

CFP Working Paper No. 8

Finance for Development: Trends and Opportunities in a Changing Landscape

Abebe Adugna, Rocio Castro,
Boris Gamarra and Stefano Migliorisi
November 2011

Abstract:

Over the past couple of decades, global financing for development has changed dramatically. The biggest shifts have been the rapid increase of net private financing flows to developing countries, in particular to middle-income countries (MICs); the sustained growth of official development assistance (ODA) from Development Assistance Committee (DAC) members, even excluding debt relief; the emergence of MICs as growth poles and sources of ODA with different approaches to aid delivery than those of DAC donors; and the expanded role of private aid. In addition, past trends of proliferation, fragmentation and earmarking of aid have continued. This paper reviews broad trends in global financing for development, with a focus on ODA and the growing importance of new development partners such as the so-called BRICS. In this context, it discusses the implications of this changing landscape for aid effectiveness and the role of ODA going forward.

Acknowledgements

The first draft of this was prepared by Abebe Adugna Dadi (Lead Economist, MNAVP) and Stefano Migliorisi (Consultant), and subsequently completed by Boris Gamarra (Senior Economist, CFPIR) and Rocio Castro (Lead Economist, CFPVP). The paper also benefited from guidance from Axel van Trotsenburg (Vice President, CFPVP), Gaiv Tata (Director, FPDVP), Antonella Bassani (Director, CFPIR) and Ivar Andersen (Manager, Operations, CFPIR). Other helpful inputs were received from Natalia Antsilevich, Kwaw Andam, Priya Basu, Qiang Cui, Christine Davies, Jane Kirby-Zaki, Hubertus De Leede, Ibrahim Levent, Andrei Markov, Di Qiu and Roberto Tarallo. The support of Kathia Coupry in document preparation is gratefully acknowledged.

THE WORKING PAPER SERIES

The *CFP Working Paper Series* disseminates the findings of work in progress to encourage the exchange of ideas about development finance, aid architecture, and aid effectiveness. The papers carry the names of the authors and should be cited accordingly. The findings, interpretations, and conclusions expressed in this paper are entirely those of the author(s). They do not necessarily represent the views of the World Bank Group, its Executive Directors, or the countries that they represent and should not be attributed to them.

For more information, please contact Angela Gentile, Telephone 202-473-3509, email agentile@worldbank.org, or visit <http://www.worldbank.org/cfp>, where copies are available in pdf format. The authors may be contacted at aadugna@worldbank.org, rcastro1@worldbank.org, bgamarra@worldbank.org and migliorisi@tech4dev.eu.

**FINANCE FOR DEVELOPMENT:
Trends and Opportunities in a Changing Landscape**

Abebe Adugna Dadi, Rocio Castro, Boris Gamarra and Stefano Migliorisi

November 2011

The findings, interpretations, and conclusions expressed in this paper are entirely those of the author(s). They do not necessarily represent the views of the World Bank Group, its Executive Directors, or the countries that they represent and should not be attributed to them.

Abbreviations and Acronyms

AfDF	African Development Fund
AMC	Advance Market Commitment
BRICS	Brazil, Russia, India, China and South Africa
CDM	Clean Development Mechanism
CIF	Climate Investment Fund
CPA	Country Programmable Aid
CRS	Creditor Reporting System
CSOs	Civil Society Organizations
DAC	Development Assistance Committee
EC	European Commission
EFA-FTI	Education for All – Fast Track Initiative
EU	European Union
FTC	Free-standing Technical Cooperation
GAVI	GAVI Alliance (formerly known as Global Alliance for Vaccines and Immunization)
GEF	Global Environmental Facility
GFATM	Global Fund to Fight Aids, TB and Malaria
GNI	Gross National Income
HIPC	Heavily Indebted Poor Country
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome
HLF	High Level Forum
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IFFIm	International Finance Facility for Immunization
IMF	International Monetary Fund
LDCF	Least Developed Countries Fund
LICs	Low Income Countries
Multilateral Development Bank	
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
Mercosur	Common Southern Market (<i>Mercado Comun del Sur</i>)
MICs	Middle Income Countries
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organization for Economic Co-operation and Development
PEPFAR	President's Emergency Plan for AIDS Relief
PRSP	Poverty Reduction Strategy Paper
SCCF	Special Climate Change Fund
SSA	Sub-Saharan Africa
STDs	Sexually Transmitted Diseases
TB	Tuberculosis
TC	Technical Cooperation
UN	United Nations
UNAIDS	United Nations Program on HIV/AIDS
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
WFP	World Food Programme

