39% in 2003 to 26% in 2012. LDCs received the highest share of bilateral ODA in 2012.

At 0.27% of GNI in 2012, total ODA to LDCs was way above the UN target of 0.15% of GNI.

Figure 43.8. **Bilateral ODA by income group, 2003-12, gross disbursements, Norway**



StatLink http://dx.doi.org/10.1787/888933126218

Almost 40% of bilateral ODA was allocated to social infrastructure and services in 2012, reaching USD 1.3 billion, with a strong focus on support to government and civil society (USD 760 million). USD 386 million went to forestry and USD 390 million was allocated to humanitarian aid.

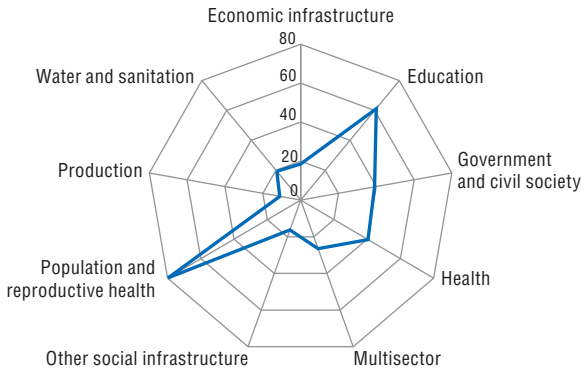
Figure 43.9. **Share of bilateral ODA by sector, 2011-12 average, commitments, Norway**



StatLink http://dx.doi.org/10.1787/888933126237

USD 777 million of bilateral ODA supported gender equality. Gender is a long-standing focus in Norway's development programme, both a thematic priority and a cross-cutting issue (OECD, 2014). In 2012, 31% of its aid had gender equality and women's empowerment as a principal or significant objective, compared with the DAC country average of 28%. In particular, a high share of Norway's aid to population, reproductive health and education focuses on gender

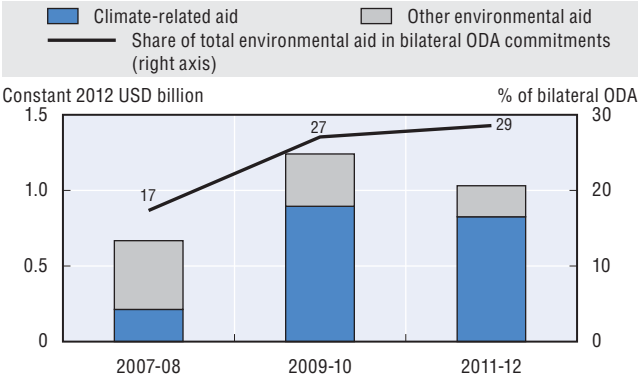
Figure 43.10. **Share of bilateral ODA in support of gender equality by sector, 2012, commitments, Norway**



StatLink http://dx.doi.org/10.1787/888933126256

USD 1 billion of bilateral ODA supported the environment. Norway is strongly committed to supporting environment and climate change-related activities. It is making progress with mainstreaming these issues in its development co-operation (OECD, 2014). In 2012, 30% of its aid had environment as a principal or significant objective and 25% focused on climate change, compared with the respective DAC country averages of 26% and 24%.

Figure 43.11. **Bilateral ODA in support of global and local environment objectives, two year averages, commitments, Norway**



StatLink http://dx.doi.org/10.1787/888933126275

Note to reader: Annex B provides "Methodological notes on definitions and measurement for the Profiles of Development Assistance Committee members".

References

Norwegian Ministry of Foreign Affairs (2012), *Business Creates Development: What the Norwegian Authorities Are Doing to Promote Private Investment In Developing Countries*, Norwegian Ministry of Foreign Affairs, Oslo.

OECD (2014), *OECD Development Co-operation Peer Reviews: Norway 2013*, OECD Development Co-operation Peer Reviews, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264196315-en*.

POLAND

Poland uses ODA to mobilise resources for sustainable development

Poland does not have a separate private sector development strategy, but supporting entrepreneurship, and in particular small and medium-sized enterprises (SMEs) in partner countries, is one of the priorities of Polish development co-operation for 2012-15.

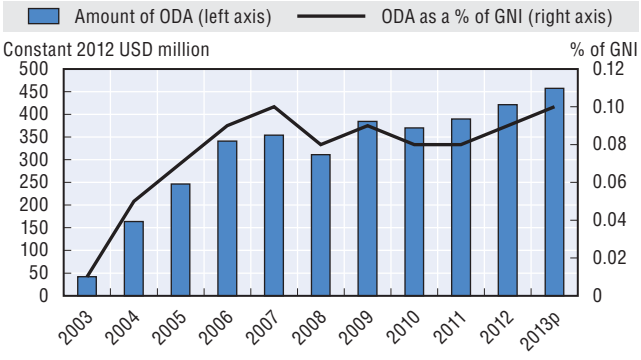
Over recent years Poland has implemented several projects that aimed to help partner countries improve their trade regime.

In 2012, remittances exiting Poland to developing countries amounted to USD 422 million.

Poland's official development assistance

In 2013, Poland provided USD 474 million ODA (preliminary data), which represented 0.10% of gross national income (GNI) and an 8.6% increase in real terms from 2012. The positive trends in Poland's aid volume are in line with its intention, as a member of the European Union, to fulfil its political commitment to attain the 0.33% ODA/GNI ratio when political and financial conditions permit.

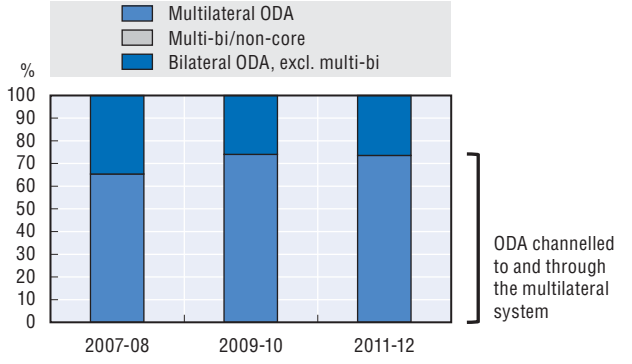
Figure 44.1. **Net ODA: Trends in volume and as a share of GNI, 2003-13, Poland**



StatLink http://dx.doi.org/10.1787/888933126294

Poland delivered 29% of ODA bilaterally. It channelled 71% of its ODA to multilateral organisations in 2012, compared with the DAC country average of 27%. Its multilateral aid consisted mainly of mandatory assessed contributions to the European Union and other international organisations.

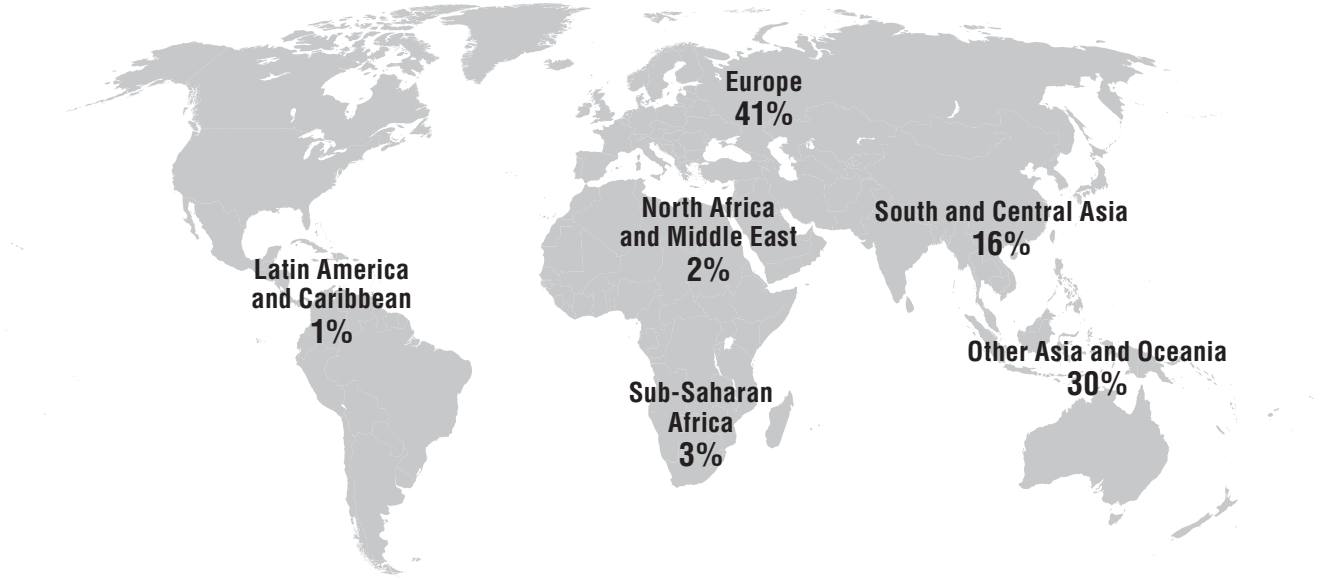
Figure 44.2. **Share of ODA channelled to and through the multilateral system, two year averages, gross disbursements, Poland**



StatLink http://dx.doi.org/10.1787/888933126313

Bilateral ODA primarily focused on Eastern Europe and Far East Asia. In 2012, USD 32 million was allocated to Eastern Europe (a declining amount compared with 2011) and USD 63 million to Far East Asia.

Figure 44.3. **Share of bilateral ODA by region, 2011-12 average, gross disbursements, Poland**

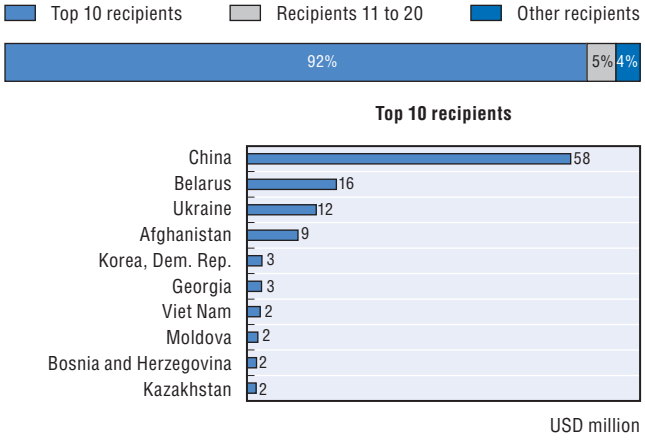


Note: 7% of bilateral ODA allocated was unspecified by region in 2011-12. This share is not represented on the map.

StatLink http://dx.doi.org/10.1787/888933126332

92% of bilateral country-allocable ODA went to Poland's top 10 recipients. Poland divides its geographical priorities into two groups: Eastern Partnerships and selected countries of Africa, Central Asia and the Middle East. Its support to fragile states reached USD 19 million in 2012 (15% of total bilateral ODA).

Figure 44.4. **Bilateral country-allocable ODA to top recipients, 2012, gross disbursements, Poland**



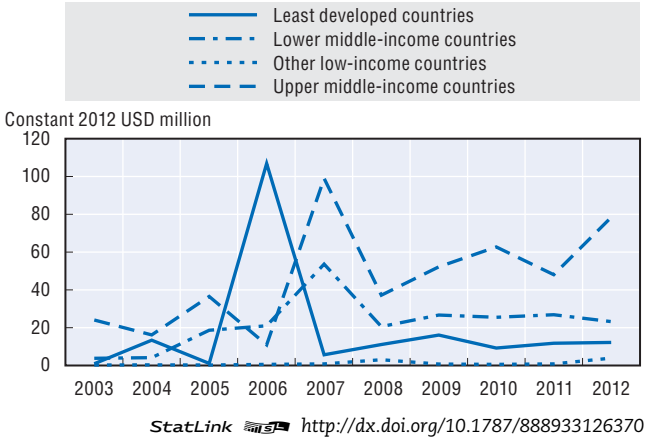
Note: Totals do not add up to total bilateral ODA. A further USD 11 million was unallocated by country.

StatLink http://dx.doi.org/10.1787/888933126351

In 2012, 9% of bilateral ODA was allocated to least developed countries (LDCs), amounting to USD 12 million. This trend has been positive since 2010. Upper middle-income countries received the highest share of bilateral ODA in 2012 (61%).

At 0.02% of GNI in 2012, total ODA to LDCs was far from the UN target of 0.15% of GNI.

Figure 44.5. **Bilateral ODA by income group, 2003-12, gross disbursements, Poland**



StatLink http://dx.doi.org/10.1787/888933126370

Priority sectors vary from Eastern European countries to other partner countries. Poland has two priority sectors in Eastern European partner countries – democratisation and human rights and support to political and economic transformation. Partner countries in Asia and Africa are supported in the areas of education, environment, development of small and medium-size enterprises (SMEs) and professionalising the public administration.

Gender equality is a cross-cutting priority. Gender equality and women's empowerment are among the focus areas of Poland's development co-operation and an integral part of its thematic priority of democracy and human rights. Poland supports projects targeted at enhancing the social and economic status of women and girls in partner countries such as Afghanistan, as well as in other partner countries. All projects supported by the Ministry of Foreign Affairs must integrate gender equality and women's empowerment as a cross-cutting theme.

A key principle of Polish development co-operation is caring for the natural environment, the sustainable use of natural resources and combatting climate change. Counteracting environmental degradation, climate change mitigation and adaptation are integrated into Poland's sector support. Environmental impact assessments are required for all development projects submitted to Polish Development Aid. Measures to redress possible negative impacts must be identified. Poland has recently hosted international meetings devoted to climate change (Poznan UN Climate Change Conference in 2008 and Warsaw UN Climate Change Conference in 2013).

Note to reader: Annex B provides "Methodological notes on definitions and measurement for the Profiles of Development Assistance Committee members".

PORTUGAL

Financial flows from Portugal to developing countries

Type of flows from Portugal to developing countries

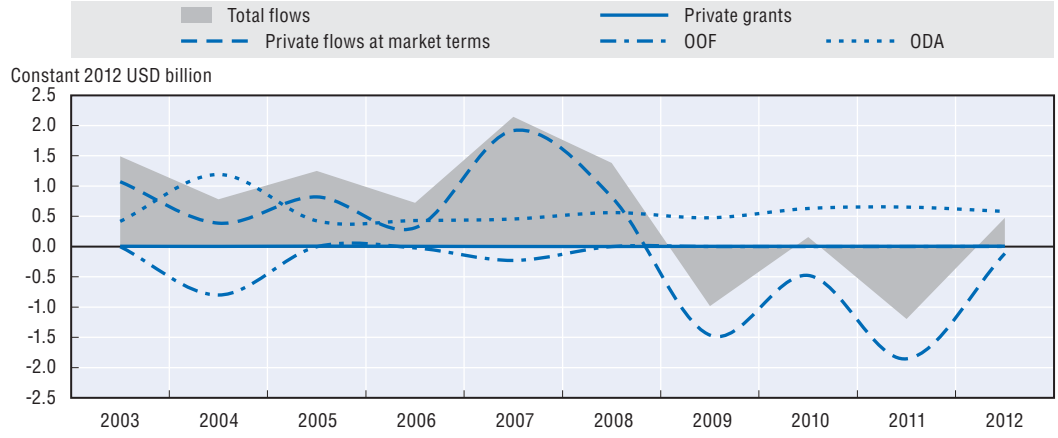
-114 million USD of private flows at market terms in 2012.

484 million USD of official development assistance (ODA) in 2013 (preliminary data).

2 million USD of other official flows (OOF) in 2012.

7 million USD of private grants in 2012. These resources were mobilised by non-governmental organisations and foundations.

Figure 45.1. **Net resource flows to developing countries, 2003-12, Portugal**



Note: Data on OOF are not available for 2008, 2009 or 2010.

StatLink http://dx.doi.org/10.1787/888933126389

Portugal uses ODA to mobilise resources for sustainable development

Portugal has included private sector and development as a part of its new development co-operation strategy. It promotes private investment in partner countries through its development finance institution, the Sociedad para o Financiamento do Desenvolvimento (SOFID).

It contributes to the mobilisation of domestic resources in developing countries by supporting their tax systems. In 2012, it committed USD 59 000 of its ODA to tax-related activities in partner countries. It is likely that this amount understates the efforts undertaken by Portugal.

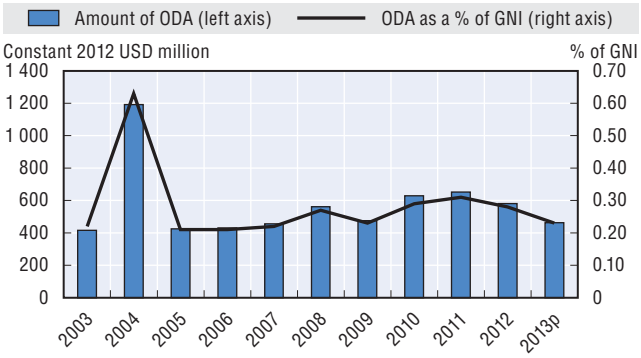
It promotes aid for trade to improve developing countries' trade performance. It committed USD 22 million (15% of sector-allocable ODA) to trade-related activities in 2012, a 9% decrease from 2011. The trend has been decreasing since 2010.

Portugal's National Plan for Migrant Integration aims to facilitate remittances, increase immigrants' access to job offers and public services, stimulate circular migration and encourage migrants to invest in their home countries. In 2012, remittances exiting Portugal to developing countries amounted to USD 495 million.

Portugal's official development assistance

In 2013, Portugal provided USD 484 million ODA (preliminary data), which represented 0.23% of gross national income (GNI) and a fall of 20.4% in real terms from 2012. In 2012, the share of its untied ODA (excluding administrative costs and in-donor refugee costs) was 25%, compared to the DAC average of 81%. The grant element of total ODA was 84.6% in 2012, less than the grant element compliance norm of 86%.

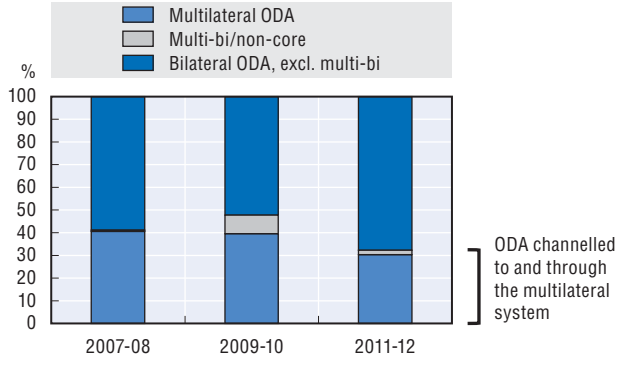
Figure 45.2. **Net ODA: Trends in volume and as a share of GNI, 2003-13, Portugal**



StatLink http://dx.doi.org/10.1787/888933126408

In 2012, 70% of ODA was provided bilaterally. Portugal allocated 30% of total ODA as core contributions to multilateral organisations, compared with the DAC country average of 27%. It channelled a further 2% of its bilateral ODA for specific projects implemented by multilateral organisations (multi-bi/non-core contributions).

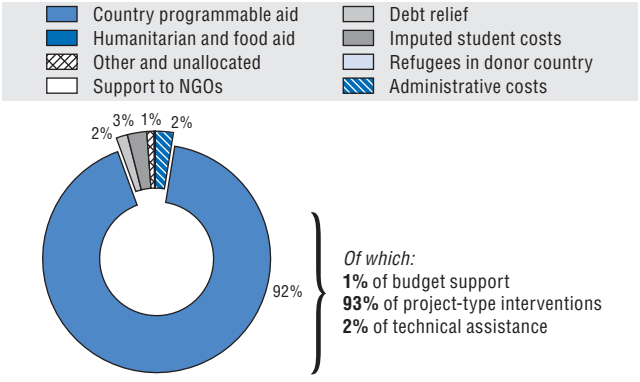
Figure 45.3. **Share of ODA channelled to and through the multilateral system, two year averages, gross disbursements, Portugal**



StatLink http://dx.doi.org/10.1787/888933126427

In 2012, 92% of bilateral ODA was programmed at partner country level. Its share of country programmable aid (CPA) was well above the DAC country average (55%). Project-type interventions made up 93% of CPA.

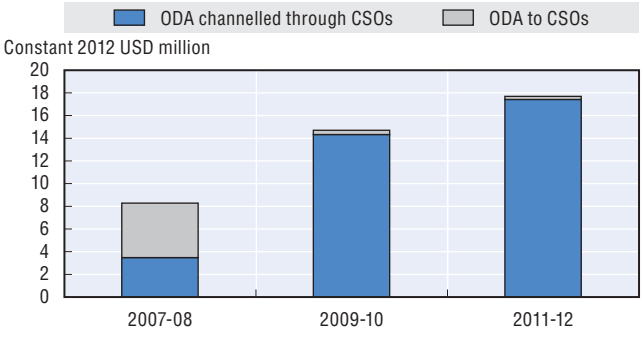
Figure 45.4. **Composition of bilateral ODA, 2012, gross disbursements, Portugal**



StatLink http://dx.doi.org/10.1787/888933126446

USD 16 million of bilateral ODA was channelled to and through civil society organisations (CSOs). Although the amount of Portugal's ODA to and through CSOs has generally increased in recent years, it fell by 14% between 2011 and 2012. The share of bilateral ODA channelled to and through CSOs has, however, remained steady at 4%. The 2012 DAC country average was 16.8%

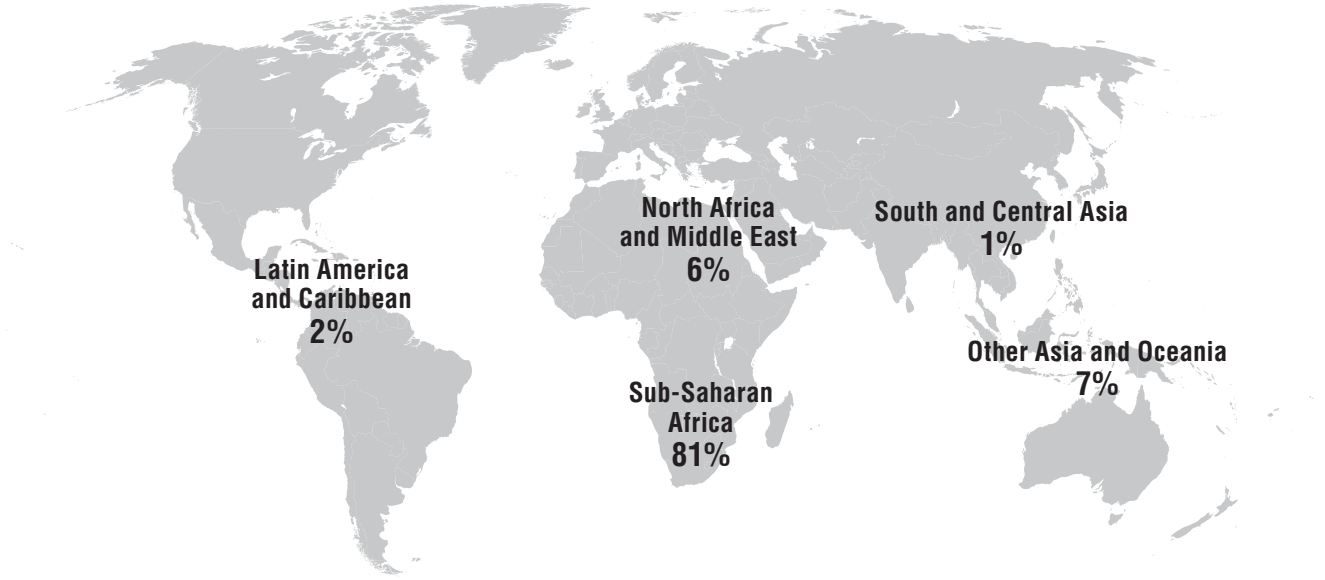
Figure 45.5. **Bilateral ODA to and through CSOs, two year averages, gross disbursements, Portugal**



StatLink http://dx.doi.org/10.1787/888933126465

Bilateral ODA primarily focused on sub-Saharan Africa. In 2012, USD 323 million was allocated to sub-Saharan Africa and USD 59 million to North Africa.

Figure 45.6. **Share of bilateral ODA by region, 2011-12 average, gross disbursements, Portugal**

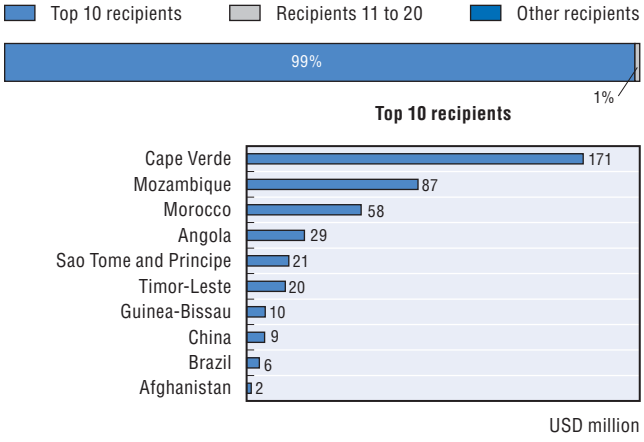


Note: 4% of bilateral ODA allocated was unspecified by region in 2011-12. This share is not represented on the map.

StatLink http://dx.doi.org/10.1787/888933126484

99% of bilateral country-allocable ODA went to Portugal's top 10 recipients. Portugal's programme is highly focused on six Portuguese-speaking priority partner countries, all of which sit among its top 10 recipients. Its support to fragile states reached USD 62 million in 2012 (14% of total bilateral ODA).

Figure 45.7. **Bilateral country-allocable ODA to top recipients, 2012, gross disbursements, Portugal**



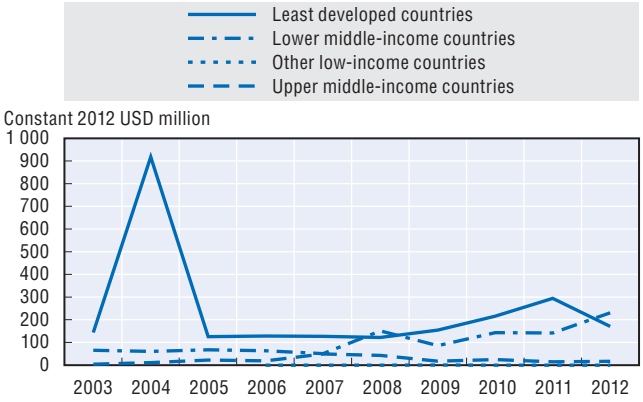
Note: Totals do not add up to total bilateral ODA. A further USD 17 million was unallocated by country.

StatLink http://dx.doi.org/10.1787/888933126503

In 2012, 39% of bilateral ODA allocated to least developed countries (LDCs), amounting to USD 170 million. As a share of bilateral ODA, it has decreased in recent years (it stood at 62% in 2011 and 52% in 2010). Lower middle-income countries received the highest share of bilateral ODA in 2012 (53%).

At 0.09% of GNI in 2012, total ODA to LDCs was less than the UN target of 0.15% of GNI.

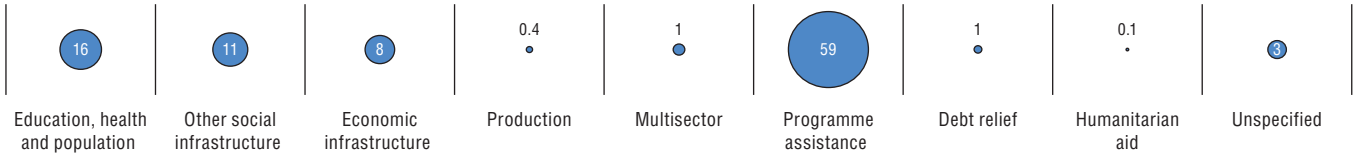
Figure 45.8. **Bilateral ODA by income group, 2003-12, gross disbursements, Portugal**



StatLink http://dx.doi.org/10.1787/888933126522

Two-thirds of bilateral ODA was allocated to programme assistance. In 2012, USD 244 million of bilateral ODA was allocated to programme assistance and USD 120 million to social infrastructure and services, with a strong focus on education (USD 52 million).

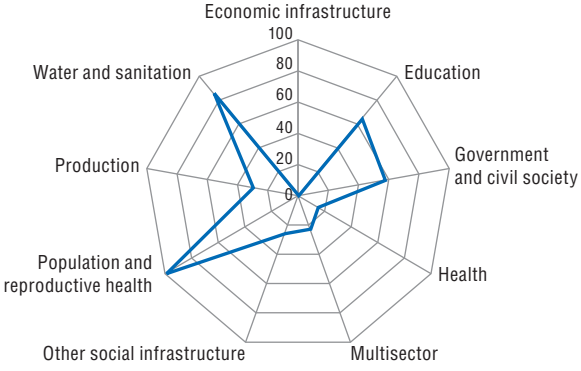
Figure 45.9. **Share of bilateral ODA by sector, 2011-12 average, commitments, Portugal**



StatLink http://dx.doi.org/10.1787/888933126541

USD 56 million of bilateral ODA supported gender equality. Gender equality is prioritised in Portugal's policy for development co-operation and has been progressively integrated in the bilateral programming with its main partner countries. In 2012, 38% of Portuguese aid had gender equality and women's empowerment as a principal or significant objective, compared with the DAC country average of 28%. This is an increase compared with 36% in 2011 and 15% in 2010. A high share of Portugal's aid to population, reproductive health, water and sanitation focuses on gender.

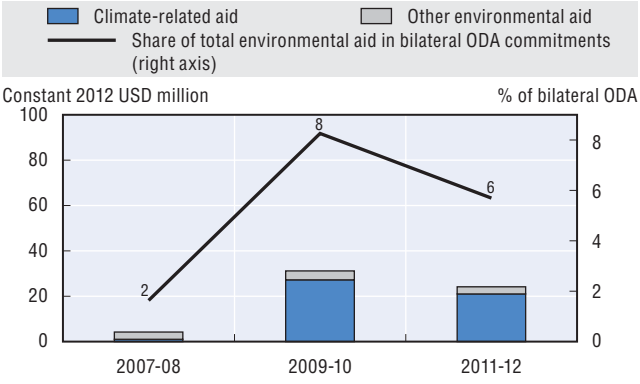
Figure 45.10. **Share of bilateral ODA in support of gender equality by sector, 2012, commitments, Portugal**



StatLink http://dx.doi.org/10.1787/888933126560

USD 21 million of bilateral ODA supported the environment. Portugal's share of environment-focused ODA has increased in recent years. Nevertheless, integrating the environment and climate change throughout its development co-operation remains a challenge. In 2012, 5% of its aid had climate change as a principal or significant objective, compared with the DAC country average of 24%.

Figure 45.11. **Bilateral ODA in support of global and local environment objectives, two year averages, commitments, Portugal**



StatLink http://dx.doi.org/10.1787/888933126579

Note to reader: Annex B provides "Methodological notes on definitions and measurement for the Profiles of Development Assistance Committee members".

SLOVAK REPUBLIC

The Slovak Republic uses ODA to mobilise resources for sustainable development

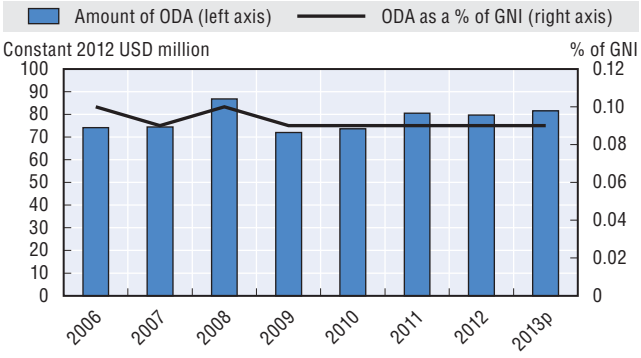
The Slovak Republic's Business Partnership programme – one of its eight main programmes – aims to find synergies between the goals of Slovak development co-operation and the goals of the business sector in partner countries. The programme focuses on strengthening socio-economic development of local communities and mobilising private financial resources in order to enhance development activities. The programme helps establish partnerships with local business entities in partner countries to strengthen their capacities while helping Slovak entities access new markets – without providing export subsidies.

In 2012, remittances exiting the Slovak Republic to developing countries amounted to USD 32 million.

The Slovak Republic's official development assistance

In 2013, the Slovak Republic provided USD 85 million ODA (preliminary data), which represented 0.09% of gross national income (GNI) and a 2.4% increase in real terms from 2012. Despite severe fiscal constraints, the Slovak Republic managed to stabilise its ODA budget over the past three years. The Slovak Republic is committed to gradually meet ODA targets adopted at the EU level when the economy recovers. The grant element of total ODA was 100% in 2012.

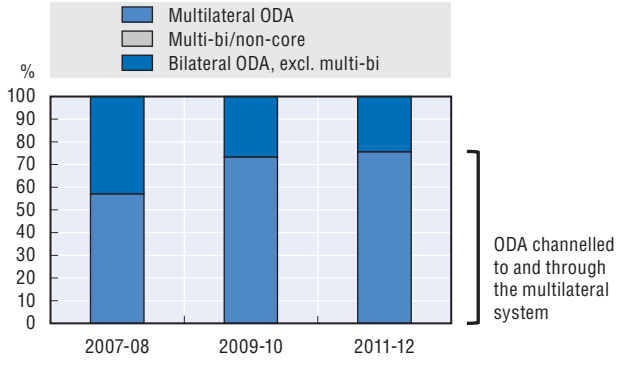
Figure 46.1. **Net ODA: Trends in volume and as a share of GNI, 2006-13, Slovak Republic**



StatLink http://dx.doi.org/10.1787/888933126598

In 2012, 24% of ODA was provided bilaterally. In 2012, 76% of the Slovak Republic's ODA was channelled to multilateral organisations, compared with the DAC country average of 27%. The major share of its multilateral aid went to fulfil its assessed contribution to the EU (including the European Development Fund) (i.e. 89%). It also contributed to several other international organisations, notably the European Investment Bank; the Organisation for Security and Co-operation in Europe; the United Nations system; and the World Bank Group.

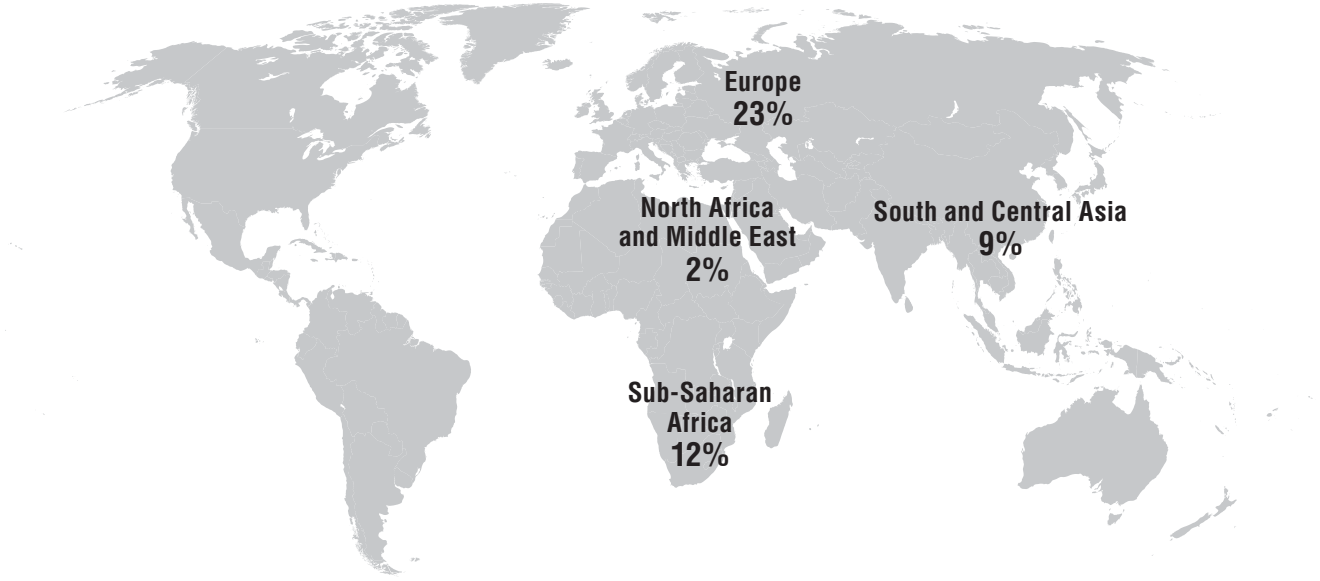
Figure 46.2. **Share of ODA channelled to and through the multilateral system, two year averages, gross disbursements, Slovak Republic**



StatLink http://dx.doi.org/10.1787/888933126617

Bilateral ODA primarily focused on Eastern Europe. In 2012, USD 4.5 million was allocated to Eastern Europe and USD 2.6 million to sub-Saharan Africa.

