Old puzzles, new pieces:

Implications of the new development finance landscape

for post-2015 scenarios and for partner countries

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Introduction

The development finance landscape has dramatically changed in the last decade. Traditional official development assistance (ODA) is under pressure. Actors in development and sources of development finance are mushrooming, including non-DAC donors such as China and India, philanthropic foundations such as Gates and non-governmental organisations (NGOs). Middle-income countries (MICs) continue to rely on private flows to finance their development efforts, and are finding it increasingly easy to do so. Emerging economies attracted more foreign direct investment (FDI) than developed economies in 2010, and MICs are both sources and recipients of development finance. Domestic tax bases have expanded significantly in many developing countries, meaning development can increasingly be financed from internal resources. There are now myriad ‘innovative’ sources and mechanisms of development finance, many of which seek to combine public and private resources in non-traditional ways to meet development needs. There is now a largely shared optimism on the future of economic growth in most emerging and developing countries, although this may be somewhat dampened by recent concerns regarding the growth prospects for emerging economies as a result of the unfolding euro crisis and home-grown asset bubbles.

In this paper we first provide an overview of the sources of development finance and summarise key trends. For the public or quasi-public flows, we also discuss the policy and

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1 This paper heavily draws from Greenhill and Prizzon (2012) and Greenhill et al. (2013). All the usual disclaimers apply.
There is no agreed definition of ‘development finance’, so we define it here as all financial flows that are, or could be, spent in developing countries. This means it includes sources that are public and private, domestic and external.

This analysis aims to better understand how the development finance landscape has changed over the last decade, where the financing model underpinning the MDGs was based on domestic resource mobilization and traditional development official assistance. In the context of the post-2015 debate any new agreement will need to reflect the new development finance landscape both in the way it is agreed on and in the nature of the goals to be set. If future trends suggest that a large share of the finance potentially available to support development is likely to come from developing countries themselves, then their role in the process is critical.

Given this complexity, to keep the scope of this paper manageable, here we focus on three main categories of development finance:

- **Domestic revenues in developing countries.** We focus on this source because, under any likely post-2015 scenario, some of the funding to meet agreed goals is likely to need to come from government budgets in developing countries and thus domestic revenues will be a key source of finance.

- **Private cross-border flows** that either have a clear profit motive, including FDI and portfolio flows, or are largely outside government control, such as remittances. We focus on these flows because they are large in scale and are likely to have considerable impact on countries’ development prospects, while being unlikely to be directly targeted towards attainment of the post-2015 goals.

- **ODA and ‘aid-like’ flows.** This is a category of finance that is provided not purely in the interests of securing returns for the provider but also fully or partially with some developmental or environmental purpose in mind, although profits and other interests of the provider (e.g. commercial or geopolitical) may also exist. It includes ODA, and many of the newer non-ODA flows such as South–South cooperation (SSC), climate finance and philanthropy, as well as longer-standing contributors such as NGOs. We also include some innovative sources of finance in this category. We focus on these flows separately because, unlike the private flows described above, they are more likely to be affected by a post-2015 framework. This is because the post-2015 framework is likely to shape agreed ideas about what ‘development’ means, and this group is more likely to be directly or indirectly impacted by that global consensus.

Of course, the boundaries between these categories are not clear cut: private FDI may come with corporate social responsibility elements that have specifically developmental purposes; and, increasingly, public funding now comes in the form of guarantees and other mechanisms to promote private, profit-oriented investment. Nevertheless, we feel this is a useful organising framework for our paper. Note that we are not focusing here on domestic private sources of finance, as these are too varied and complex, and are also less likely to be directly or indirectly impacted by any post-2015 agreement. We conclude part 1 of this paper by summarizing the implications of these trends for any post-2015 agreement and for the incentives of those who are supposed to ‘foot the bill’. A companion paper (Ali and Greenhill, forthcoming) will outline financing options for potential post-2015 goals.

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2. We do not do this for the private flows, as this would require a full discussion of the policy environment and how it impacts on private finance, which is a rather separate topic and too complex to be covered in this paper.
The second part of this paper takes a different angle, shifting from the global to the partner country perspective. In other words, what are the implications of the new development finance landscape for partner countries’ governments? What are the challenges and opportunities associated with greater choice of sources of development finance? In Part 2 of this paper we consider a different taxonomy of development assistance, between traditional (ODA-type managed through aid coordination mechanisms) and non-traditional development assistance. This quantitative assessment is matched with three country case studies - Cambodia, Ethiopia and Zambia - highlighting the evolution of traditional vs. non-traditional development assistance flows.

**Part 1: Trends in key forms of development finance**

This part describes key trends in development finance. We start by presenting the global economic picture and giving an overview of trends in development finance. We then move on to discuss domestic revenues, private cross-border flows and aid and aid-like flows in more detail. We consider recent trends since 2000 as well as review projections and forecasts for most of the development finance flows, on the basis of secondary sources.

**Overview of trends in the global economy and development finance**

Over the past decade, emerging and developing countries have been driving global growth (OECD, 2010; World Bank, 2011a), and it is this, not ODA, that has been the main driver of income poverty reduction at a global level. This sustained growth performance in large emerging countries – notably China – lifted more than 900 million people out of poverty between 1990 and 2005.

The macroeconomic context and the development finance ecosystem have both largely evolved since the definition of the MDGs in the early 2000s in several dimensions, and this will shape the assessment of both needs and resources for any post-2015 scenarios.

Emerging and developing economies\(^3\) are expected to continue driving global economic growth and trade flows in the next two decades. In purchasing power terms, non- Organisation for Economic Co-operation and Development (OECD) economies are already contributing more than half of global gross domestic product (GDP). OECD (2010) estimates that, by 2030, emerging and developing countries will account for two-thirds of global GDP (with Chinese GDP estimated to reach 28% of global GDP and Indian GDP 11% of global GDP), compared with one-third in 1990. A similar story is apparent with respect to trade flows, with developing countries expected to have a higher share of global exports than developed countries by 2025 (World Bank, 2011a). The financial and economic crisis has, if anything, accelerated these trends (OECD, 2011a).

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\(^3\) In this paper we consider two country classifications. *Emerging and developing countries* refer to the International Monetary Fund (IMF) World Economic Outlook Classification (available at [http://www.imf.org/external/pubs/ft/weo/2012/02/weodata/groups.htm](http://www.imf.org/external/pubs/ft/weo/2012/02/weodata/groups.htm)): LICS and MICs follow the World Bank income classification.
Figure 1: Domestic and cross-border flows as a share of GDP, LICs vs. MICs

Note: Data on tax revenues are not available in aggregate terms for 2009 and 2010 for LICs (low-income countries). and for 2001 and 2010 for MICs.