TABLE OF CONTENTS

EXECUTIVE SUMMARY	I
I. INTRODUCTION.....	1
II. RECENT TRENDS IN FINANCING FOR DEVELOPMENT	2
A. Trends in Net Financial Flows prior to the Global Financial Crisis	3
B. Impact of the Global Financial Crisis	5
C. Relative Importance of ODA in MICs and LICs	7
D. Trends in Official Development Assistance	7
1. Overall Trends in ODA Flows.....	7
2. Distribution of ODA	10
III. THE INCREASING ROLE OF NEW DEVELOPMENT PARTNERS AND PRIVATE DEVELOPMENT ASSISTANCE	15
A. Aid from Non-DAC Donors, excluding the BRICS	16
B. Development Finance from BRICS	17
C. Aid Flows from Private Sources	23
IV. GROWING COMPLEXITY OF THE GLOBAL AID ARCHITECTURE	24
A. Proliferation of Aid Channels	26
B. Fragmentation of ODA	28
C. Earmarking of ODA.....	29
V. OPPORTUNITIES AND CHALLENGES	34
BIBLIOGRAPHY	37
ANNEXES	41
Annex I: Estimated Net Private and Official Flows to MICs and LICs (% of GNI)	42
Annex II. Gross Disbursements and Credit Reflows	43
Annex III. List of Bilateral Donors	44
Annex IV. Current Innovative Sources of Funding for Development.....	45
Annex V. Non-DAC Donors' Net ODA, 2003-2010.....	47
Annex VI. China: first White Paper on Foreign Aid	48
Annex VII. Data on Recent Trends in Aid Earmarking	50

Tables

Table 1. Estimated Net Financial Flows to MICs and LICs, 1990-2010.....	3
Table 2. Estimated Net Financial Flows to MICs and LICs before and after the Crisis	6

Figures & Boxes

Figure 1. Trends in Net Financial Flows to MICs, 1990-10	5
Figure 2. Trends in Net Financial Flows to LICs, 1990-10	5
Figure 3. ODA Net Disbursements to Developing Countries.....	8
Figure 4. Core Contributions to Main International Organizations.....	9
Figure 5. Gross ODA in 2007 and 2009	10
Figure 6. Net ODA Disbursements to Low- and Middle-Income Countries.....	11
Figure 7. FIFs: Distribution of Aggregate Country-Level Funding	12
Figure 8. IDA-Eligible Countries: Net Disbursements from DAC Donors and Multilateral Organizations for Country Programmable Aid.....	13
Figure 9. Breakdown of ODA by Region	14
Figure 10. Distribution of Sector Allocable ODA Commitments to LICs	15
Figure 11. ODA from Non-DAC Donors Excluding BRICS, 2003-09	16
Figure 12. ODA from Saudi Arabia, South Korea and Turkey, 2003-09	17
Figure 13. Reported Aid from BRICS, 2003-2009	19
Figure 14. Trade Flows: Total Merchandise Trade between SSA and BRICS, 2000-10	21
Figure 15. Debt Flows: Total Loan Disbursements from BRICS to SSA, 2000-10	22
Figure 16. Alternative Estimates of Net Private Grants, 2004-09	23
Figure 17. The Complexity of Aid: A Recipient Country's View	25
Figure 18. Number of Donors per Recipient Country, 1960s-2000s	26
Figure 19. Number and Average Size of Donor Activities.....	28
Figure 20. Trends in Multi-bilateral Aid, 2007-09	31
Figure 21. Trends in Aid through Global Programs, 2003-09	32
Figure 22. Trends in Overall Earmarked ODA, 2003-09	33
Box 1. South-South Cooperation	18