Figure 46.3. **Share of bilateral ODA by region, 2011-12 average, gross disbursements, Slovak Republic**

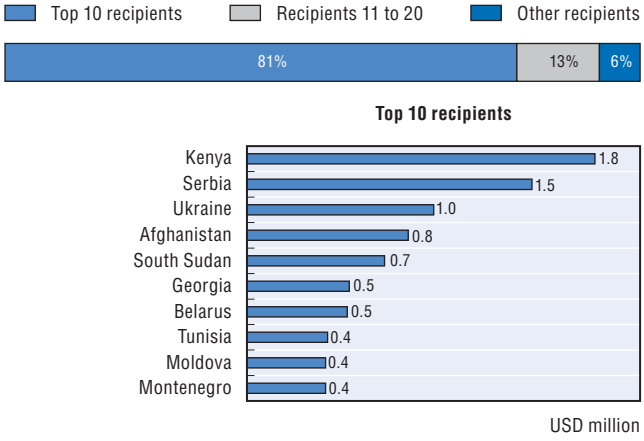


Note: 53% of bilateral ODA allocated was unspecified by region in 2011-12. This share is not represented on the map.

StatLink http://dx.doi.org/10.1787/888933126636

81% of bilateral country-allocable ODA went to the Slovak Republic's top 10 recipients. It focuses on 10 priority partners with three programme countries (Afghanistan, Kenya, Moldova), six project countries (Albania, Belarus, Bosnia and Herzegovina, Georgia, Kosovo,* Ukraine) and South Sudan. Seven priority countries sit among its top 10 recipients. In 2012, its support to fragile states reached USD 4 million (22% of total bilateral ODA).

Figure 46.4. **Bilateral country-allocable ODA to top recipients, 2012, gross disbursements, Slovak Republic**



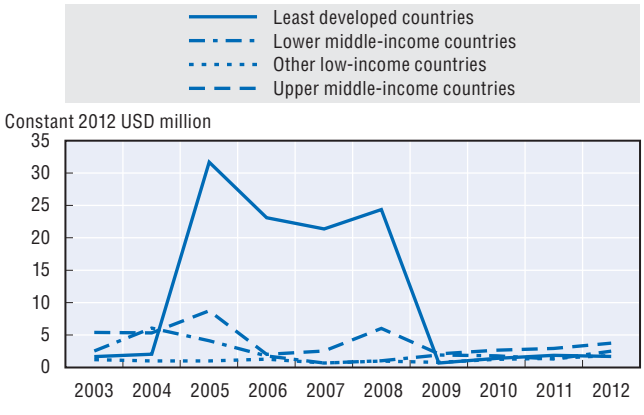
Note: Totals do not add up to total bilateral ODA. A further USD 9 million was unallocated by country.

StatLink http://dx.doi.org/10.1787/888933126655

In 2012, 9% of bilateral ODA was allocated to least developed countries (LDCs), amounting to USD 1.7 million. The share fell sharply between 2008 (63%) and 2009 (3%), and has since then slightly increased. Upper middle-income countries received the highest share of bilateral ODA (20%), noting the high share unallocated by income group (48%) in 2012, compared to the 32% total DAC average.

At 0.02% of GNI in 2012, total ODA to LDCs was far from the UN target of 0.15% of GNI.

Figure 46.5. **Bilateral ODA by income group, 2003-12, gross disbursements, Slovak Republic**



StatLink http://dx.doi.org/10.1787/888933126674

* Reference to Kosovo is without prejudice to its status under international law.

A wide range of intervention sectors. The Slovak Republic's bilateral co-operation focuses on seven areas: education, healthcare, good governance and building of civil society, agriculture and forestry, water and sanitation, energy, and building a market environment. Priority sectors of engagement are identified in the country strategy papers for programme countries. The Slovak Republic will support sectors in its "project" countries on the basis of the diverse needs of the countries undergoing transformation and the Slovak Republic's own experience.

Gender equality, a cross-cutting priority. The Slovak Republic considers that gender equality and women's empowerment are crucial for eradicating poverty and promoting economic growth and social development. It plans to mainstream gender equality into its development co-operation programme.

Integrating environment into development co-operation. The Slovak Republic strives to integrate environment and climate change into its development co-operation, in accordance with its commitments regarding mitigation, adaptation and protection of biodiversity.

Note to reader: Annex B provides "Methodological notes on definitions and measurement for the Profiles of Development Assistance Committee members".

SLOVENIA

Slovenia uses ODA to mobilise resources for sustainable development

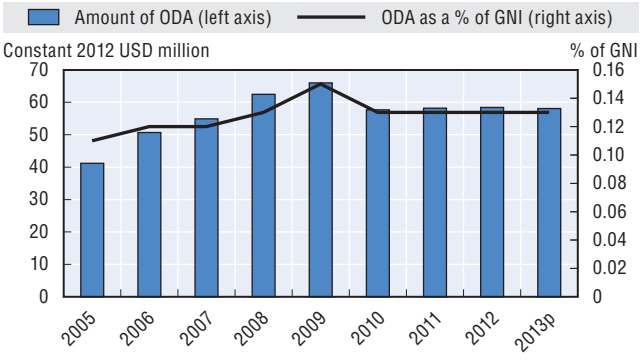
Slovenia does not have a specific strategy for supporting private sector development. It does, however, involve domestic firms in its development co-operation. For example, almost half of Slovenia's country programmable aid is tendered by partner countries themselves – according to their own public procurement procedures – and often involves industrial projects with Slovenian firms.

In 2012, remittances exiting Slovenia to developing countries amounted to USD 118 million.

Slovenia's official development assistance

In 2013, Slovenia provided USD 60 million ODA (preliminary data), which represented 0.13% of gross national income (GNI) and a 0.6% decrease in real terms from 2012.

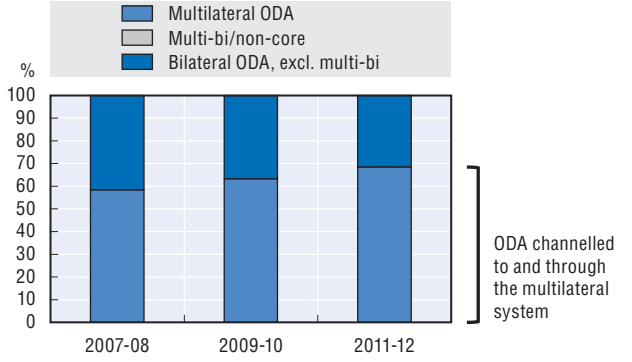
Figure 47.1. **Net ODA: Trends in volume and as a share of GNI, 2005-13, Slovenia**



StatLink http://dx.doi.org/10.1787/888933126693

In 2012, 33% of ODA was provided bilaterally. In 2012, 67% of Slovenia's ODA was channelled to multilateral organisations, compared with the DAC country average of 27%. Slovenia principally allocated its multilateral contributions to the European Union (EU general budget and European Development Fund) to meet its mandatory contributions. The remainder of Slovenia's multilateral ODA consisted of contributions to the World Bank Group, as well as small contributions to the Global Environment Facility and United Nations agencies.

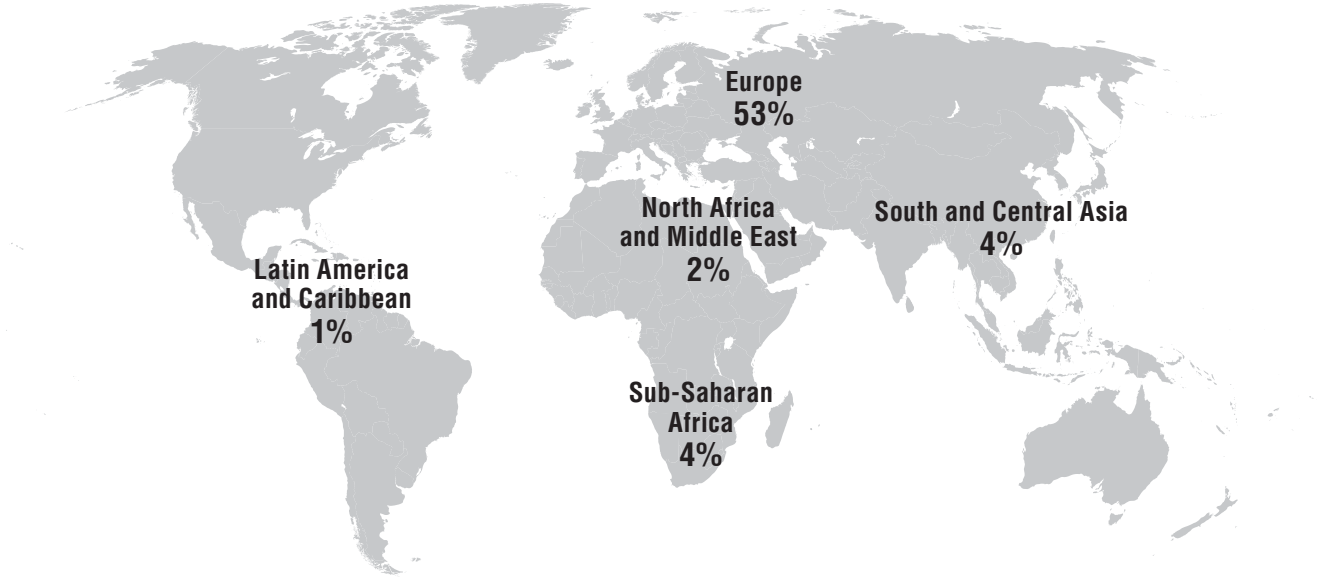
Figure 47.2. **Share of ODA channelled to and through the multilateral system, two year averages, gross disbursements, Slovenia**



StatLink http://dx.doi.org/10.1787/888933126712

Bilateral ODA primarily focused on Eastern Europe. In 2012, USD 10 million was allocated to Eastern Europe and USD 1 million to sub-Saharan Africa.

Figure 47.3. **Share of bilateral ODA by region, 2011-12 average, gross disbursements, Slovenia**

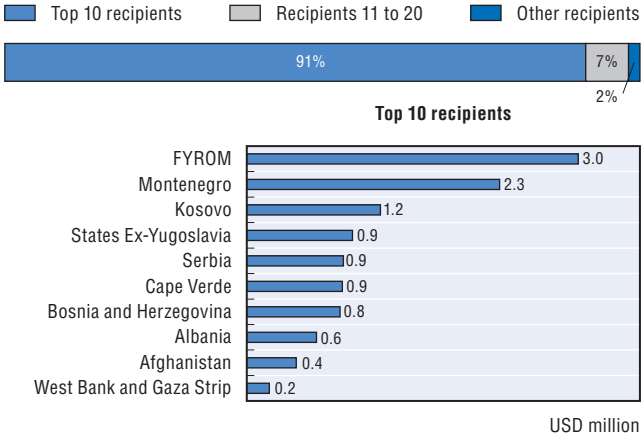


Note: 35% of bilateral ODA allocated was unspecified by region in 2011-12. This share is not represented on the map.

StatLink http://dx.doi.org/10.1787/888933126731

91% of bilateral country-allocable ODA went to Slovenia's top 10 recipients. Slovenia has eight priority partner countries and its ODA to the top 10 recipients is strongly concentrated. In 2012, its support to fragile states reached USD 3 million (16% of total bilateral ODA).

Figure 47.4. **Bilateral country-allocable ODA to top recipients, 2012, gross disbursements, Slovenia**



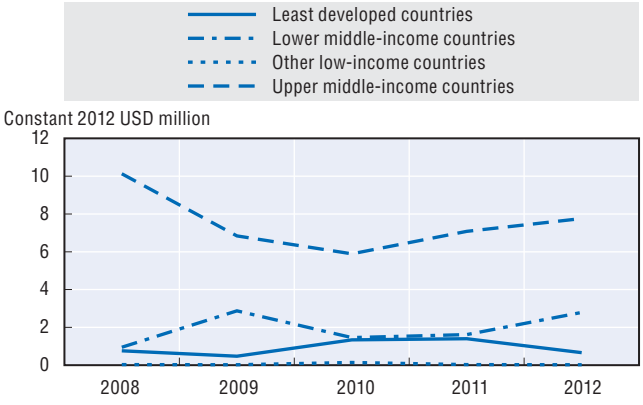
Note: Totals do not add up to total bilateral ODA. A further USD 6.9 million was unallocated by country. Reference to Kosovo is without prejudice to its status under international law.

StatLink http://dx.doi.org/10.1787/888933126750

In 2012, 3% of bilateral ODA was allocated to least developed countries (LDCs), amounting to USD 0.7 million. The share has decreased compared with 6% in 2010 and 8% in 2011. Upper middle-income countries received the highest share of bilateral ODA in 2012 (41%).

At 0.02% of gross national income (GNI) in 2012, total ODA to LDCs was far from the UN target of 0.15% of GNI.

Figure 47.5. **Bilateral ODA by income group, 2003-12, gross disbursements, Slovenia**



Note: Data are not available prior to 2008.

StatLink http://dx.doi.org/10.1787/888933126769

Priority is given to social sectors. For the period up to the end of 2015, Slovenia's bilateral co-operation focuses on: 1) social services; 2) economic services and infrastructure; and 3) multi-sectoral priorities (including climate change adaptation and good governance).

Gender equality is a cross-cutting priority. Women's empowerment is one of the cross-cutting themes of Slovenia's development co-operation. The Ministry for Foreign Affairs has developed a Draft Gender Strategy.

Environment is a priority theme. Environmental protection, with a focus on sustainable water management, is one of the priority themes for Slovenia's development co-operation. In 2011, the Ministry for Foreign Affairs developed a Sustainable Water Management Strategy.

Note to reader: Annex B provides "Methodological notes on definitions and measurement for the Profiles of Development Assistance Committee members".

SPAIN

Financial flows from Spain to developing countries

Type of flows from Spain to developing countries

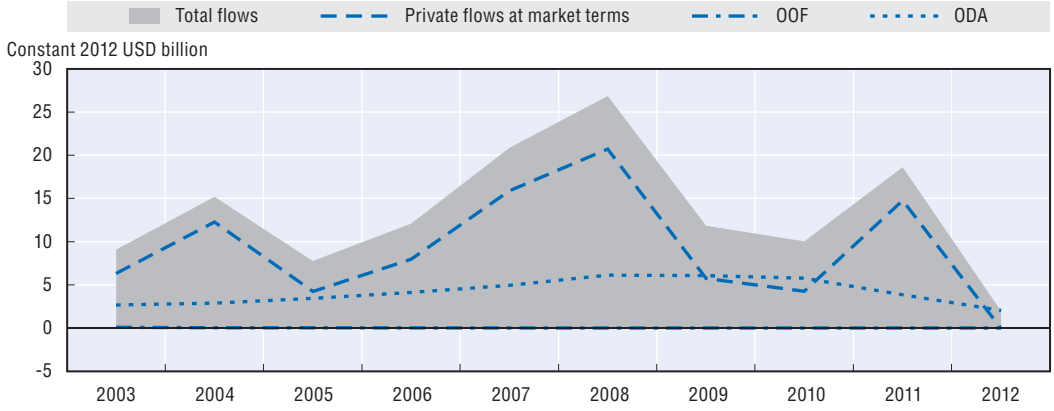
-63 million USD of private flows at market terms in 2012, which were composed of private export credits (100%).

2.2 billion USD of official development assistance (ODA) in 2013 (preliminary data).

2 million USD of other official flows (OOF) in 2012.

0.34 million USD of private grants in 2012. These resources were mobilised by non-governmental organisations and foundations.

Figure 48.1. **Net resource flows to developing countries, 2003-12, Spain**



Note: Data on other OOF are not available for 2006, 2008 or 2010. Data on private grants are only available for 2012.

StatLink http://dx.doi.org/10.1787/888933126788

Spain uses ODA to mobilise resources for sustainable development

Spain uses its ODA as a catalyst to promote private sector investment in developing countries. CONFIDES, its Development Finance Institute, is the main instrument it uses and within this, the FIEX and FONDPYME funds the private sector.

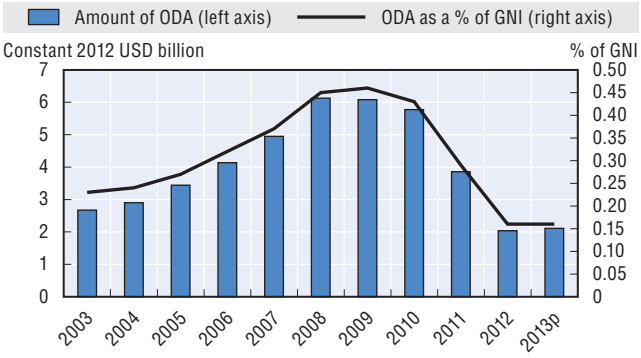
It promotes aid for trade to improve developing countries' trade performance and integration into the world economy. Its commitment to trade-related activities has, however, been following a decreasing trend since 2010. In 2012, it amounted to USD 82 million (12% of its sector-allocable ODA), an 86% fall from 2011.

In addition, remittances exiting Spain to developing countries amounted to USD 9.5 billion in 2012.

Spain's official development assistance

In 2013, Spain provided USD 2.2 billion ODA (preliminary data), which represented 0.16% of gross national income (GNI) and a 3.7% increase in real terms from 2012. ODA has reached a standstill after having dramatically fallen between 2008 and 2012, both in terms of volume and as a share of GNI. Spain is currently not on track to meet its commitment to deliver its 0.7% ODA/GNI target by 2015. Spain's share of untied ODA (excluding administrative costs and in-donor refugee costs) was 83% in 2012, compared with the DAC average of 81%. The grant element of total ODA was 100% in 2012.

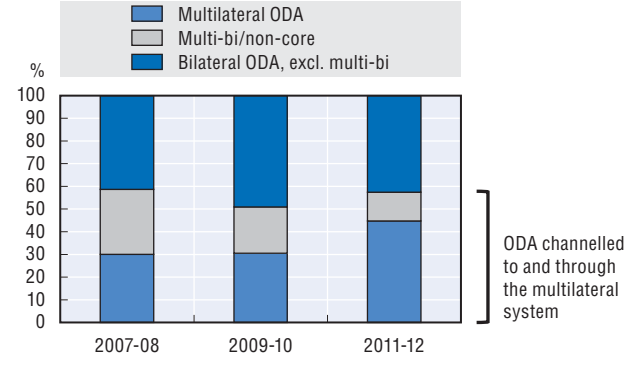
Figure 48.2. **Net ODA: Trends in volume and as a share of GNI, 2003-13, Spain**



StatLink http://dx.doi.org/10.1787/888933126807

In 2012, 50% of ODA was provided bilaterally. Spain allocated 50% of total ODA as core contributions to multilateral organisations, compared with the DAC country average of 27%. It channelled a further 12% of its bilateral ODA for specific projects implemented by multilateral organisations (multi-bi/non-core contributions).

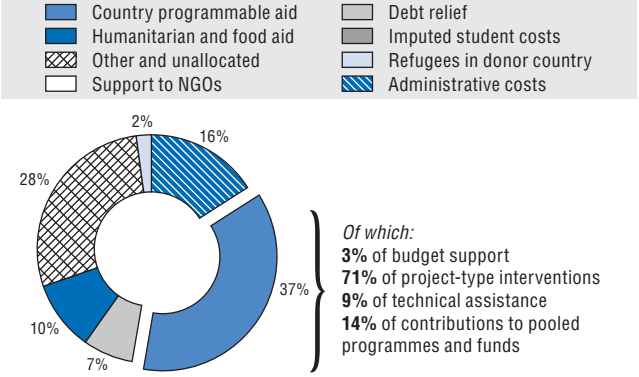
Figure 48.3. **Share of ODA channelled to and through the multilateral system, two year averages, gross disbursements, Spain**



StatLink http://dx.doi.org/10.1787/888933126826

In 2012, 37% of bilateral ODA was programmed at partner country level. Spain's share of country programmable aid (CPA) was lower than the DAC country average (55%). This results from the high percentage of unallocated aid and a relatively high amount of spending on administrative costs. Project-type interventions accounted for 71% of CPA.

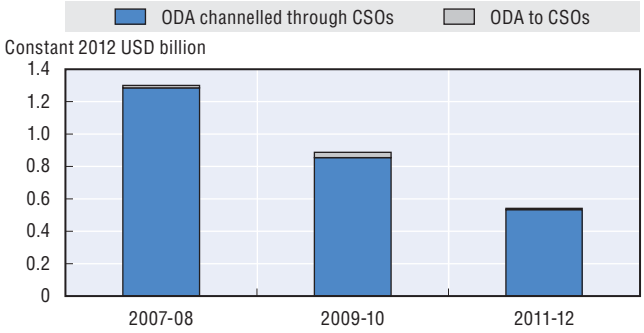
Figure 48.4. **Composition of bilateral ODA, 2012, gross disbursements, Spain**



StatLink http://dx.doi.org/10.1787/888933126845

USD 480 million of bilateral ODA was channelled to and through civil society organisations (CSOs). In 2012, the amount of Spanish ODA channelled to and through CSOs fell by 36% compared to 2011. Although the volume has sharply declined in recent years, the share of bilateral ODA for CSOs has been increasing, from 20% in 2009 to 39% in 2012 (well above the 2012 DAC country average of 16.8%).

Figure 48.5. **Bilateral ODA to and through CSOs, two year averages, gross disbursements, Spain**

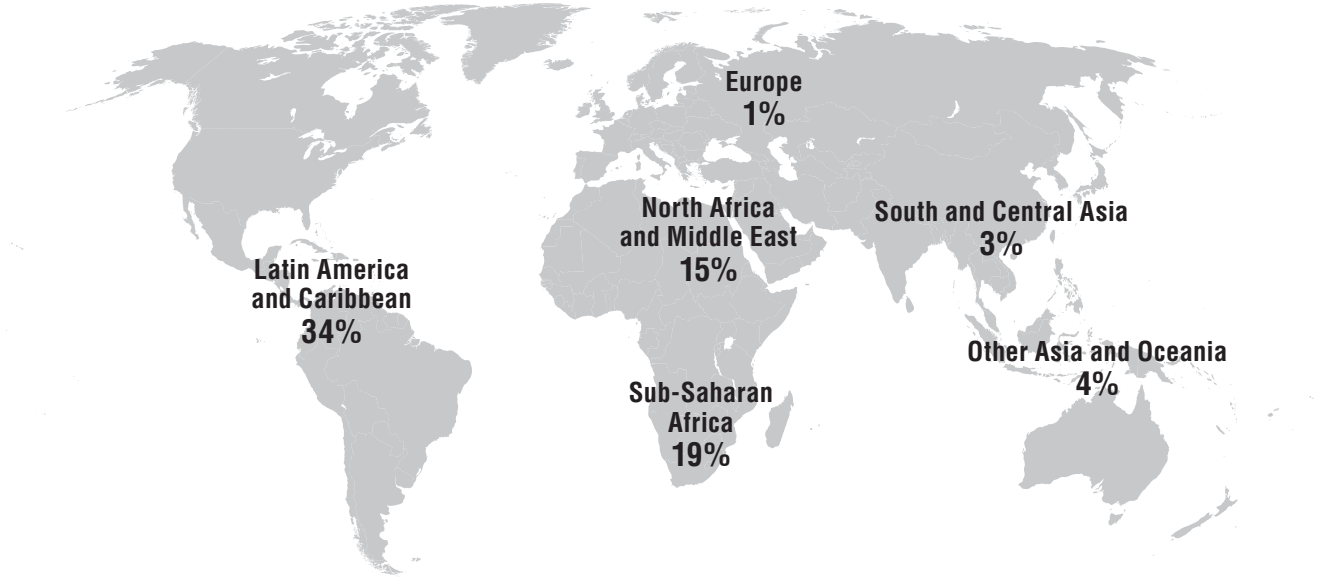


Note: Data on ODA channelled through CSOs are not available for 2007.

StatLink http://dx.doi.org/10.1787/888933126864

Bilateral ODA primarily focused on Latin America and the Caribbean. In 2012, USD 320 million was allocated to the American continent (a strong decrease compared to 2011 volumes), and USD 256 million to sub-Saharan Africa.

Figure 48.6. **Share of bilateral ODA by region, 2011-12 average, gross disbursements, Spain**

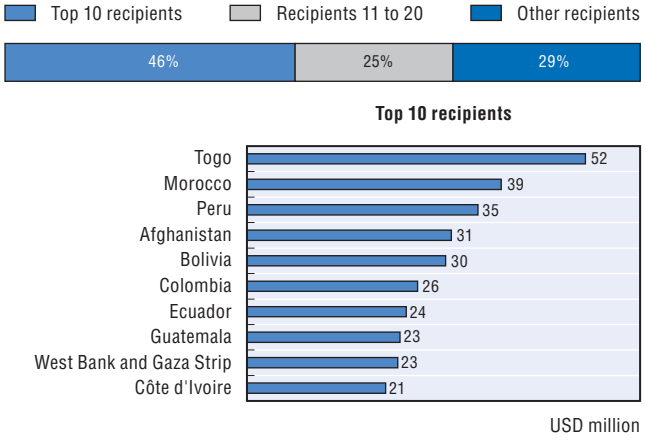


Note: 23% of ODA allocated was unspecified by region in 2011-12. This share is not represented on the map.

StatLink http://dx.doi.org/10.1787/888933126883

46% of bilateral country-allocable ODA went to Spain's top 10 recipients. Spain reduced the number of its partner countries from 50 in 2012 to 23 in 2013. In 2012, its support to fragile states reached USD 261 million (24% of total bilateral ODA).

Figure 48.7. **Bilateral country-allocable ODA to top recipients, 2012, gross disbursements, Spain**



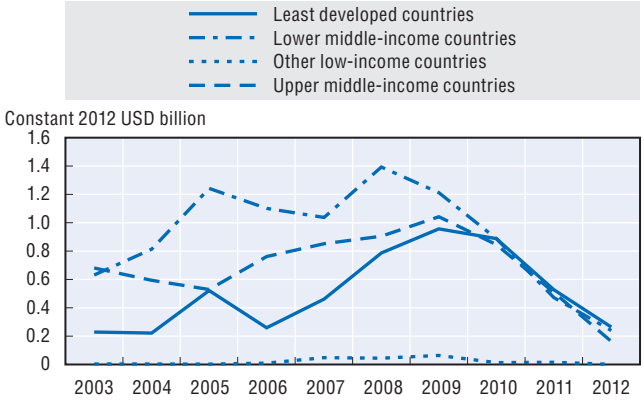
Note: Totals do not add up to total bilateral ODA. A further USD 403 million of total bilateral ODA was unallocated by country.

StatLink http://dx.doi.org/10.1787/888933126902

In 2012, 25% of bilateral ODA was allocated to least developed countries (LDCs), amounting to USD 264 million. While the volume has fallen since 2009, the share has progressively increased since 2006 when it stood at 10%.

At 0.04% of GNI in 2012, total ODA to LDCs was far from the UN target of 0.15% of GNI.

Figure 48.8. **Bilateral ODA by income group, 2003-12, gross disbursements, Spain**



StatLink http://dx.doi.org/10.1787/888933126921

Over 40% of bilateral ODA was allocated to social infrastructure and services in 2012, or USD 487 million, with a strong focus on support to government and civil society (USD 181 million) and education (USD 131 million).

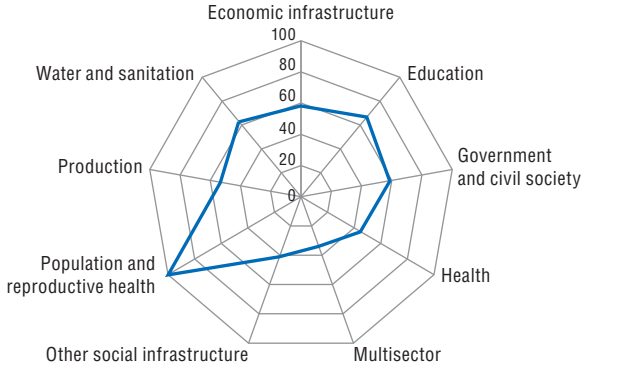
Figure 48.9. **Share of bilateral ODA by sector, 2011-12 average, commitments, Spain**



StatLink http://dx.doi.org/10.1787/888933126940

USD 1.7 billion of bilateral ODA supported gender equality. Gender equality has been integrated into Spain's projects and programmes. In 2012, 54% of Spanish aid had gender equality and women's empowerment as a principal or significant objective, compared with the DAC country average of 28%. This is an increase compared with previous years (24% in 2011 and 32% in 2010). A high share of Spain's aid to population and reproductive health focuses on gender.

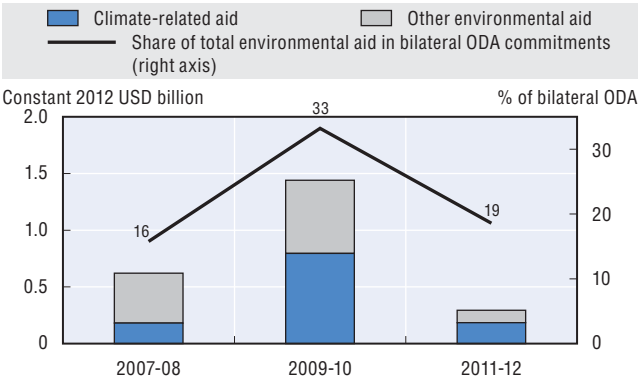
Figure 48.10. **Share of bilateral ODA in support of gender equality by sector, 2012, commitments, Spain**



StatLink http://dx.doi.org/10.1787/888933126959

USD 281 million of bilateral ODA supported the environment. Spain is committed to ensuring the environment is mainstreamed into its projects and programmes, but challenges remain in implementation. In 2012, 25% of Spanish aid had environment as a principal or significant objective and 18% focused particularly on climate change, compared with the relative DAC country averages of 26% and 24%.

Figure 48.11. **Bilateral ODA in support of global and local environment objectives, two year averages, commitments, Spain**



StatLink http://dx.doi.org/10.1787/888933126978

Note to reader: Annex B provides "Methodological notes on definitions and measurement for the Profiles of Development Assistance Committee members".

SWEDEN

Financial flows from Sweden to developing countries

Type of flows from Sweden to developing countries

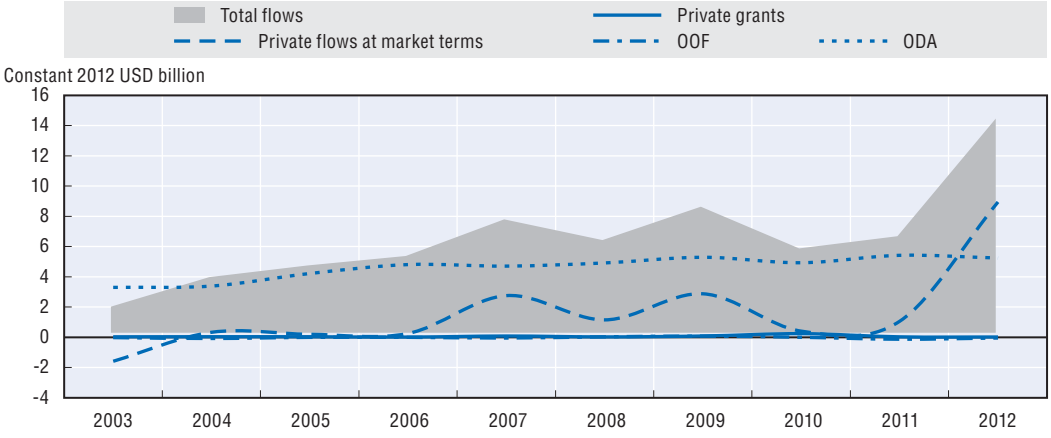
8.9 billion USD of private flows at market terms in 2012. These flows were mainly composed of foreign direct investment (97%)

5.8 billion USD of official development assistance (ODA) in 2013 (preliminary data).

-48 million USD of other official flows (OOF) in 2012.

19 million USD of private grants in 2012. These resources were mobilised by non-governmental organisations and foundations.

Figure 49.1. **Net resource flows to developing countries, 2003-12, Sweden**



Note: Sweden counts its contribution to Swedfund as ODA. In 2012, this amounted to USD 59.09 million. As the geographical distribution of Swedfund's outflows are also reported to the DAC, the official contribution to Swedfund has been deducted in order to not double count total flows made by Sweden. The negative level in OOF arises from the deduction of OOF corresponding to the capital contribution given to Swedfund.

StatLink http://dx.doi.org/10.1787/888933126997

Sweden uses ODA to mobilise resources for sustainable development

Sweden uses its ODA as a catalyst to promote private sector investment in developing countries. It has a number of instruments to enable it do this, including Swedfund, Sweden's Development Finance Institution, and Sida's Business for Development Programme, which includes public-private development partnerships funds, challenge funds and credit guarantees.

Sweden contributes to the mobilisation of domestic resources in developing countries by supporting their tax systems. In 2012, it committed USD 210 000 of its ODA to tax-related activities in partner countries.

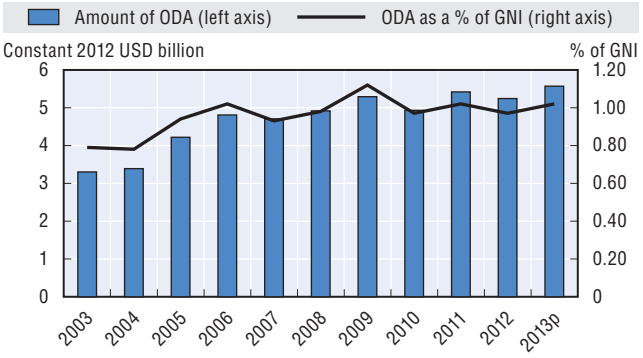
It promotes aid for trade to improve developing countries' trade performance and integration into the world economy. It committed USD 390 million (20% of its sector-allocable ODA) to trade-related activities in 2012, a 16% increase from 2011. The trend has been fluctuating in recent years.

Sweden recognises the importance of remittances in contributing to development and is committed to promoting more secure and cheaper remittance transfers. In 2012, remittances exiting Sweden to developing countries amounted to USD 1.3 billion.

Sweden's official development assistance

In 2013, Sweden provided USD 5.8 billion ODA (preliminary data), a 6.3% increase in real terms from 2012. It is committed to delivering 1% of its gross national income (GNI) to ODA. In 2013 it exceeded this target, delivering 1.02% of its GNI as ODA. It is the 2nd largest donor of the Development Assistance Committee (DAC) in terms of ODA as a percentage of GNI, and the 6th largest in terms of volume. Sweden's share of untied ODA (excluding administrative costs and in-donor refugee costs) was 93% in 2012, compared with the DAC average of 81%. The grant element of total ODA was 100% in 2012.

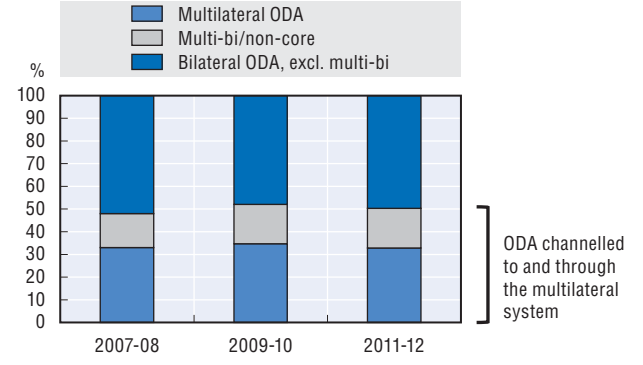
Figure 49.2. **Net ODA: Trends in volume and as a share of GNI, 2003-13, Sweden**



StatLink http://dx.doi.org/10.1787/888933127016

In 2012, 69% of ODA was provided bilaterally. Sweden allocated 31% of total ODA as core contributions to multilateral organisations, compared with the DAC country average of 27%. It channelled a further 29% of its bilateral ODA for specific projects implemented by multilateral organisations (multi-bi/non-core contributions).