Sustained growth performance in large group of emerging and developing countries during the past decade has also contributed to the widening of the tax base and an expansion of fiscal revenues (see AfDB et al., 2010). Together with declining debt ratios and lower debt service, fiscal space in a large number of developing and emerging economies has on average expanded. The propensity to save and national savings have also expanded (OECD, 2011a). Looking at cross-border flows, FDI inflows were the largest source of development finance to developing countries in 2010 ($514.3 billion), followed by net flows on debt ($495.2 billion), workers’ remittances ($325.3 billion), ODA ($130.9 billion), portfolio equity flows

4. Average gross savings ratio as a share of GDP has been higher than 50% in China since 2006 and higher than 30% in India since 2003.
($129.7 billion) and philanthropic funding ($53b billion in 2009). All these sources of development finance have expanded rapidly over the past decade, albeit at different speeds. FDI inflows and workers' remittances tripled in nominal terms between 2001 and 2010; total ODA increased by less than 50% over the same period; philanthropic funding more than tripled between 2003 and 2009.

While ODA still has to play a catalytic role in development and in crowding in other sources of development finance, its relative weight vis-à-vis other sources of development finance – especially private sources such as workers' remittances and FDI – is low for developing countries as a group. At the same time, the financial and economic crisis in 2008/09, together with the current euro crisis, has imposed fiscal consolidation measures on most of the members of the DAC, with aid budgets the first victims of cuts.

The distribution and importance of the different development finance flows are highly uneven across income categories, as shown in Figure 1. For MICs tax revenue is significantly higher than ODA, FDI or remittances, whereas for LICs ODA is close to, or in some years even higher than, tax revenues. LICs received ODA totalling 9.7% of GDP in 2010, whereas for MICs the comparable figure is only 0.3%. Other sources of development finance were and will continue to be concentrated in MICs. FDI inflows to MICs in 2010 were $501.2 billion, whereas LICs received $13 billion. Workers' remittances to MICs were $300.7 billion in the same year, and grew by an annual average rate of 13% from 2000; LICs received only $24.6 billion – increasing at annual average rate of 17% from 2000.

### Mobilising domestic tax revenues

Fiscal revenues represented and will continue to play one of the largest roles in financing development. General government revenues expanded by more than four times between 2000 and 2011 in all emerging and developing economies, going from $1.5 trillion to $7 trillion. This positive trend is set to continue in line with forecasts of GDP growth and of the expansion of the tax base: the IMF expects that general government revenues will reach $10.7 trillion in 2017 in emerging and developing countries (IMF, 2012). In MICs, tax revenues stood at more than five times the level of FDI inflows and nearly forty times the level of ODA in 2009, whereas in LICs it stood at nearly four times FDI and 20% higher than ODA in 2008.

Looking into the overall performance of emerging and developing countries at aggregate level, general government revenues expanded rapidly in nominal terms between 2000 and 2009 and pre-crisis levels had bounced back already in 2010 – still in nominal terms. As a share of GDP, even though the nearly 30% peak of general government revenues in 2008 has not been recovered yet (where the OECD average is approximately 35% of GDP), the average general government revenue ratio rose from 23% in 2000 to nearly 29% in 2011 in emerging and developing countries (on the basis of IMF, 2012).

Resource-rich economies benefited from the commodity price super-cycle between 2002 and 2008 and on average their resource-related tax revenues increased: resource taxes in Africa, for example, rose from an average of 6% of GDP in 1996 to 13% in 2007 (AfDB et al., 2010). However, in African resource-rich economies, total tax revenue as a share of GDP did not

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5. For a critical discussion on the catalytic role of aid, see Rogerson (2011).
increase, as the rise in resource-related tax revenue nearly matched the fall in other tax revenues (ibid.). However, with more and more countries discovering natural resource deposits (e.g., it is estimated that oil reserves in Uganda will generate $2 billion per year, corresponding to two-thirds of the national budget of $3 billion,\(^6\) and oil reserves have recently been discovered in Kenya), this is an area requiring further investigation.

In summary, this section shows that domestic tax revenues will continue to be an important source of finance for any post-2015 agreement: general government revenues and tax revenues have been one of the largest sources of development finance in the past decade, and they are expected to expand in the next years given the widening of the taxation base. Strengthening tax administration by increasing efforts and efficiency towards tax collection, and reforming fiscal policy to increase revenues through income and profit-related taxes, could further accelerate these trends.

**Cross-border development finance flows: the dominance of private sources in middle-income countries**

Private cross-border development finance flows have also expanded in the past decade. First of all, total net private and official inflows (including both equity and debt-related flows) to emerging and developing economies grew approximately five times between 2000 and 2010 (World Bank, 2012b).\(^7\) Net equity flows (FDI and portfolio equity flows) have been the most dynamic component, increasing by four times over the past decade; workers’ remittances and ODA (excluding technical cooperation) expanded more than three times in the same period.\(^8\) Short-term debt related flows have been the most volatile component. For instance, in 2010, their amount totalled $268.5 billion, the second flow to developing and emerging economies after net FDI, skyrocketing from $14.7 billion in 2009.\(^9\)

In the remainder of this section we provide a more detailed analysis of income levels of destination/recipient countries and a brief discussion on future trends for the main cross-border development finance flows (Table 1), focusing on FDI and workers’ remittances inflows. We do not discuss trends in portfolio equity flows – as these flows are typically highly volatile and procyclical (see also Spratt, 2009) – or net flows on debt – whose trends are described in World Bank (2012b), for instance.