EXECUTIVE SUMMARY

Over the past couple of decades, global financing for development has changed dramatically. The biggest shifts have been the rapid increase of net private financing flows to developing countries, in particular to middle-income countries (MICs); the unprecedented growth of official development assistance (ODA) from Development Assistance Committee (DAC) members; the emergence of MICs as growth poles and sources of ODA; and the expanded role of private aid. In addition, proliferation of aid channels as well as fragmentation and earmarking of aid have escalated. These changes have implications for aid effectiveness and the role of ODA going forward, particularly in today's resource-constrained environment.

A development finance architecture has emerged in LICs and MICs, each with an emphasis on different sources of financing. Specifically:

- Low-income countries (LICs) continue to depend primarily on ODA grants—which represented nearly 60 percent of the total net financial flows to these countries during 2005-10—while receiving increased foreign direct investment (FDI) and financing from non-traditional development partners.
- MICs rely primarily on private flows (FDI and private debt financing)—which over the period 2005-10 accounted for more than 60 percent of the total net financial flows to these countries. While the share of ODA grants in overall external financing for MICs is small, MICs still receive a significant portion of total ODA grants (40 percent).

The past decade also saw significant changes in the level and composition of aid flows. In particular:

- *An unprecedented growth of ODA from DAC members.* Between 2004—the base year for aid commitments at the G8 Gleneagles summit—and 2010, net ODA disbursements from DAC members rose by about 37 percent in real terms, reaching an all-time high of US\$129 billion. While this was the fastest growth experienced for decades, it fell short of the Gleneagles pledges by 39 percent.
- *A shift of ODA from DAC members toward LICs and the social sectors.* The share of net ODA disbursements going to LICs is now ahead of that flowing to MICs. However, standing at 40 percent, the share of ODA to MICs remains significant. In addition, sector allocable ODA has shifted from infrastructure and production to the social sectors. Much of this shift is driven by earmarked funding of bilateral and multilateral aid.
- *The growing importance of new development partners, many of which are still aid recipients, and the expanded role of private aid.* The last decade saw new entrants to the aid landscape, including emerging markets like China and India, as well as foundations like the Gates Foundation. Although data are incomplete, aid volumes from new development partners and from private sources are estimated at around US\$11 billion and up to US\$53 billion, respectively, for 2009.
- *In particular, aid flows from the so-called BRICS (Brazil, Russia, India, China and South Africa) are reported to have grown rapidly, albeit from a small base, to an estimated 3 percent of ODA in 2009.* The relatively low aid volumes from BRICS, however, does not

capture their growing economic influence and impact on the LICs' financing architecture. This largely reflects the different approaches to aid delivery that most BRICS follow. For instance, they typically deliver aid as part of trade and investment packages and focus on infrastructure and the productive sectors. In addition, they generally tie aid to the purchase of goods and services and do not attach policy conditions to their assistance.

Proliferation in aid channels as well as fragmentation and earmarking of aid have increased. In particular:

- *There is increased proliferation and fragmentation.* The average number of donors per country grew ten-fold over the last half century, rising from three in 1960 to 30 in the 2000s. The number of countries with less than 10 donors has fallen from almost 40 percent to less than 10 percent over the same period. Fragmentation has also increased, with the average volume of donor-funded activities declining to about US\$1.3 million in 2009 and the total number of interventions/activities reaching 120,000 in the same year.
- *ODA channeled through the multilateral system has grown but is more earmarked.* Core multilateral ODA has fluctuated at around 30 percent of ODA, but fell to a low of 28 in 2009. However, the use of multilateral channels has expanded, reflecting the rapid increase of multi-bilateral aid, which accounted for 12 percent of ODA in 2009. Taken together multi-bi aid and other large "global programs," some of which were created as new multilateral organizations in the 2000s to address health sector issues, earmarked multilateral ODA accounted for around 15 percent of total ODA in 2009.
- *Overall, earmarked ODA is estimated at over 40 percent of total ODA.* When earmarked bilateral programs are added—such as the U.S.'s President's Emergency Plan for AIDS Relief (PEPFAR), free-standing technical cooperation (FTC), and emergency aid—earmarked ODA is estimated at over 40 percent of total ODA.