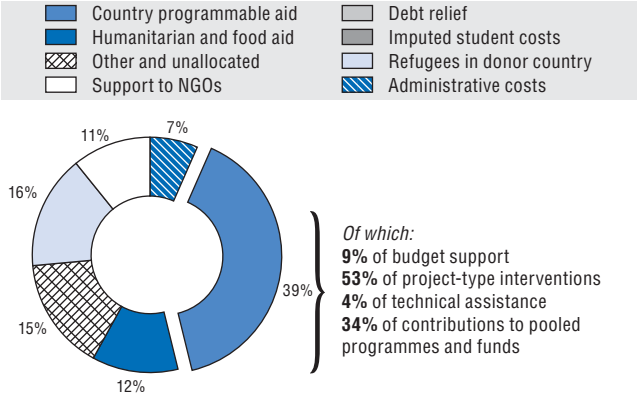
Figure 49.3. **Share of ODA channelled to and through the multilateral system, two year averages, gross disbursements, Sweden**



StatLink http://dx.doi.org/10.1787/888933127035

In 2012, 39% of bilateral ODA was programmed at partner country level. Sweden's share of country programmable aid (CPA) was less than the DAC country average (55%). This is mainly due to high levels of spending on humanitarian and food aid; refugees in Sweden; and a large percentage of bilateral aid that is unallocated. Project-type interventions accounted for 53% of CPA.

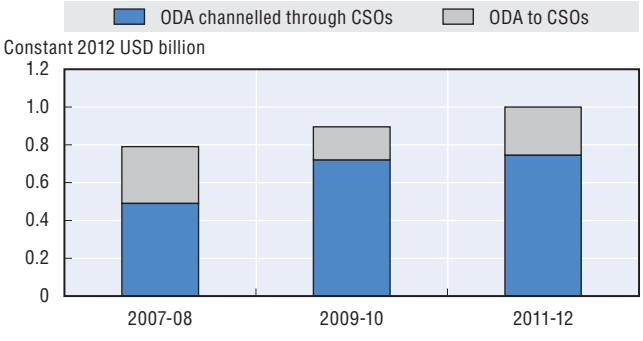
Figure 49.4. **Composition of bilateral ODA, 2012, gross disbursements, Sweden**



StatLink http://dx.doi.org/10.1787/888933127054

USD 1.03 billion of bilateral ODA was channelled to and through civil society organisations (CSOs). ODA channelled to and through CSOs has increased in terms of volume in recent years (+7% between 2011 and 2012). ODA for CSOs has, however, been relatively steady as a share of bilateral ODA in recent years, amounting to 28% in 2012, compared with the DAC country average of 16.8%.

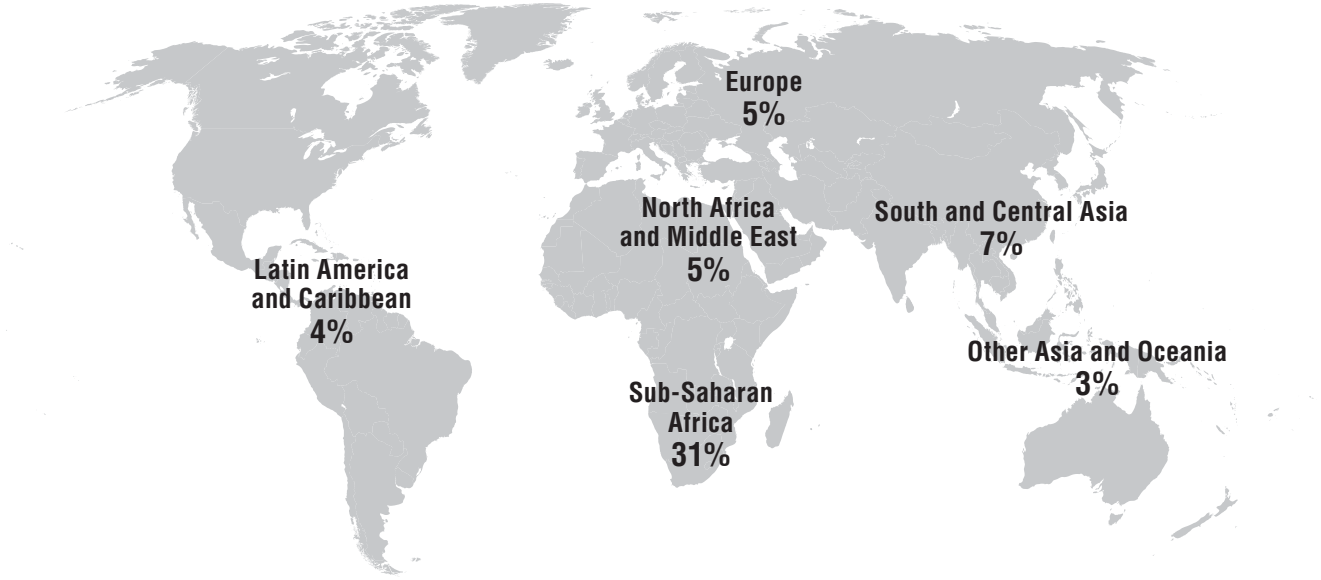
Figure 49.5. **Bilateral ODA to and through CSOs, two year averages, gross disbursements, Sweden**



StatLink http://dx.doi.org/10.1787/888933127073

Bilateral ODA primarily focused on sub-Saharan Africa. In 2012, USD 983 million was allocated to sub-Saharan Africa and USD 252 million to South and Central Asia.

Figure 49.6. **Share of bilateral ODA by region, 2011-12 average, gross disbursements, Sweden**

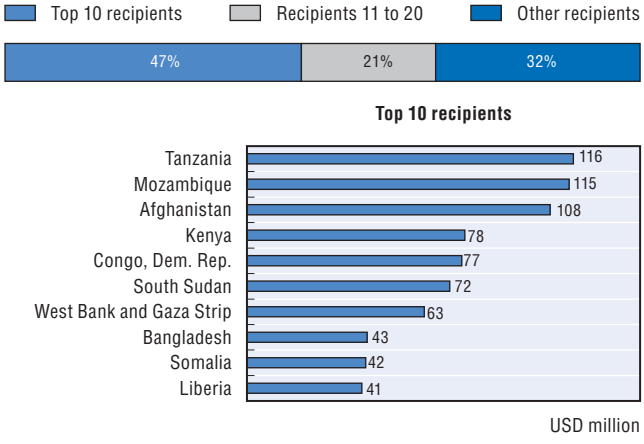


Note: 45% of bilateral ODA allocated was unspecified by region in 2011-12. This share is not represented on the map.

StatLink http://dx.doi.org/10.1787/888933127092

47% of bilateral country-allocable ODA went to Sweden's top 10 recipients. All countries featured in the list of top 10 recipients are priority partners for Sweden (it has 32), which is phasing out several bilateral programmes to reduce geographical fragmentation. In 2012, its support to fragile states reached USD 975 million (27% of total bilateral ODA).

Figure 49.7. **Bilateral country-allocable ODA to top recipients, 2012, gross disbursements, Sweden**



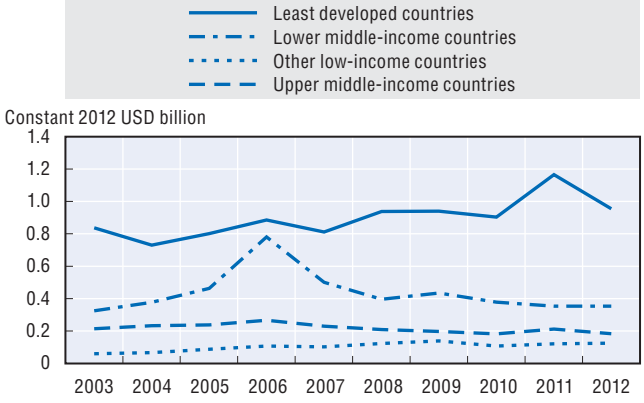
Note: Totals do not add up to total bilateral ODA. A further USD 2 billion was unallocated by country.

StatLink http://dx.doi.org/10.1787/888933127111

In 2012, 26% of bilateral ODA was allocated to least developed countries (LDCs), amounting to USD 954 million. The share has slightly decreased from 33% in 2011. LDCs receive the highest share of bilateral ODA, noting that 56% was unallocated by income group in 2012, compared to the 32% DAC average.

At 0.29% of GNI in 2012, total ODA to LDCs was well above the UN target of 0.15% GNI.

Figure 49.8. **Bilateral ODA by income group, 2003-12, gross disbursements, Sweden**



StatLink http://dx.doi.org/10.1787/888933127130

In 2012, 41% of bilateral ODA was allocated to social infrastructure and services, for a total of USD 1.3 billion, with a strong focus on support to government and civil society (USD 826 million). Humanitarian aid amounted to USD 305 million.

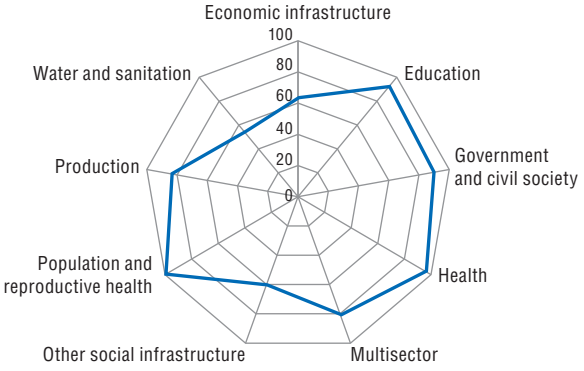
Figure 49.9. **Share of bilateral ODA by sector, 2011-12 average, commitments, Sweden**



StatLink http://dx.doi.org/10.1787/888933127149

USD 2 billion of bilateral ODA supported gender equality. Gender equality has been solidly integrated into Sweden's projects and programmes (OECD, 2014). In 2012, 81% of Swedish aid had gender equality and women's empowerment as a principal or significant objective, compared with the DAC country average of 28%. Sweden has also been striving to promote gender mainstreaming in its multilateral partners' activities, in particular the World Bank.

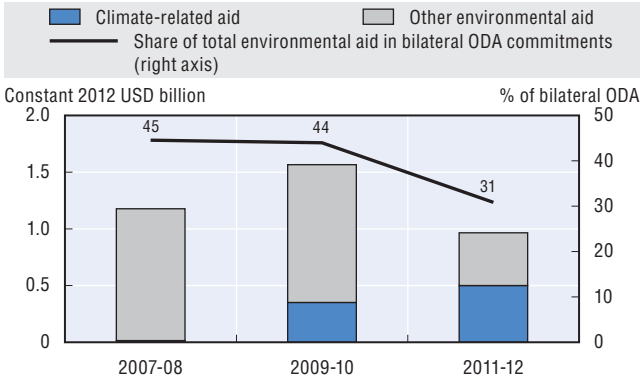
Figure 49.10. **Share of bilateral ODA in support of gender equality by sector, 2012, commitments, Sweden**



StatLink http://dx.doi.org/10.1787/888933127168

USD 1 billion of bilateral ODA supported the environment. Sweden has integrated the environment into its programmes and projects. In 2012, 32% of its aid had environment as a principal or significant objective and 18% focused on climate change, compared with the respective DAC country averages of 26% and 24%.

Figure 49.11. **Bilateral ODA in support of global and local environment objectives, two year averages, commitments, Sweden**



StatLink http://dx.doi.org/10.1787/888933127187

Note to reader: Annex B provides "Methodological notes on definitions and measurement for the Profiles of Development Assistance Committee members".

References

Government Offices of Sweden (2010), *Policy for Environmental and Climate Issues in Swedish Development Co-operation 2010-2014*, Government Offices of Sweden, Stockholm, *www.government.se/sb/d/574/a/156498*.

OECD (2013), *OECD Development Co-operation Peer Reviews: Sweden 2013*, OECD Development Co-operation Peer Reviews, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264196254-en*.

Sida (2004), *Policy Guidelines for Sida's Support to Private Sector Development*, Swedish International Development Cooperation Agency, Stockholm, October.

SWITZERLAND

Financial flows from Switzerland to developing countries

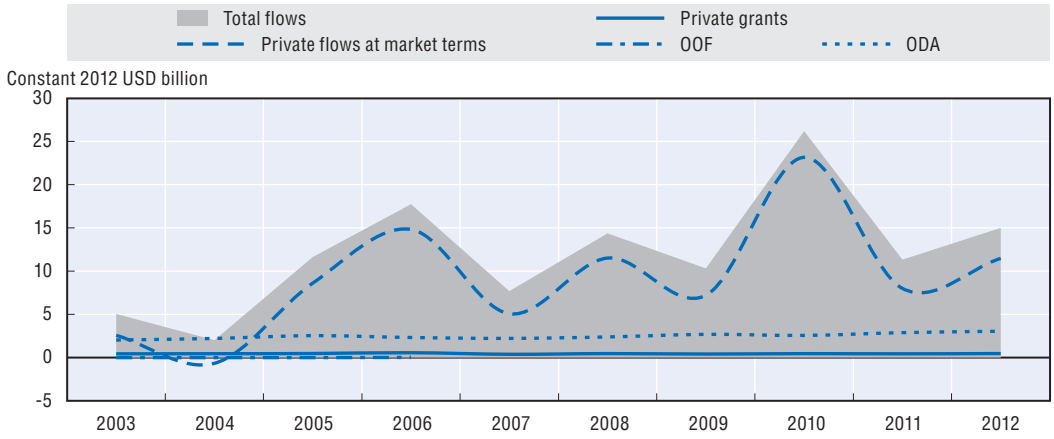
Type of flows from Switzerland to developing countries

11.5 billion USD of private flows at market terms in 2012. These flows were mainly composed of foreign direct investment.

3.2 billion USD of official development assistance (ODA) in 2013 (preliminary data).

473 million USD of private grants in 2012. These resources were mobilised by non-governmental organisations and foundations.

Figure 50.1. **Net resource flows to developing countries, 2003-12, Switzerland**



Note: Data on other official flows (OOF) apply only for 2003 and 2006. Switzerland no longer uses OOF instruments.

StatLink http://dx.doi.org/10.1787/888933127206

Switzerland uses ODA to mobilise resources for sustainable development

Switzerland uses its ODA as a catalyst for private sector investment in developing countries. It has number of instruments enabling it to do this, including the Swiss Investment Fund for Emerging Markets (SIFEM), Switzerland's Development Finance Institute and SECO's Start-Up Fund, which provides credit to Swiss SME start-up projects in developing and transition countries. In light of the high levels of private flows from Switzerland to developing countries, it is well placed to play a leadership role internationally to maximise private investment for sustainable development and to encourage private sector practices that maximise development outcomes (OECD, 2014).

It contributes to the mobilisation of domestic resources in developing countries by supporting their tax systems. In 2012, it committed USD 21 000 of its ODA to tax-related activities in partner countries. It is likely that this amount understates the efforts undertaken by Switzerland.

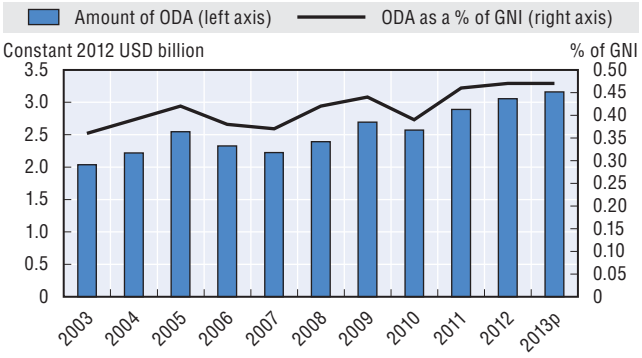
It promotes aid for trade to improve developing countries' revenues trade performance and integration into the world economy. It committed USD 307 million (23% of its sector-allocable ODA) to trade-related activities in 2012, a 26% decline from 2011. The trend has been fluctuating in recent years.

As part of its work on migration, Switzerland is committed to enhancing the development impact of remittances and has supported the establishment of transparent and cost-effective money transfer systems for diaspora in Switzerland. In 2012, remittances exiting Switzerland to developing countries amounted to USD 982 million.

Switzerland's official development assistance

In 2013, Switzerland provided USD 3.2 billion ODA (preliminary data), which represented 0.47% of gross national income (GNI) and a 3.4% increase in real terms from 2012. It is the 8th largest donor of the Development Assistance Committee (DAC) in terms of ODA as a percentage of GNI. Switzerland is committed to deliver 0.5% of its GNI as ODA by 2015 and is on track to meet this target. Switzerland's share of untied ODA (excluding administrative costs and in-donor refuge costs) was 93% in 2012, compared with the DAC average of 81%. The grant element of total ODA was 100% in 2012.

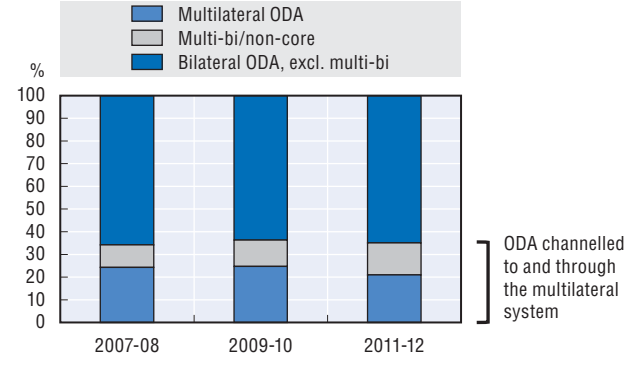
Figure 50.2. **Net ODA: Trends in volume and as a share of GNI, 2003-13, Switzerland**



StatLink http://dx.doi.org/10.1787/888933127225

In 2012, 81% of ODA was provided bilaterally. Switzerland allocated 19% of total ODA as core contributions to multilateral organisations, compared with the DAC country average of 27%. It channelled a further 18% of its bilateral ODA for specific projects implemented by multilateral organisations (multi-bi/non-core contributions).

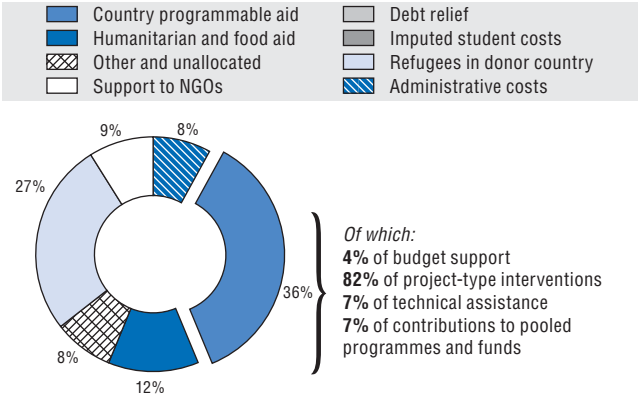
Figure 50.3. **Share of ODA channelled to and through the multilateral system, two year averages, gross disbursements, Switzerland**



StatLink http://dx.doi.org/10.1787/888933127244

In 2012, 36% of bilateral ODA was programmed at partner country level. The share of country programmable aid (CPA) was less than the DAC country average (55%) and is a result of relatively high spending on refugees in Switzerland, humanitarian and food aid, and core contributions to civil society. Project-type interventions made up 82% of CPA.

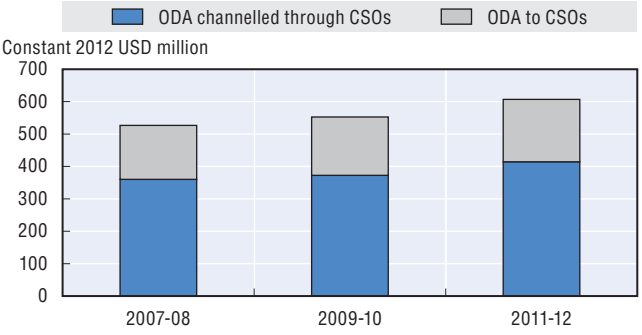
Figure 50.4. **Composition of bilateral ODA, 2012, gross disbursements, Switzerland**



StatLink http://dx.doi.org/10.1787/888933127263

USD 649 million of bilateral ODA was channelled to and through civil society organisations (CSOs). In recent years, ODA channelled to and through CSOs has increased in terms of volume (+15% between 2011 and 2012). It has, however, slightly decreased as a share of bilateral ODA, from 28% in 2010 to 26% in 2012 (compared with the 2012 DAC country average of 16.8%).

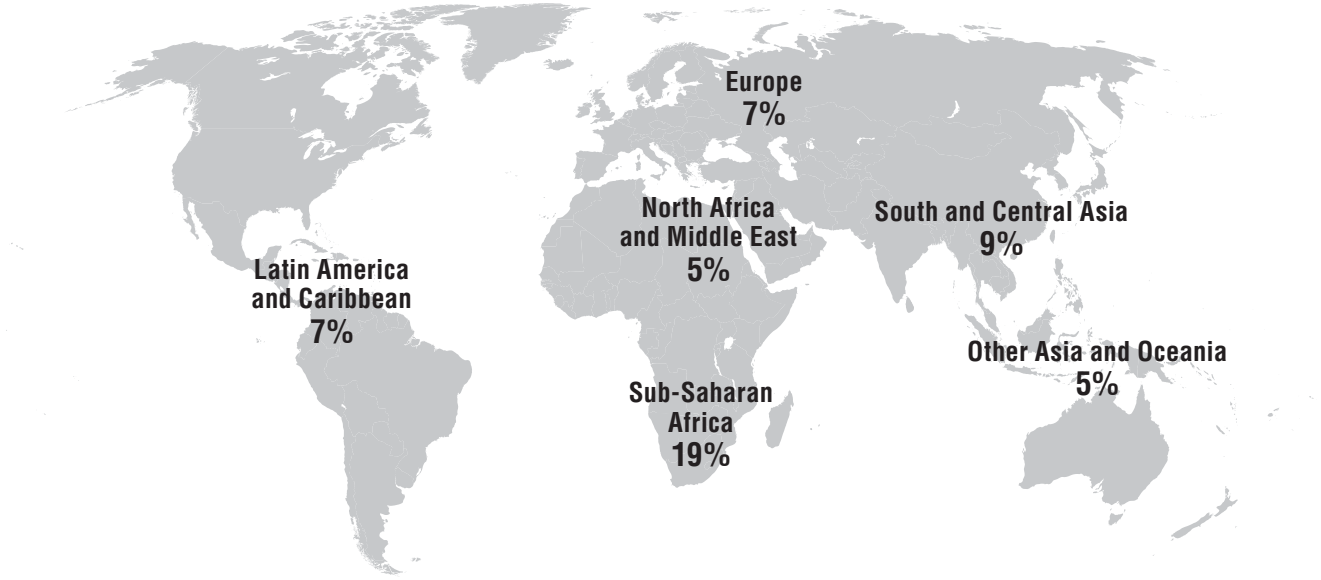
Figure 50.5. **Bilateral ODA to and through CSOs, two year averages, gross disbursements, Switzerland**



StatLink http://dx.doi.org/10.1787/888933127282

Bilateral ODA primarily focused on sub-Saharan Africa. In 2012, USD 442 million was allocated to sub-Saharan Africa and USD 230 million to South and Central Asia.

Figure 50.6. **Share of bilateral ODA by region, 2011-12 average, gross disbursements, Switzerland**

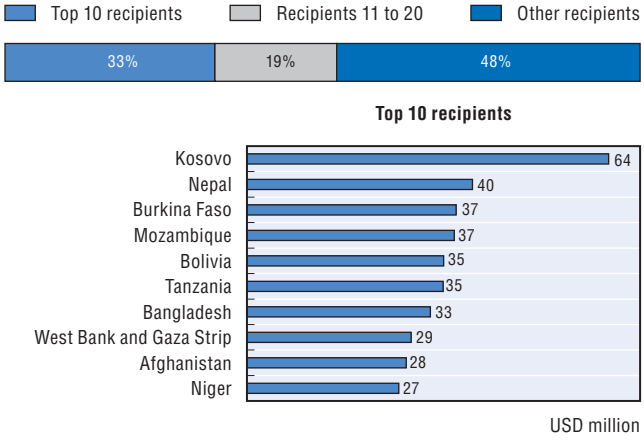


Note: 48% of bilateral ODA allocated was unspecified by region in 2011-12. This share is not represented on the map.

StatLink http://dx.doi.org/10.1787/888933127301

33% of bilateral country-allocable ODA went to Switzerland's top 10 recipients. It has 37 priority partner countries and the concentration of its ODA is weak. Still, all countries in the list of top 10 recipients are priority partners. Swiss support to fragile states reached USD 570 million in 2012 (23% of total bilateral ODA).

Figure 50.7. **Bilateral country-allocable ODA to top recipients, 2012, gross disbursements, Switzerland**



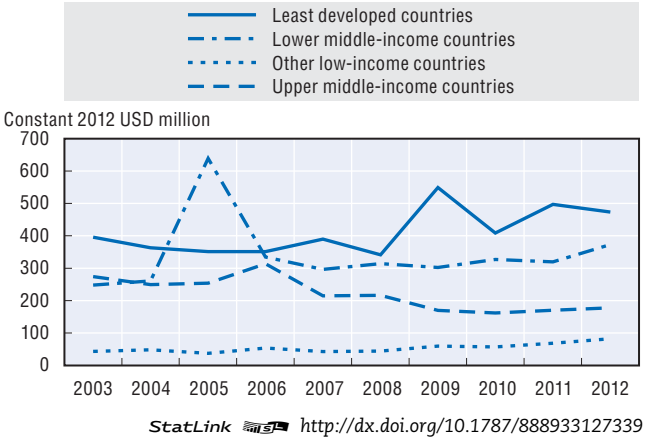
Note: Totals do not add up to total bilateral ODA. A further USD 1.4 billion was unallocated by country. Reference to Kosovo is without prejudice to its status under international law.

StatLink http://dx.doi.org/10.1787/888933127320

In 2012, 19% of bilateral ODA was allocated to least developed countries (LDCs), amounting to USD 474 million. LDCs receive the highest share of bilateral ODA, noting that 55% was unallocated by income group in 2012 due principally to the high in-donor refugee costs.

At 0.11% of its gross national income (GNI) in 2012, total ODA to LDCs was less than the UN target of 0.15% of GNI.

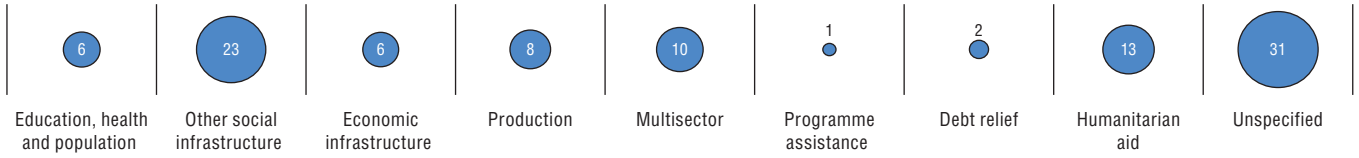
Figure 50.8. **Bilateral ODA by income group, 2003-12, gross disbursements, Switzerland**



StatLink http://dx.doi.org/10.1787/888933127339

Half of bilateral ODA was allocated to social infrastructure and services in 2012, for a total of USD 723 million, with a strong focus on support to government and civil society (USD 321 million). Humanitarian aid amounted to USD 345 million.

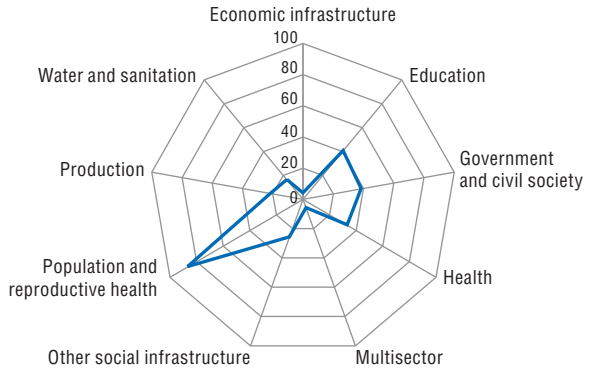
Figure 50.9. **Share of bilateral ODA by sector, 2011-12 average, commitments, Switzerland**



StatLink http://dx.doi.org/10.1787/888933127358

USD 299 million of bilateral ODA supported gender equality. Switzerland is committed to integrating gender equality into its projects and programmes (OECD, 2014), but challenges remain. In 2012, 22% of Swiss aid had gender equality and women's empowerment as a principal or significant objective, compared with the DAC country average of 28%. This was a decrease from 2011 (27%). A high share of Switzerland's aid to population and reproductive health focuses on gender.

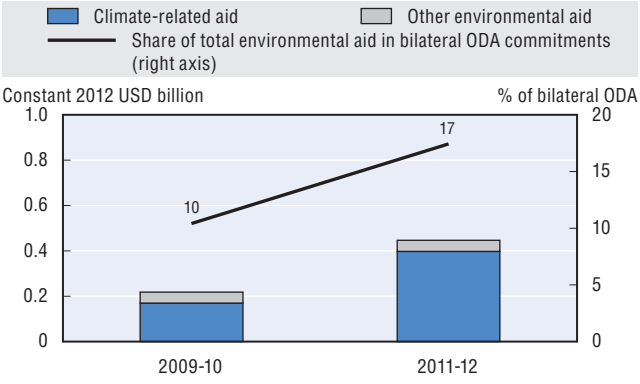
Figure 50.10. **Share of bilateral ODA in support of gender equality by sector, 2012, commitments, Switzerland**



StatLink http://dx.doi.org/10.1787/888933127377

USD 471 million of bilateral ODA supported the environment. Switzerland is committed to integrating the environment in its programming and projects. In 2012, 19% of its aid had environment as a principal or significant objective, compared with the DAC country average of 26%. This share has strongly increased in recent years. In 2012, 16% of Swiss aid focused on climate change, compared with the DAC country average of 24%.

Figure 50.11. **Bilateral ODA in support of global and local environment objectives, two year averages, commitments, Switzerland**



StatLink http://dx.doi.org/10.1787/888933127396

Note to reader: Annex B provides "Methodological notes on definitions and measurement for the Profiles of Development Assistance Committee members".

Reference

OECD (2014), *OECD Development Co-operation Peer Reviews: Switzerland 2013*, OECD Development Co-operation Peer Reviews, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264196322-en*.

UNITED KINGDOM

Financial flows from the United Kingdom to developing countries

Type of flows from the United Kingdom to developing countries

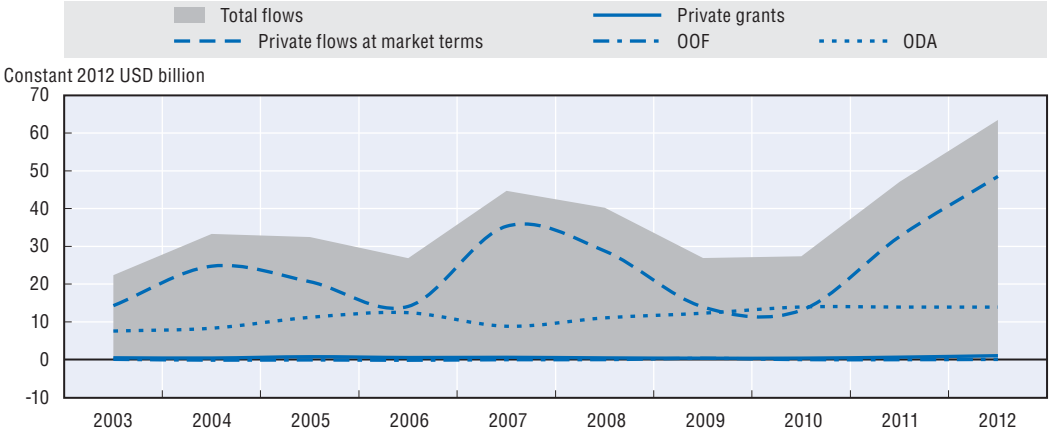
48.5 billion USD of private flows at market terms in 2012. These flows were mainly composed of foreign direct investment (84%).

17.9 billion USD of official development assistance (ODA) in 2013 (preliminary data).

36 million USD of other official flows (OOF) in 2012.

1 billion USD of private grants in 2012. These resources were mobilised by non-governmental organisations and foundations.

Figure 51.1. **Net resource flows to developing countries, 2003-12, United Kingdom**



StatLink http://dx.doi.org/10.1787/888933127415

The United Kingdom uses ODA to mobilise resources for sustainable development

The United Kingdom promotes ODA as a catalyst to bring private sector investment to support development efforts in partner countries, in particular through its development finance institution, the CDC, and increased use of returnable capital instruments. The United Kingdom is shaping a new approach to fostering economic development, under an ambitious agenda to support growth, remove barriers to trade and investment, and stimulate the development of markets to create jobs.

It contributes to the mobilisation of domestic resources in developing countries by supporting their tax systems. In 2012, it committed USD 2.5 million of its ODA to tax-related activities in partner countries.

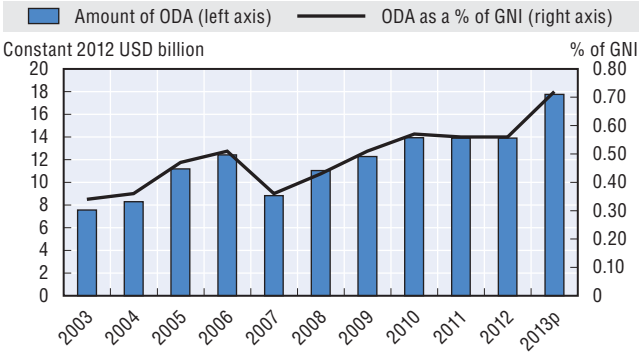
It promotes aid for trade to improve developing countries' trade performance and integration into the world economy. It committed USD 1 billion (42% of sector-allocable ODA) to trade-related activities in 2012, a 35% increase from 2011. The trend has been fluctuating in recent years.

The Department for International Development, the Foreign and Commonwealth Office and the Home Office work closely together to shape the UK position in international fora on migration. In 2012, remittances exiting the United Kingdom to developing countries amounted to USD 15.3 billion.

The United Kingdom's official development assistance

In 2013, the United Kingdom provided USD 17.9 billion ODA (preliminary data), a 27.8% increase in real terms from 2012. It is the 2nd largest donor of the Development Assistance Committee (DAC) in terms of volume. The United Kingdom has put into place firm budget allocations to meet its 0.7% ODA/GNI target, and reached 0.72% in 2013. All of its ODA (excluding administrative costs and in-donor refugee costs) was untied in 2012. The grant element of total ODA was 100% in 2012.

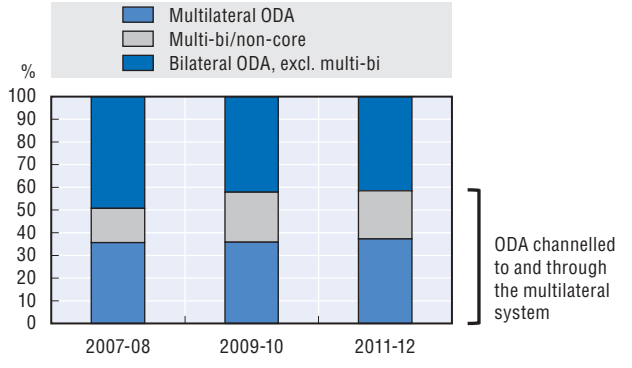
Figure 51.2. **Net ODA: Trends in volume and as a share of GNI, 2003-13, United Kingdom**



StatLink http://dx.doi.org/10.1787/888933127434

In 2012, 63% of ODA was provided bilaterally. The United Kingdom allocated 37% of total ODA as core contributions to multilateral organisations, compared with the DAC country average of 27%. It channelled a further 35% of its bilateral ODA for specific projects implemented by multilateral organisations (multi-bi/non-core contributions).