**Table 1: Sources of development finance by income level of destination country (US$ billions in current prices)**

<table>
<thead>
<tr>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>MICs</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FDI, net inflows</td>
<td>146.5</td>
<td>156.2</td>
<td>152.1</td>
<td>151.2</td>
<td>204.9</td>
<td>312.4</td>
<td>384.7</td>
<td>531.6</td>
<td>621.0</td>
<td>394.1</td>
</tr>
<tr>
<td>Portfolio equity, net inflows</td>
<td>14.0</td>
<td>6.7</td>
<td>8.3</td>
<td>26.3</td>
<td>36.9</td>
<td>67.4</td>
<td>107.6</td>
<td>132.8</td>
<td>53.3</td>
<td>109.2</td>
</tr>
<tr>
<td>Workers’ remittances, received</td>
<td>75.6</td>
<td>85.3</td>
<td>101.6</td>
<td>127.3</td>
<td>146.8</td>
<td>177.1</td>
<td>208.8</td>
<td>261.8</td>
<td>302</td>
<td>264.3</td>
</tr>
<tr>
<td>Net ODA, received</td>
<td>27.3</td>
<td>29.1</td>
<td>31.9</td>
<td>33.2</td>
<td>38.5</td>
<td>66.0</td>
<td>59.5</td>
<td>51.0</td>
<td>57.4</td>
<td>54.6</td>
</tr>
<tr>
<td>Net flows on debt</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>135.2</td>
<td>186.3</td>
<td>461.0</td>
<td>257.1</td>
<td>158.9</td>
</tr>
</tbody>
</table>

\(^6\) See Bill and Melinda Gates Foundation (2011).

\(^7\) From $212.6 billion in 2001 to $1,129.7 billion in 2010.

\(^8\) From $90.1 billion in 2001 to $319.6 billion in 2010.

\(^9\) In particular, World Bank (2012b) points out how the steep increase in net capital flows has been characterised by a marked change in the composition of capital flows towards debt-creating flows. This was also the case with the rise in capital flows in 2007, when the main driver was the 80% increase in debt-related flows.
Foreign direct investment

FDI inflows have progressively expanded as a source of finance that is potentially available for development, especially in MICs. Net FDI inflows to MICs rose from $146 billion in 2000 to more than $500 billion in 2010, after having achieved their pre-crisis peak of more than $621 billion in 2008. For LICs, the increase was from $2.4 billion in 2000 to almost $13 billion by 2010. Nonetheless, it is worth recalling that FDI inflows are highly concentrated: Prada et al. (2010) estimate that 70% of global FDI to developing countries goes to 10 countries (see also Figure 2). On the basis of Figure 2, more than 50% of total FDI inflows to developing and emerging economies were concentrated in three countries in 2010, namely, China, Brazil and the Russian Federation.

Figure 2: FDI inflows to emerging and developing countries, distribution across countries, 2010 share

Looking forward, projections are usually available only in the medium term up to 2013. The UN Conference on Trade and Development (UNCTAD, 2011b) predicted global FDI flows would recover to pre-crisis levels at the end of 2011 ($1.4-1.6 trillion). In the case of developing and emerging economies UNCTAD (2011b) forecasts a positive trend, whereby FDI inflows should be close to $750 billion in 2013. Nonetheless, this increase is very likely to be concentrated in emerging economies rather than in other MICs and LICs. Therefore, while private commercial flows have been rising over the past decade, and they are set to increase further in the medium term, they are concentrated in a narrow number of countries, mainly following

<table>
<thead>
<tr>
<th>LICs</th>
<th>FDI, net inflows</th>
<th>Portfolio equity, net inflows</th>
<th>Workers’ remittances, received</th>
<th>Net ODA, received</th>
<th>Net flows on debt</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2.4</td>
<td>0.0</td>
<td>4.1</td>
<td>10.4</td>
<td></td>
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<tr>
<td></td>
<td>2.6</td>
<td>0.0</td>
<td>4.5</td>
<td>12.1</td>
<td></td>
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<tr>
<td></td>
<td>3.2</td>
<td>0.0</td>
<td>6.0</td>
<td>15.5</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4.4</td>
<td>0.0</td>
<td>6.9</td>
<td>21.6</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4.6</td>
<td>0.0</td>
<td>7.9</td>
<td>21.4</td>
<td>2.6</td>
</tr>
<tr>
<td></td>
<td>4.5</td>
<td>0.0</td>
<td>9.9</td>
<td>22.4</td>
<td>4.9</td>
</tr>
<tr>
<td></td>
<td>5.3</td>
<td>0.1</td>
<td>12.7</td>
<td>34.6</td>
<td>5.1</td>
</tr>
<tr>
<td></td>
<td>10.4</td>
<td>0.1</td>
<td>16.4</td>
<td>30.1</td>
<td>7.3</td>
</tr>
<tr>
<td></td>
<td>11.2</td>
<td>0.0</td>
<td>21.7</td>
<td>34.3</td>
<td>7.3</td>
</tr>
<tr>
<td></td>
<td>10.1</td>
<td>0.0</td>
<td>22.6</td>
<td>36.3</td>
<td>7.8</td>
</tr>
<tr>
<td></td>
<td>13.0</td>
<td>0.0</td>
<td>24.6</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: UNCTAD (2011a).
opportunities for market expansion, exploitation of natural resources and comparative advantage in labour-intensive industries.

Workers’ remittances

Workers’ remittances have expanded rapidly since the beginning of the past decade. Since 2005, their amount has been twice as high as aid flows (World Bank, 2005). Workers’ remittances grew from $4 billion in 2000 to almost $25 billion in 2010 in LICs (a more than five-fold increase) and from $75 billion in 2000 to nearly $300 billion in 2010 in MICs (a more than three-fold increase), both in nominal terms.

Looking to medium-term projections, Ratha and Silwal (2012) estimate that workers’ remittances received in developing and emerging economies will grow by 7-8% between 2012 and 2013 and will reach $467 billion by 2014 – with a slower path compared with the 20% annual growth rate recorded before the financial and economic crisis. In particular, Ketkar and Ratha (2011) estimate the potential diaspora bond market for the Sub-Saharan African region to be between $5 and $10 billion, or 15-25% of ODA to the region. However, remittances are not necessarily pro-poor, that is, they do not necessarily benefit to a larger extent the poorest in the income distribution. For example, in a study by Fajnzylber and López (2008), on average only 10% of households receiving remittances belong to the lowest quintile of the income distribution in the case of 11 Latin America countries.

Being associated with increased household resources devoted to investment and improved education and health outcomes (Ratha and Mohapatra, 2011) and channelled directly to households with lower overhead costs than ODA flows, being more resilient than aid flows to business cycles (see Table 1) and given their size and relative importance especially in LICs, workers’ remittances can play a determining role (complementary to ODA) in supporting a post-2015 scenario.

Greater complexity and innovation in aid and new forms of ‘aid-like’ flows

As we have seen, domestic resource mobilisation and private financial flows have become much more important sources of development finance compared with in the early 2000s. However, this has not been the only change to the development finance landscape. Even within the more traditional ‘aidscape’, there has been what Severino and Ray (2009) have described as a ‘triple revolution’, in actors, goals and tools. New actors are mushrooming, including non-DAC donors such as India and China, philanthropists such as Gates and new vertical funds set up to address global challenges such as climate change. The development of new and complex innovative finance instruments has created new opportunities to mobilise additional funds and to use these in more effective ways, but also concomitant risks.