This changing landscape presents opportunities and challenges:

- ***Additionality and sustainability.*** Aid from new development partners is bringing additional financial resources and filling critical funding gaps in LICs, for instance in infrastructure. Coordination among all aid providers is essential to ensure complementarity and the sustainability of results. On the other hand, insufficient coordination poses significant risks. LICs, particularly those with increased "borrowing space" in the wake of the Multilateral Debt Relief Initiative (MDRI), might find it easier to borrow on non-concessional terms which may not be consistent with these countries' long-term debt sustainability. In this context, the efforts of the international community to implement and preserve the gains of debt relief for poor countries could be diluted or even reversed. In addition, LICs may have opportunities to access aid without having to address policy reforms or follow sound project appraisal practices, which may undermine the sustainability of projects.
- ***Reporting of aid flows.*** Improving transparency and data reporting can facilitate more systematic and comparable assessment of overall aid resources. A number of non-DAC donors are making significant inroads in this direction either through more regular, voluntary reporting or through the publication of official information on aid flows. Nonetheless, for many, available data are often out-of-date, incomplete, or not comparable. Similarly, the

available information on private aid is scattered and does not allow for a complete understanding of its actual magnitude, purpose, and geographic orientation.

- ***Continued proliferation, fragmentation and earmarking.*** The multiplicity of aid sources and channels poses enormous challenges for LICs as they strive to make effective use of all aid resources. While there are ongoing initiatives to mitigate the impact of the complex aid architecture, including the improvement of the division of labor among DAC donors, the root cause of these issues remains on the supply side. In a resource constrained environment, there is even more need for donors to consolidate funding mechanisms and make better use of the multilateral system. The principle agreed in Accra of “thinking twice” should translate into a commitment to limit the creation of new global funds and focus instead on those that address “real” global public goods, coupled with clear implementation principles that ensure country ownership of global initiatives.
- ***Concessionality of ODA.*** Given the substantial needs of LICs to achieve their development objectives, including the Millennium Development Goals (MDGs), the donor community may need to revisit the terms of ODA in order to maximize the impact of scarce aid resources. While LICs’ share of overall ODA grant financing has increased over time, about 40 percent of grant financing continues to go to MICs. While about two thirds of the world’s poor still live in MICs, these countries generally have a stronger economic and financial standing and greater ability to access alternative funding sources. A more differentiated approach to allocating concessional funding may be warranted based on aid recipients’ economic and financial status, whereby grant financing would be focused on the poorest countries.

The Multilateral Development Banks (MDBs) can help address these challenges. Drawing on their country-based model, non-earmarked resources, and diverse shareholder base, MDBs can help in several ways:

- ***Mitigating the adverse impact of fragmentation and earmarking.*** For instance, by reducing overlapping interventions and transactions costs; ensuring the alignment of “global programs” with country priorities (for instance, channeling multi-bilateral aid); and supporting the development of public sector management systems.
- ***Providing a broad spectrum of concessional and non-concessional financing for a diverse client base.*** Through differentiated arms, MDBs can cater to a wide range of client countries.
- ***Providing a platform for inclusive partnerships globally and at country level.*** In the context of recent voice reforms in the World Bank, the contribution of development partners from emerging and developing countries to the 16th replenishment of IDA has increased substantially both in terms of policy and financing frameworks.

The 4th High Level Forum (HLF) on Aid Effectiveness in Busan provides a timely opportunity for development partners to reflect on the trends and opportunities of the changing landscape for development finance and the role of ODA in this context.