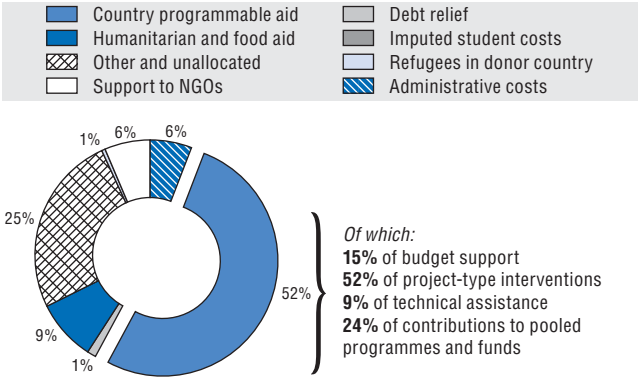
Figure 51.3. **Share of ODA channelled to and through the multilateral system, two year averages, gross disbursements, United Kingdom**



StatLink http://dx.doi.org/10.1787/888933127453

In 2012, 52% of bilateral ODA was programmed at partner country level. The United Kingdom's share of country programmable aid (CPA) was close to the DAC country average (55%). A high share of bilateral ODA was categorised as "other and unallocated" aid. Project-type interventions accounted for 52% of CPA.

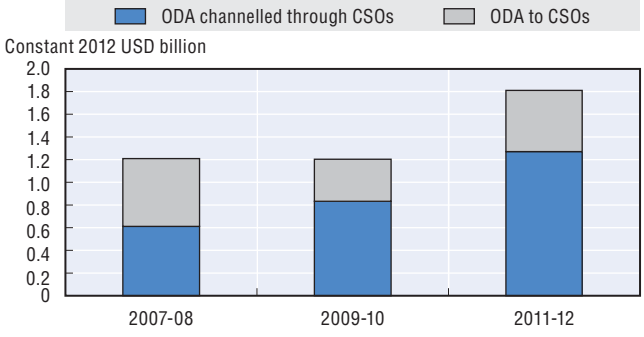
Figure 51.4. **Composition of bilateral ODA, 2012, gross disbursements, United Kingdom**



StatLink http://dx.doi.org/10.1787/888933127472

USD 1.9 billion of bilateral ODA was channelled to and through civil society organisations (CSOs). ODA channelled to and through CSOs has increased in recent years, both in terms of volume (+14% between 2011 and 2012) and as a share of bilateral ODA (from 19.2% in 2011 to 21.3% in 2012). The DAC country average share was 16.8% in 2012.

Figure 51.5. **Bilateral ODA to and through CSOs, two year averages, gross disbursements, United Kingdom**

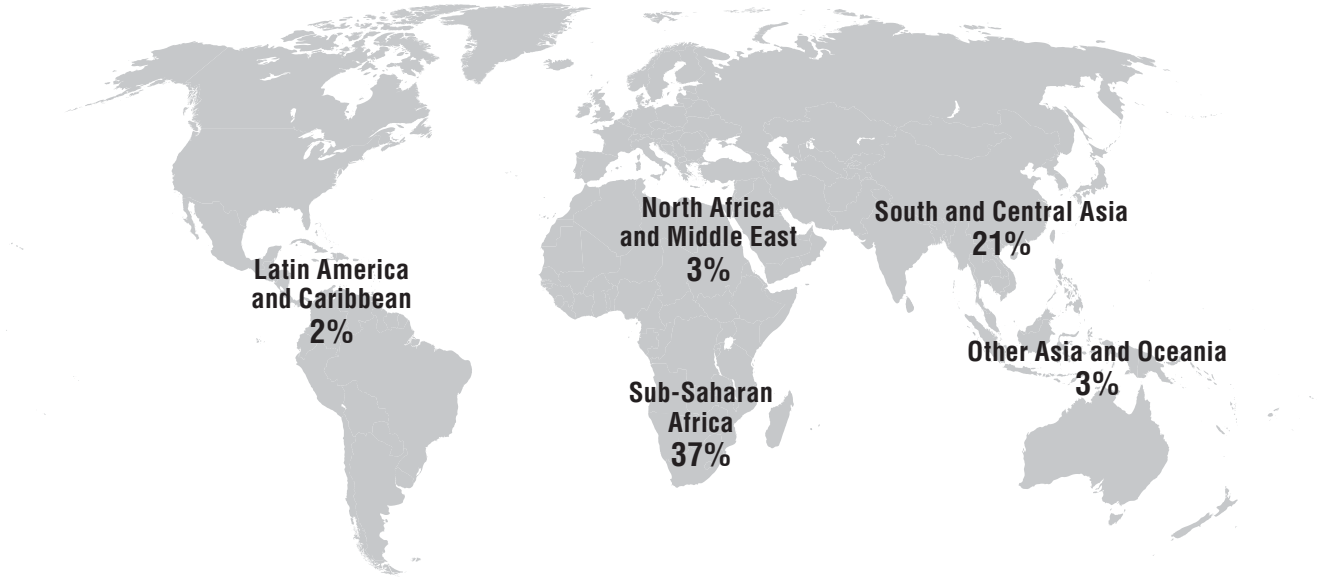


Note: Data on ODA channelled through CSOs are not available for 2007.

StatLink http://dx.doi.org/10.1787/888933127491

Bilateral ODA primarily focused on the sub-Saharan Africa. In 2012, USD 3.4 billion was allocated to sub-Saharan Africa and USD 1.7 billion to South and Central Asia.

Figure 51.6. **Share of bilateral ODA by region, 2011-12 average, gross disbursements, United Kingdom**

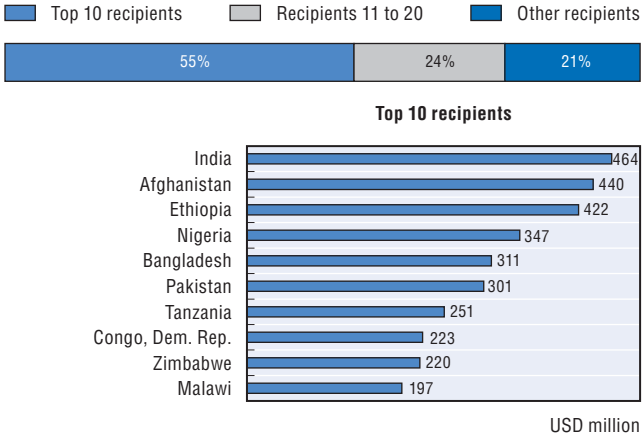


Note: 33% of bilateral ODA allocated was unspecified by region in 2011-12. This share is not represented on the map.

StatLink http://dx.doi.org/10.1787/888933127510

55% of bilateral country-allocable ODA went to the United Kingdom's top 10 recipients. It has 28 priority partner countries and has focused its programme on fewer countries. Ten of these countries are in the list of top 10 recipients. In 2012, its support to fragile states reached USD 3.8 billion (42% of total bilateral ODA).

Figure 51.7. **Bilateral country-allocable ODA to top recipients, 2012, gross disbursements, United Kingdom**



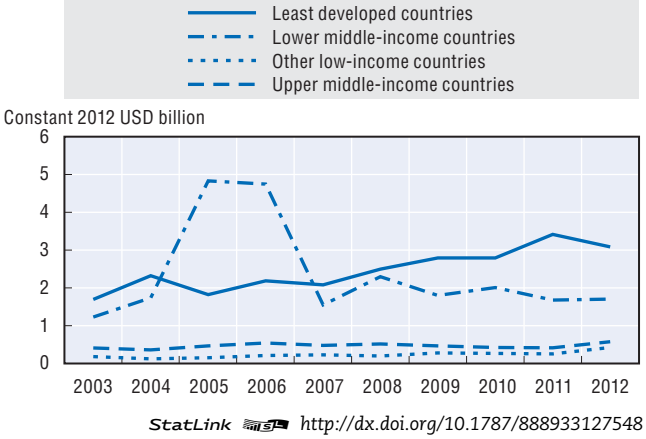
Note: Totals do not add up to total bilateral ODA. A further USD 3.2 billion was unallocated by country.

StatLink http://dx.doi.org/10.1787/888933127529

In 2012, 34% of bilateral ODA was allocated to least developed countries (LDCs), amounting to USD 3.1 billion. The share fell from 39% in 2011 to 34% in 2012. LDCs received the highest share of bilateral ODA in 2012, compared with other income groups.

At 0.19% of gross national income (GNI) in 2012, total ODA to LDCs was above the UN target of 0.15% of GNI.

Figure 51.8. **Bilateral ODA by income group, 2003-12, gross disbursements, United Kingdom**



StatLink http://dx.doi.org/10.1787/888933127548

Half of bilateral ODA was allocated to social infrastructure and services in 2012, for a total of USD 2.1 billion, with a strong focus on education (USD 658 million) and support to government and civil society (USD 595 million). Humanitarian aid amounted to USD 646 million.

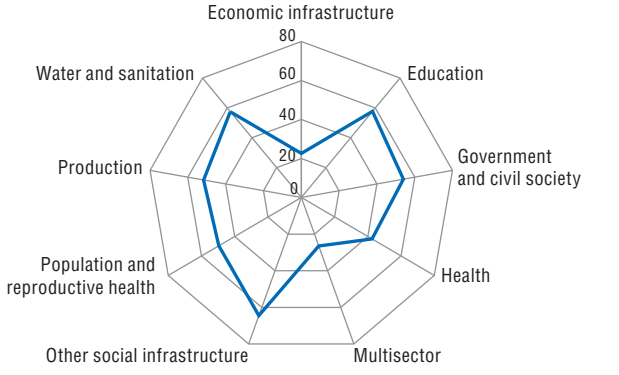
Figure 51.9. **Share of bilateral ODA by sector, 2011-12 average, commitments, United Kingdom**



StatLink http://dx.doi.org/10.1787/888933127567

USD 979 million of bilateral ODA supported gender equality. The United Kingdom's focus on women and girls was reinforced by 2014 Development Act on Gender Equality. Gender equality is embedded in the bilateral programme, and issues affecting women and girls are also raised on the global stage. In 2012, 48% of its aid had gender equality and women's empowerment as a principal or significant objective, compared with the DAC country average of 28%.

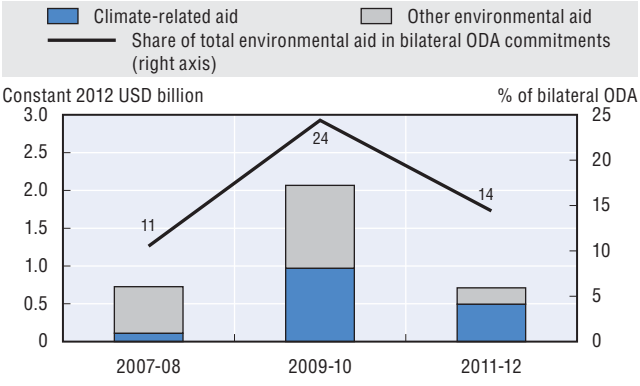
Figure 51.10. **Share of bilateral ODA in support of gender equality by sector, 2012 commitments, United Kingdom**



StatLink http://dx.doi.org/10.1787/888933127586

USD 886 million of bilateral ODA supported the environment. DFID's new "climate and environment assessments" review the impact of its programmes on the vulnerability of poor communities to environmental disasters. In 2012, 15% of its aid had environment as a principal or significant objective and 10% focused particularly on climate change, compared with the respective DAC country averages of 26% and 24%.

Figure 51.11. **Bilateral ODA in support of global and local environment objectives, two year averages, commitments, United Kingdom**



StatLink http://dx.doi.org/10.1787/888933127605

Note to reader: Annex B provides "Methodological notes on definitions and measurement for the Profiles of Development Assistance Committee members".

UNITED STATES

Financial flows from the United States to developing countries

Type of flows from the United States to developing countries

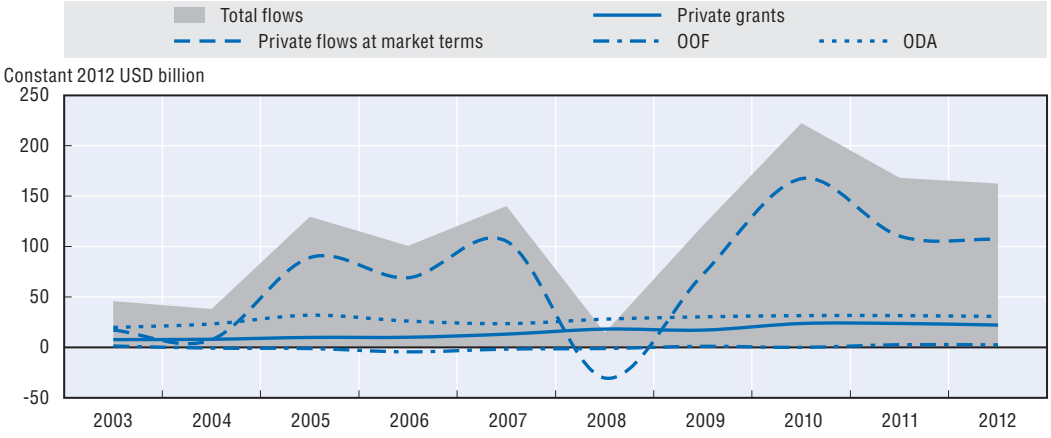
107 billion USD of private flows at market terms in 2012. These flows were mainly composed of foreign direct investment (43%).

31.5 billion USD of official development assistance (ODA) in 2013 (preliminary data).

2.5 billion USD of other official flows (OOF) in 2012.

22 billion USD of private grants in 2012. These resources were mobilised by non-governmental organisations and foundations.

Figure 52.1. **Net resource flows to developing countries, 2003-12, United States**



StatLink http://dx.doi.org/10.1787/888933127624

The United States uses ODA to mobilise resources for sustainable development

The United States promotes ODA as a catalyst to bring private sector investment to support development efforts in partner countries, in particular through its development finance institution, the Overseas Private Investment Corporation (OPIC). The United States is strengthening its support to private sector engagement, with a goal to increase investments in public-private partnerships to 10% of mission programme funding by 2015. USAID has also substantially strengthened its Development Credit Authority, which is designed to use loan guarantees to unlock larger sources of local capital.

It contributes to the mobilisation of domestic resources in developing countries by supporting their tax systems. In 2012, it committed USD 72 million of ODA to tax-related activities in partner countries.

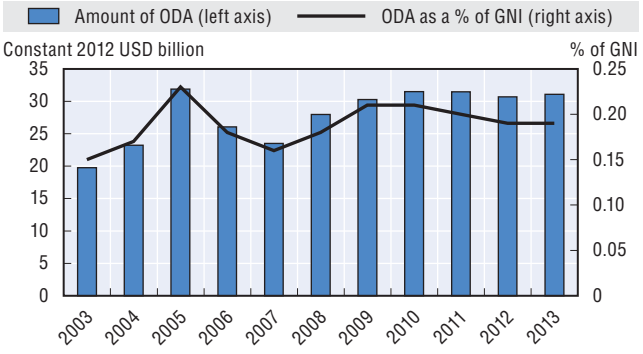
It promotes aid for trade to improve developing countries' trade performance and integration into the world economy. It committed USD 4 billion (21% of sector-allocable ODA) to trade-related activities in 2012, an 8% increase from 2011.

The government's development co-operation policy acknowledges the increasing importance of remittances as a source of income for partner countries. In 2012, remittances exiting the United States to developing countries amounted to USD 103 billion.

The United States' official development assistance

In 2013, the United States provided USD 31.5 billion ODA (preliminary data), which represented 0.19% of gross national income (GNI) and a 1.3% increase in real terms from 2012. It is the largest donor of the Development Assistance Committee (DAC) in terms of volume. The United States' share of untied ODA (excluding administrative costs and in-donor refugee costs) was 69% in 2012, compared with the DAC average of 81%. The grant element of total ODA was 100% in 2012.

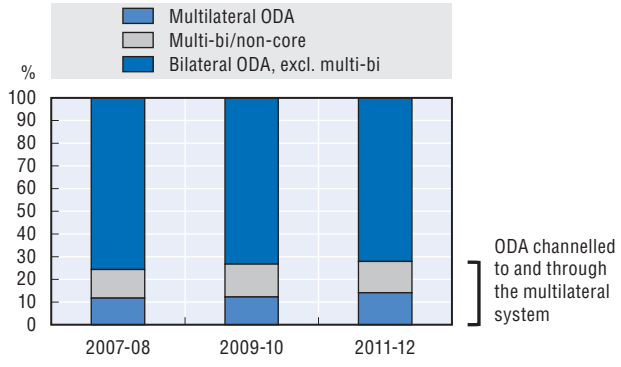
Figure 52.2. **Net ODA: Trends in volume and as a share of GNI, 2003-13, United States**



StatLink http://dx.doi.org/10.1787/888933127643

In 2012, 83% of ODA was provided bilaterally. The United States allocated 17% of total ODA as core contributions to multilateral organisations, compared with the DAC country average of 27%. It channelled a further 17% of its bilateral ODA for specific projects implemented by multilateral organisations (multi-bi/non-core contributions).

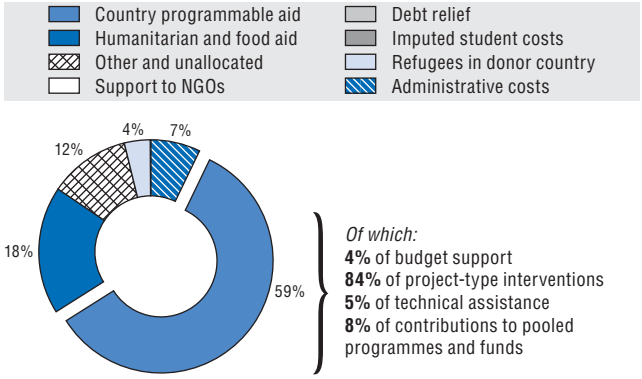
Figure 52.3. **Share of ODA channelled to and through the multilateral system, two year averages, gross disbursements, United States**



StatLink http://dx.doi.org/10.1787/888933127662

In 2012, 59% of bilateral ODA was programmed at partner country level. The share of country programmable aid (CPA) was close to the DAC country average (55%). A high share of bilateral ODA was allocated to humanitarian and food aid. Project-type interventions amounted to 84% of CPA.

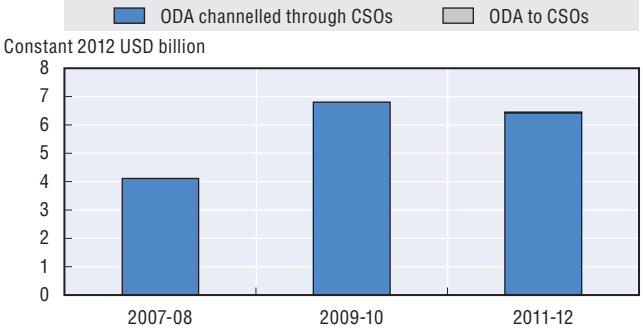
Figure 52.4. **Composition of bilateral ODA, 2012, gross disbursements, United States**



StatLink http://dx.doi.org/10.1787/888933127681

USD 6.3 billion of bilateral ODA was channelled to and through civil society organisations (CSOs). ODA channelled to and through CSOs has decreased in terms of volume in recent years (-5% between 2011 and 2012). However, it has remained relatively steady as a share of bilateral ODA (24% in 2012). This share was higher than the 2012 DAC average of 16.8%.

Figure 52.5. **Bilateral ODA to and through CSOs, two year averages, gross disbursements, United States**

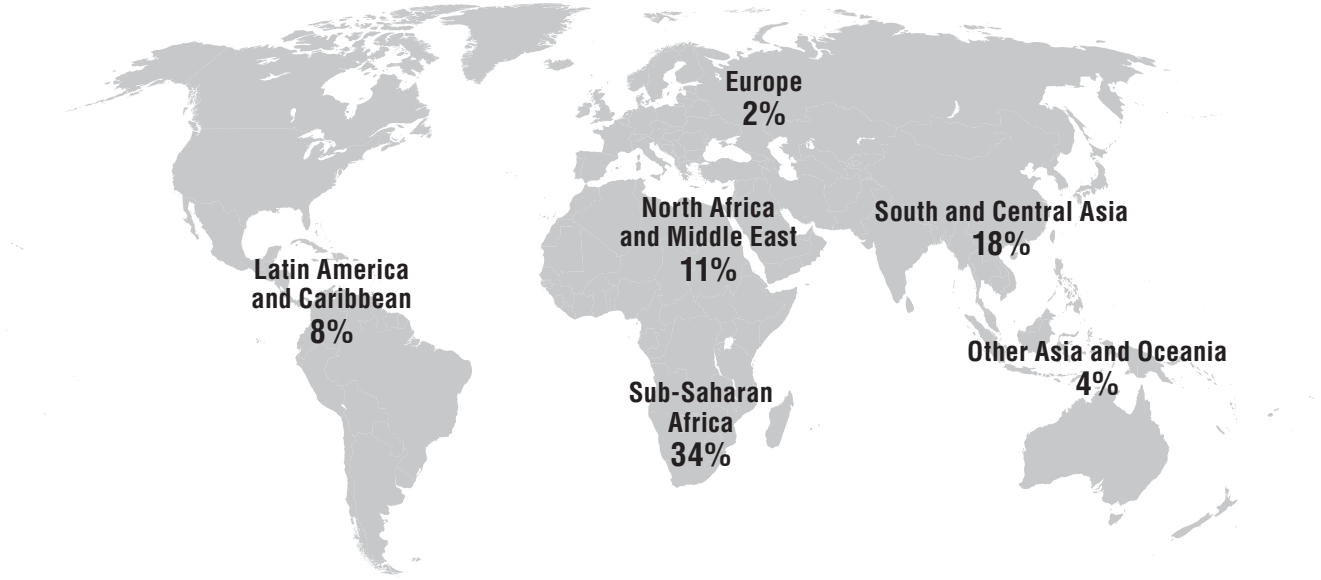


Note: Data on ODA to CSOs are only available for 2010 and 2012.

StatLink http://dx.doi.org/10.1787/888933127700

The largest share of bilateral ODA was directed to sub-Saharan Africa. In 2012, USD 8.8 billion was allocated to sub-Saharan Africa, USD 4.3 billion to South and Central Asia and USD 2.1 billion to the Middle East.

Figure 52.6. **Share of bilateral ODA by region, 2011-12 average, gross disbursements, United States**

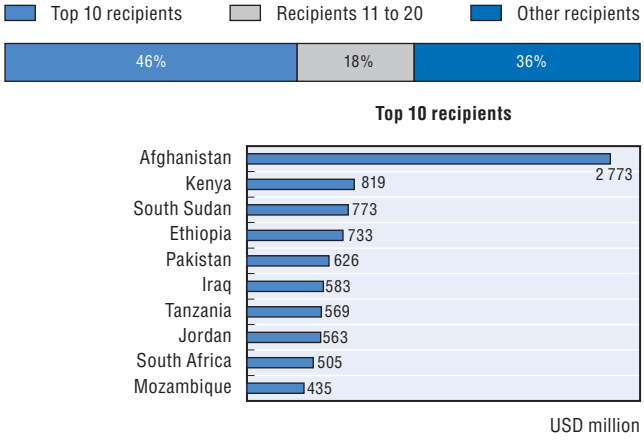


Note: 23% of bilateral ODA allocated was unspecified by region in 2011-12. This share is not represented on the map.

StatLink http://dx.doi.org/10.1787/888933127719

46% of bilateral country-allocable ODA went to the United States' top 10 recipients. It has 136 partner countries and slightly sharpened its geographic focus from 140 countries in 2010. Its support to fragile states reached USD 11.4 billion in 2012 (44% of total bilateral ODA).

Figure 52.7. **Bilateral country-allocable ODA to top recipients, 2012, gross disbursements, United States**



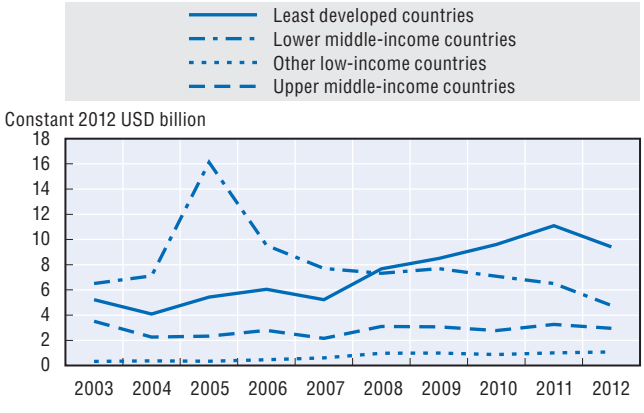
Note: Totals do not add up to total bilateral ODA. A further USD 7.8 billion was unallocated by country.

StatLink http://dx.doi.org/10.1787/888933127738

In 2012, 36% of bilateral ODA was allocated to least developed countries (LDCs), amounting to USD 9.4 billion. The share has progressively increased over the past decade from 26% in 2003 to 36% in 2012. LDCs received the highest share of bilateral ODA in 2012, compared with other income groups.

At 0.07% of gross national income (GNI) in 2012, total ODA to LDCs was less than the UN target of 0.15% of GNI.

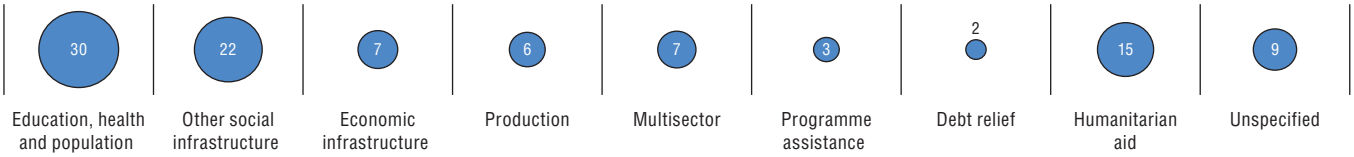
Figure 52.8. **Bilateral ODA by income group, 2003-12, gross disbursements, United States**



StatLink http://dx.doi.org/10.1787/888933127757

Half of bilateral ODA was allocated to social infrastructure and services in 2012, totalling USD 13.3 billion, with a strong focus on population policies and programmes (USD 5.1 billion) and support to government and civil society (USD 4.8 billion). Humanitarian aid amounted to USD 4 billion.

Figure 52.9. **Share of bilateral ODA by sector, 2011-12 average, commitments, United States**

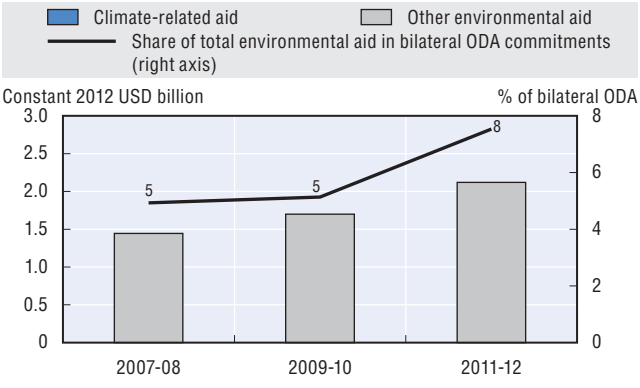


StatLink http://dx.doi.org/10.1787/888933127776

USD 411 million of bilateral ODA supported gender equality. Backed by strong political support, the United States has renewed its efforts to integrate gender equality and female empowerment. USAID's new Policy on Gender Equality and Female Empowerment, focuses on integrating gender in all USAID programming. Gender has been mainstreamed in recent presidential initiatives on food security and health. Until 2009, the United States' gender marker was assigned based on a text search through project description (using terms such as "girl" or "woman"); resulting data on gender equality focused ODA is not comparable with those reported by other donors. The United States has implemented an improved data collection system for the gender equality marker, and data for 2011 will be available in 2014.

USD 1.8 billion of bilateral ODA supported the environment. US environment and climate change assistance aims to help countries grow without harming the environment by promoting low emissions, climate-resilient development strategies, including clean energy development and community-based natural resource management that protects biodiversity and fights deforestation. For technical reasons, data collection on aid for climate change for the United States is not yet available. The United States is working to review its data collection methodology and will supply data for 2011 and 2012 in 2014.

Figure 52.10. **Bilateral ODA in support of global and local environment objectives, two year averages, commitments, United States**



StatLink http://dx.doi.org/10.1787/888933127795

Note to reader: Annex B provides "Methodological notes on definitions and measurement for the Profiles of Development Assistance Committee members".

© OECD 2014

Trends and profiles of other providers' development co-operation

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

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

This section was prepared by Willem Luijkx in collaboration with Pawel Baginski, Michael Laird, Michael Stirnweiss, Talita Yamashiro Fordelone and Ann Zimmerman of the Development Co-operation Directorate, OECD.

One of the main changes in the development co-operation landscape in recent years has been the increasing importance and prominence of providers of development co-operation that are not, at present, members of the Development Assistance Committee (DAC). These providers form a quite heterogeneous group of countries and include the "BRICS" (Brazil, the Russian Federation, India, China and South Africa) and Latin American and Southeast Asian countries whose development co-operation is rooted in the tradition of South-South co-operation. These are mostly middle-income countries (MICs) with a dual role of both recipient and provider of development co-operation. Arab countries, which have a long tradition of providing development co-operation, also belong to this group, along with several high-income countries in Central and South Eastern Europe.

As their development co-operation programmes grow, there is an increasing demand for information on these countries' programmes. Partner countries need to know what flows are reaching them. Policy makers need this information to make informed decisions and to co-ordinate their activities with other countries and institutions. Transparent data also allows researchers to study these countries' programmes and the general public to see how public funds are being used.

With the accession of 5 countries to the DAC in 2013, 17 bilateral providers beyond the DAC currently report to the OECD on their development co-operation programmes, although in different degrees of comprehensiveness and detail. The OECD DAC engages with many other countries to exchange ideas and share experiences on how to measure development co-operation. Some countries do not report to the OECD, but do publish data on their programmes. However, this information is often incomplete and in all cases not comparable with DAC statistics. In these cases, the OECD is increasingly making estimates of how much of these countries' programmes could meet the criteria for official development assistance (ODA), as defined by the DAC.

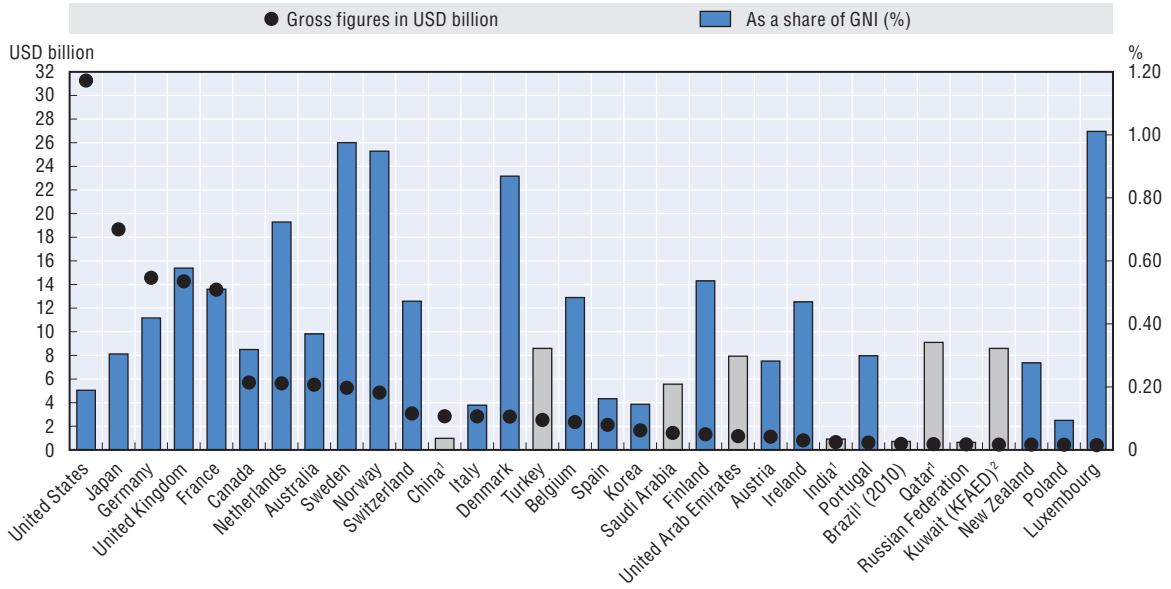
As stated in the DAC Global Relations Strategy,[1] "monitoring the concessional and non-concessional development finance flows from public and private actors" is one of the DAC's objectives. Therefore, the OECD DAC welcomes additional or improved (i.e. more detailed and more comprehensive) reporting by major providers of development co-operation. Data submitted and estimates by the OECD are continuously updated and available on the webpage on development finance of countries beyond the DAC.[2]

Estimated global concessional development finance ("ODA-like" flows)

Figure 53.1 provides an overview, in both US dollars and as a percentage of gross national income (GNI), of gross concessional financing for development for countries with a development co-operation programme of more than USD 350 000. In total, the OECD estimates that global concessional development finance reached USD 139 billion in 2012, of which 8.4% was provided by countries beyond the DAC. It should be stressed that this number is an approximation as regards the development co-operation provided by countries that do not report to the OECD.

The following sections provide further information on the development co-operation programmes of selected countries that are not members of the DAC. The first section covers the 17 countries that report to the OECD, with a particular focus on OECD member countries that are not members of the DAC (Estonia, Hungary, Israel and Turkey), OECD accession countries (Latvia and the Russian Federation) and major providers of development co-operation that report detailed and

Figure 53.1. **Gross concessional financing for development ("ODA-like" flows)**



Notes: Countries with gross development co-operation of more than USD 350 000. Figures are 2012 data unless otherwise specified. Gross national income (GNI) figures are based on reported figures to the OECD or World Bank data. Non-DAC countries are presented with gray bars.

1. Estimates.
2. Based on 2011 GNI figures because 2012 data were not yet available.

StatLink http://dx.doi.org/10.1787/888933127814

comprehensive data to the OECD (the United Arab Emirates, UAE). The second section, on important providers of development co-operation that do not report to the OECD, similarly focuses on OECD member countries that are not members of the DAC (Chile and Mexico), OECD accession countries (Colombia), the OECD Key Partners (Brazil, India, Indonesia, the People's Republic of China and South Africa) and Qatar. The final section provides information on the Bill & Melinda Gates Foundation, the only private foundation that reported on its activities to the OECD in 2013 (over 2012 flows).

Providers of development co-operation that report to the OECD

Net concessional development co-operation by the 17 providers that report to the OECD fell from USD 8.8 billion in 2011 to USD 6.5 billion in 2012. This is mainly due to a significant decrease in Saudi Arabia's development co-operation, which fell from USD 5 billion in 2011 to USD 1.3 billion in 2012. Only six countries' programmes increased in 2012. Turkey nearly doubled its development co-operation. More figures and information on trends can be found in the following sections. It generally concerns 2012 data, but where available, preliminary data on 2013 flows are presented for individual countries.

Estonia

In 2013, Estonia's net ODA amounted to USD 31 million, representing an increase of 22% in real terms over 2012. The ratio of ODA as a share of gross national income (GNI) also rose, from 0.11% to 0.13%. Multilateral ODA accounted for 66% of Estonia's total ODA.

Estonia's development co-operation is provided in line with its second Development Co-operation Strategy, which was set for the period of 2011-15. This strategy contains detailed provisions concerning the goals and objectives of Estonia's development co-operation, its sectoral and geographical priorities, as well as its financial allocations of ODA. The Ministry of Foreign Affairs is the key institution responsible for managing and co-ordinating Estonia's development co-operation.

In 2012, Estonia provided its bilateral development co-operation mostly to Afghanistan, Georgia, Moldova and Ukraine, often in the form of small-scale technical co-operation projects. Its bilateral development co-operation covers sustainable economic growth, education, health, government and civil society.

Estonia provided its multilateral ODA primarily through the European Union (accounting for 72% of its multilateral ODA in 2012), as well as through the United Nations and the World Bank Group.

Estonia has been a member of the OECD since 2010 and is an observer to the DAC. In 2013, it participated in the DAC Senior-Level Meeting, a meeting of the DAC Working Party on Development Finance Statistics and a seminar at the OECD on DAC statistical reporting.

Hungary

In 2013, Hungary's net ODA amounted to USD 120 million, representing a decrease of 2% in real terms over 2012 (although in nominal terms Hungary's net ODA slightly increased). The ratio of ODA as a share of GNI remained stable at 0.10%. Multilateral ODA accounted for 76% of Hungary's total ODA.