In this section, we present the major trends in ODA and ‘aid-like’ flows – defined above as those provided with a purpose that it is not purely profit oriented (although it can be partially profit oriented or designed for the benefit of the providing country). Because of the public nature of

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10. Partially motivated by the improvement in data collection.
many of these flows, we describe in detail here the political and policy trends shaping some of these flows.

Table 2: Aid composition 2000 vs. 2010 (US$ billions)

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>ODA: DAC donors (bilateral and multilateral)*</td>
<td>78.7</td>
<td>128.5</td>
</tr>
<tr>
<td>Philanthropic assistance</td>
<td>3.1*</td>
<td>56.0**</td>
</tr>
<tr>
<td>New development partners: ODA-like disbursement</td>
<td>-</td>
<td>15.0</td>
</tr>
</tbody>
</table>


Official development assistance

While ODA remains a small proportion of development finance in MICs, as we have seen, levels remain high in LICs, much higher than FDI inflows and workers’ remittances. Overall ODA from DAC donors has increased progressively in recent years, reaching its highest level ever of almost $128.5 billion in 2010, partly in response to the aid commitments made in Gleneagles in 2005. However, ODA levels fell by nearly 3% in 2011 and are likely to fall further in the years to come, largely as a result of the global financial crisis and fiscal austerity in many of the key donor countries. The US, for example, has recently seen large cuts to its aid budget, with aid taking the brunt of cuts to the state/foreign affairs budget (Veillette, 2011). In Japan, too, aid budgets were cut by some 10% in 2011 and diverted into post-tsunami reconstruction (Mungcal, 2011).

Fiscal austerity in donor countries is motivating a number of policy trends in traditional ODA. The first is a widespread desire to focus more on results, transparency and value for money. This is a trend that cuts across both traditional donors (the UK Department for International Development (DFID), the US) and newer entrants (e.g. Gates.) The US Agency for International Development (USAID) has stated that it will make a ‘relentless commitment to measuring results’ (USAID, 2010) and will push for a greater results focus in the multilaterals it supports. It is also heavily focused on monitoring and evaluation. The UK has also been pushing heavily on the results agenda, with aid to country programmes now allocated on the basis of specific ‘results offers’. A linked agenda is the push for greater transparency in aid spending: the International Aid Transparency Initiative, which brings together donors, developing countries, foundations and NGOs to agree on new standards for aid transparency, now has considerable momentum behind it, particularly with the 2011 announcement by US Secretary of State Hilary Clinton that the US will be supporting the initiative.

The second trend resulting from the financial crisis is the increasing pressure among traditional donors to better justify aid to their electorates by linking it more explicitly to commercial and foreign policy objectives (Evans, 2010). This is not a new trend, but one that is likely to be magnified in the coming years. For example, in the US, development has been clearly linked to national security objectives in the Quadrennial Diplomacy and Development Review, with development now seen as a central pillar of national security strategy, equal to diplomacy and defence (US Government, 2010.) Despite, or perhaps because of, this elevation, development spending has nevertheless lost out relative to security, with only 60.2% of the foreign affairs budget devoted to development in 2012, compared with 63.9% in 2010 (Veillette, 2011.) In Japan, too, aid has been explicitly linked to post-tsunami reconstruction, and in the UK, the former Secretary of State for International Development was criticised for alleging that aid to India was ‘also about seeking to sell Typhoon [fighter jets]’ (Shipman and Reid, 2012). Kharas and Rogerson (2012) suggest the growth of SSC will create further pressures to accelerate this
trend, predicting that by 2025 bilateral foreign trade interests will be 'powerful and transparent determinants of “development” cooperation for most countries'.

Third, there has been greater risk aversion in development spending, in particular with regard to general budget support. DFID, for example, is planning to reduce general budget support by 43% over the coming years and will tighten up the principles on which budget support agreements are made (DFID, 2011a). European Union (EU) member states have raised concerns about the European Commission’s (EC’s) use of general budget support, pushing for greater levels of political conditionality (Faust et al., 2012). The World Bank’s new Programme for Results, which takes a more programmatic approach to sectoral funding, has faced strong resistance from the US Congress and as a result is limited to only 5% of World Bank operations over the first two years (Alexander, 2012). Sweden has also announced that it will no longer provide budget support (Carlsson, 2012). This is related more broadly to fatigue with the Paris aid effectiveness agenda (Wood et al., 2008), which emphasises giving more control over the use of resources to developing countries and making greater use of country systems. Progress in implementing this agenda has been slow on the donor side, despite improvements in the quality of developing country systems (OECD, 2011b).

Another consequence of the pressure on aid budget is that many DAC donors are now more focused on the private sector. There is a strong interest in blending ODA with private or non-concessional financing, and using aid to catalyse the involvement of the private sector. The EC is putting a strong emphasis on blended finance, working, for example, through the Energy for All initiative in order to attract private investment into the renewables sector in Sub-Saharan Africa. It has also set up an EU platform for coordinated action on blended finance on climate change and infrastructure. Interviews with officials in Germany indicated that the country is planning to significantly expand the financing of the government-owned development bank, including through the provision of new guarantees and investments aimed at encouraging private investment. The coalition government in the UK has also developed a strong focus on private sector development.  

A further important trend among DAC donors has been the debate on country selectivity, with many donors struggling with how to deal with the new landscape of poverty. The UK has radically reduced the number of countries it provides aid to (DFID, 2011b); in November 2012 DFID has announced the suspension of aid flows to India. The EC has proposed cutting aid to 19 MICs, shifting instead towards blended finance in these countries (Gavas, 2012). The US is also aiming to reduce aid to countries that move into higher income categories (Veillette, 2011), while Germany is increasingly focused on providing ODA to LICs, with MICs receiving a greater proportion of funding at near-market rates. With a high proportion of poor people now living in MICs, this will make it difficult for many donors to justify that they are responding to poverty need, although recent analysis by Kharas and Rogerson (2012) suggests that poverty may shift back to being a low-income phenomenon as many of the MICs grow their way out of poverty.

In terms of sectoral focus, there are different trends among the major donors, with some common themes, including economic growth; the private sector; infrastructure; agriculture; health; and climate change. In the US, for example, one of the centrepieces of President Obama’s new development policy is a set of new initiatives on sectoral issues: the

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11. Former UK Secretary of State for International Development Andrew Mitchell said in October 2010, for example, ‘It is my intention to recast DFID as a government department that understands the private sector, that has at its disposal the right tools to deliver and that is equipped to support a vibrant, resilient and growing business sector in the poorest countries’ (DFID, 2010).