I. INTRODUCTION

1. **This paper reviews broad trends in financing for development, with a focus on ODA and the rising importance of non-traditional development partners.** In this context, it discusses the growing complexity of the global aid architecture and the prospects and challenges facing the donor community in increasing aid effectiveness going forward. The analysis relies primarily on ODA data from the OECD-DAC as well as data from other sources, including secondary sources.
2. **Aid architecture can be defined as the structural trends and institutional arrangements between multiple actors governing aid flows to developing countries.** It has evolved over time, much of it without a pre-defined blueprint. Most of today's aid principles and institutions are the result of over half a century of debate and joint decision-making. Broadly speaking, two aid "architectures" can be distinguished: the "Cold War Architecture," which lasted from the end of World War II to the fall of the Berlin Wall in 1989; and the "Post Cold War Aid Architecture," which started in 1990 and is still evolving in important respects, including the increasing role of non-traditional development partners.¹
3. **The Bank's first paper on aid architecture was prepared in the context of the IDA15 replenishment negotiations, and later updated in May 2008 for the last High Level Forum in Accra.**^{2,3} The paper underscored the complexity of the global aid architecture, marked in particular by proliferation of aid agencies on the supply side and fragmentation of aid on the use side, both contributing to increased transaction costs at the country level. The paper then discussed the prospects and challenges facing the donor community in terms of aid effectiveness.
4. **Much has changed since the last update:** the world was hit by a major financial crisis in 2008 and is still recovering from its impact. While recovery in the advanced economies is still fragile, developing and emerging economies are leading the way by contributing more than half of the world growth. Further, with the rise in the economic power of developing and emerging economies, in particular of the so-called BRICS, so too has their importance in development finance to LICs—in terms of aid, trade, investment, and debt financing. New and better data on non-traditional development partners have become available since the last update allowing the analysis of aid (and non-aid) flows from these sources. The paper thus covers not only recent ODA data that have become available since 2008, but also more data and analysis of the role of non-traditional development partners as well as of private aid. Based on the analysis, the paper discusses the prospects and challenges facing the donor community in increasing aid effectiveness in the context of tight fiscal budgets. The 4th HLF on Aid Effectiveness in Busan provides an opportune moment to reflect on the trends and opportunities of the changing landscape for development finance and the role of ODA.

¹ See Annex 1 of the first Aid Architecture Paper for a comprehensive review of the historical evolution of the international aid architecture over the last half century or so.

² IDA, 2007, "Aid Architecture: An Overview of the Main Trends in Official Development Assistance," Concessional Finance and Global Partnerships Vice Presidency, World Bank, Washington, DC, February.

³ IDA, 2008, "Aid Architecture Update: An Overview of the Main Trends in Official Development Assistance," Concessional Finance and Global Partnerships Vice Presidency, World Bank, Washington, DC, May.

5. **The paper is organized as follows.** **Section II** provides an overview of external financing inflows to developing countries and the relative importance of ODA within this overall financing. It also discusses the main trends in ODA, including the breakdown of bilateral and multilateral aid and the distribution of ODA by geographic area, income group, and sector. **Section III** discusses the rising importance of non-traditional development partners in development finance, in particular of BRICS and of private sources of aid. **Section IV** discusses the challenges for aid effectiveness linked to the continued proliferation of aid channels, the fragmentation of ODA, and the rising earmarking of ODA.⁴ **Section V** concludes with a discussion of the challenges and opportunities for sustaining effectiveness of ODA in the context a more diverse development finance landscape.

II. RECENT TRENDS IN FINANCING FOR DEVELOPMENT

6. **Financing for development encompasses both domestic and external resources.** Domestic resources include private and public investments, funded through private and public savings. In addition to providing incentives for private savings and investment, strong revenue mobilization and public administration (including through broadening of the tax base and enhancing efficiency of spending) are key to increasing the total domestic resources available for development.

⁴ Earmarking is the practice of designating or dedicating aid to financing specific themes, sectors or countries.