The International Development Cooperation and Humanitarian Aid Strategy of Hungary for the period 2014-20 was approved by the Hungarian government in March 2014. The Ministry of Foreign Affairs is the key institution responsible for planning, implementing and co-ordinating Hungary's development co-operation.

In 2012, Hungary provided its bilateral development co-operation mostly to Ukraine, Serbia, Afghanistan, India and China. The main sectors of Hungary's bilateral development co-operation are political and economic transformation, good governance, education, migration, health, agriculture and water management. Hungary provides its bilateral development co-operation in the form of small-scale technical co-operation projects, scholarships and aid to refugees.

Hungary provided its multilateral ODA primarily through the European Union (accounting for 82% of multilateral ODA in 2012) as well as through the United Nations and the World Bank Group.

Hungary has been a member of the OECD since 1996 and is an observer to the DAC. In 2013, Hungary participated in the DAC Senior-Level Meeting, a meeting of the DAC Working Party on Development Finance Statistics and a seminar at the OECD on DAC statistical reporting.

Israel

In 2013, Israel's net ODA amounted to USD 186 million, representing a decrease of 6% in real terms over 2012 (although in nominal terms Israel's net ODA slightly increased). The ratio of ODA as a share of GNI remained stable at 0.07%. Multilateral ODA accounted for USD 16 million, representing 8% of Israel's total ODA.

Israel's Agency for International Development Co-operation, a division of the Ministry of Foreign Affairs, is in charge of planning, implementing and co-ordinating Israel's development co-operation.

In 2012, Israel provided its bilateral development co-operation mostly to Jordan and the West Bank and Gaza Strip. The main sectors of Israel's bilateral development co-operation are water resources management, desert agriculture and combating desertification, early childhood education, rural and community development, emergency and disaster medicine, public health and women's empowerment. Israel provides its bilateral development co-operation mostly in the form of small-scale technical co-operation projects. In 2013, Israel supported Syrian refugees, especially through the provision of medical services.

Israel is also engaged in triangular co-operation, partnering with several international organisations (e.g. United Nations Development Programme, Food and Agriculture Organization and World Food Programme) and DAC members (e.g. Germany, Italy and the United States) to support developing countries in areas in which it has a comparative advantage.

In 2012, Israel provided its multilateral ODA primarily through the World Bank Group (accounting for 59% of its multilateral ODA in 2012) as well as through the United Nations and some regional development banks.

Israel has been a member of the OECD since 2010 and is an observer to the DAC. In 2013, it attended the DAC Senior-Level Meeting as well as the meeting of the DAC Network on Development Evaluation. In November 2013, the OECD organised a seminar in Israel on managing development co-operation. Israel also contributed to the DAC's work on triangular co-operation.

Latvia

In 2013, Latvia's net ODA amounted to USD 24 million, representing an increase of 12% in real terms over 2012. The ratio of ODA as a share of GNI also rose, from 0.07% to 0.08%. Multilateral ODA accounted for 94% of Latvia's total ODA.

Latvia's development co-operation is provided in line with the Latvian Development Co-operation Policy Strategy 2011-15, which defines the goals, principles and directions of Latvia's development co-operation. The Ministry of Foreign Affairs is responsible for formulating development co-operation policy and for co-ordinating aid activities.

In 2012, Latvia provided its bilateral development co-operation mostly to Afghanistan and Georgia. The main sectors of Latvia's bilateral development co-operation are fostering a market economy, good governance, rule of law, education and environment. Latvia provides its bilateral development co-operation mostly in the form of small-scale technical co-operation projects.

Latvia provided its multilateral ODA primarily through the European Union (accounting for 84% of its multilateral ODA in 2012) as well as through the United Nations and the World Bank Group.

In 2013, the OECD decided to open accession discussions with Latvia. In the same year, Latvia participated, as an observer, in the OECD Development Co-operation Peer Review of Italy.

Russian Federation

In 2013, the Russian Federation's net ODA amounted to USD 610 million, representing an increase of 26% in real terms over 2012. The ratio of ODA as a share of GNI rose from 0.02% to 0.03%. The Russian Federation's multilateral ODA accounted for 42% its total ODA.

The Russian Federation's development co-operation is provided in line with the Concept of Russia's Participation in International Development Assistance, approved by the President of the Russian Federation in 2007. The concept sets out the objectives, principles and priorities of the Russian Federation's development co-operation, as well as the criteria for providing assistance to partner countries. The Ministry of Foreign Affairs and the Ministry of Finance are jointly responsible for formulating the Russian Federation's development co-operation policy and for supervising its implementation.

The Russian Federation provides its bilateral development co-operation mostly to the members of the Commonwealth of Independent States. The priority sectors of the Russian Federation's bilateral development co-operation are energy, health and education. The Russian Federation provides its bilateral development co-operation in the form of debt relief, concessional loans, technical co-operation projects and scholarships, as well as budget support.

The Russian Federation provided its multilateral ODA through the World Bank Group (accounting for 51% of its multilateral ODA in 2012) as well as through the United Nations and regional development banks.

In 2007, the OECD decided to open accession discussions with the Russian Federation. In 2013, the Russian Federation participated in the DAC Senior-Level Meeting, a meeting of the DAC Working Party on Development Finance Statistics and a seminar at the OECD on DAC statistical reporting.

Turkey

In 2013, Turkey's net ODA amounted to USD 3.3 billion, representing an increase of 30% in real terms over 2012. The large increase in Turkish ODA over the last years is strongly related to its response to the Syrian refugee crisis. The ratio of ODA as a share of GNI rose from 0.32% in 2012 to 0.42% in 2013. Multilateral ODA accounted for 4% of Turkey's total ODA.

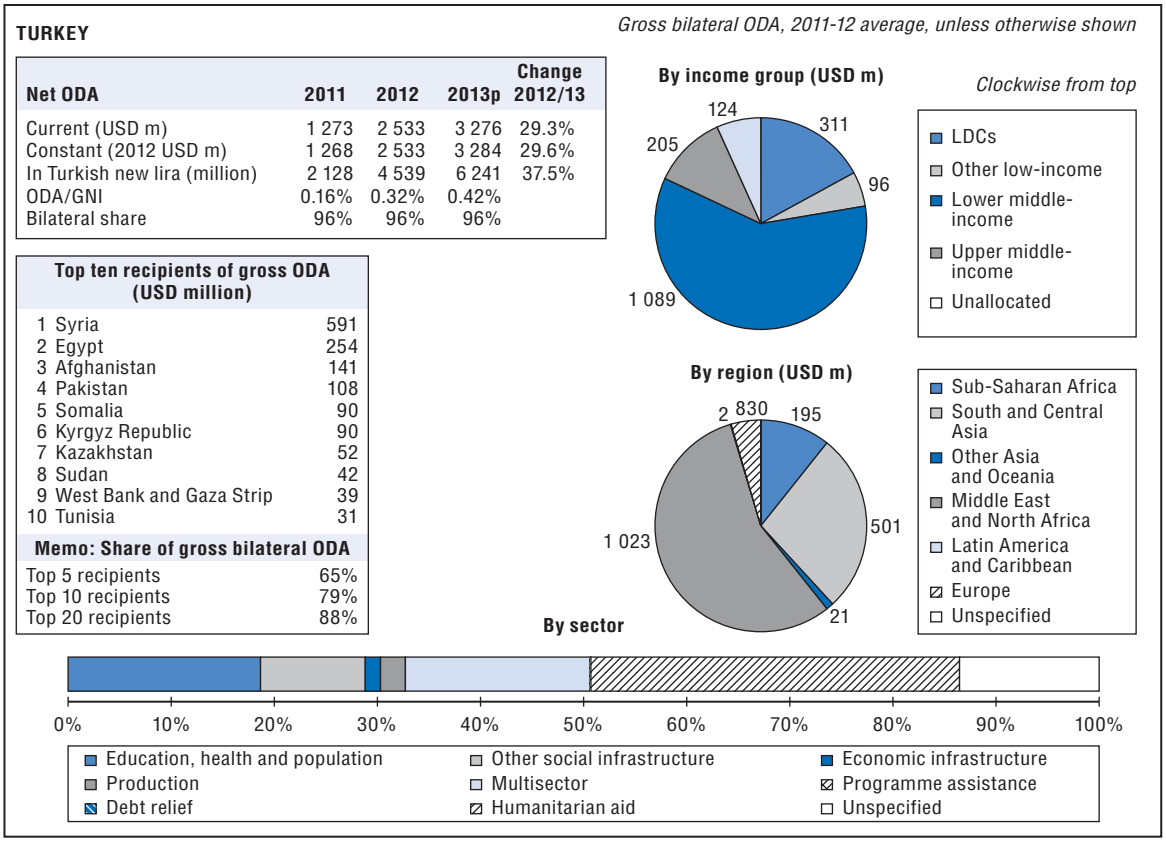
Turkey's development co-operation is provided in line with the Law on the Organisation and Duties of the Turkish Co-operation and Co-ordination Agency (TIKA), adopted in 2011. TIKA designs and co-ordinates Turkey's bilateral development co-operation activities and implements projects in collaboration with other ministries, non-governmental organisations (NGOs) and the private sector.

Turkey provides its bilateral development co-operation mostly to South and Central Asia and the Middle East, as well as to Africa. In 2012, Syria was the main recipient of Turkey's bilateral development co-operation. The priority sectors of Turkey's bilateral development co-operation are social infrastructure and services, notably education and health, as well as governance and civil society.

In 2012, Turkey provided its multilateral ODA through the United Nations (accounting for 42% of its multilateral ODA in 2012) as well as through the World Bank Group and regional development banks.

Turkey is a founding member of the OECD and is an observer to the DAC. In 2013, the DAC Chair visited Turkey and the OECD organised a seminar in Ankara on managing development co-operation. Turkey participated in the DAC Senior-Level Meeting, meetings of the DAC Network on Development Evaluation and the DAC Working Party on Development Finance Statistics, as well as a seminar at the OECD on DAC statistical reporting. Turkey also contributed to the DAC's work on triangular co-operation.

Figure 53.2. **ODA key statistics: Turkey**



Source: OECD-DAC, *www.oecd.org/dac/stats*.

StatLink http://dx.doi.org/10.1787/888933127833

United Arab Emirates

In 2013, total net ODA of the United Arab Emirates (UAE) reached USD 5.1 billion, representing an increase in real terms of 375% over 2012. The ratio of ODA as a share of GNI also rose, to 1.25%, up from 0.27% in 2012. Multilateral ODA accounted for 1% of the country's total ODA.

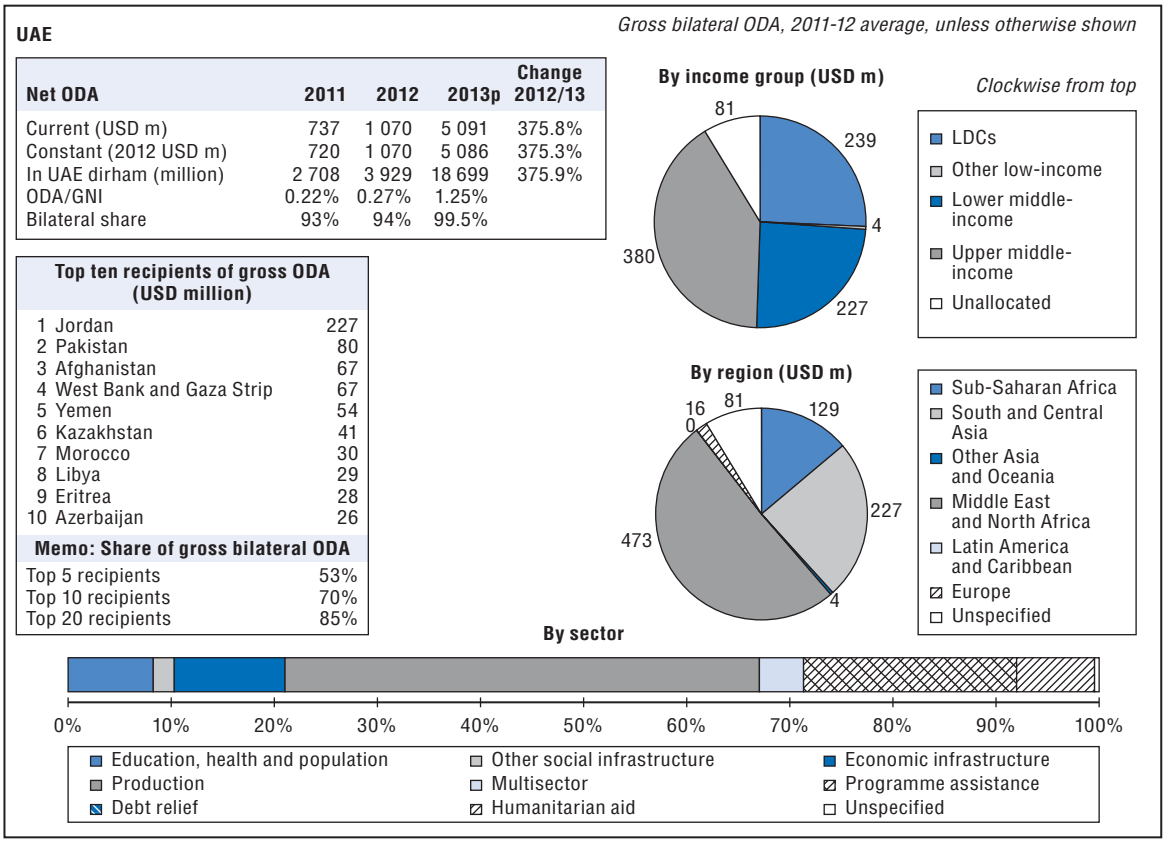
In 2013, the Office for Coordination of Foreign Aid was incorporated into the newly established Ministry of International Co-operation and Development, which is responsible for developing a foreign aid policy and an aid programme, documenting aid flows, enhancing international co-operation and assessing the impact of the country's development co-operation.

In 2012, the UAE provided its bilateral co-operation mostly to Jordan, followed by the West Bank and Gaza Strip, Afghanistan, Pakistan, Eritrea and Azerbaijan. The main sectors of the UAE's bilateral development co-operation are general programme assistance, economic infrastructure and education, health and population sectors. The UAE provides its bilateral programme mostly in the form of grants.

The UAE provided its multilateral ODA primarily through regional development banks (accounting for 43% of its multilateral ODA in 2012) as well as through the United Nations.

The UAE reports detailed and comprehensive data to the OECD (and, in 2013, started to report preliminary aggregate data as well). In 2013, the UAE participated in meetings of the DAC Network on Development Evaluation and the DAC Working Party on Development Finance Statistics, as well as a seminar at the OECD on DAC statistical reporting.

Figure 53.3. **ODA key statistics: United Arab Emirates**



Source: OECD-DAC, *www.oecd.org/dac/stats*.

StatLink http://dx.doi.org/10.1787/888933127852

Overview of other providers that report to the OECD

As previously mentioned, **Saudi Arabia** experienced a large decrease in its flows to developing countries of 74% in real terms between 2011 and 2012. The development co-operation provided by the **Kuwait Fund for Arab Economic Development** remained stable at USD 149 million in 2012. However, this amount does not represent the totality of the development co-operation provided by the Kuwaiti administration and the OECD welcomes the efforts being launched by the Kuwaiti Ministry of Foreign Affairs to report more comprehensive data to the OECD.

Among the nine European Union member countries that are not members of the DAC, Estonia and Hungary (OECD members) and Latvia (an OECD accession country) were discussed above. Another five European Union member countries report to the OECD; Croatia is the only one of these countries that did not report to the OECD in 2013 (although Croatia started reporting in 2014). Concessional development finance for 4 of these countries decreased in 2012: **Bulgaria** by 15% (reaching USD 40 million), **Cyprus**[3, 4] by 32% (reaching USD 25 million), **Malta** by 5% (reaching USD 19 million) and **Romania** by 11% (reaching USD 142 million). **Lithuania,** the largest provider of development co-operation among the Baltic countries, stabilised the strong increase between 2010 and 2011 to reach USD 52 million in 2012.

Thailand reported that its budget allocation for development co-operation decreased from USD 31 million in 2011 to USD 17 million in 2012, although this may not include all of Thailand's efforts in this area. In 2012, **Chinese Taipei**'s programme decreased by 18% compared to 2011. **Liechtenstein**'s development co-operation decreased slightly, from USD 31 million in 2011 to USD 29 million in 2012.

Non-reporting countries

A number of important providers of development co-operation do not report to the OECD on their development finance flows. A cautious estimate by the OECD indicates total non-reporting concessional development finance amounts to USD 5.1 billion (OECD, 2014a). The development co-operation programmes of some of the main providers are discussed in this section, namely two OECD member countries (Chile and Mexico) and the OECD Key Partners (Brazil, India, Indonesia, the People's Republic of China and South Africa). Estimates for Qatar are included for the first time after the recent publication of its foreign aid reports 2010-11 and 2012.

Brazil

In 2013, Brazil published a report on its 2010 development co-operation programme (Ipea and ABC, 2013). Based on that report, the OECD estimates that USD 500 million of Brazil's international co-operation would meet the criteria for ODA. Its development co-operation strongly increased compared to 2009, mainly due to additional humanitarian and peacekeeping[5] expenditure, of which a large amount was allocated to Haiti after the earthquake in 2010. Of the USD 500 million, 60% was channelled through multilateral organisations. More recent estimates by the OECD show that Brazil channelled USD 272 million through multilateral organisations in 2012 (see Table 53.2).

The Ministry of External Relations oversees Brazil's development co-operation and co-ordinates its humanitarian assistance, technical co-operation (through the Brazilian Co-operation Agency), financial co-operation (debt relief and some concessional loans) and multilateral allocations.

Table 53.1. **Estimates of gross concessional flows for development co-operation from OECD Key Partners**

USD million

	2010	2011	2012	2013	2014
Estimates on gross concessional flows as published in national publications					
Brazil	499.7d	..	..	..	..
South Africa[1, 2]	134.7d	176.1d	189.2d	149.0p	137.7f
Estimates on bilateral flows as published in national publications + multilateral contributions based on other sources[3]					
China	2 011.2d	2 747.5d	2 845.7d	..	..
of which: Channelled bilaterally	1 857.4d	2 469.9d	2 644.2d	3 146.9f	..
India[1]	640.2p	789.9p	652.8p	..	..
of which: Channelled bilaterally	576.9p	730.7p	605.0p	..	..
Indonesia	9.9p	7.1p	18.7p	..	..
of which: Channelled bilaterally	3.8p	2.6p	2.6p	2.6p	..

Notes: i) These data are Secretariat estimates of concessional flows for development from countries that do not report in DAC statistical systems. Contrary to the figures of reporting countries, these estimates are on a gross basis because information on repayments is not available. ii) Estimates are based on publically available information. Therefore, these estimates are not necessarily complete or comparable. iii) Data includes only development-related contributions. This means local resources, financing from a country through multilateral organisations earmarked to programmes within that same country, are excluded. Moreover, as for reporting countries, coefficients are applied to core contributions to multilateral organisations that do not exclusively work in countries eligible for receiving ODA. These coefficients reflect the developmental part of the multilateral organisations' activities.
d = disbursed; p = provisional; f = forward spending information; .. = not available.

1. Figures for India and South Africa are based on their fiscal years. For example, 2012 data correspond to fiscal year 2012/13.
2. The decrease in South African development co-operation from 2013 onwards is strongly related to exchange rate fluctuations.
3. For China, India and Indonesia, the total is the result of summing up bilateral development co-operation and information on development co-operation channelled through multilateral organisations which is mainly based on data from UN Department of Economic and Social Affairs (DESA), *www.aidflows.org* and websites of other multilateral organisations.

Sources: IPEA and ABC (2010), *Cooperação Brasileira para o Desenvolvimento Internacional 2010*, Instituto de Pesquisa Econômica Aplicada and Agência Brasileira de Cooperação, Brasilia. Government of South Africa (2014), "Estimates of national expenditure 2014", National Treasury, Pretoria. Government of China (2013), "The central level expenditure budget table 2013", Ministry of Finance of the People's Republic of China, Beijing. Ministry of Foreign Affairs, India, various *Annual Reports*. Government of Indonesia (2011), "Prospective of Indonesia South-South Cooperation 2011-2014", National Coordination Team on South-South and Triangular Cooperation, South Jakarta.

StatLink http://dx.doi.org/10.1787/888933127871

Most of Brazil's development co-operation is allocated regionally, to Latin America and the Caribbean. The modalities of Brazil's bilateral co-operation are humanitarian assistance, technical co-operation, scientific and technological co-operation, scholarships and imputed student costs, and refugee costs.

Brazil is also engaged in triangular co-operation, partnering with several international organisations (e.g. United Nations Development Programme, Food and Agriculture Organization, World Food Programme, International Labour Organization, United Nations Office on Drugs and Crime and UNESCO) and DAC members (e.g. Germany, Japan and the United States) to support developing countries (e.g. South American countries, Lusophone African countries, Haiti and Timor-Leste) in areas such as agriculture, food security, health and public administration.

Brazil's development co-operation through multilateral organisations was primarily channelled through the United Nations (44%).

Brazil is a Key Partner of the OECD. In 2013, Brazil participated in the DAC Senior-Level Meeting.

Table 53.2. **Estimated development-oriented contributions to and through multilateral organisations by OECD Key Partners, 2012**

Current USD million

	Brazil	China	India	Indonesia	South Africa
UNESCO (core contributions, 60% ODA)	1.0	9.9	2.5	6.5	1.0
World Food Programme	28.5	4.6	0.1	0.0	0.0
Food and Agriculture Organization (core contributions, 51% ODA)	12.9	11.5	1.5	0.6	2.8
United Nations regular budget (core contributions, 18% ODA)	7.5	14.8	2.5	1.1	2.8
International Fund for Agricultural Development	0.0	7.0	10.0	3.5	0.0
United Nations Office on Drugs and Crime	19.4	0.5	0.4	0.0	0.0
International Labour Organization (core contributions, 60% ODA)	5.0	8.2	1.4	0.6	3.9
World Health Organization (core contributions, 76% ODA)	5.5	9.1	1.5	0.7	1.1
United Nations Development Programme	1.5	5.5	2.0	0.8	4.2
International Atomic Energy Agency (core contributions, 33%)	4.0	6.5	1.1	0.5	0.8
United Nations Industrial Development Organization	1.2	4.1	3.3	0.2	0.4
United Nations Relief and Works Agency	7.5	0.1	1.0	0.1	0.5
United Nations Childrens Fund	4.7	1.3	2.1	0.5	0.0
Other United Nations institutions	6.0	7.6	7.4	0.9	0.9
Total United Nations	**120.5**	**90.7**	**36.8**	**16.1**	**18.4**
African Development Bank	4.9	42.9	4.9	0.0	37.7
Asian Development Bank	0.0	8.8	0.0	0.0	0.0
Inter-American Development Bank	65.4	0.0	0.0	0.0	0.0
Total regional development banks	**70.3**	**51.7**	**4.9**	**0.0**	**37.7**
International Development Association	0.0	50.0	0.0	0.0	0.0
Other World Bank Group	2.2	5.0	5.0	0.0	19.3
Total World Bank Group	**2.2**	**55.0**	**5.0**	**0.0**	**19.3**
FOCEM (Fund for Structural Convergence of Mercosur)	70.0	0.0	0.0	0.0	0.0
African Union	0.0	0.0	0.0	0.0	20.4
Organization of American States	8.1	0.0	0.0	0.0	0.0
Southern African Development Community	0.0	0.0	0.0	0.0	6.4
Global Fund to Fight AIDS, Tuberculosis and Malaria	0.0	4.0	0.0	0.0	0.0
Other organisations	1.0	0.0	1.1	0.0	5.3
Total other organisations	**79.1**	**4.0**	**1.1**	**0.0**	**32.0**
Total development co-operation channelled through multilateral organisations	**272.1**	**201.5**	**47.7**	**16.1**	**107.4**

Notes: i) Data includes only development-related contributions. DAC coefficients are applied to core contributions to organisations that do not exclusively work in partner countries. Lastly, local resources, financing from a country through multilateral organisations destined to programmes within that same country, are excluded. ii) The information in this table is mainly based on data from UN Department of Economic and Social Affairs (DESA), *www.aidflows.org*, websites of other multilateral organisations and national publications of the Key Partners. Not all data on contributions to multilateral organisations are made publically available, so the presented information may not be complete.

StatLink http://dx.doi.org/10.1787/888933127890

Chile

According to OECD estimates, Chile's concessional finance for development reached USD 42 million in 2012 (OECD estimate). Chile's contributions through multilateral organisations that would qualify as ODA amounted to USD 31 million, or 74%.

In October 2013, Chile drafted its first "Policy on International Co-operation", which describes Chile's goals, mission, values and approach, based on the South-South co-operation model. The Chilean International Co-operation Agency is the main entity responsible for managing Chile's international development co-operation.

Chile's priority partner countries are primarily in Latin America and the Caribbean. Its co-operation programme is spread across a wide range of sectors, including governance and institutional strengthening; poverty reduction and social development; and support to industry, innovation and competitiveness. Chile's bilateral co-operation is mostly provided in the form of technical assistance and scholarships.

Chile is also engaged in triangular co-operation, partnering with several international organisations (e.g. the Inter-American Development Bank and the World Food Programme) and DAC members (e.g. Australia, Canada, France, Germany, Korea, Japan, New Zealand, Spain, Switzerland and the United States) to support development in other developing countries (e.g. Bolivia, Colombia, the Dominican Republic, Ecuador, El Salvador, Guatemala and Paraguay).

Chile's development co-operation through multilateral organisations was primarily channelled through the World Bank (37%) and the Inter-American Development Bank (32%) in 2012.

Chile has been a member of the OECD since 2010 and is an observer to the DAC. In 2013, the DAC Chair visited Chile and the OECD organised a seminar there on statistics. Chile also requested a special review of its development co-operation policies and programme (Box 53.1). Chile participated in the DAC Senior-Level Meeting in 2013. Chile also contributed to the DAC's work on triangular co-operation and aid for trade.

Box 53.1. **"Special review of Chile's development co-operation policies and programmes"**

The "Special review of Chile's development co-operation policies and programmes" was conducted following a request by the Chilean International Co-operation Agency to the DAC. The review was carried out by advisors from Germany and Switzerland working in conjunction with the OECD Secretariat. A representative from Colombia participated as an observer. The main objective of the special review was to provide critical, helpful and respectful insights to the Chilean authorities to support their own efforts to strengthen their development co-operation programme and systems.

The special review found that Chile's own development success has attracted considerable interest, especially from its neighbours in Latin America and the Caribbean, to which it is responding by providing bilateral and triangular development co-operation as well as substantial support to and through multilateral organisations. To respond to the growing demand, Chile has set itself the ambition of improving its development co-operation by strengthening the programme's foundations to make them more purposeful, systematic and capable of responding strategically. The special review found that these efforts can be consolidated and built on further by making the legal and policy framework more fit for purpose, improving inter-ministerial co-ordination, mobilising more resources for development co-operation, continuing to modernise management of the programme and putting systems in place that enable Chile to evaluate its activities and learn from its experience.

China (People's Republic of)

In 2013, China's bilateral co-operation reached USD 3.1 billion, compared to USD 2.6 billion in 2012 (OECD estimates). Including developmental funds channelled through multilateral organisations, the OECD estimates that China's total concessional finance for development reached USD 2.8 billion in 2012.

The Eight Principles for Economic Aid and Technical Assistance to Other Countries, announced by Premier Zhou Enlai in 1964, set out the core principles of China's foreign aid. The Ministry of Commerce's Department of Foreign Assistance is at the centre of the Chinese system and manages

over 90% of its bilateral funding. It is responsible for drafting the aid budget and aid regulations, managing foreign aid joint ventures, programming zero-interest loans and grants, and co-ordinating concessional loans with the China ExImbank.

China does not have specific priority countries (aside from North Korea). Its grant aid is distributed more or less equally to some 120 partner countries. The main sectors are public facilities, industry and economic infrastructure. China offers eight different forms of co-operation with complete projects (turn-key projects) being the major modality. China also provides humanitarian assistance.

China is also starting to become engaged in triangular co-operation, partnering with several international organisations (e.g. United Nations Development Programme, the United Nations Industrial Development Organization and the World Bank) and DAC members (e.g. New Zealand and the United States).

China's development co-operation through multilateral organisations was primarily channelled through the United Nations (45%), the World Bank Group (29%) and regional development banks (26%) in 2012. Its main multilateral partners were the International Development Association and the African Development Bank.

China is a Key Partner of the OECD. In 2013, the DAC Chair visited China to open a roundtable discussion on effective development co-operation organised by the China-DAC Study Group. The OECD and the Embassy of the People's Republic of China in France also organised a seminar at the OECD to share views on promoting development. China participated, as an observer, in the *OECD Development Co-operation Peer Review of Switzerland* and attended the DAC Senior-Level Meeting. China also contributed to the DAC's work on triangular co-operation and aid for trade.

Colombia

According to OECD estimates, Colombia's concessional finance for development reached USD 87 million in 2012, compared to USD 22 million in 2011 (OECD estimates). Most of these flows were channelled to and through multilateral organisations. In 2012, Colombia's contributions through multilateral organisations that would qualify as ODA amounted to USD 78 million, up from USD 21 million in 2011 (OECD estimate).

The National Strategy of International Co-operation 2012-14 sets out Colombia's strengths and good practices available to share with other countries. It also introduces a national co-ordination scheme as well as mechanisms for monitoring and evaluation of development co-operation. The Colombian Presidential Agency of International Co-operation (APC-Colombia) sets priorities and ensures alignment of Colombia's development co-operation with its National Development Plan and foreign policy. The agency manages and co-ordinates all out-going development co-operation.

Colombia has bilateral programmes with 19 countries in Latin America, the Caribbean and Asia. The main sectors are technical support and security, social promotion and protection, culture, sports and education, promotion of economic development, public management and good governance, reconciliation (including comprehensive attention to victims, reintegration and historic memory) and cross-cutting issues (e.g. environment and sustainable development). Colombia provides its bilateral development co-operation in the form of training, internships, knowledge exchange (experts), studies and research, seminars and financial contributions through its South-South co-operation fund.

Colombia is also engaged in triangular co-operation, partnering with several international organisations (e.g. Development Bank of Latin America/CAF, Inter-American Development Bank, International Fund for Agricultural Development, International Organization for Migration, United Nations Population Fund and World Food Programme) and DAC members (e.g. Australia, Canada, Germany, Japan, Korea and the United States) to support other developing countries (mainly in Central America and the Caribbean) in a wide range of areas.

In 2012, Colombia's development co-operation through multilateral organisations was primarily channelled through the United Nations (85%), of which almost USD 60 million through the United Nations Office on Drugs and Crime.

In 2013, the OECD decided to open accession discussions with Colombia. In the same year, the DAC Chair visited Colombia. Colombia also contributed to DAC's work on triangular co-operation and aid for trade.

India

According to OECD estimates, India's total concessional development finance amounted to USD 653 million in 2012, compared to USD 790 million in 2011 (OECD estimates). India channelled 6% (USD 47 million) of its development financing through multilateral organisations in 2012.

The Development Partnership Administration within the Ministry of External Affairs manages grants and the Indian Technical and Economic Cooperation Program as well as co-ordinating all of India's bilateral development co-operation. The Ministry of Finance manages multilateral assistance and exercises administrative oversight over the concessional loans and lines of credit provided by the EXIM Bank.

India's priority partner countries are its neighbours in South Asia. Between 2000 and 2010, Bhutan received 49% of India's overall development co-operation. The main sectors of India's development co-operation are health, education, energy (hydropower) and information technology.

In 2012, India's development co-operation through multilateral organisations was primarily channelled through the United Nations, especially the International Fund for Agricultural Development (see Table 53.2).

India is a Key Partner of the OECD. In 2013, India participated in the DAC Senior-Level Meeting.

Indonesia

In 2012, Indonesia's development co-operation amounted to an estimated USD 19 million, compared to USD 7 million in 2011 (OECD estimates). USD 16 million (86%) was channelled through multilateral organisations.

Several government regulations, national plans and presidential instructions guide Indonesia's development co-operation. The National Development Planning Agency (BAPPENAS) is responsible for developing and co-ordinating Indonesia's national strategy for development co-operation. Together with the Ministry of Foreign Affairs, the Ministry of Finance and the State Secretariat, BAPPENAS constitutes the National Coordination Team on South-South and Triangular Cooperation.

Indonesia co-operates bilaterally with around 40 partner countries, most of them in Asia, in a variety of sectors. Bilateral co-operation consists mainly of scholarships and technical co-operation projects.

Indonesia is also engaged in triangular co-operation, partnering with several international organisations and DAC members in Timor-Leste.

In 2012, Indonesia's development co-operation through multilateral organisations was entirely channelled through the United Nations agencies; UNESCO (40%) and the International Fund for Agricultural Development (22%) being its main partners.

Indonesia is a Key Partner of the OECD. In 2013, Indonesia participated in the DAC Senior-Level Meeting. Indonesia also contributed to the DAC's work on aid for trade.

Mexico

Mexico published figures on its development co-operation programme for the first time in 2014. According to these figures, Mexico's international development co-operation reached USD 277 million in 2012, up from USD 269 million in 2011. Out of the total disbursed in 2012, the OECD estimates that at least USD 210 million meets the criteria of ODA. Of this amount, 54% was channelled through multilateral organisations.

The Law on International Co-operation for Development (April 2011) gave the government a mandate to set up the International Development Co-operation Programme and create the Mexican Agency of International Development Co-operation (AMEXCID), as well as the tools necessary to programme, co-ordinate, implement and evaluate development co-operation. The Ministry of Foreign Affairs has overall responsibility for Mexico's development co-operation, which is managed by AMEXCID.

Mexico's priority partner countries are those in Latin America and the Caribbean. The main sectors of its bilateral development co-operation are public administration, education, science and technology, agriculture, environmental protection and health. Mexico's bilateral development co-operation is provided mainly through technical and scientific co-operation.

Mexico is also engaged in triangular co-operation, partnering with several international organisations (e.g. the Inter-American Institute for Co-operation on Agriculture/IICA, UNICEF, United Nations Development Programme and World Trade Organization) and DAC members (e.g. Germany, Japan and Spain) to support other developing countries, mainly in Latin America and the Caribbean.

Mexico's development co-operation through multilateral organisations is primarily channelled through the United Nations agencies, although the main single recipient of Mexican funds was the Inter-American Development Bank.

Mexico has been a member of the OECD since 1994 and is an observer to the DAC. In 2013, Mexico participated in the DAC Senior-Level Meeting and contributed to the DAC's work on triangular co-operation and aid for trade.

Qatar

Qatar's development co-operation amounted to USD 486 million in 2012, compared to USD 684 million in 2011 (OECD estimates). Qatar channelled 1% of its development co-operation through multilateral institutions.

Qatar views development co-operation as an integral part of its foreign policy. The Office of the Minister's Assistant for International Co-operation Affairs in the Ministry of Foreign Affairs is responsible for development co-operation and humanitarian assistance. Within the ministry, the Department of International Development is the central unit, in charge of policy design and implementation.

Qatar's priority partner countries are Syria, Tunisia, Sudan, the West Bank and Gaza Strip and Haiti. The main sectors are construction, reconstruction, education and culture.

South Africa

South African concessional finance for development reached USD 149 million in 2013, compared to USD 189 million in 2012 (OECD estimates). Measured in South African rand, its development co-operation actually increased between 2012 and 2013; the decrease in USD is related to exchange rate fluctuations. In 2012, 57% of South Africa's total development co-operation was channelled through multilateral organisations.

The Strategic Plan (2010-13) of South Africa's Department of International Relations and Co-operation (DIRCO) includes "the African continent" and "strengthening South-South relations" as priorities. DIRCO is the main institution responsible for planning, implementing and co-ordinating

South Africa's development co-operation. It also manages the African Renaissance and International Cooperation Fund, which South Africa plans to replace with the South African Development Agency, to be created under DIRCO.

South Africa prioritises co-operation with the African continent, with a strong focus on member countries of the Southern African Development Community. The priority sectors of its bilateral development co-operation are peacekeeping, security and governance. South Africa provides its bilateral development co-operation mostly in the form of technical co-operation.