Global Health Initiative ($63 billion); Feed the Future, focused on food security; and the Global Climate Change Initiative (US Government, 2010). Economic growth and democratic governance are priorities for the US, the EC and the World Bank. The World Bank is very focused on infrastructure, which now accounts for nearly half of all new lending (Griffiths, 2012). Japan, while maintaining its traditional focus on infrastructure, also puts a strong emphasis on ‘human security’, an agenda pushed by the former Japan International Cooperation Agency (JICA) President Madame Ogata (Rocha Menocal and Wild, 2012). The human security agenda includes cooperation to target freedom from fear; social vulnerability; protecting and empowering people; and addressing global risks.

Philanthropy/private grants and non-governmental organisations

Philanthropy and other forms of private development assistance have been growing substantially in recent years, in both absolute and proportionate terms. Data on philanthropy are essentially based on data for US foundations and extrapolated for the rest of the developed countries. The Hudson Institute estimated US philanthropy to developing countries at $39 billion in 2010 and a total of $56 billion including another 13 developed countries. Kharas estimates that, when compared with DAC Country Programmable Aid (CPA) – the share of ODA that actually reaches countries – contributions from philanthropic organisations and NGOs may equal or even exceed the contribution of DAC donors (Kharas, 2007).

NGOs also raise funding from private sources that is additional to ODA. According to the OECD (2011c), flows raised privately by NGOs amount to $22 billion – corresponding to 70% of their total sources of financing.

Person-to-person giving has also grown over the past decade. While still small (on average less than $30 million per year) compared with other sources of development finance, Kiva has experienced a steep expansion curve since mid-2007, reaching a monthly transaction of $3.5 million at the end of 2009. Since 2005, roughly $285 million has been disbursed through Kiva (Kiva, 2012). There are also consumer-to-consumer donations, for example the Oudin-Santini tax in France, which makes it possible for local authorities and water agencies to allocate up to 1% of water and sanitation budgets to decentralised cooperation projects in water and sanitation (Severino and Ray, 2009).

Philanthropists have tended to be more involved in social sectors such as health and education, and are also playing a growing role in crosscutting issues such as transparency. The Gates Foundation, for example, has spent more than $15 billion out of its $26 billion total grants since 1994 on global health programmes, with only $3.6 billion spent on other global development programmes (Bill and Melinda Gates Foundation, 2012). Foundations traditionally have also taken on more risky ‘venture capital’-style investment, and tend to have a strong focus on innovation and scientific research, and on bringing private sector expertise and models into development cooperation. Results, value for money and accountability are also key issues (Bond, 2008).

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13. The largest contribution came from private and voluntary organisations (36%), corporations (19%) and foundations (12%).
Non-Development Assistance Committee donors

This section aims at presenting an illustrative picture rather than an exhaustive review on the progressively large literature on assistance provided by non-DAC (re)emerging development partners. Data are extremely patchy and rely on anecdotes; in most cases, definitions of aid and aid-like flows differ among estimates as well as countries included (e.g. in some estimates OECD but non-DAC members and new EU partners (members of neither the OECD nor the DAC) are excluded). Estimates of assistance from new emerging partners range from $9.5 billion to $15 billion for 2008 (ECOSOC, 2008; Park, 2011, Prada et al., 2010). Based on global growth projections from the Wolfensohn Centre for Development, if all non-DAC G20 donors commit 0.15% of GDP to ODA in 2015, this would represent $26 billion. EU members that are non-members of the DAC (the Czech Republic, Hungary, Poland and the Slovak Republic) committed to increase ODA to 0.17% by 2010 and 0.33% by 2015 as a percentage of gross national income (GNI).

Assistance from non-DAC countries reporting to the DAC has expanded progressively, from $2.4 billion in 2000 to $7.3 billion in 2010 – so more than tripled in real terms in 10 years. On the basis of Park (2011) the five largest non-DAC donors in 2008 were Saudi Arabia ($5.6 billion), China ($3.8 billion), India ($1 billion), Turkey ($780 million) and Brazil ($437 million in 2007).

As Zimmermann and Smith (2011) point out, non-DAC donors are far from being a homogenous group. The authors divide the non-DACs into three categories:

- Emerging donors, which are the most similar to the DAC donors although smaller. This group includes non-DAC EU Member States and donors such as Israel and Turkey. The European donors in particular tend to adhere to the European Consensus on Development and seek to emulate the behaviour of DAC donors.
- Providers of SSC, which see themselves more as peers of other developing countries and are heavily influenced by the Bandung Conference of 1955, including China, India and Brazil. This group accounts for the bulk of the non-DAC donor contribution, with China alone contributing nearly $2 billion in 2009.
- Arab donors, including Kuwait, Saudi Arabia and the United Arab Emirates (UAE), which have long experience of development cooperation. This group is comfortable with being labelled as donors, but tends to take a different approach from the DAC donors. While as a group these countries are less important than the SSC providers, volumes of finance from individual members can be large. For example, Saudi Arabia provided $3.3 billion in 2009, more than 12 out of the 23 DAC donors.

As noted above, so-called ‘emerging donors’ tend to seek to emulate the DAC model and as such can be expected to behave in similar ways to DAC donors, albeit with smaller volumes. In contrast, the narrative around SSC tends to emphasise the contrasts between this group and the DAC donors. For example, the SSC narrative tends to focus more on mutual benefit, solidarity, reciprocity and non-interference than the dominant ‘poverty reduction’ discourse of the DAC donors.\textsuperscript{14/15} SSC providers are very clear that their cooperation is not ‘aid’ in the

\textsuperscript{14} See, for example, the statement made at the High-level Event on South–South Cooperation and Capacity Development, Bogota Statement, March 2010, which emphasises that ‘SSC … promotes mutual benefit and win-win outcomes and horizontal partnerships’ (http://api.ning.com/files/CNxy6Uu-fQ7gkO4EIN9DXyt1H2Hy6-lwWrlqgGuta3BMm9Ec1HsIsDkDhcmgqOKi8fUwnlsVRPaR7MOaB6aAg9EYAYVv/Bogota_Statement_FINAL1.pdf).