Table 1. Estimated Net Financial Flows to MICs and LICs, 1990-2010(US\$ billion)^{1/2/}

	1990	1995	2000	2005	2006	2007	2008	2009	2010
All Developing Countries (1)+(2)+(3)	129.0	283.6	274.2	702.6	924.0	1,310.3	1,238.0	1,041.4	1,267.2
(1) Private flows	41.4	155.5	173.8	499.1	654.2	954.9	803.5	579.6	790.0
Foreign direct investment	21.4	94.7	148.3	313.8	385.9	531.8	622.8	399.9	505.7
Portfolio investment	3.4	13.3	14.0	67.5	107.7	133.0	-53.3	108.8	128.4
Long-Term Debt	16.6	47.5	11.6	117.9	160.7	290.1	234.1	71.0	155.8
(2) Official flows	58.7	74.8	22.6	16.9	48.6	79.4	112.0	156.1	158.3
ODA grants	33.2	33.4	28.3	81.1	117.7	78.0	83.6	78.9	89.0
Long-Term Debt	25.5	41.4	-5.6	-64.2	-69.1	1.4	28.5	77.2	69.2
(3) Worker remittances	28.9	53.3	77.7	186.6	221.2	275.9	322.4	305.7	319.0
Middle Income Countries (1)+(2)+(3)	107.0	260.2	252.3	648.0	822.2	1,236.8	1,150.6	950.1	1,167.0
(1) Private flows	40.6	154.1	171.4	492.9	646.6	940.2	788.2	565.9	772.1
Foreign direct investment	20.7	93.1	145.5	307.9	378.9	519.1	608.5	387.8	488.8
Portfolio investment	3.4	13.3	13.9	67.4	107.6	132.8	-53.3	108.8	128.4
Long-Term Debt	16.5	47.6	11.9	117.6	160.1	288.3	233.0	69.3	154.9
(2) Official flows	38.9	55.0	7.4	-21.5	-32.7	37.3	62.0	101.2	100.7
ODA grants	17.3	17.1	15.4	46.4	40.6	40.3	40.2	32.3	39.0
Long-Term Debt	21.6	37.9	-8.0	-67.9	-73.3	-3.0	21.9	68.9	61.7
(3) Worker remittances	27.5	51.2	73.6	176.6	208.3	259.3	300.4	283.0	294.2
Low Income Countries (1)+(2)+(3)	22.0	23.4	21.8	54.6	101.8	73.5	87.3	91.3	100.2
(1) Private flows	0.8	1.4	2.5	6.2	7.6	14.7	15.3	13.7	17.9
Foreign direct investment	0.7	1.5	2.8	5.8	7.0	12.8	14.2	12.0	16.9
Portfolio investment	0.0	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0
Long-Term Debt	0.1	-0.1	-0.3	0.3	0.6	1.8	1.1	1.7	1.0
(2) Official flows	19.8	19.9	15.2	38.4	81.3	42.2	50.0	54.9	57.5
ODA grants	15.9	16.3	12.9	34.7	77.1	37.7	43.4	46.5	50.0
Long-Term Debt	3.9	3.6	2.3	3.7	4.2	4.4	6.6	8.3	7.5
(3) Worker remittances	1.4	2.2	4.1	10.0	12.9	16.6	22.0	22.8	24.8

Sources: World Bank Debtor Reporting System, IMF, Bank for International Settlements and World Bank staff estimates. ODA grants data, which include debt relief grants, are from OECD/DAC.

Notes: 1/ Data are at current prices.

2/ LICs are defined as countries with a GNI per capita of US\$995 or less as of 2009. MICs are defined as countries with a GNI per capita of about US\$996 or above but less than US12,195 as of 2009. India is classified as a MIC for the purposes of these data.

3/ Preliminary estimates.

7. External financing flows complement the domestic resources, and broadly include private flows, official flows, and worker remittances.⁵ Private flows consist of equity flows—which in turn are composed of foreign direct investment (FDI) and portfolio equity and debt flows—while official flows consist of debt flows from official creditors and foreign aid grants. Section A discusses recent trends in net financial flows to developing countries. Section B discusses the impact of the 2008 global financial crisis. Section C places ODA in the context of these broader sources of financing for development for LICs and MICs, and briefly discusses its relative importance, setting a stage for a more in-depth discussion of trends in ODA in the subsequent section.