South Africa is also engaged in triangular co-operation, partnering with several DAC members (e.g. Canada, Germany, Norway, Spain, Sweden and the United States) to support other developing countries (mainly in Africa) in areas such as governance, public security and post-conflict resolution.

South Africa's development co-operation through multilateral organisations is primarily channelled through the African Development Bank and the African Union.

South Africa is a Key Partner of the OECD. In 2013, South Africa participated in the DAC Senior-Level Meeting.

Private development flows

Some private organisations also deliver significant amounts of financing for development. At present, the Bill & Melinda Gates Foundation is the only private entity reporting to the OECD on its activities with developing countries (grants, loans and equity). Disbursements by the Gates Foundation reached USD 2.6 billion in 2012, almost the same level as 2011. Close to two-thirds of its geographically allocated grants target African recipients directly or indirectly.

In 2012, 73% of its sector-allocable disbursements, which exclude core contributions of USD 260 million to multilateral organisations working in the health sector, were extended in the health sector (including reproductive health). The Gates Foundation represents the fourth largest international donor for health after the United States, the Global Fund for Fighting Aids, Tuberculosis and Malaria (GFATM) and the United Kingdom. A significant part of the Gates Foundation's expenditures is channelled through NGOs from both partner and donor countries, international NGOs, universities and other teaching or research institutes, and multilateral agencies. The World Health Organization (WHO), GAVI Alliance and UNICEF are the main institutions with which the foundation collaborates.

Notes

1. The DAC Global Relations Strategy is available at: *www.oecd.org/dac/dac-global-relations/promotingdialoguebeyondthedacdacglobalrelationsstrategy.htm*.
2. See: *www.oecd.org/dac/dac-global-relations/non-dac-reporting.htm*.
3. Note by Turkey: The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of United Nations, Turkey shall preserve its position concerning the "Cyprus issue".
4. Note by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.
5. Most peacekeeping expenditure is excluded from ODA in DAC statistics.

References

Government of China (2013), "The central level expenditure budget table 2013", Ministry of Finance of the People's Republic of China, Beijing, *http://yss.mof.gov.cn/2013zyczys/201303/t20130322_785066.html*.

Government of China (2011), "China's Foreign Aid", *White Paper*, Information Office of the State Council of the People's Republic of China, Beijing, *www.china.org.cn/government/whitepaper/node_7116362.htm*.

Government of China (1964), "China's Eight Principles for Economic Aid and Technical Assistance to Other Countries", Government of China, Beijing, *http://english.gov.cn/official/2011-04/21/content_1849913_10.htm*.

Government of India (2013), *Annual Report 2012-13*, Ministry of External Affairs, New Delhi.

Government of India (2012), *Annual Report 2011-12*, Ministry of External Affairs, New Delhi.

Government of Indonesia (2011), "Prospective of Indonesia South-South cooperation 2011-14", National Coordination Team on South-South and Triangular Cooperation, South Jakarta.

Government of South Africa (2014), "Estimates of national expenditure 2014", National Treasury, Pretoria.

IPEA and ABC (2013), *Cooperação Brasileira para o Desenvolvimento Internacional 2010*, Instituto de Pesquisa Econômica Aplicada and Agência Brasileira de Cooperação, Brasilia.

OECD (2014a), "Non-DAC countries and the debate on measuring post-2015 development finance", DCD/DAC(2014)6, OECD, Paris, *www.oecd.org/dac/externalfinancingfordevelopment/documentupload/DCD-DAC(2014)6-ENG.pdf*.

OECD (2014b), "Special review of Chile's development co-operation", OECD, Paris, *www.oecd.org/dac/dac-global-relations/Chile%20Special%20Review.pdf*.

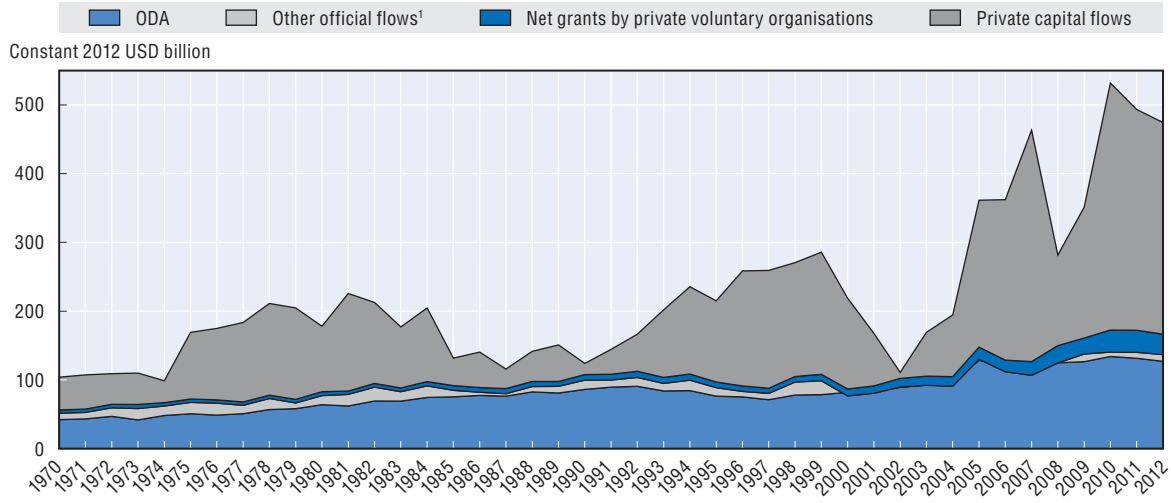
OECD (2011), "The DAC Global Relations Strategy", OECD, Paris, *www.oecd.org/dac/49102914.pdf*.

© OECD 2014

ANNEX A

Statistical annex

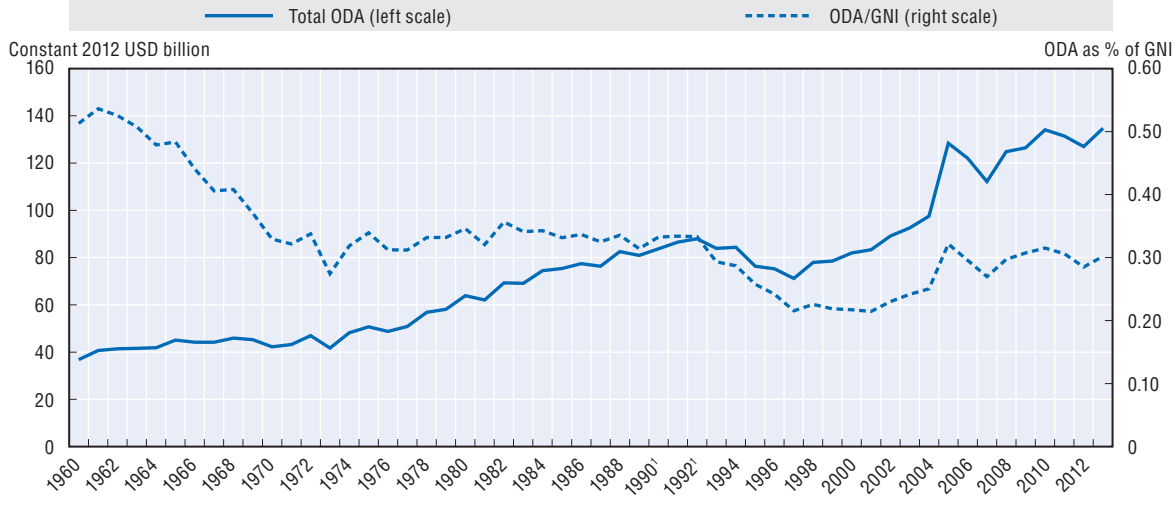
Figure A.1. **DAC members' total net resource flows to developing countries, 1970-2012**



1. Net OOF flows were negative in 2000-01, 2003-04 and 2006-08.

StatLink http://dx.doi.org/10.1787/888933133590

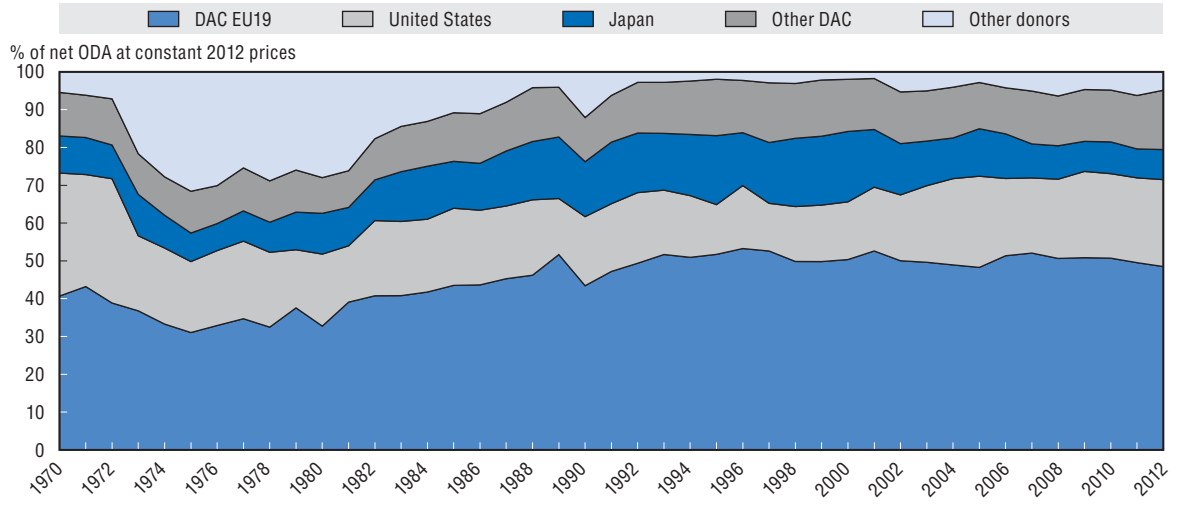
Figure A.2. **Net official development assistance, 1960-2013**



1. Total DAC excludes debt forgiveness of non-ODA claims in 1990, 1991 and 1992.

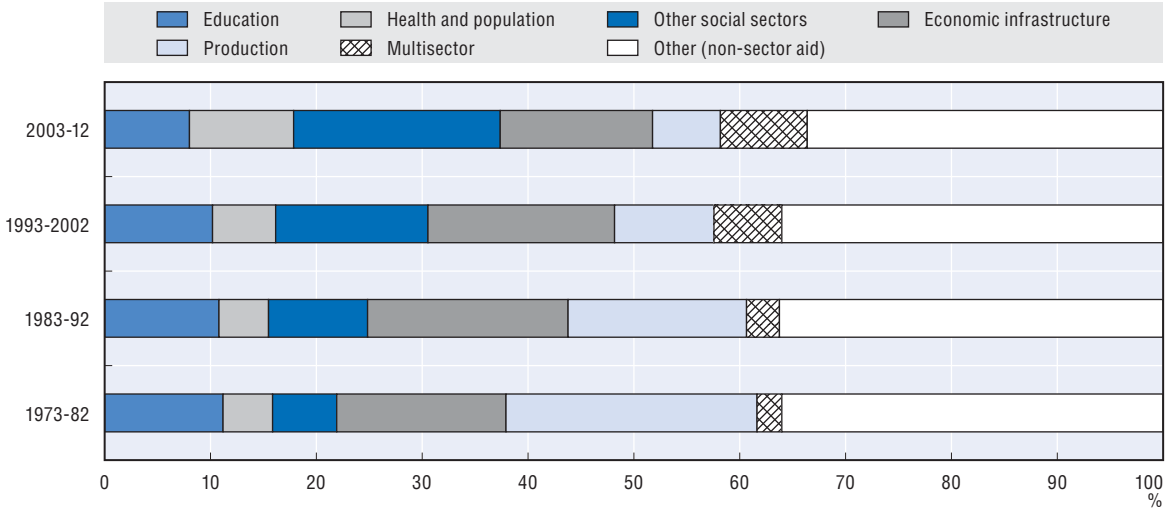
StatLink http://dx.doi.org/10.1787/888933133609

Figure A.3. **Donor shares of net official development assistance, 1970-2012**



StatLink http://dx.doi.org/10.1787/888933133628

Figure A.4. **Trends in sector-specific aid, 1973-2012**



StatLink http://dx.doi.org/10.1787/888933133647

Table A.1. **DAC members' net official development assistance in 2013**

Preliminary data for 2013

	2013		2012		% change 2012 to 2013 in real terms[1]
	ODA (USD million current)	ODA/GNI (%)	ODA (USD million current)	ODA/GNI (%)	
Australia	4 851	0.34	5 403	0.36	-4.5
Austria	1 172	0.28	1 106	0.28	0.7
Belgium	2 281	0.45	2 315	0.47	-6.1
Canada	4 911	0.27	5 650	0.32	-11.4
Czech Republic	212	0.11	220	0.12	-4.7
Denmark	2 928	0.85	2 693	0.83	3.8
Finland	1 435	0.55	1 320	0.53	3.5
France	11 376	0.41	12 028	0.45	-9.8
Germany	14 059	0.38	12 939	0.37	3.0
Greece	305	0.13	327	0.13	-7.7
Iceland	35	0.26	26	0.22	27.4
Ireland	822	0.45	808	0.47	-1.9
Italy	3 253	0.16	2 737	0.14	13.4
Japan	11 786	0.23	10 605	0.17	36.6
Korea	1 744	0.13	1 597	0.14	4.8
Luxembourg	431	1.00	399	1.00	1.2
Netherlands	5 435	0.67	5 523	0.71	-6.2
New Zealand	461	0.26	449	0.28	-1.0
Norway	5 581	1.07	4 753	0.93	16.4
Poland	474	0.10	421	0.09	8.6
Portugal	484	0.23	581	0.28	-20.4
Slovak Republic	85	0.09	80	0.09	2.4
Slovenia	60	0.13	58	0.13	-0.6
Spain	2 199	0.16	2 037	0.16	3.7
Sweden	5 831	1.02	5 240	0.97	6.3
Switzerland	3 198	0.47	3 056	0.47	3.4
United Kingdom	17 881	0.72	13 891	0.56	27.8
United States	31 545	0.19	30 687	0.19	1.3
Total DAC	**134 838**	**0.30**	**126 949**	**0.29**	**6.1**
Average country effort		0.40		0.39	
Memorandum items:					
EU Institutions	15 925	..	17 479	..	-13.1
DAC-EU countries	70 725	0.42	64 724	0.40	5.2
G7 countries	94 812	0.27	88 538	0.25	8.0
Non-G7 countries	40 026	0.40	38 411	0.40	1.7

1. Taking account of both inflation and exchange rate movements.

StatLink http://dx.doi.org/10.1787/888933133685

Table A.2. **Total net flows from DAC countries by type of flow**

Net disbursements at current prices and exchange rates

	USD million							% of total						
	1996-97 average	2001-02 average	2008	2009	2010	2011	2012	1996-97 average	2001-02 average	2008	2009	2010	2011	2012
I. Official development assistance	52 204	55 711	122 784	120 558	129 066	134 670	126 949	27	61	44	36	25	27	27
1. Bilateral ODA	35 861	38 174	87 113	83 938	90 988	94 446	88 574	19	42	32	25	18	19	19
of which:														
General budget support	-	639	2 915	2 723	1 396	1 391	721	-	1	1	1	0	0	0
Core support to national NGOs	1 005	1 245	2 517	2 131	1 569	1 474	1 483	1	1	1	1	0	0	0
Investment projects	4 524	4 480	8 337	10 582	10 984	13 763	7 363	2	5	3	3	2	3	2
Debt relief grants	2 428	3 319	8 835	1 712	3 666	4 138	2 867	1	4	3	1	1	1	1
Administrative costs	2 801	3 021	5 408	5 302	5 981	6 002	6 684	1	3	2	2	1	1	1
Other in-donor expenditures[1]	732	1 345	2 843	3 513	3 940	4 865	4 660	0	1	1	1	1	1	1
2. Contributions to multilateral institutions	16 343	17 536	35 671	36 620	38 078	40 224	38 376	9	19	13	11	7	8	8
of which:														
United Nations	4 232	5 065	5 900	6 233	6 519	6 571	6 637	2	6	2	2	1	1	1
European Institutions	4 778	5 316	13 507	14 242	13 611	13 672	11 963	2	6	5	4	3	3	3
International Development Association	4 037	3 445	8 161	7 188	8 072	9 441	7 696	2	4	3	2	2	2	2
Regional development banks	1 555	1 661	3 212	3 107	3 156	4 059	3 929	1	2	1	1	1	1	1
II. Other official flows	6 019	-877	-55	10 148	5 878	8 603	9 792	3	-1	-0	3	1	2	2
1. Bilateral	6 257	817	-643	8 050	5 393	8 931	10 729	3	1	-0	2	1	2	2
2. Multilateral	-238	-1 693	588	2 097	485	-327	-937	-0	-2	0	1	0	-0	-0
III. Private flows at market terms	127 892	28 987	130 026	181 608	344 386	326 593	307 772	67	32	47	54	68	65	65
1. Direct investment	69 684	52 153	187 013	116 189	179 317	219 571	207 138	36	57	68	35	35	44	44
2. Bilateral portfolio investment	59 222	-20 924	-53 573	44 199	144 158	105 735	92 433	31	-23	-19	13	28	21	19
3. Multilateral portfolio investment	-3 537	-3 616	-9 986	18 767	-6 157	-9 291	-881	-2	-4	-4	6	-1	-2	-0
4. Export credits	2 523	1 375	6 571	2 452	27 069	10 579	9 082	1	1	2	1	5	2	2
IV. Net grants by NGOs	5 495	8 063	23 787	22 048	30 775	31 969	29 753	3	9	9	7	6	6	6
Total net flows	**191 611**	**91 884**	**276 542**	**334 360**	**510 106**	**501 836**	**474 267**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Total net flows at 2012 prices and exchange rates[2]	**277 639**	**123 456**	**281 247**	**350 642**	**529 787**	**489 853**	**474 267**							

1. Includes development awareness and refugees in donor countries.
2. Deflated by the total DAC deflator.

Source of private flows: DAC members' reporting to the annual DAC Questionnaire on total official and private flows.

StatLink http://dx.doi.org/10.1787/888933133704

Table A.3. **Total net flows by DAC country**

Net disbursements at current prices and exchange rates

	USD million							% of GNI						
	1996-97 average	2001-02 average	2008	2009	2010	2011	2012	1996-97 average	2001-02 average	2008	2009	2010	2011	2012
Australia	-1 882	988	3 828	3 133	14 531	18 522	21 906	-0.48	0.27	0.41	0.33	1.23	1.28	1.46
Austria	1 821	1 373	10 831	3 273	6 372	8 075	4 534	0.84	0.71	2.71	0.87	1.70	1.94	1.15
Belgium	-2 511	820	4 425	3 224	7 896	1 185	2 703	-0.98	0.34	0.89	0.68	1.68	0.23	0.55
Canada	8 609	1 791	24 069	7 340	22 642	13 548	18 515	1.48	0.25	1.63	0.56	1.46	0.79	1.04
Czech Republic	..	36	249	215	228	250	219	..	0.06	0.12	0.12	0.13	0.12	0.12
Denmark	1 938	2 111	5 150	3 757	4 794	2 818	2 400	1.15	1.28	1.50	1.18	1.52	0.82	0.74
Finland	798	577	-222	3 185	4 312	1 016	1 519	0.65	0.46	-0.08	1.34	1.78	0.38	0.61
France	15 733	10 528	40 641	38 420	35 198	34 216	29 578	1.05	0.75	1.44	1.43	1.35	1.21	1.11
Germany	191 611	6 776	35 727	29 130	41 637	56 202	34 876	0.91	0.35	0.98	0.86	1.24	1.54	1.00
Greece	184	262	1 166	850	761	485	907	0.15	0.21	0.35	0.26	0.26	0.17	0.36
Iceland	4	11	48	34	29	25	26	0.00	0.14	0.47	0.35	0.29	0.20	0.22
Ireland	347	1 102	6 101	4 188	2 695	2 444	956	0.59	1.19	2.71	2.27	1.57	1.37	0.56
Italy	6 414	605	5 581	5 569	9 608	11 912	11 186	0.54	0.05	0.25	0.27	0.47	0.55	0.56
Japan	33 798	9 186	31 805	45 482	48 249	61 828	48 977	0.74	0.22	0.63	0.88	0.86	1.02	0.80
Korea	1 957	778	10 700	6 442	11 834	11 509	12 415	0.37	0.15	1.14	0.77	1.17	1.03	1.09
Luxembourg	95	146	426	428	411	417	394	0.52	0.80	0.99	1.08	1.07	0.99	0.99
Netherlands	9 099	-2 459	-14 022	6 045	13 013	22 046	19 943	2.38	-0.62	-1.61	0.77	1.67	2.62	2.56
New Zealand	164	151	433	387	426	536	629	0.28	0.31	0.38	0.35	0.32	0.35	0.39
Norway	1 658	1 882	3 759	4 977	5 876	4 755	4 506	1.06	1.05	0.83	1.29	1.41	0.96	0.88
Poland	..	25	373	375	378	417	421	..	0.03	0.08	0.09	0.08	0.08	0.09
Portugal	1 141	975	1 528	-1 060	162	-1 299	475	1.10	0.86	0.67	-0.48	0.07	-0.57	0.23
Slovak Republic	..	7	92	75	74	86	80	..	0.03	0.10	0.09	0.09	0.09	0.09
Slovenia	..	..	68	71	59	63	58	..	..	0.13	0.15	0.13	0.13	0.13
Spain	5 835	9 847	30 087	12 812	10 340	20 145	1 977	1.06	1.61	1.96	0.89	0.74	1.38	0.15
Sweden	2 048	2 654	5 896	7 164	5 127	6 598	14 156	0.89	1.16	1.22	1.77	1.10	1.20	2.63
Switzerland	-2 464	1 569	12 246	8 853	23 444	11 965	15 007	-0.81	0.55	2.53	1.69	4.01	1.80	2.30
United Kingdom	21 064	8 626	41 878	24 713	25 632	46 851	63 461	1.70	0.57	1.57	1.11	1.12	1.91	2.57
United States	65 361	31 514	13 678	115 276	214 378	165 222	162 440	0.83	0.31	0.09	0.82	1.46	1.09	0.98
Total DAC	**191 611**	**91 884**	**276 542**	**334 360**	**510 106**	**501 836**	**474 267**	**0.83**	**0.37**	**0.67**	**0.85**	**1.25**	**1.14**	**1.06**
of which: DAC-EU countries	84 404	44 013	175 974	142 435	168 696	213 927	189 844	1.01	0.52	1.01	0.89	1.07	1.25	1.18

StatLink http://dx.doi.org/10.1787/888933133723

Table A.4. **Net official development assistance by DAC country**

Net disbursements at current prices and exchange rates

	USD million							% of GNI						
	1997-98 average	2002-03 average	2009	2010	2011	2012	2013 preliminary	1997-98 average	2002-03 average	2009	2010	2011	2012	2013 preliminary
Australia	1 011	1 104	2 762	3 826	4 983	5 403	4 851	0.27	0.25	0.29	0.32	0.34	0.36	0.34
Austria	477	512	1 142	1 208	1 111	1 106	1 172	0.23	0.23	0.30	0.32	0.27	0.28	0.28
Belgium	823	1 462	2 610	3 004	2 807	2 315	2 281	0.33	0.53	0.55	0.64	0.54	0.47	0.45
Canada	1 876	2 017	4 000	5 214	5 459	5 650	4 911	0.32	0.26	0.30	0.34	0.32	0.32	0.27
Czech Republic	16	68	215	228	250	220	212	0.03	0.09	0.12	0.13	0.12	0.12	0.11
Denmark	1 670	1 696	2 810	2 871	2 931	2 693	2 928	0.98	0.89	0.88	0.91	0.85	0.83	0.85
Finland	388	510	1 290	1 333	1 406	1 320	1 435	0.32	0.35	0.54	0.55	0.53	0.53	0.55
France	6 024	6 370	12 602	12 915	12 997	12 028	11 376	0.41	0.39	0.47	0.50	0.46	0.45	0.41
Germany	5 719	6 054	12 079	12 985	14 093	12 939	14 059	0.27	0.28	0.35	0.39	0.39	0.37	0.38
Greece	176	319	607	508	425	327	305	0.15	0.21	0.19	0.17	0.15	0.13	0.13
Iceland	7	15	34	29	26	26	35	0.00	0.16	0.35	0.29	0.21	0.22	0.26
Ireland	193	451	1 006	895	914	808	822	0.30	0.40	0.54	0.52	0.51	0.47	0.45
Italy	1 772	2 382	3 297	2 996	4 326	2 737	3 253	0.15	0.18	0.16	0.15	0.20	0.14	0.16
Japan	9 999	9 081	9 467	11 058	10 831	10 605	11 786	0.24	0.22	0.18	0.20	0.18	0.17	0.23
Korea	184	322	816	1 174	1 325	1 597	1 744	0.04	0.06	0.10	0.12	0.12	0.14	0.13
Luxembourg	103	170	415	403	409	399	431	0.60	0.82	1.04	1.05	0.97	1.00	1.00
Netherlands	2 994	3 655	6 426	6 357	6 344	5 523	5 435	0.80	0.80	0.82	0.81	0.75	0.71	0.67
New Zealand	142	144	309	342	424	449	461	0.26	0.22	0.28	0.26	0.28	0.28	0.26
Norway	1 314	1 870	4 081	4 372	4 756	4 753	5 581	0.86	0.91	1.06	1.05	0.96	0.93	1.07
Poland	19	21	375	378	417	421	474	0.01	0.01	0.09	0.08	0.08	0.09	0.10
Portugal	255	321	513	649	708	581	484	0.25	0.24	0.23	0.29	0.31	0.28	0.23
Slovak Republic	..	11	75	74	86	80	85	..	0.04	0.09	0.09	0.09	0.09	0.09
Slovenia	..	..	71	59	63	58	60	..	..	0.15	0.13	0.13	0.13	0.13
Spain	1 305	1 837	6 584	5 949	4 173	2 037	2 199	0.24	0.25	0.46	0.43	0.29	0.16	0.16
Sweden	1 652	2 206	4 548	4 533	5 603	5 240	5 831	0.75	0.81	1.12	0.97	1.02	0.97	1.02
Switzerland	904	1 119	2 310	2 300	3 051	3 056	3 198	0.31	0.34	0.44	0.39	0.46	0.47	0.47
United Kingdom	3 648	5 595	11 283	13 053	13 832	13 891	17 881	0.27	0.33	0.51	0.57	0.56	0.56	0.72
United States	7 832	14 805	28 831	30 353	30 920	30 687	31 545	0.09	0.14	0.21	0.21	0.20	0.19	0.19
Total DAC	**50 502**	**64 119**	**120 558**	**129 066**	**134 670**	**126 949**	**134 838**	**0.21**	**0.24**	**0.31**	**0.32**	**0.31**	**0.29**	**0.30**
of which: DAC-EU countries	27 234	33 641	67 947	70 399	72 897	64 724	70 725	0.32	0.34	0.43	0.45	0.43	0.40	0.42
Memorandum item:														
Average country effort								0.33	0.35	0.42	0.42	0.40	0.39	0.40

StatLink http://dx.doi.org/10.1787/888933133742

Table A.5. **Total net private flows[1] by DAC country**

Net disbursements at current prices and exchange rates

	USD million							% of GNI						
	1996-97 average	2001-02 average	2008	2009	2010	2011	2012	1996-97 average	2001-02 average	2008	2009	2010	2011	2012
Australia	-3 222	-141	314	..	9 511	11 904	14 740	-0.82	-0.03	0.03	..	0.80	0.82	0.98
Austria	945	824	8 878	2 035	5 150	6 751	3 380	0.44	0.41	2.22	0.54	1.37	1.62	0.86
Belgium	-3 446	-313	1 816	147	4 530	-2 126	333	-1.47	-0.13	0.36	0.03	0.96	-0.41	0.07
Canada	5 679	88	16 184	3 140	14 124	5 714	9 194	0.97	0.01	1.10	0.24	0.91	0.33	0.51
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Denmark	153	467	2 303	599	1 779	-356	-242	0.09	0.30	0.67	0.19	0.56	-0.10	-0.07
Finland	248	138	-1 422	1 741	2 922	-1 498	180	0.20	0.14	-0.53	0.73	1.21	-0.57	0.07
France	8 948	5 388	29 962	25 524	22 856	21 289	18 078	0.60	0.40	1.06	0.95	0.88	0.75	0.68
Germany	12 747	-720	20 583	15 495	27 595	40 921	21 383	0.57	-0.03	0.56	0.46	0.82	1.12	0.61
Greece	..	20	460	241	243	60	579	..	0.02	0.14	0.08	0.08	0.02	0.23
Iceland	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Ireland	102	666	4 500	3 000	1 500	1 000	..	0.17	0.70	2.00	1.62	0.88	0.56	..
Italy	3 068	-1 233	207	2 181	6 612	7 689	8 161	0.27	-0.11	0.01	0.10	0.33	0.35	0.41
Japan	21 711	2 404	23 738	27 217	32 837	47 594	32 494	0.47	0.06	0.47	0.53	0.58	0.78	0.53
Korea	1 676	458	7 863	5 018	8 716	7 772	9 616	0.31	0.08	0.84	0.60	0.86	0.70	0.85
Luxembourg	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Netherlands	5 717	-6 098	-21 345	-923	5 999	15 472	13 891	1.50	-1.54	-2.46	-0.12	0.77	1.84	1.79
New Zealand	11	17	29	24	26	28	35	0.02	0.03	0.03	0.02	0.02	0.02	0.02
Norway	249	30	-247	895	1 504	-0	-1	0.16	0.01	-0.05	0.23	0.36	-0.00	-0.00
Poland	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Portugal	797	677	906	-1 577	-492	-2 013	-114	0.78	0.64	0.39	-0.72	-0.22	-0.88	-0.06
Slovak Republic	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Slovenia	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Spain	4 469	8 022	23 220	6 225	4 391	15 968	-63	0.83	1.33	1.51	0.43	0.32	1.10	-0.00
Sweden	158	797	1 108	2 473	372	1 097	8 946	0.07	0.36	0.23	0.61	0.08	0.20	1.66
Switzerland	-3 553	450	9 810	6 186	20 731	8 448	11 479	-1.19	0.16	2.03	1.18	3.54	1.27	1.76
United Kingdom	17 416	3 530	29 938	12 798	12 246	32 428	48 508	1.42	0.24	1.12	0.58	0.54	1.32	1.96
United States	54 017	13 519	-28 781	69 168	161 234	108 451	107 194	0.68	0.13	-0.20	0.49	1.10	0.71	0.65
Total DAC	**127 892**	**28 987**	**130 026**	**181 608**	**344 386**	**326 593**	**307 772**	**0.55**	**0.12**	**0.31**	**0.46**	**0.84**	**0.74**	**0.69**
of which: DAC-EU countries	51 324	12 164	101 115	69 959	95 704	136 682	123 021	0.61	0.14	0.58	0.44	0.61	0.80	0.76

1. Excluding grants by NGOs.

StatLink http://dx.doi.org/10.1787/888933133761

Table A.6. **Official development finance to developing countries**

Constant 2012 USD billion

	1982	1987	1992	1997	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Official development finance (ODF)	**102.2**	**102.2**	**104.0**	**96.0**	**99.5**	**92.6**	**94.3**	**141.1**	**126.1**	**131.7**	**152.4**	**181.6**	**181.4**	**161.2**	**162.5**
1. Official development assistance (ODA)	78.3	78.1	88.0	71.7	94.3	95.2	97.5	128.5	123.8	116.0	129.8	132.8	136.4	137.5	133.1
of which:															
Bilateral donors[1]	59.2	60.2	64.0	49.4	66.7	71.2	70.8	101.9	94.7	85.4	97.6	94.3	100.2	100.2	93.9
Multilateral organisations	19.1	17.9	24.1	22.3	27.6	24.0	26.7	26.6	29.1	30.7	32.2	38.5	36.2	37.2	39.2
2. Other ODF	23.9	24.2	16.0	24.3	5.3	-2.6	-3.2	12.6	2.2	15.7	22.6	48.9	45.0	23.7	29.4
of which:															
Bilateral donors[1]	6.8	11.4	10.6	8.0	8.4	5.5	1.4	12.1	3.7	1.4	1.8	11.1	5.7	9.4	9.1
Multilateral organisations	17.1	12.8	5.4	16.3	-3.1	-8.1	-4.6	0.5	-1.5	14.2	20.8	37.8	39.2	14.3	20.3
For cross reference															
Total DAC net ODA[2]	69.3	76.3	90.7	71.2	89.2	92.6	97.5	128.4	122.1	112.2	124.9	126.4	134.0	131.5	126.9
of which: Bilateral grants	33.9	42.4	51.4	46.1	60.4	67.8	70.3	99.3	92.5	81.9	90.8	86.1	91.2	90.9	85.9

1. Bilateral flows from DAC countries and non-DAC countries (see Table A.12 for the list of non-DAC countries for which data are available).
2. Comprises bilateral ODA, as above, plus contributions to multilateral organisations in place of ODA disbursements from multilateral organisations as shown above.

StatLink http://dx.doi.org/10.1787/888933133780

Table A.7. **ODA by individual DAC country at 2012 prices and exchange rates**

Net disbursements, USD million

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013p
Australia	2 728	2 903	3 533	3 843	4 049	3 993	4 459	4 967	5 403	5 158
Austria	809	1 841	1 704	1 849	1 633	1 113	1 218	1 046	1 106	1 113
Belgium	1 782	2 334	2 274	2 009	2 283	2 557	3 033	2 646	2 315	2 174
Canada	4 057	5 291	4 728	4 805	5 440	4 921	5 643	5 494	5 650	5 007
Czech Republic	152	178	198	192	224	207	224	230	220	209
Denmark	2 551	2 571	2 645	2 714	2 705	2 787	2 871	2 775	2 693	2 795
Finland	814	1 074	976	1 022	1 119	1 264	1 368	1 337	1 320	1 367
France	10 037	11 651	11 942	9 952	10 165	12 077	12 889	12 199	12 028	10 854
Germany	8 461	11 248	11 491	12 212	13 082	11 571	12 944	13 219	12 939	13 328
Greece	389	457	487	511	650	568	494	390	327	302
Iceland	19	22	34	34	43	39	30	24	26	33
Ireland	631	729	992	1 044	1 136	926	880	850	808	793
Italy	2 925	5 940	4 136	4 039	4 577	3 150	2 998	4 068	2 737	3 104
Japan	10 929	16 583	15 042	10 621	11 789	10 543	11 827	10 723	10 605	14 486
Korea	499	789	444	650	869	981	1 235	1 315	1 597	1 674
Luxembourg	329	342	360	411	429	440	419	390	399	404
Netherlands	4 876	5 789	6 004	6 171	6 444	6 128	6 322	5 942	5 523	5 181
New Zealand	314	372	372	389	433	424	391	431	449	445
Norway	3 800	4 237	4 088	4 595	4 329	5 128	4 975	4 700	4 753	5 534
Poland	164	246	341	354	311	385	370	390	421	457
Portugal	1 192	425	430	456	561	476	629	652	581	462
Slovak Republic	43	82	74	74	87	72	74	81	80	82
Slovenia	..	41	51	55	62	66	58	58	58	58
Spain	2 901	3 442	4 135	4 948	6 129	6 082	5 774	3 857	2 037	2 112
Sweden	3 386	4 217	4 807	4 706	4 916	5 289	4 930	5 419	5 240	5 568
Switzerland	2 220	2 545	2 327	2 224	2 392	2 693	2 570	2 890	3 056	3 161
United Kingdom	8 297	11 179	12 417	8 823	11 043	12 276	13 931	13 901	13 891	17 755
United States	23 213	31 886	26 060	23 503	27 973	30 273	31 490	31 460	30 687	31 080
Total DAC	**97 519**	**128 411**	**122 092**	**112 205**	**124 873**	**126 429**	**134 046**	**131 454**	**126 949**	**134 698**
of which: DAC-EU countries	49 739	63 786	65 464	61 541	67 557	67 434	71 425	69 450	64 724	68 119
Memorandum item:										
Total DAC at current prices and exchange rates	**80 130**	**108 296**	**105 415**	**104 917**	**122 784**	**120 558**	**129 066**	**134 670**	**126 949**	**134 838**

p = Preliminary data.