\textsuperscript{15} Similarly, the Ministerial Declaration of the 33rd Annual Meeting of the Ministers of Foreign Affairs of the Member States of the Group of 77 and China, 25 September 2009, includes the following: ‘South–South cooperation is based on a strong, genuine, broad-based partnership and solidarity;
traditional sense and strongly oppose the vertical, provider–recipient hierarchy they perceive to underpin the traditional aid relationship. They tend to see it as particularly important that their specific contribution is recognised and that their nature and contribution is clearly differentiated from that of DAC donors. SSC is also heavily focused on technical assistance and knowledge sharing as well as financial aid, with peer learning around successful development experiences a key element. SSC is much more likely than DAC aid to be linked to other deals, for example as part of commercial packages or loans. Solidarity is also an important principle in SSC. In some cases, this is explicitly seen as solidarity in resistance to what is seen as the northern-driven ‘Washington Consensus’ model (Reality of Aid, 2010). SSC providers, like Arab donors, also tend to support countries in the near neighbourhood and to see regional solidarity as important. In terms of sectoral focus, SSC is heavily focused on infrastructure and growth. The social sectors, which have been the greater focus for the MDGs and for many DAC donors, are not a big area of focus for most SSC providers.

Arab donors are not new entrants to the aid landscape. For example, Saudi Arabia has been the single largest aid donor in the world since 1973 when measured in terms of the ODA/GNI ratio (Reality of Aid, 2010). Other key Arab donors include Kuwait and the UAE. As Zimmermann and Smith (2011) note, these groups are comfortable with the donor label, but take a different approach to the DAC donors. Key objectives include solidarity among Arab countries and religious activities. Almost all is provided bilaterally.

**Financing for global public goods, including climate finance**

With a growing focus on global public goods, including climate change, food security, health and security, it is likely that a growing share of aid will be allocated to these areas in future. In particular, it is likely that a large share of the climate change financing that has been committed will be taken from, rather than additional to, current ODA budgets.

It is rather challenging to track climate finance flows and in particular their relationship with ODA, which means that some of the climate finance flows presented here may also be included in the ODA figures in earlier sections. Estimates of climate finance are based on the pledges and targets set at the summits in Copenhagen and Cancun – with commitments from developed to emerging and developing economies of $30 billion for 2010-12 and $100 billion per year by 2020, with a wide range of resources to be mobilised, public and private, bilateral and multilateral, including innovative sources. The dominant scale of global private capital markets and growing fiscal challenges in many developed economies also suggest that the large financial flows required for climate stabilisation and adaptation will, in the long run, be mainly private in composition. There is as yet no clear agreement or understanding of the proportion of the $100 billion commitment that may potentially come from ODA budgets.

According to the Climate Policy Initiative (CPI, 2011) climate finance would total **$96.9 billion** per year, 56% coming from private sources; **$5.4 billion is considered bilateral aid disbursed by DAC countries in 2009**, less than 5% of total ODA. Looking into future flows, in 2010 the UN Secretary-general’s High-level Advisory Group on Climate Change Financing (AGF, 2010)

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h. South–South cooperation is based on complete equality, mutual respect and mutual benefit;

i. South–South cooperation respects national sovereignty in the context of shared responsibility’ (G77, 2009).

16. For example, the December 2009 Conference on Promotion of South–South Cooperation for Development recognised that ‘developing countries tend to share common views on national development strategies and priorities when faced with similar development challenges. The proximity of experience is therefore a key catalyst in promoting capacity development in development countries’ (in OECD, 2010).

17. ODA flows contributing to ‘climate change only’.
released a report on potential sources to finance the $100 billion target by 2020 for the Green Climate Fund.\(^\text{18}\) Innovative potential sources of climate finance include: carbon pricing for international aviation and maritime transportation (‘bunker taxes’) $10 billion per year; removal of fossil fuels subsidies $8 billion per year; and estimates for financial transaction taxes from $2 to $27 billion in 2020 (ibid.). Finally, the World Bank (2011b) provides estimates of public and private sources of climate finance, drawing from the AGF and the OECD. In particular, instruments to leverage private and multilateral flows would be estimated at between $150 billion and $340 billion in 2020, although, as much of this is private flows, it is likely to have already been included in the projections provided in earlier sections of this paper.

**Growth of other innovative sources of finance**

The debate on innovative mechanisms for mobilising additional sources of development finance has been revamped over the past decade to explore new ways of supporting achievement of the MDGs – also recognised in the International Conference on Financing for Development in Monterrey in 2002 – to finance development and climate change mitigation and adaptation, as well as to compensate for the slowdown in external assistance from some traditional donors in the aftermath of the 2008/09 financial and economic crisis.

Innovative finance for development (IFD) tends to be divided into two elements, both of which are potentially relevant to the post-2015 debates. The first element focuses on innovative sources of development finance, that is, the potential to raise revenues in ways other than relying on direct contributions from donor budgets. Examples include airline ticket levies and a potential financial transactions tax. As well as having the potential to scale up volumes, flows raised in this way may be more reliable and better insured from some of the pressures on traditional aid outlined above than traditional ODA (including the need to achieve results and link aid to geostrategic and commercial objectives.) Girishankar (2009) estimates that innovative sources of development finance raised an estimated $57.1 billion between 2000 and 2008, approximately 4.5% of ODA and international financial institution (IFI) bond proceeds over the period, although this includes $10.7 billion in funds from emerging donors as discussed elsewhere in this paper. Growth of these IFD sources has been rapid, from $2.9 billion in 2000 to an estimated $12.5 billion in 2008.

The other type of IFD focuses on innovative uses of development finance. The funds used in such mechanisms may be raised through traditional ODA or innovative mechanisms, but are spent in innovative ways. This can include bringing the public and private sector together in ways that maximise the contribution of each to development, for example thorough pilot advanced market commitments, which promise a future donor co-payment, contingent on vaccine delivery, creating incentives for the private sector to engage in research on specific vaccines (OECD, 2011d). It can also involve shifting the time profile of development spending to meet shifting needs, for example through the International Finance Facility for Immunisation initiative, which is front-loading aid in order to fund vaccine research now, in order to save the costs generated by the burden of disease in future. Girishankar (2009) estimates that at least \$52.7 billion of official flows, or 5.7% of total official flows to developing countries, were utilised in these ways between 2000 and 2008, mostly in MICs.

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\(^\text{18}\) The breakdown would be the following: i) carbon market revenues (i.e. carbon market revenues comprise proceeds from sales and auctions of carbon assets to cap-and-trade compliance buyers, and originate from carbon-constrained economic sectors or countries) $2 billion; ii) EU emission trading system $1.4 billion; iii) assigned amount units between countries bound by the Kyoto Protocol $0.6 billion; iv) ODA sector climate finance $5.4 billion bilateral aid from DAC countries in 2009; and v) estimates for private finance go from $37 to $72 billion in 2009/10.
Future trends in IFD are hard to predict and are mostly based on piecemeal information. For instance, the Global Alliance for Vaccines and Immunisation (GAVI) has committed $7.2 billion in programme support to LICs until 2016, and there are several proposals under discussion or advocated at global level, including one for a *global currency transaction tax* with an estimated total of $25-34 billion for the four major currencies; shipping and aviation fuel taxes with potential revenues of between $37 billion and $27 billion; and a widely implemented tobacco tax that could generate $11 billion. In sum, while the amounts both raised and spent through IFD mechanisms to date are relatively small compared with the volume of ODA, there is potential for considerable scaling-up in the years to come, which will have implications for the post-2015 debates. It should also be noted that there may be a degree of fungibility in terms of revenue sources raised, with governments and/or taxpayers deciding that potential to raise greater revenue through IFD mechanisms means there could be less need for ODA, meaning that funding may not be strictly additional.

**Conclusion to Part 1**

In Part 1 of this paper, we have shown that the landscape of development finance has changed dramatically since the MDGs were agreed in 2000. The financing model underlying the MDGs was one in which it was assumed that, where countries were not able to mobilise sufficient resources to meet the MDGs, the balance should be provided by the international community through aid and debt cancellation. This implicit burden-sharing model was reasonably successful in both mobilising resources through aid and debt cancellation and allocating them to MDG sectors, although the links to outcomes are less clear (Melamed, 2012).

The development finance landscape has now changed dramatically, and the post-2015 framework will need to be designed in such a way that it reflects this. In particular, as the trend analysis in Part 1 shows, it will need to recognise that:

- The significant growth in domestic revenues in developing countries will enable a larger share of development to be financed domestically, either through taxation or through financial deepening, particularly in MICs and resource-rich countries.
- For MICs at least, where a large proportion of poor people are currently located, private cross-border flows continue to be much more important than aid. This is particularly the case given that many DAC donors are cutting aid to MICs.
- Non-DAC donors, particularly Arab states and providers of SSC, who were minimal in volume terms at the time of the Millennium Declaration, are now much more important sources of development finance and knowledge transfer. This is a trend that is likely to accelerate in the coming years.
- ODA is likely to decrease in relative importance as a source of development finance, apart, perhaps, from in the poorest countries. A growing share of that decreasing pot is likely to be earmarked for global public goods, particularly climate finance. At the same time, ODA providers are becoming increasingly risk averse, and there is likely to be a

19 For example, the communiqué of the G8 Summit in Gleneagles in 2005 does note that some of the additional resources required from development can and should come from developing countries’ domestic resources, FDI and other flows, including remittances. However, it goes on to note that ‘A substantial increase in overseas development assistance, in addition to other resources, is required to achieve the internationally agreed development goals and objectives, including … the Millennium Goals’ ([www.unglobalcompact.org/docs/about_the_gc/government_support/PostG8_Gleneagles_Communique.pdf](http://www.unglobalcompact.org/docs/about_the_gc/government_support/PostG8_Gleneagles_Communique.pdf))
stronger emphasis on aid linked to commercial and geopolitical objectives of the donor country.

- Philanthropy is likely to continue to grow as a source of development finance, albeit from a low base. There may also be scope for technological innovations to promote greater person-to-person giving, with progressive disintermediation from traditional channels, although this remains untested at present.

- Innovative finance mechanisms are creating alternative mechanisms for both raising and spending resources, although their implications for the overall resource envelope remain unclear. This may have advantages in terms of reducing the reliance of development finance on donor aid budgets and enabling investments to be ‘front-loaded’ where there is an economic rationale for doing so. However, the need to repay funding generated through IFD mechanisms (whether through bond issues or other private mechanisms) may also lead to a reduction in the amount of funding available for direct expenditures.

**Part 2: Development Finance in the ‘Age of Choice’**

This second part of the paper explores the implications of this more complex global landscape for partner country governments and traditional donors, and examines the challenges and opportunities governments experience in managing development assistance from traditional and non-traditional providers.

**Defining and measuring traditional and non-traditional development assistance**

Definitions of ‘traditional’ and ‘non-traditional’ are inherently controversial and subjective, as many actors labelled ‘new’ or ‘non-traditional’ have been operating for many years.

For the purposes of this paper, we define ‘traditional development assistance’ (TDA) to mean assistance provided by traditional bilateral and multilateral donors that are members of the DAC and that conform to DAC norms and rules to varying degrees, and which meets standard official development assistance (ODA) definitions.

By ‘non-traditional development assistance’ (NTDA), we mean cross-border sources of finance provided with some public or philanthropic interest purpose, which have some associated level of concessionality but also have funding or delivery mechanisms that differ from those of traditional donors and may not meet ODA definitions – although some do. We include within this category development assistance from non-DAC donors; philanthropic and institutional giving; social impact investment; global vertical funds; and climate finance. We also include other official flows (OOFs) in our upper range estimates because, although many providers of other official flows are traditional donors (e.g. the International Bank for Reconstruction and Development, IBRD), their assistance does not meet usual ODA thresholds of concessionality.

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20 The study does not cover domestic resource mobilisation or purely private sector flows, which either are not cross-border or are not provided with an explicitly public interest purpose. There are two reasons for limiting the study in this way: 1) we wanted to make the scope more manageable; and 2) we believe governments are more likely to consider NTDA as a complement or substitute to ODA, and to manage it in comparable ways, something the case studies explore in more detail.
We find that development assistance flows grew substantially between 2000 and 2009, and their composition has shifted heavily towards what we here call ‘non-traditional’ sources. We find that (see Figure 3):

- According to our more conservative, or ‘lower-bound’, estimate, which excludes OOFs, total development assistance grew from **$64.8 billion to $173.3 billion between 2000 and 2009**. In 2000, the ‘non-traditional’ component of these flows was only $5.3 billion,
or 8.1% of the total. By 2009, non-traditional flows had increased tenfold to $53.3 billion, making up 30.7% of total development assistance.

- Our less conservative, or ‘upper-bound’, estimate, which includes OOFs, suggests that total development assistance grew from $77.1 billion to $213.5 billion between 2000 and 2009. In 2000, NTDA was $17.6 billion; by 2009 it had grown to $93.5 billion, a fivefold increase. NTDA by this expanded definition rose from 22.8% of total development assistance in 2000 to 43.8% in 2009.