StatLink http://dx.doi.org/10.1787/888933133799

Table A.8. **ODA from DAC countries to multilateral organisations[1] in 2012**

Net disbursements, USD million

	Total	World Bank Group	*of which:* IDA	Regional development banks	*of which:* African Dev. Bank	*of which:* Asian Dev. Bank	United Nations agencies	*of which:* IFAD	*of which:* UNDP	*of which:* WFP	*of which:* UNICEF	*of which:* UNHCR	EU	*of which:* EDF	Other multilateral	*of which:* IMF[2]	*of which:* GAVI	*of which:* Global Fund
Australia	852	257	146	103	-	103	299	-	32	48	35	22	-	-	193	-	57	62
Austria	570	181	176	72	51	11	23	-	2	0	-	1	275	90	19	-	-	-
Belgium	882	189	177	9	6	2	145	9	27	-	24	13	450	118	88	-	-	27
Canada	1 598	550	493	263	165	48	193	38	-	25	18	14	-	-	592	-	15	200
Czech Republic	153	17	6	5	-	-	8	-	0	-	-	-	118	17	6	5	-	-
Denmark	771	115	83	52	50	4	289	4	62	32	28	28	241	72	74	-	4	25
Finland	521	80	76	55	46	9	154	6	26	8	22	9	188	54	44	-	-	5
France	4 100	575	542	262	206	47	211	-	18	-	6	20	2 097	741	956	132	13	463
Germany	4 355	789	754	314	236	66	337	-	29	30	8	10	2 430	769	485	-	13	257
Greece	220	-	-	1	-	-	10	-	-	-	-	-	204	54	5	-	-	-
Iceland	5	2	2	-	-	-	2	0	0	-	1	-	-	-	1	-	-	-
Ireland	272	31	30	1	-	1	88	3	11	11	11	8	128	35	24	-	4	15
Italy	2 113	230	166	105	54	44	188	32	0	16	2	-	1 516	475	75	-	-	-
Japan	4 202	1 550	1 401	969	189	735	679	37	80	7	17	22	-	-	1 004	-	9	343
Korea	414	154	124	126	29	79	114	2	5	0	3	3	-	-	20	4	0	1
Luxembourg	122	28	21	4	1	3	52	2	8	1	7	2	31	9	7	1	1	1
Netherlands	1 665	257	203	127	7	-	555	22	82	46	65	49	605	181	121	-	14	51
New Zealand	88	2	2	16	-	16	47	-	6	5	5	5	-	-	23	-	-	-
Norway	1 230	173	154	108	92	13	624	14	132	25	77	50	-	-	326	-	104	77
Poland	310	2	2	-	-	-	17	-	-	-	0	-	285	45	5	-	-	-
Portugal	184	2	2	14	2	6	11	-	1	0	0	0	154	38	3	-	-	-
Slovak Republic	61	1	1	-	-	-	3	-	-	0	0	0	54	7	2	2	-	-
Slovenia	39	5	3	0	-	-	2	-	-	-	-	0	31	6	1	-	-	-
Spain	1 052	-	-	-	-	-	64	-	-	-	-	-	959	278	29	-	-	-
Sweden	1 602	261	254	140	119	17	647	-	102	82	71	91	345	101	208	1	-	140
Switzerland	598	225	212	69	53	16	206	8	58	5	21	15	-	-	99	4	-	9
United Kingdom	5 179	1 263	1 173	410	325	58	705	54	138	16	70	30	1 852	519	950	-	204	-
United States	5 216	1 609	1 492	699	279	290	962	26	82	-	132	-	-	-	1 945	-	130	1 206
Total DAC	**38 376**	**8 550**	**7 696**	**3 923**	**1 911**	**1 567**	**6 637**	**256**	**902**	**356**	**624**	**391**	**11 962**	**3 609**	**7 303**	**149**	**569**	**2 882**
of which: DAC-EU countries	24 172	4 027	3 669	1 570	1 105	268	3 511	132	506	241	314	261	11 962	3 609	3 102	141	253	985

1. Unearmarked contributions. Includes recoveries on multilateral grants and capital subscriptions.
2. IMF PRGT and PRG-HIPC Trust.

StatLink http://dx.doi.org/10.1787/888933133818

Table A.9. **Aid by major purposes in 2012**

Commitments

	% of total bilateral ODA																												% of total	
																													Multilateral finance (ODF)	
	Australia	Austria	Belgium	Canada	Czech Republic	Denmark	Finland	France	Germany	Greece	Iceland	Ireland	Italy	Japan	Korea	Luxembourg	Netherlands	New Zealand	Norway	Poland	Portugal	Slovak Republic	Slovenia	Spain	Sweden	Switzerland	United Kingdom	United States	**Total DAC**	EU Institutions	World Bank[4]	Regional dev. banks[5]
Social and administrative infrastructure	49.8	55.8	37.5	34.7	49.8	41.4	32.7	28.5	44.9	65.8	44.0	47.8	19.3	25.9	43.8	42.9	46.5	41.9	38.3	..	29.8	..	..	42.6	39.8	28.3	49.5	49.9	**40.4**	28.7	40.3	31.4
Education[1]	12.1	25.9	18.6	7.7	12.2	10.7	4.0	12.5	16.3	62.8	7.5	8.1	6.5	4.6	7.3	14.9	2.9	19.5	6.7	..	13.0	..	..	11.4	2.4	3.4	11.1	4.0	**8.2**	4.4	8.7	3.5
of which: Basic education	3.3	0.1	4.1	4.0	1.1	1.1	1.1	0.9	1.8	..	5.9	2.3	1.3	1.2	0.8	1.9	0.7	6.6	4.2	..	0.1	..	..	1.9	1.4	0.8	4.3	3.3	**2.3**	0.9	2.4	1.2
Health	7.2	14.1	7.1	14.3	3.0	8.9	2.0	0.7	2.8	2.1	9.1	12.4	5.2	4.7	10.7	12.8	4.8	6.0	5.8	..	3.6	..	..	6.2	3.1	3.2	11.5	5.8	**5.6**	2.2	3.7	2.9
of which: Basic health	4.1	0.4	2.8	12.3	1.6	5.1	1.7	0.5	1.9	..	8.9	6.1	2.6	2.4	5.8	7.8	2.1	3.1	1.7	..	0.3	..	..	3.5	2.0	2.3	8.3	5.5	**3.8**	1.8	2.8	0.4
Population[2]	4.1	0.0	1.0	1.7	0.5	1.0	1.9	0.9	1.4	..	1.4	3.3	0.6	0.8	0.6	1.4	7.5	1.7	1.6	..	0.1	..	..	1.5	4.2	0.5	7.4	19.6	**6.5**	1.2	0.5	0.1
Water supply and sanitation	3.6	6.1	1.9	2.4	10.7	2.2	4.9	8.1	11.3	0.1	3.0	1.2	0.8	12.4	10.7	5.4	9.5	2.0	0.8	..	0.1	..	..	2.7	3.4	6.6	1.9	1.0	**5.8**	4.5	7.9	8.5
Government and civil society	21.2	7.5	5.8	7.6	20.0	15.9	17.1	1.2	11.8	..	12.4	14.4	2.9	2.3	13.0	5.3	20.0	12.0	21.6	..	3.8	..	..	15.9	24.8	12.6	13.9	18.3	**12.3**	13.0	12.7	11.5
Other social infrastructure/service	1.7	2.2	3.1	0.9	3.4	2.7	2.8	5.0	1.3	0.9	10.6	8.4	3.2	1.1	1.5	3.2	1.9	0.7	1.7	..	9.3	..	..	4.9	1.8	2.1	3.7	1.3	**2.1**	3.5	6.9	5.0
Economic infrastructure	6.1	7.0	3.6	8.2	6.1	8.9	7.2	25.9	21.7	0.1	16.4	1.3	14.4	40.5	27.9	8.5	8.5	15.7	10.2	..	5.1	..	..	1.0	6.7	4.9	11.8	8.4	**17.1**	31.6	33.8	45.8
Transport and communications	3.8	3.0	1.2	0.9	0.4	4.7	2.5	12.1	0.9	0.1	-	0.0	2.1	33.5	24.4	0.1	0.8	7.9	0.2	-	0.2	-	-	0.2	1.1	0.4	3.4	1.5	**8.2**	13.3	15.9	20.6
Energy	1.0	1.4	0.9	4.5	4.8	3.4	3.4	13.5	10.9	..	16.4	0.0	1.1	6.8	3.2	2.3	1.6	5.6	7.3	..	4.6	..	..	0.2	2.2	0.5	5.1	3.9	**5.9**	9.1	12.4	18.5
Other	1.4	2.6	1.5	2.8	1.0	0.8	1.4	0.3	9.8	(0.0)	-	1.3	11.2	0.3	0.2	6.1	6.1	2.2	2.6	-	0.3	-	-	0.6	3.4	4.0	3.3	2.9	**3.0**	9.2	5.5	6.7
Production	6.1	3.2	6.7	9.4	8.5	11.0	8.2	4.9	5.5	..	23.0	8.5	7.8	9.7	16.6	6.2	14.1	9.8	18.0	..	0.3	..	..	6.2	6.3	7.1	5.2	6.3	**7.6**	14.2	12.6	6.8
Agriculture	5.2	2.1	5.9	7.4	7.0	9.6	6.9	3.6	3.3	..	22.1	8.1	7.5	4.8	15.3	5.4	12.1	5.2	15.4	..	0.2	..	..	5.5	3.7	4.5	3.2	5.4	**5.5**	6.7	9.1	3.9
Industry, mining and construction	0.4	1.1	0.4	1.7	1.2	1.4	1.0	0.9	2.0	..	0.8	0.1	0.2	3.9	0.9	0.1	1.3	0.6	2.0	..	0.0	..	..	0.6	1.2	0.5	0.9	0.2	**1.4**	6.6	2.2	2.4
Trade and tourism	0.5	0.0	0.4	0.3	0.3	0.1	0.4	0.3	0.2	-	-	0.2	0.1	1.0	0.4	0.7	0.7	4.0	0.5	-	0.0	-	-	0.1	1.4	2.0	1.1	0.7	**0.7**	0.9	1.3	0.4
Multisector	18.7	2.2	5.2	13.6	2.1	9.2	10.2	11.2	13.1	5.6	2.0	5.4	8.0	10.1	5.9	8.9	8.3	3.8	5.9	..	0.9	..	..	9.6	7.4	12.1	13.0	5.8	**9.7**	9.3	9.8	9.1
Programme assistance	1.1	0.5	0.0	1.5	0.1	2.1	8.2	4.1	1.6	0.0	..	7.6	1.3	3.0	0.1	0.4	1.1	5.1	2.0	..	60.7	..	..	1.9	3.3	1.7	5.0	3.6	**3.1**	5.2	0.2	4.1
Action relating to debt[3]	0.3	14.1	20.3	5.9	..	..	..	13.8	4.4	..	..	..	0.8	0.0	..	..	2.5	..	..	..	..	..	..	6.6	..	0.6	1.2	0.2	**2.8**	0.1	0.0	0.4
Humanitarian aid	7.4	2.7	5.5	12.6	7.5	9.1	11.5	0.4	3.1	0.2	4.1	19.5	17.0	4.3	0.9	16.6	3.7	6.3	11.1	..	0.0	..	..	8.5	11.8	13.5	7.5	15.9	**8.1**	7.7	3.3	0.4
Administrative expenses	7.2	4.4	6.8	8.4	7.5	6.8	9.7	4.3	4.3	9.5	8.2	6.5	4.2	4.6	3.4	7.4	8.2	11.9	7.4	..	2.8	..	..	16.1	6.5	5.1	5.8	6.9	**6.0**	2.5	-	2.1
Other and unspecified	3.4	10.0	14.4	5.7	18.4	11.4	12.2	7.0	1.4	18.6	2.3	3.5	27.2	2.0	1.4	9.2	7.2	5.4	7.3	100.0	0.4	100.0	100.0	7.4	18.2	26.7	0.9	3.1	**5.2**	0.8	-	0.0
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Memorandum item:																																
Food aid, total	1.9	0.4	1.3	7.8	1.0	0.2	2.2	0.5	1.4	0.0	1.6	3.3	1.0	1.6	0.2	1.2	2.0	0.9	0.8	-	-	-	-	2.2	0.1	2.8	3.2	8.0	**3.6**	2.6	-	-

1. Including students and trainees.
2. Population and reproductive health.
3. Including forgiveness of non-ODA debt.
4. Including IDA and IBRD.
5. Including the African Development Bank, Asian Development Bank and Inter-American Development Bank.

StatLink http://dx.doi.org/10.1787/888933133837

Table A.10. **Distribution of ODA by income group**[1]

Net disbursements as a % of total ODA

	ODA to LDCs		ODA to other LICs		ODA to LMICs		ODA to UMICs	
	2001-02	2011-12	2001-02	2011-12	2001-02	2011-12	2001-02	2011-12
Australia	31.7	40.5	1.9	2.8	56.8	51.5	9.5	5.2
Austria	31.6	31.8	1.5	2.4	40.6	36.0	26.3	29.7
Belgium	50.7	50.5	2.7	2.4	26.9	30.2	19.7	16.9
Canada	40.7	58.1	2.5	3.9	39.2	31.7	17.7	6.3
Czech Republic	27.4	32.3	1.6	2.4	48.6	31.8	22.4	33.5
Denmark	52.0	57.2	3.4	6.5	31.2	28.1	13.4	8.1
Finland	47.3	51.5	4.1	5.3	25.5	26.7	23.1	16.5
France	40.9	31.0	1.7	2.7	34.6	32.7	22.7	33.6
Germany	34.0	37.0	3.5	4.3	30.4	31.2	32.0	27.5
Greece	24.1	20.1	2.1	1.9	17.6	25.4	56.2	52.7
Iceland	64.5	74.4	1.2	1.5	14.5	20.1	19.8	4.0
Ireland	68.9	67.0	3.5	4.4	13.8	16.8	13.8	11.8
Italy	58.5	42.7	2.4	2.8	21.5	25.2	17.6	29.4
Japan	25.7	55.3	1.9	4.5	48.8	46.9	23.6	-6.8
Korea	26.2	43.2	1.2	2.3	52.7	45.0	19.9	9.6
Luxembourg	41.8	49.3	1.0	1.7	33.3	36.3	23.9	12.7
Netherlands	45.4	51.4	2.6	3.7	33.5	28.4	18.4	16.6
New Zealand	39.7	45.2	2.1	1.8	42.7	39.0	15.4	14.0
Norway	52.8	55.4	2.7	3.8	27.3	26.1	17.1	14.7
Poland	61.8	23.5	1.0	2.4	16.0	25.7	21.2	48.4
Portugal	68.5	44.9	1.3	0.8	19.0	40.3	11.2	14.0
Slovak Republic	44.2	27.1	5.3	5.1	38.2	25.1	12.3	42.8
Slovenia	..	24.8	..	1.9	..	26.0	..	47.2
Spain	22.1	36.7	1.6	2.0	46.7	30.2	29.6	31.1
Sweden	47.5	55.0	3.6	6.2	30.9	25.2	18.1	13.7
Switzerland	44.1	46.4	4.3	6.2	29.4	34.1	22.3	13.3
United Kingdom	42.5	50.8	3.6	4.9	30.3	30.8	23.6	13.4
United States	30.8	51.4	4.0	5.5	42.5	28.7	22.6	14.5
Total DAC	**36.7**	**46.8**	**2.9**	**4.3**	**37.8**	**32.4**	**22.7**	**16.5**
of which: DAC-EU countries	42.1	42.6	2.8	3.9	31.6	30.2	23.5	23.3

LOC: least developed country; LIC: low-income country; LMIC: lover middle-income country; UMIC: upper middle-income country.

1. Including imputed multilateral ODA. Excluding more advanced developing countries and territories and amounts unspecified by country.

StatLink http://dx.doi.org/10.1787/888933133856

Table A.11. **Regional distribution of ODA by individual DAC donors**[1]

% of total net disbursements

	South of Sahara			South and Central Asia			Other Asia and Oceania			Middle East and North Africa			Europe			Latin America and the Caribbean		
	2001-02	2006-07	2011-12	2001-02	2006-07	2011-12	2001-02	2006-07	2011-12	2001-02	2006-07	2011-12	2001-02	2006-07	2011-12	2001-02	2006-07	2011-12
Australia	10.1	10.0	15.1	16.2	10.9	18.5	69.4	61.6	60.3	2.5	16.1	3.9	0.9	0.3	0.4	1.0	1.0	1.8
Austria	41.7	44.3	41.3	9.9	6.6	11.9	6.0	3.4	8.2	9.3	30.2	7.8	21.8	11.8	24.5	11.3	3.8	6.4
Belgium	59.2	66.0	61.2	7.6	6.3	8.0	7.1	5.3	5.3	6.5	8.6	8.3	10.0	5.0	8.9	9.6	8.9	8.4
Canada	40.0	46.2	55.2	17.1	20.9	14.7	12.6	8.8	6.1	4.8	5.5	4.3	10.0	3.7	2.5	15.5	14.8	17.2
Czech Republic	20.1	26.7	27.9	26.5	13.8	16.6	14.6	9.9	7.5	5.7	17.1	11.7	26.7	21.4	30.5	6.3	11.0	5.9
Denmark	50.3	57.4	56.0	15.1	13.9	17.4	12.8	8.8	7.3	5.7	8.4	8.1	6.6	3.7	5.2	9.5	7.8	5.9
Finland	44.2	49.4	48.7	16.6	14.5	16.0	11.2	10.7	8.7	8.2	9.1	7.9	10.8	6.6	9.4	9.0	9.8	9.3
France	53.0	54.1	46.3	5.6	5.4	7.3	9.3	7.0	8.3	17.5	21.3	15.1	8.4	6.1	9.7	6.2	6.1	13.3
Germany	34.4	43.5	36.6	13.4	11.3	19.5	12.4	8.4	10.3	12.6	22.7	10.9	16.2	7.1	12.0	11.1	6.9	10.7
Greece	22.3	29.1	23.4	10.7	12.4	7.4	3.6	3.6	3.4	10.1	16.8	16.1	48.2	31.6	43.6	5.2	6.5	6.0
Iceland	78.2	55.0	69.4	10.4	29.7	11.1	4.5	3.3	2.0	2.5	3.4	8.2	2.0	2.6	2.9	2.3	6.0	6.3
Ireland	68.0	69.6	67.6	8.7	8.7	7.9	4.2	7.3	6.7	5.5	5.2	6.1	8.3	3.4	7.2	5.4	5.8	4.6
Italy	57.5	44.1	43.5	10.8	7.5	12.5	3.6	4.2	3.8	9.7	26.5	11.3	13.1	10.2	22.0	5.3	7.5	6.8
Japan	19.1	46.2	39.0	27.2	14.5	46.2	38.5	18.9	3.5	4.5	11.2	6.0	1.1	2.2	2.4	9.6	6.9	2.9
Korea	12.0	18.5	26.0	26.2	22.5	26.2	44.7	28.0	33.4	3.7	16.7	5.2	7.3	5.4	2.1	6.0	8.9	7.1
Luxembourg	42.3	50.5	49.0	10.3	9.5	9.7	12.3	12.5	13.5	9.9	6.6	5.5	10.6	7.2	10.1	14.7	13.7	12.3
Netherlands	44.7	59.1	52.4	15.5	12.5	15.7	11.6	8.0	5.6	6.4	6.4	7.9	9.2	4.8	9.8	12.6	9.2	8.6
New Zealand	11.5	11.4	8.7	11.3	9.4	10.0	70.6	72.0	77.3	2.6	3.1	1.8	0.7	0.7	0.6	3.3	3.4	1.6
Norway	44.4	50.3	49.5	19.4	17.0	17.6	7.6	7.8	7.0	9.0	8.8	8.6	11.5	6.1	5.0	8.0	10.0	12.3
Poland	10.4	38.9	23.8	14.3	8.5	10.9	14.8	15.0	10.9	53.3	10.0	11.7	5.3	17.1	36.6	1.9	10.5	6.1
Portugal	48.9	53.4	67.4	8.3	8.0	3.9	29.0	14.8	7.1	4.0	8.1	8.8	6.5	11.3	9.1	3.2	4.4	3.6
Slovak Republic	37.4	54.5	30.9	24.6	10.0	10.1	10.2	4.4	4.1	6.9	10.1	13.0	18.0	15.3	35.2	3.0	5.6	6.7
Slovenia	..	..	26.7	..	..	9.3	..	..	4.4	..	..	10.4	..	..	42.9	..	..	6.2
Spain	23.3	31.4	33.0	7.4	7.4	8.6	7.0	6.1	3.9	10.3	17.5	17.2	11.5	8.0	15.2	40.4	29.7	22.1
Sweden	44.6	49.4	54.7	16.9	12.1	13.7	10.1	8.9	6.2	6.9	12.1	9.4	9.7	8.2	9.7	11.9	9.3	6.3
Switzerland	37.5	44.1	41.8	22.6	19.1	19.6	8.9	6.8	9.5	5.4	6.3	7.7	13.9	12.6	10.7	11.8	11.2	10.7
United Kingdom	43.5	63.2	52.0	21.7	19.0	24.8	7.1	6.3	4.9	6.2	6.8	6.7	12.6	4.7	6.8	8.9	0.0	4.8
United States	31.7	34.9	46.4	20.9	17.4	23.5	9.8	5.3	6.2	14.2	29.5	11.4	9.4	3.3	2.6	14.0	9.6	9.9
Total DAC	**36.1**	**45.8**	**44.5**	**17.7**	**13.3**	**20.2**	**16.3**	**9.5**	**9.4**	**9.6**	**17.8**	**9.7**	**9.1**	**5.4**	**7.2**	**11.2**	**8.1**	**9.0**
of which: DAC-EU countries	44.4	51.5	46.5	12.9	10.9	15.2	9.5	7.2	7.1	10.2	16.1	10.6	11.9	6.9	11.1	11.1	7.5	9.4

1. Including imputed multilateral flows, i.e. making allowance for contributions through multilateral organisations, calculated using the geographical distribution of multilateral disbursements for the year of reference. Excluding amounts unspecified by region.

StatLink http://dx.doi.org/10.1787/888933133875

Table A.12. **Concessional flows for development from non-DAC providers of development co-operation**

Net disbursements

	2008	2009	2010	2011	2012	*Memorandum item:* 2012	
						Share of bilateral co-operation	ODA/GNI
	USD million					%	
OECD non-DAC							
Estonia	22	18	19	24	23	37	0.11
Hungary	107	117	114	140	118	18	0.10
Israel[1, 2]	138	124	145	206	171	85	0.07
Turkey	780	707	967	1 273	2 533	96	0.32
Other providers							
Bulgaria	..	..	40	48	40	0	0.08
Chinese Taipei	435	411	381	381	305	79	0.06
Cyprus[3, 4]	37	46	51	38	25	37	0.11
Kuwait (KFAED)	283	221	211	145	149	100	n.a.
Latvia	22	21	16	19	21	5	0.07
Liechtenstein	24	26	27	31	29	84	n.a.
Lithuania	48	36	37	52	52	42	0.13
Malta	..	14	14	20	19	63	0.23
Romania	123	153	114	164	142	23	0.09
Russian Federation	..	..	472	479	465	46	0.02
Saudi Arabia	4 979	3 134	3 480	5 095	1 299	74	n.a.
Thailand	178	40	10	31	17	30	0.00
United Arab Emirates	1 266	834	412	737	1 070	94	0.27
Total	**8 442**	**5 902**	**6 509**	**8 883**	**6 478**	..	..

Note: This table does not reflect development co-operation provided by several other non-OECD countries, as they do not report to the OECD.

1. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.
2. These figures include USD 43.6 million in 2008, USD 35.4 million in 2009, USD 40.2 million in 2010, USD 49.2 million in 2011 and USD 56 million in 2012 for first year sustenance expenses for persons arriving from developing countries (many of which are experiencing civil war or severe unrest), or individuals who have left due to humanitarian or political reasons.
3. Footnote by Turkey: The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the "Cyprus issue".
4. Footnote by all the European Union Member States of the OECD and the European Commission: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

StatLink http://dx.doi.org/10.1787/888933133894

Table A.13. **Concessional and non-concessional flows by multilateral organisations**[1]

USD million, at current prices and exchange rates

	Gross disbursements							Net disbursements						
	1996-97 average	2001-02 average	2008	2009	2010	2011	2012	1996-97 average	2001-02 average	2008	2009	2010	2011	2012
Concessional flows														
International financial institutions														
AfDB	634	758	1 932	3 175	2 414	2 355	2 548	590	602	1 802	2 750	1 830	2 272	1 902
AsDB	1 198	1 100	2 331	2 790	1 930	1 940	1 835	1 056	859	1 654	1 943	1 023	863	716
CarDB	19	81	83	85	75	72	64	0	47	64	68	55	39	42
EBRD	18	30	7	-	-	-	-	18	30	7	-	-	-	-
IDA	6 107	6 925	9 291	12 793	12 123	11 703	12 163	5 488	5 552	6 689	9 006	7 779	6 995	6 840
IDB Sp.Fund	626	485	552	1 025	1 994	1 703	1 620	348	221	310	380	1 287	1 497	1 414
IMF[2]	1 017	1 746	1 038	2 605	2 973	1 455	1 506	253	667	307	1 825	1 230	772	769
Nordic Dev. Fund	59	34	104	76	65	70	56	59	32	91	64	50	52	38
Total IFIs	**9 678**	**11 158**	**15 339**	**22 549**	**21 575**	**19 297**	**19 793**	**7 813**	**8 011**	**10 924**	**16 035**	**13 253**	**12 490**	**11 722**
United Nations[3]														
IFAD	219	252	491	399	520	621	631	131	157	347	230	284	382	449
UNAIDS	-	-	209	243	246	265	242	-	-	209	243	246	265	242
UNDP	613	278	495	631	613	494	487	613	278	495	631	602	490	483
UNFPA	215	311	275	348	316	315	349	215	311	273	346	314	314	332
UNHCR	271	589	278	301	393	441	424	271	589	278	301	393	441	424
UNICEF	595	584	987	1 104	1 050	1 104	1 155	595	584	984	1 086	1 046	1 089	1 143
UNRWA	250	376	473	473	545	608	667	250	376	473	473	545	608	667
UNTA	338	438	645	-	-	-	-	338	438	645	-	-	-	-
WFP	325	365	317	293	244	345	355	325	365	316	290	243	337	354
WHO	-	-	-	437	366	452	397	-	-	-	437	366	452	397
Other UN[4]	-	-	120	121	151	145	148	-	-	120	120	151	145	142
Total UN	**2 827**	**3 193**	**4 291**	**4 348**	**4 443**	**4 792**	**4 855**	**2 739**	**3 098**	**4 141**	**4 157**	**4 189**	**4 523**	**4 633**
EU Institutions	5 445	5 701	12 868	13 161	12 638	17 947	18 082	5 209	5 334	12 868	13 159	12 496	17 045	17 173
GAVI	-	-	719	469	772	819	1 068	-	-	719	469	772	819	1 068
GEF[5]	-	427	814	711	530	474	539	-	427	814	711	530	471	537
Global Fund	-	-	2 172	2 337	3 031	2 647	3 359	-	-	2 168	2 333	3 003	2 612	3 307
Montreal Protocol	21	66	76	29	21	10	5	21	66	76	29	21	8	5
OSCE	-	-	-	-	150	151	135	-	-	-	-	150	151	135
Arab Funds[6]	97	340	1 790	1 827	1 864	1 599	1 569	-37	142	1 058	965	993	730	616
Total concessional	**18 067**	**20 884**	**38 068**	**45 432**	**45 022**	**47 735**	**49 404**	**15 744**	**17 077**	**32 767**	**37 859**	**35 406**	**38 850**	**39 197**
Non-concessional flows														
AfDB	967	647	1 121	3 626	2 042	3 051	3 510	129	-425	405	2 475	1 152	2 050	2 660
AsDB	3 933	2 957	6 472	7 898	5 272	5 626	6 900	2 095	716	4 574	6 035	3 230	3 155	3 982
CarDB	31	79	101	114	247	83	36	18	44	29	54	132	36	-10
EBRD	367	588	2 759	3 606	3 629	4 034	3 336	310	157	1 988	2 300	2 033	2 357	1 813
EU Institutions	760	1 048	6 195	6 674	8 259	982	762	570	607	4 448	4 693	5 583	-794	-999
IBRD	12 144	10 209	13 393	21 408	26 511	15 971	15 136	1 454	-869	3 786	11 519	18 215	1 810	7 725
IDB	4 314	5 762	7 158	11 415	10 175	7 187	6 508	2 053	2 759	2 411	6 852	4 518	2 655	1 964
IFAD	28	27	53	38	44	49	63	4	1	22	6	11	11	28
IFC	1 575	1 235	5 022	4 471	4 184	4 733	6 414	574	27	3 210	2 245	1 693	1 426	2 181
Arab Funds[6]	-	-	-	362	1 983	2 297	1 752	-	-	-	259	1 448	1 899	916
Total non-concessional	**24 119**	**22 552**	**42 274**	**59 613**	**62 347**	**44 013**	**44 419**	**7 206**	**3 017**	**20 872**	**36 439**	**38 015**	**14 605**	**20 260**

1. To countries and territories on the DAC List of ODA Recipients.
2. IMF concessional trust funds.
3. The data for UN agencies have been reviewed to include only regular budget expenditures. This has led to revisions of UNDP data since 1990. For WFP and UNHCR, revisions have only been possible from 1996 onwards, while for UNICEF the data are revised from 1997. Since 2000, UNHCR operates an Annual Programme Budget which includes country operations, global operations and administrative costs under a unified budget. However, data shown for UNHCR as of 2004 cover expenditures from unrestricted or broadly earmarked funds only. For UNFPA, data prior to 2004 include regular budget and other expenditures.
4. IAEA, UNECE and UNPBF.
5. Until 2010, the data for GEF are on commitment basis.
6. AFESD, BADEA, Isl. Dev. Bank and OFID.

StatLink http://dx.doi.org/10.1787/888933133913

Table A.14. **Deflators for resource flows from DAC donors[1] (2012 = 100)**

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Australia	44.92	38.07	39.61	37.19	34.30	37.16	45.50	53.52	57.88	60.10	69.44	72.96	69.16	85.80	100.31	100.00	94.05
Austria	70.64	69.81	67.07	58.63	57.98	61.92	74.94	83.78	85.48	87.95	97.80	104.93	102.61	99.24	106.27	100.00	105.23
Belgium	66.00	66.24	63.70	56.19	55.72	59.82	73.13	82.14	84.12	86.95	97.08	104.47	102.07	99.06	106.10	100.00	104.93
Canada	51.72	48.19	49.02	51.12	49.83	49.75	57.65	64.07	71.00	77.90	84.91	88.14	81.28	92.41	99.36	100.00	98.08
Czech Republic	44.87	48.32	46.23	41.95	44.61	53.19	62.45	71.13	76.03	81.07	93.24	111.14	103.85	101.73	108.79	100.00	101.45
Denmark	62.64	62.52	60.98	54.21	54.01	58.31	71.05	79.86	82.04	84.53	94.41	103.64	100.83	100.00	105.63	100.00	104.77
Finland	69.15	69.39	67.09	59.54	59.60	63.52	75.63	83.57	83.98	85.52	96.06	104.18	102.09	97.43	105.13	100.00	105.04
France	68.67	68.66	65.91	57.91	57.41	61.75	75.51	84.41	86.05	88.77	99.32	107.30	104.34	100.21	106.55	100.00	104.81
Germany	77.05	76.39	73.35	63.02	61.93	66.11	80.12	89.04	89.64	90.81	100.64	106.87	104.39	100.32	106.61	100.00	105.49
Greece	64.88	63.09	62.79	54.30	53.79	58.52	72.91	82.54	84.14	87.03	98.07	108.21	106.87	102.80	109.05	100.00	100.98
Iceland	81.45	85.40	86.65	82.50	72.34	81.49	97.92	109.66	125.90	123.22	142.02	111.87	89.32	96.37	104.82	100.00	105.86
Ireland	67.11	66.88	66.08	60.19	62.00	68.83	85.58	96.34	98.63	102.94	114.22	116.92	108.56	101.69	107.46	100.00	103.63
Italy	64.48	64.92	63.15	55.68	55.66	60.46	74.74	84.15	85.71	88.04	98.30	106.20	104.67	99.94	106.34	100.00	104.80
Japan	79.37	73.32	83.19	86.81	76.10	72.70	77.19	81.64	79.15	74.03	72.47	81.44	89.79	93.49	101.01	100.00	81.36
Korea	85.11	60.62	70.80	75.05	68.29	72.72	79.12	84.76	95.40	102.51	107.16	92.33	83.21	95.06	100.72	100.00	104.17
Luxembourg	55.12	54.10	54.61	48.19	46.84	50.32	63.87	71.52	74.96	80.82	91.47	96.79	94.21	96.00	105.02	100.00	106.64
Netherlands	64.63	64.76	63.24	56.95	58.15	63.54	77.83	86.21	88.35	90.80	100.86	108.51	104.86	100.55	106.77	100.00	104.90
New Zealand	58.95	48.02	47.63	41.77	40.34	44.89	57.19	67.65	73.49	69.62	82.22	80.44	72.92	87.57	98.34	100.00	103.78
Norway	41.38	38.48	39.71	40.70	40.50	44.80	52.00	57.85	65.93	72.05	81.28	92.54	79.58	87.86	101.19	100.00	100.85
Poland	57.12	59.57	55.63	54.45	59.84	61.36	64.58	71.79	83.11	87.88	102.56	119.79	97.49	102.10	107.15	100.00	103.73
Portugal	63.48	64.07	63.36	56.59	56.95	62.17	76.78	86.52	88.73	92.10	103.29	110.56	107.73	103.10	108.50	100.00	104.70
Slovak Republic	41.47	41.57	38.02	37.22	37.40	41.43	53.78	64.91	69.01	74.36	90.34	105.82	104.76	100.13	106.84	100.00	104.68
Slovenia	..	..	..	..	..	..	..	..	84.23	86.82	98.67	108.26	107.98	101.61	107.91	100.00	103.70
Spain	59.94	60.20	59.10	52.88	53.54	58.80	73.42	84.00	87.69	92.22	103.87	112.04	108.25	103.04	108.19	100.00	104.10
Sweden	70.74	68.34	66.38	60.70	55.02	59.42	72.74	80.38	79.71	82.28	92.20	96.25	85.99	91.97	103.40	100.00	104.72
Switzerland	56.86	56.65	54.77	49.50	50.14	54.67	63.80	69.63	69.62	70.75	75.75	85.18	85.79	89.48	105.56	100.00	101.17
United Kingdom	74.03	76.30	76.13	71.80	69.87	74.59	82.93	95.27	96.36	100.34	111.63	104.14	91.91	93.70	99.50	100.00	100.71
United States	74.38	75.18	76.26	77.99	79.78	81.00	82.62	84.89	87.61	90.30	92.70	94.51	95.24	96.39	98.28	100.00	101.50
Total DAC	**68.36**	**67.13**	**68.26**	**65.92**	**63.33**	**65.79**	**75.16**	**82.17**	**84.34**	**86.34**	**93.51**	**98.33**	**95.36**	**96.29**	**102.45**	**100.00**	**100.09**
EU Institutions	74.38	75.18	76.26	77.99	79.78	81.00	82.62	84.89	87.61	90.30	92.70	94.51	95.24	96.39	98.28	100.00	101.50

1. Including the effect of exchange rate changes, i.e. applicable to US dollar figures only.

StatLink http://dx.doi.org/10.1787/888933133932

Table A.15. **Annual average dollar exchange rates for DAC members**

1 USD =		2009	2010	2011	2012	2013
Australia	Dollars	1.2800	1.0902	0.9692	0.9660	1.0367
Austria	Euro	0.7181	0.7550	0.7192	0.7780	0.7532
Belgium	Euro	0.7181	0.7550	0.7192	0.7780	0.7532
Canada	Dollars	1.1410	1.0302	0.9891	0.9992	1.0302
Czech Republic	Koruna	18.9895	19.0795	17.6722	19.5383	19.5585
Denmark	Kroner	5.3465	5.6218	5.3604	5.7899	5.6169
Finland	Euro	0.7181	0.7550	0.7192	0.7780	0.7532
France	Euro	0.7181	0.7550	0.7192	0.7780	0.7532
Germany	Euro	0.7181	0.7550	0.7192	0.7780	0.7532
Greece	Euro	0.7181	0.7550	0.7192	0.7780	0.7532
Iceland	Krona	123.3520	122.2420	116.0580	125.1180	122.1541
Ireland	Euro	0.7181	0.7550	0.7192	0.7780	0.7532
Italy	Euro	0.7181	0.7550	0.7192	0.7780	0.7532
Japan	Yen	93.4000	87.7606	79.7068	79.8136	97.5910
Korea	Won	1 273.9100	1 155.4313	1 107.3024	1 125.9300	1 094.6380
Luxembourg	Euro	0.7181	0.7550	0.7192	0.7780	0.7532
Netherlands	Euro	0.7181	0.7550	0.7192	0.7780	0.7532
New Zealand	Dollars	1.5988	1.3876	1.2664	1.2349	1.2203
Norway	Kroner	6.2784	6.0445	5.6046	5.8149	5.8780
Poland	Zloty	3.1092	3.0145	2.9621	3.2518	3.1596
Portugal	Euro	0.7181	0.7550	0.7192	0.7780	0.7532
Slovak Republic	Euro	0.7181	0.7550	0.7192	0.7780	0.7532
Slovenia	Euro	0.7181	0.7550	0.7192	0.7780	0.7532
Spain	Euro	0.7181	0.7550	0.7192	0.7780	0.7532
Sweden	Kroner	7.6322	7.2022	6.4892	6.7689	6.5132
Switzerland	Francs	1.0839	1.0427	0.8872	0.9375	0.9268
United Kingdom	Pound Sterling	0.6402	0.6475	0.6238	0.6311	0.6396
EU	*Euro*	*0.7181*	*0.7550*	*0.7192*	*0.7780*	*0.7532*

StatLink http://dx.doi.org/10.1787/888933133951

Table A.16. **Gross national income and population of DAC member countries**

	Gross national income (USD billion)				Population (thousands)			
	2002-03 average	2011	2012	2013	2002-03 average	2011	2012	2013
Australia	440	1 450	1 497	1 433	19 730	23 200	22 910	23 420
Austria	227	416	395	412	8 040	8 440	8 430	8 470
Belgium	278	523	488	508	10 345	10 950	10 950	11 130
Canada	786	1 707	1 789	1 798	31 600	34 610	35 000	35 300
Czech Republic	75	201	182	185	10 205	10 510	10 510	10 510
Denmark	190	344	324	344	5 390	5 580	5 600	5 630
Finland	146	265	247	259	5 210	5 400	5 430	5 450
France	1 631	2 828	2 657	2 794	59 605	65 350	65 590	66 000
Germany	2 188	3 644	3 481	3 724	82 500	81 840	80 490	80 720
Greece	153	290	250	242	10 985	11 320	11 300	11 290
Iceland	9	12	12	14	290	320	330	330
Ireland	113	178	172	183	3 940	4 590	4 590	4 590
Italy	1 314	2 183	1 998	2 059	57 700	60 850	59 690	59 680
Japan	4 220	6 089	6 125	5 084	127 530	127 770	127 490	127 260
Korea	577	1 118	1 135	1 316	48 015	49 780	50 000	50 220
Luxembourg	21	42	40	43	445	510	520	540
Netherlands	456	842	778	813	16 195	16 670	16 730	16 780
New Zealand	64	154	162	174	3 975	4 420	4 450	4 470
Norway	207	493	511	519	4 560	4 990	5 050	5 110
Poland	103	496	468	496	38 215	38 210	38 540	38 500
Portugal	132	229	207	215	10 340	10 560	10 560	10 490
Slovak Republic	30	94	90	94	5 380	5 400	5 400	5 420
Slovenia	..	49	45	47	..	2 060	2 060	2 060
Spain	746	1 457	1 307	1 362	41 945	47 190	47 270	47 130
Sweden	271	550	538	573	8 960	9 520	9 560	9 640
Switzerland	328	666	653	685	7 320	7 950	8 010	8 110
United Kingdom	1 712	2 459	2 472	2 491	59 090	62 260	63 710	63 710
United States	10 736	15 211	16 515	16 798	289 630	311 590	313 910	316 130
Total DAC	**27 153**	**43 990**	**44 539**	**44 665**	**967 140**	**1 021 840**	**1 024 080**	**1 028 090**
of which: DAC-EU countries	9 787	17 090	16 140	16 844	434 490	457 210	456 930	457 740

StatLink http://dx.doi.org/10.1787/888933133970

ANNEX B

Methodological notes on the Profiles of Development Assistance Committee members

General point: Unless otherwise stated, the figures in the profiles refer to gross bilateral disbursements and are expressed in constant USD 2012. All of the data presented in the profiles are publicly available at: *www.oecd.org/dac/stats*.

Data specificities on the Development Assistance Committee's most recent members: In 2013, five new countries joined the DAC: Iceland (March 2013), the Czech Republic (May 2013), the Slovak Republic (September 2013), Poland (October 2013) and Slovenia (December 2013).

Data for these members are not as complete as the data collected on other DAC members. This includes:

- Data on flows other than ODA (other official flows, private flows at market terms and private grants) are not available for these five members.
- Data on ODA composition (including CPA), ODA to and through CSOs, ODA allocation by sector, ODA in support of gender equality and women's empowerment and ODA in support of global and local environment objectives are not available for Poland, the Slovak Republic and Slovenia.

The remainder of this note explains the basis of calculation on: Tax and development, Aid for trade, Remittances, the Gender equality marker, the Environment markers.

Tax and development

To estimate the amount of ODA that supports tax-related activities, the OECD uses the DAC's *Creditor Reporting System* (CRS) database. This database registers information on the purpose of aid using a sector classification specifically developed to track aid flows and to permit measuring the share of each sector or other purpose category in total aid. There are 26 main sector/purpose categories. Each has a prescribed list of attributes to ensure proper activities are correctly classified. Most of the main sectors then have a number of sub-codes which allows for a breakdown of activities. The methodology is currently under review by the Working Party on Statistics.

Source: CRS Aid Statistics, OECD. The data cited in the profiles does not include the IMF.

Aid for trade

According to the WTO Task Force on Aid for Trade, projects and programmes are part of aid for trade if these activities have been identified as trade-related development priorities in the partner country's national development strategies. Furthermore, the WTO Task Force concluded that to measure aid for trade flows the following categories should be included: technical assistance for trade policy and regulations, trade-related infrastructure, productive capacity building (including trade development), trade-related adjustment, other trade-related needs.

The DAC's *Creditor Reporting System* (CRS) database was recognised as the best available data source for tracking global aid-for-trade flows. It should be kept in mind that the CRS does not provide data that match exactly all of the above aid-for-trade categories. In fact, the CRS provides proxies under four headings: trade policy and regulations, economic infrastructure, building productive capacity (BPC), trade-related adjustment. The CRS covers all ODA, but only those activities reported under the above four categories can be identified as aid for trade. It is not possible to distinguish activities in the context of "other trade-related needs". To estimate the volume of such "other" activities, donors would need to examine aid projects in sectors other than those considered so far – for example in health and education – and indicate what share, if any, of these activities have an important trade component. A health programme, for instance, might permit increased trade from localities where the disease burden was previously a constraint on trade. Consequently, accurately monitoring aid for trade would require comparison of the CRS data with donor and partner countries' self-assessments of their aid for trade.

Source: CRS Aid Statistics, OECD.

Remittances

According to the World Bank data, worldwide remittances to developing countries reached their highest level in 2012, at USD 351 billion. The estimates given in the profiles are based on the methodology developed by Ratha and Shaw, 2007, "South-South Migration and Remittances", Development Prospects Group, World Bank (*www.worldbank.org/prospects/migrationandremittances*). The remittance data is for 2012, disaggregated using host country and origin country incomes from 2011, and estimated migrant stocks from 2010.

Source: World Bank, allocation based on *Bilateral Remittance Estimates for 2012 using Migrant Stocks, Host Country Incomes, and Origin Country Incomes* (million USD) (May 2013 version).

Gender equality marker

The DAC Gender Equality Policy Marker is a statistical instrument to measure aid that is focused on achieving gender equality and women's empowerment. Activities are classified as "principal" when gender equality is a primary objective, "significant" when gender equality is an important but secondary objective, or "not targeted". Poland, the Slovak Republic and Slovenia do not report on the gender equality marker, while the United States uses a different methodology (see individual footnote). In the profiles of DAC members, the basis of calculation is bilateral sector allocable, screened aid.

Source: CRS Aid Statistics, OECD.

Environment markers

The chart "Bilateral ODA in support of global and local environment objectives, two year averages, commitments" presented in each DAC member profile nets out the overlaps between Rio and environment markers: it shows climate-related aid as a sub-category of total environmental aid; biodiversity and desertification are also included (either overlapping with climate-related aid or as additional – other – environmental aid) but not separately identified for the sake of readability of the graph. One activity can address several policy objectives at the same time. This reflects the fact that the three Rio conventions (targeting global environmental objectives) and local environmental objectives are mutually reinforcing. The same activity can be marked for e.g. climate change mitigation and biodiversity, or for biodiversity and desertification.

"Climate-related aid" covers both aid to climate mitigation and to adaptation from 2010 onwards, but only mitigation aid pre-2010. Reported figures for 2006 to 2009 may appear lower than in practice, and may reflect a break in the series, given pre-2010 adaptation spend is not marked. In the profiles of DAC members, the basis of calculation is total bilateral ODA. Details are all available at *www.oecd.org/dac/stats/rioconventions.htm*.

Source: CRS Aid Statistics, OECD.

ANNEX C

Technical notes on definitions and measurement

The coverage of the data presented in the *Development Co-operation Report* has changed in recent years. The main points are as follows.

Changes in the concept of official development assistance (ODA) and the coverage of gross national income (GNI)

While the definition of official development assistance has not changed since 1972, some changes in interpretation have tended to broaden the scope of the concept. The main changes are: the recording of administrative costs as ODA (from 1979), the imputation as ODA of the share of subsidies to educational systems representing the cost of educating students from aid recipient countries (first specifically identified in 1984), and the inclusion of assistance provided by donor countries in the first year after the arrival of a refugee from an aid recipient country (eligible to be reported as of the early 1980s but only widely used since 1991).

Precise quantification of the effects of these changes is difficult because changes in data collection methodology and coverage are often not directly apparent from members' statistical returns. The amounts involved can, however, be substantial. For example, reporting by Canada in 1993 included for the first time a figure for in-Canada refugee support. The amount involved (USD 184 m) represented almost 8% of total Canadian ODA. Aid flows reported by Australia in the late 1980s have been estimated to be approximately 12% higher than had they been calculated according to the rules and procedures that applied 15 years earlier (Scott, 1989).*

The coverage of national income has also been expanding through the inclusion of new areas of economic activity and the improvement of collection methods. In particular, the *1993 System of National Accounts* (SNA) co-sponsored by the OECD and other major international organisations broadens the coverage of gross national product (GNP), now renamed gross national income (GNI). This tends to depress donors' ODA/GNI ratios. Denmark's and Norway's ODA/GNI ratios declined by 6% to 8% as a result of moving to the new SNA in the mid-1990s. Australia and Finland later showed smaller falls of 2% to 4%, while some other countries showed little change. The average fall has been about 3%. All DAC members are now using the new SNA.

* S. Scott (1989), "Some aspects of the 1988-89 aid budget", in *Quarterly Aid Round-Up*, No. 6, AIDAB, Canberra, pp. 11-18.

Recipient country coverage

Since 1990, the following entities were added to the DAC List of ODA Recipients at the dates shown: the Black Communities of South Africa (1991; now listed as South Africa); Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan (1992); Armenia, Azerbaijan and Georgia (1993); Palestinian Administered Areas (1994; now listed as West Bank and Gaza Strip); Moldova (1997); Belarus, Libya and Ukraine (2005); Kosovo (2009); South Sudan (2011).

Over the same period, the following countries and territories were removed from the list of ODA recipients at the dates shown: Portugal (1991); French Guyana, Guadeloupe, Martinique, Réunion, and St. Pierre and Miquelon (1992); Greece (1994); Bahamas, Brunei, Kuwait, Qatar, Singapore and United Arab Emirates (1996); Bermuda, Cayman Islands, Chinese Taipei, Cyprus, Falkland Islands, Hong Kong (China) and Israel (1997); Aruba, the British Virgin Islands, French Polynesia, Gibraltar, Korea, Libya, Macao, the Netherlands Antilles, New Caledonia and the Northern Marianas (2000); Malta and Slovenia (2003); Bahrain (2005); Saudi Arabia, and Turks and Caicos Islands (2008); Barbados, Croatia, Mayotte, Oman, and Trinidad and Tobago (2011).

From 1993 to 2004, several Central and Eastern European Countries (CEEC)/New Independent States (NIS) countries in transition and more advanced developing countries were included on a separate list of recipients of official aid. This list has now been abolished.

Donor country coverage

Portugal, one of the founding members of the DAC in 1961, withdrew from the DAC in 1974 and re-joined in 1991. Spain joined the DAC in 1991; Luxembourg joined in 1992; Greece joined in 1999; Korea joined in 2010; and the Czech Republic, Iceland, Poland, the Slovak Republic and Slovenia joined in 2013. Their assistance is now counted within the DAC total. ODA flows from these countries before they joined the DAC have been added to earlier years' data where available. The accession of new members has added to total DAC ODA, but has usually reduced the overall ODA/GNI ratio, since their programmes are often smaller in relation to GNI than those of the longer established donors.

Treatment of debt forgiveness

The treatment of the forgiveness of loans not originally reported as ODA varied in earlier years. Up to and including 1992, where forgiveness of non-ODA debt met the tests of ODA, it was reportable as ODA. From 1990 to 1992 inclusive, it remained reportable as part of a country's ODA but was excluded from the DAC total. The amounts treated as such are shown in Table C.2. From 1993, forgiveness of debt originally intended for military purposes has been reportable as other official flows, whereas forgiveness of other non-ODA loans (mainly export credits) recorded as ODA is included both in country data and in total DAC ODA in the same way as it was until 1989.

The forgiveness of outstanding loan principal originally reported as ODA does not give rise to a new net disbursement of ODA. Statistically, the benefit is reflected in the fact that because the cancelled repayments will not take place, net ODA disbursements will not be reduced.

Reporting year

All data in this publication refer to calendar years, unless otherwise stated.

Table C.1. **DAC List of ODA Recipients**

Effective for reporting on 2012 and 2013 flows

Least developed countries	Other low-income countries (per capita GNI ≤ USD 1 005 in 2010)	Lower middle-income countries and territories (per capita GNI USD 1 006-3 975 in 2010)	Upper middle-income countries and territories (per capita GNI USD 3 976-12 275 in 2010)
Afghanistan	Kenya	Armenia	Albania
Angola	Korea, Democratic Republic	Belize	Algeria
Bangladesh	Kyrgyz Republic	Bolivia	Anguilla[1]
Benin	Tajikistan	Cameroon	Antigua and Barbuda
Bhutan	Zimbabwe	Cape Verde	Argentina
Burkina Faso		Congo, Republic	Azerbaijan
Burundi		Côte d'Ivoire	Belarus
Cambodia		Egypt	Bosnia and Herzegovina
Central African Republic		El Salvador	Botswana
Chad		Fiji	Brazil
Comoros		Georgia	Chile
Congo, Democratic Republic		Ghana	China
Djibouti		Guatemala	Colombia
Equatorial Guinea		Guyana	Cook Islands
Eritrea		Honduras	Costa Rica
Ethiopia		India	Cuba
Gambia		Indonesia	Dominica
Guinea		Iraq	Dominican Republic
Guinea-Bissau		Kosovo[2]	Ecuador
Haiti		Marshall Islands	Former Yugoslav Republic of Macedonia
Kiribati		Micronesia, Federated States	Gabon
Laos		Moldova	Grenada
Lesotho		Mongolia	Iran
Liberia		Morocco	Jamaica
Madagascar		Nicaragua	Jordan
Malawi		Nigeria	Kazakhstan
Mali		Pakistan	Lebanon
Mauritania		Papua New Guinea	Libya
Mozambique		Paraguay	Malaysia
Myanmar		Philippines	Maldives
Nepal		Sri Lanka	Mauritius
Niger		Swaziland	Mexico
Rwanda		Syria	Montenegro
Samoa		Tokelau[1]	Montserrat[1]
São Tomé and Príncipe		Tonga	Namibia
Senegal		Turkmenistan	Nauru
Sierra Leone		Ukraine	Niue
Solomon Islands		Uzbekistan	Palau
Somalia		Viet Nam	Panama
South Sudan		West Bank and Gaza Strip	Peru
Sudan			Serbia
Tanzania			Seychelles
Timor-Leste			South Africa
Togo			St. Helena[1]
Tuvalu			St. Kitts-Nevis
Uganda			St. Lucia
Vanuatu			St. Vincent and Grenadines
Yemen			Suriname
Zambia			Thailand
			Tunisia
			Turkey
			Uruguay
			Venezuela
			Wallis and Futuna[1]

1. Territory.
2. This is without prejudice to the status of Kosovo under international law.

Table C.2. **Debt forgiveness of non-ODA claims**[1]

USD million

	1990	1991	1992
Australia	-	-	4.2
Austria	-	4.2	25.3
Belgium	-	-	30.2
France	294.0	-	108.5
Germany	-	-	620.4
Japan	15.0	6.8	32.0
Netherlands	12.0	-	11.4
Norway	-	-	46.8
Sweden	5.0	-	7.1
United Kingdom	8.0	17.0	90.4
United States	1 200.0	1 855.0	894.0
Total DAC	**1 534.0**	**1 882.9**	**1 870.2**

1. These data are included in the ODA figures of individual countries but are excluded from DAC total ODA in all tables showing performance by donor.

StatLink http://dx.doi.org/10.1787/888933133989

Glossary

Associated financing: The combination of **official development assistance (ODA)**, whether **grants** or **loans**, with other official or private funds to form finance packages.

Balance of payments accounts are an accounting record of all monetary transactions between a country and the rest of the world.

Basket financing: A financing mechanism commonly established by governments to channel support from different providers to fund specific activities through an autonomous account rather than transferring funds into the host government's general budget.

Bilateral flows: Financial flows that are provided directly by a provider country to a recipient country.

Blended loans: Blended loans offer a middle ground between pure grant and finance at market rates. They combine a **concessional** and a non-concessional component and thus soften the terms and conditions of the final financial package (e.g. lower interest rate, longer tenor).

Brownfield investment: An investment approach where companies or government entities purchase or lease existing production facilities to launch a new production activity. The alternative to this is a **greenfield investment**, where a new facility is constructed.

Budget support: A transfer of resources from a provider to the partner government's national treasury. The transferred funds are managed in accordance with the recipient's budgetary procedures and are thus excluded from earmarking for specific purposes by the provider.

Commitment: A firm obligation, expressed in writing and backed by the necessary funds, undertaken by a provider to contribute specified assistance to a recipient country or a multilateral organisation.

Concessional loans: Loans that are provided at far lower than market rates, for longer terms and with conditions which allow grace periods for payments.

Country programmable aid (CPA): A subset of gross bilateral **official development assistance (ODA)**. Country programmable aid tracks the proportion of official development assistance over which host countries have, or could have, significant say. It measures gross bilateral official development assistance but excludes activities that: 1) are inherently unpredictable (humanitarian aid and debt relief); 2) entail no cross-border flows (administrative costs, imputed student costs, promotion of development awareness, and costs related to research and refugees in provider countries); 3) do not form part of co-operation agreements between governments (food aid, assistance from local governments, core funding to non-governmental organisations, ODA equity investments, assistance through secondary agencies and assistance which is not allocable by country or region).

Creditor Reporting System (CRS): The central database for development co-operation compiled by the OECD's **Development Assistance Committee (DAC)**, which is the official source of development co-operation statistics for all DAC member countries.

Debt: In finance, debt is a means of using anticipated income and future purchasing power in the present before it has actually been earned. Some companies and corporations use debt as a part of their overall corporate finance strategy. Governments issue debt to pay for ongoing expenses as well as major capital projects. Government debt may be issued by sovereign states as well as by local governments.

Development assistance: Development assistance includes projects and programmes, cash transfers, deliveries of goods, training courses, research projects, debt relief operations and contributions to non-governmental organisations.

Development Assistance Committee (DAC): The committee of the Organisation for Economic Co-operation and Development (OECD) which deals with development co-operation matters. A description of its aims and a list of its members are available at: *www.oecd.org/dac*.

DAC List of ODA Recipients: For statistical purposes, the OECD Development Assistance Committee uses a list of ODA recipients which it revises every three years. Annex C of this report – *Notes on Definitions and Measurement* – gives details of revisions in recent years.

Development finance institutions: Banks or institutions specialised in providing finance to developing countries with the aim of supporting private sector development. Development finance institutions operate according to market rules, supporting and catalysing private investment in countries with limited access to capital markets using **loans, equity, guarantees** and other risk-mitigating instruments. Key actors include bilateral development finance institutions, private sector finance corporations established by the regional development banks and the International Finance Corporation established by the World Bank.

Disbursement: The release of funds to or the purchase of goods or services for a recipient; by extension, the amount thus spent. Disbursements record the actual international transfer of financial resources, or of goods or services valued at the cost to the provider.

Doha Declaration on Financing for Development: Outcome of the International Conference on Financing for Development in Doha, Qatar in 2008, which reviewed the implementation of the **Monterrey Consensus**. The document called for even stronger efforts in the areas of domestic and international resource mobilisation and underlined the need to review global economic governance arrangements. The declaration is available at: *www.un.org/esa/ffd/doha/documents/Doha_Declaration_FFD.pdf*.

Domestic revenue: The generation of savings from domestic resources and their allocation to economically and socially productive investments. Such resource allocation can come from both the public and private sectors. The public sector does this through taxation and other forms of public revenue generation.

Dutch disease: The relationship between a large inflow of foreign currency (e.g. through **remittances**) and a decline in the manufacturing or agricultural sector. The assumption is that an increase in revenues makes a given nation's currency stronger compared to that of other nations (manifest in the exchange rate), which in turn makes the nation's other exports more expensive, reducing the competitiveness of the manufacturing sector and deteriorating the trade balance (increasing imports and decreasing exports).

Equity investment: An investment in ownership interests of stockholders in a firm, usually in the form of stock (not bonds).

Export credits: Government-backed **loans, guarantees** and insurance extended by official export credit agencies to corporations working internationally.

Foreign direct investment: Investments by individuals or firms from one country into another, either by buying an existing firm (through mergers and acquisitions), setting up a new operation (**greenfield investment**) or by expanding the operations of an existing business. The three main components of foreign direct investment are **equity investment**, inter-company loans and re-invested earnings.

Fragile states: Fragile states are commonly characterised by a weak capacity to carry out basic governance functions and to develop mutually constructive relations with society. Fragile states are vulnerable to internal or external shocks such as economic crises or natural disaster, as well as domestic or international conflicts.

Global public goods: Goods or services which are available to everybody. A public good becomes a global public good if it is quasi-universal in terms of countries (covering more than one group of countries), people (accruing to several, preferably all, population groups) and generations (extending to both current and future generations, or at least meeting the needs of the current generations without foreclosing development options for future generations). Natural global public goods include oceans/rivers, sunlight/moonlight and the atmosphere; the sustainable management of natural global public goods (e.g. climate stability) is also a global public good. Food security, peace, economic stability, protection from communicable diseases, inclusive healthcare, international communication and transport networks, access to information and knowledge are other global public goods. Most global public goods call for cross-border co-operation among different actors and as a consequence, their provision suffers from obstacles to collective action.

Grants: Transfers made in cash, goods or services for which no repayment is required.

Grant element: Reflects the financial terms of a **commitment**, e.g. interest rate, maturity and grace period (interval to first repayment of capital). It measures the concessionality of a **loan**, expressed as the percentage by which the present value of the expected stream of repayments falls short of the repayments that would have been generated at a given reference rate of interest. The reference rate is 10% in DAC statistics. This rate was selected as a proxy for the marginal efficiency of domestic investment, i.e. as an indication of the opportunity cost to the donor of making the funds available. Thus, the grant element is nil for a loan carrying an interest rate of 10%; it is 100% for a **grant**; and it lies between these two limits for a loan at less than 10% interest. If the face value of a loan is multiplied by its grant element, the result is referred to as the grant equivalent of that loan (see **concessional loans**).

Greenfield investment: An investment approach where companies or government entities invest in the creation of a new facility and/or infrastructure (as opposed to investment in an existing facility; see **brownfield investment**).

Green growth: Economic growth which ensures that natural assets continue to provide the resources and environmental services on which human well-being relies. It combines an increase in economic output with a reduction in pollution and greenhouse gas emissions, a minimisation of waste, an avoidance of inefficient uses of natural resources and the maintenance of biodiversity. For more information on green growth see: *www.oecd.org/greengrowth*.

Guarantees: A financial instrument in which a guarantor agrees to pay any or all of the amount due on a loan instrument in the event of non-payment by the borrower.

Guarantee schemes are designed to facilitate the mobilisation of finance by transferring or mitigating risks that private investors would not be able or willing to take. Developing countries can particularly benefit from this type of instrument as they often lack creditworthiness in the eyes of private investors.

High-income country: A World Bank classification based on a gross national income per capita of USD 12 616 or more.

Illicit financial flows: Financial flows are illicit when they are generated by methods and practices aimed at transferring financial capital out of a country in contravention of national or international law. Common practices include money laundering, bribery by international companies and tax evasion.

Impact investors: Investors seeking social impacts rather than profit maximisation.

Inclusive growth: Economic growth that creates opportunity for all segments of the population and distributes the dividends of increased prosperity, both in monetary and in non-monetary terms, fairly across society. Important dimensions of inclusive growth, in addition to economic output, include a rise in productive employment, higher income for low-income groups, an improvement in the quality of jobs and the skills of the labour force, as well as the health and education status of the population. For more information on inclusive growth see: *www.oecd.org/inclusive-growth*.

Innovative finance for development: Initiatives that either aim to raise new funds for development ("innovative sourcing") or to optimise the use of traditional funding sources ("innovative spending").

Institutional investors: Public and private investors – in particular pension funds, life insurers and **sovereign wealth funds** – with investment portfolios built around the two main asset classes (bonds and equities) and an investment horizon tied to the often long-term nature of their liabilities.

Least developed country (LDC): A definition established by the United Nations. To be classified as a least developed country, a country must fall below thresholds established for income (adjustable criterion: three-year average gross national income per capita of less than *USD* 992, which must exceed USD 1 190 to leave the list as of 2012), economic diversification and social development (based on indicators of nutrition, health, education and adult literacy).

Loans: Transfers for which repayment is required. Only loans with maturities of over one year are included in DAC statistics. The data record actual flows throughout the lifetime of the loans, not the grant equivalent of the loans (see **grant element**). Data on net loan flows include deductions for repayments of principal (but not payment of interest) on earlier loans. This means that when a loan has been fully repaid, its effect on total net flows over the life of the loan is zero.

Low-income country: A World Bank classification based on a gross national income per capita of USD 1 035 or less.

Mezzanine finance: Mezzanine financing is a hybrid between **debt** and **equity**. In a multi-tiered financing of an operation, for instance, the sources of money will be **senior debt**, senior subordinated debt, subordinated debt, mezzanine debt and finally, the owner's own equity.

Middle-income country: A World Bank classification based on a gross national income per capita of USD 1 036-12 615.

Modality: The way development co-operation provider support is channelled to the activities to be funded. This includes: 1) **budget support** (which is integrated into the national budget of the host country); 2) parallel support (which is kept separate from the general resources in the national budget); and 3) in-kind support (in the form of goods or services).

Monterrey Consensus on Financing for Development: Outcome of the 2002 United Nations International Conference on Financing for Development held in Monterrey, Mexico. The document identified a broad range of national and international financial resources available to fund the United Nations Millennium Development Goals and proposed actions for mobilising and increasing the effective use of these resources, including development assistance (see also **Doha Declaration on Financing for Development**). It is available at: *www.un.org/esa/ffd/monterrey/MonterreyConsensus.pdf*.

Multilateral agencies: In DAC statistics, those international institutions with governmental membership that conduct all or a significant part of their activities in favour of development and aid recipient countries. They include **multilateral development banks** (e.g. the World Bank, regional development banks), the United Nations agencies and regional groupings (e.g. certain European Union and Arab agencies). A contribution by a DAC member to such an agency is deemed to be multilateral if it is pooled with other contributions and disbursed at the discretion of the agency.

Multilateral development banks: An institution created by a group of countries which provides financing and professional advice for the purpose of development. The main multilateral development banks are the World Bank, the European Investment Bank (EIB), the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), the Inter-American Development Bank Group (IDB or IADB), the African Development Bank (AfDB) and the Islamic Development Bank (IsDB).

Multilateral flows: Financial flows that are channelled through **multilateral agencies**. In tables showing total receipts of recipient countries, the outflows of multilateral agencies to those countries are shown, not the contributions which the agencies received from providers of development co-operation.

Mutual fund: A type of professionally managed collective investment scheme that pools money from many investors to purchase securities. The term is most commonly applied only to those collective investment vehicles that are regulated and sold to the general public. Mutual funds are sometimes referred to as "investment companies" or "registered investment companies".

Net flow: The total amount disbursed over a given accounting period, less repayments of loan principal during the same period, no account being taken of interest.

Net transfer: In DAC statistics, a net transfer is the **net flow** minus payments of interest.

Official development assistance (ODA): Grants or loans to countries and territories on the **DAC list of ODA recipients** and **multilateral agencies** (available at: *www.oecd.org/dac/stats/daclist*) which are undertaken by the official sector at concessional terms (i.e. with a **grant element** of at least 25%) and that have the promotion of the economic development and welfare of developing countries as their main objective. In addition to financial flows, technical co-operation is included in ODA. **Grants, loans** and credits for military purposes are excluded.

Other official flows: Transactions by the official sector which do not meet the conditions for eligibility as **official development assistance**, either because they are not primarily aimed at development or because they have a **grant element** of less than 25%.

Remittances: Financial transfers which are usually sent by national or international migrants to support recipients from their country or region of origin. Remittances include the transfer of cash and non-cash items through both formal and informal channels.

Risk capital: Private equity provided to corporations or projects. It can be provided in the form of equity or quasi-equity financing such as mezzanine capital or convertible debt.

Securitisation: The process through which certain types of assets are pooled so that they can be repackaged into interest-bearing securities: financial instruments that can be readily bought and sold in financial markets.

Senior debt: Senior debt is **debt** that has priority for repayment in the case of a liquidation.

Sovereign wealth fund: State-owned investment funds that invest in real and financial assets such as stocks, bonds, real estate or precious metals, or in other investments such as private equity funds or hedge funds. They are created either to ensure that a country's resources are preserved for future generations or to stabilise government fiscal and/or foreign exchange revenues and macroeconomic balances.

Sustainable Development Goals (SDGs): Likely successors of the Millennium Development Goals which will build upon the Millennium Development Goals and the Rio+20 process. In July 2014, the Open Working Group which was tasked to propose a new set of goals, published its final report that includes 17 goals. For further information see: *http://sustainabledevelopment.un.org/content/documents/4518SDGs_FINAL_Proposal%20of%20OWG_19%20July%20at%201320hrsver3.pdf*.

Syndicated loan: A syndicated loan is provided by a group of lenders (called a syndicate) who work together to provide funds for a single borrower. The main objective of syndicated lending is to spread the risk of a borrower default across multiple lenders that would not have been able to provide the same loan amount and/or terms on their own.

Tied aid: Official **grants** and **loans** where procurement of goods and services is limited to suppliers from the provider country. In contrast, untied assistance is procured through open international competition (e.g. international competitive bidding).

Total receipts: The inflow of resources to recipient countries includes, in addition to official development finance, official and private export credit and long-term private transactions. Total receipts are measured net of amortisation payments and repatriation of capital by private investors.

Transfer pricing: A transfer price is the price charged by a company for goods, services or intangible property to a subsidiary or other related company. Abusive transfer pricing occurs when income and expenses are improperly allocated for the purpose of reducing taxable income.

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

The OECD is a unique forum where governments work together to address the economic, social and environmental challenges of globalisation. The OECD is also at the forefront of efforts to understand and to help governments respond to new developments and concerns, such as corporate governance, the information economy and the challenges of an ageing population. The Organisation provides a setting where governments can compare policy experiences, seek answers to common problems, identify good practice and work to co-ordinate domestic and international policies.

The OECD member countries are: Australia, Austria, Belgium, Canada, Chile, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The European Union takes part in the work of the OECD.

OECD Publishing disseminates widely the results of the Organisation's statistics gathering and research on economic, social and environmental issues, as well as the conventions, guidelines and standards agreed by its members.

DEVELOPMENT ASSISTANCE COMMITTEE

To achieve its aims, the OECD has set up a number of specialised committees. One of these is the Development Assistance Committee (DAC), whose mandate is to promote development co-operation and other policies so as to contribute to sustainable development – including pro-poor economic growth, poverty reduction and the improvement of living standards in developing countries – and to a future in which no country will depend on aid. To this end, the DAC has grouped the world's main donors, defining and monitoring global standards in key areas of development.

The members of the DAC are Australia, Austria, Belgium, Canada, the Czech Republic, Denmark, the European Union, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, the Netherlands, New Zealand, Norway, Poland, Portugal, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, the United Kingdom and the United States.

The DAC issues guidelines and reference documents in the DAC Guidelines and Reference Series to inform and assist members in the conduct of their development co-operation programmes.

OECD PUBLISHING, 2, rue André-Pascal, 75775 PARIS CEDEX 16
(43 2014 03 1 P) ISBN 978-92-64-21091-2 – 2014

Development Co-operation Report 2014

MOBILISING RESOURCES FOR SUSTAINABLE DEVELOPMENT

Contents

Editorial: More and better financing for development

Executive summary

Chapter 1. How to better mobilise resources for sustainable development

PART I. Existing sources of financing for sustainable development

Chapter 2. Keeping ODA focused in a shifting world
Chapter 3. Growing dynamism in South-South co-operation
Chapter 4. The growing development potential of other official flows
Chapter 5. Putting foreign direct investment to work for development
Chapter 6. Are institutional investors the answer for long-term development financing?
Chapter 7. Tax revenues as a motor for sustainable development
Chapter 8. Foundations as development partners
Chapter 9. The changing role of NGOs and civil society in financing sustainable development
Chapter 10. What place for remittances in the post-2015 framework?

PART II. Mechanisms for increasing resources for sustainable development

Chapter 11. Using financial instruments to mobilise private investment for development
Chapter 12. Creating an environment for investment and sustainable development
Chapter 13. Fighting corruption and illicit financial flows
Chapter 14. Supporting countries in growing their tax base
Chapter 15. Innovating to finance development
Chapter 16. Enhancing the contribution of social business to sustainable development

PART III. Development finance post-2015 and the provision of global goods

Chapter 17. How can development co-operation address global challenges?
Chapter 18. Finding synergies for environment and development finance
Chapter 19. Financing peace and security for sustainable development
Chapter 20. Backing recovery in fragile states
Chapter 21. Supporting a fair and equal trading system

PART IV. Profiles of development co-operation providers

Trends in Development Assistance Committee members' development co-operation: A synthesis of peer reviews, 2012-14
Development Assistance Committee members' ODA performance in 2013
Profiles of Development Assistance Committee members
Trends and profiles of other providers' development co-operation

Annex A. Statistical annex
Annex B. Methodological notes on the Profiles of Development Assistance Committee members
Annex C. Technical notes on definitions and measurement

Consult this publication on line at ***http://dx.doi.org/10.1787/dcr-2014-en.***

This work is published on the OECD iLibrary, which gathers all OECD books, periodicals and statistical databases.
Visit ***www.oecd-ilibrary.org*** for more information.

OECD*publishing*
www.oecd.org/publishing

ISBN 978-92-64-21091-2
43 2014 03 1 P