Traditional and non-traditional development assistance flows in Cambodia, Ethiopia and Zambia

We draw on country case studies in Cambodia, Ethiopia and Zambia to explore the challenges and opportunities developing country governments experience in managing this new complex aid landscape. Greenhill et al. (2013) illustrate the case study selection process as well as the methodology developed based on Fraser and Whitfield (2008) and Ostrom et al. (2001) to analyse the impact of economic, political and governance factors in shaping aid negotiation power.

As Figure 4 shows, all the three countries analysed have received significant flows from non-traditional providers over the past decade, and in Cambodia NTDA flows are now sizeable in relation to traditional development assistance. Considering only lower-bound definitions, the share of NTDA to total development assistance in 2009 reached 23.5% in Cambodia, 9.1% in Ethiopia and 7.1% in Zambia. Non-traditional flows also expanded significantly in nominal terms between 2002 and 2009. In Cambodia, they increased from $34.1 billion to $191.5 billion, a 5.6-fold increase; in Ethiopia from $82.7 billion to $381.6 billion, a 4.6-fold increase; and in Zambia from $0.7 billion to $95.3 billion, a 136-fold increase (although note the exceptionally small base in 2002).

Furthermore, our figures for NTDA are most likely underestimated at country level. For example, they do not include private and voluntary contributions (through international NGOs and CSOs) and flows for which information is limited at country level; philanthropic assistance is based on US foundations only; and some data are missing, for example comparable data for non-DAC donors in the early 2000s in the case of Zambia. Furthermore, some development assistance flows cannot easily be captured at country level. For example, climate finance sometimes targets (and reports on) regions rather than single countries. We also compared data only up to 2009, the latest year for which information on development assistance flows was available for most components. For some flows (especially climate finance, e.g. in Ethiopia), commitments have been rising rapidly and disbursements have probably gone up since 2009.

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21 Note that OOF figures are a three-year moving average of 2002-2004 for 2000, the closest available, and 2008-2010 for 2009, to smooth out potential fluctuations from the financial crisis.
22 For the country analysis, we include only lower-bound estimates. This is for two reasons: 1) to keep the analysis simple and to avoid confusion; and 2) as all countries are LICs or recent MICs, OOFs (which constitute the difference between the lower and upper bound) are very small in volume, making the difference between lower and upper bounds insignificant. Future case studies looking at other MICs may want to include OOFs.
23 Note that – as with the global estimates – we are considering current values, which is likely to exaggerate the trends.
24 However, figures on philanthropic assistance from US-based organisations overestimate actual flows to the country, as they include some regional programmes.
While in Figure 4 we aim to compare the relative size of the different flows and their evolution over the past decade, Figure 5 separates non-traditional flows – at least in their lower-bound estimates – considering average figures for the period 2007-2009. In the case of Cambodia and Ethiopia, the largest share of NTDA is represented by external assistance from non-DAC donors.
Figure 5: Composition of non-traditional flows in the three countries, 2007-2009 average

Assistance from official non-traditional providers is 75% of total NTDA in Cambodia, this mainly consists of assistance from China. In Ethiopia, the share is 48% (nearly as much as that from vertical health funds). In Zambia, while non-DAC donors represent only one-quarter of total assistance, NTDA is dominated by assistance provided by GAVI and the Global Fund, which account for nearly 70% of total such flows. The relative share of climate finance is still small in all three case studies (3% or less) because a limited volume of pledges materialised over the period 2007-2009; philanthropic assistance is rather small as well (3% in Ethiopia, 1% in both Cambodia and Zambia).

Partner country management of new flows of development assistance: Main findings

While the validity and the robustness have to be tested on a larger sample of countries this preliminary analysis based on the three case studies revealed at least six major findings:
1. The study found that countries in general appear to be welcoming the additional volume of finance and the choice that non-traditional providers (NTPs) bring. Cambodia and Ethiopia were both found to be strategic about how they managed the new flows, and all countries expressed more positive than negative elements when discussing the new trends.

2. Consistent with the Paris Declaration agenda, ownership and alignment emerged as key priorities in relation to the ‘terms and conditions’ of development assistance. Non-DAC donors in particular were found to score well against these criteria. However, harmonisation and reducing fragmentation were not expressed as particular priorities. Governments appeared to reject the common (mis)interpretation of the Paris agenda on harmonisation as requiring all donors to negotiate with the government as a block. On the contrary, governments appeared more comfortable dealing with different groups of providers in different fora, perhaps to increase their negotiating power. Contrary to expectations, countries did not appear to struggle with growing fragmentation as a result of the growth of NTDA, seeming instead to welcome the additional choice.

3. One priority that emerged from the studies, which is not covered in the Paris agenda, was that of speed; again, non-DAC donors were praised for the speed of their operations. For traditional donors, improving the speed of disbursement procedures may help them become more attractive to recipients in a more competitive aid landscape.

4. In all countries, the low assessed risk of debt distress meant governments were comfortable taking on new borrowing. However, over time, governments will need to ensure they maintain debt sustainability, particularly when taking on less concessional flows.

5. The study found that, in two of the case study countries (Cambodia and Ethiopia), there was little government interest in involving NTPs in aid coordination mechanisms. These governments appeared more comfortable negotiating with different providers in different fora. A different finding emerged from Zambia, however.

6. Overall, the case studies suggest that the emergence of NTPs is strengthening the negotiating power of governments, and may make it more difficult for traditional donors to influence policy. Cambodia and Ethiopia already appear to be using the existence of NTPs in this way. These new developments may therefore increase country ownership, understood as government choice over policies. They may, however, make it more difficult for traditional donors to raise concerns around corruption, human rights, poverty reduction or other issues. Greater ownership emerging in this way may also not necessarily lead to better results, especially in weaker governance environments. While all countries still saw mobilising resources as a key priority, and so were unwilling to turn down funding offers, donors may in the long run find that support considered too slow, burdensome or conditional is rejected in favour of support from NTPs.

However, the ability of countries to benefit from NTPs depends heavily on their ability to strategically manage those flows, and also on their economic and political context. Within our three case studies, Ethiopia is the best example of a country with a clear set of priorities when it comes to managing such flows, including climate finance. Ethiopia is also favoured, however, by its geostrategic importance, a large domestic market and the strong leadership of the former prime minister. Not all countries will be able to replicate such a position. Countries will need to build up their capacity to attract, monitor and effectively utilise traditional and non-traditional flows.
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