A. Trends in Net Financial Flows prior to the Global Financial Crisis

8. The level and composition of net financial flows to developing countries has changed dramatically over the past two decades, reflecting primarily rapidly growing net private

⁵ These are, with the exception of remittances, net external flows financing the current account deficit of developing countries. Worker remittances are included in the analysis, but changes in reserve positions (which reflect the balance between current account deficit and financing items) are not included.

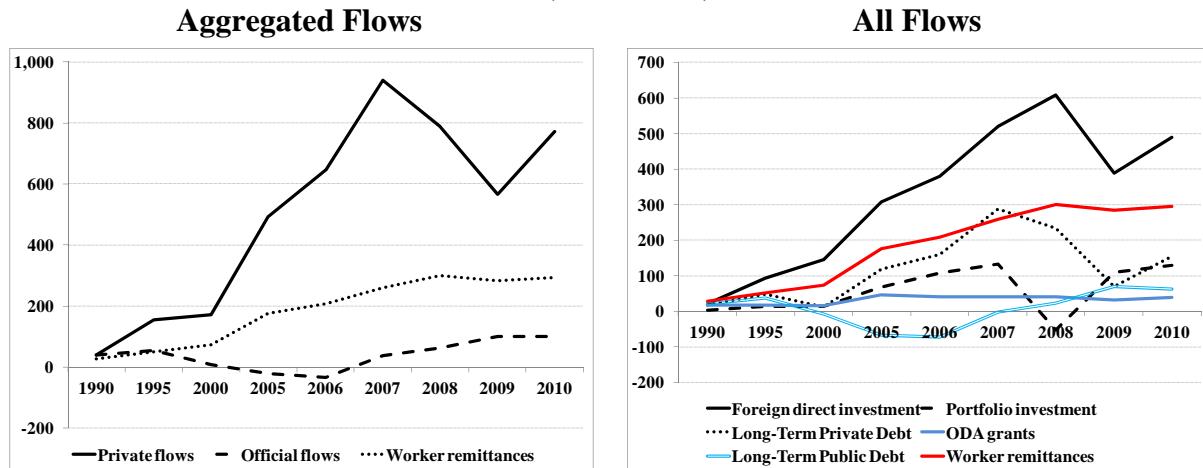
capital flows to MICs. Between 2000 and 2007—before the onset of the financial crisis—net financial flows to developing countries grew by almost five-fold reaching US\$1,310 billion, with US\$1,237 billion going to MICs. Net private flows (FDI, private debt and portfolio investment) accounted for the bulk of the increase reaching US\$955 billion (compared to US\$174 billion in 2000). Worker remittances increased by 255 percent during the same period. Net official flows, which were the main source of financing in the early 1990s, now account for around 6 percent of total net financial flows (compared with 46 percent in 1990).

9. The bulk of net private inflows to MICs has been in the form of net FDI and long-term private debt, both of which grew significantly between 2000-07 (by more than three-fold and 24 times, respectively -Table 1 and Figure 1). Worker remittances, which have emerged as an important source of external financing to developing countries in recent years, have risen by more than three-fold during 2000-07. Portfolio equity inflows, much less important in size, grew rapidly up until the financial crisis in 2008. Finally, net official flows were negative during much of the period reflecting larger repayments on bilateral and multilateral loans than official long term debt inflows,⁶ while net ODA grants increased rapidly, but remained small relative to overall external financing flows.

10. In net terms, LICs accounted for only about 2 percent of the total FDI to developing countries, 6 percent of remittances, and slightly over half of ODA grants over the period 2005-07. While the bulk of the private flows went to MICs, the period from 1990 to 2007 saw a 17-fold increase in FDI to LICs reaching US\$ 12.8 billion in 2007; with net private debt and portfolio equity playing little or no significant role. Worker remittances also grew rapidly (over 11-fold) reaching US\$ 16.6 billion in 2010. Net ODA grants increased to a peak in 2006, reflecting significant debt relief, but declined thereafter as the delivery of debt relief under the key debt relief processes was substantially completed. On balance, LICs continued to rely primarily on ODA grants, but their share in total net financing flows declined from over 70 percent in 1990 to about 50 percent in 2007.

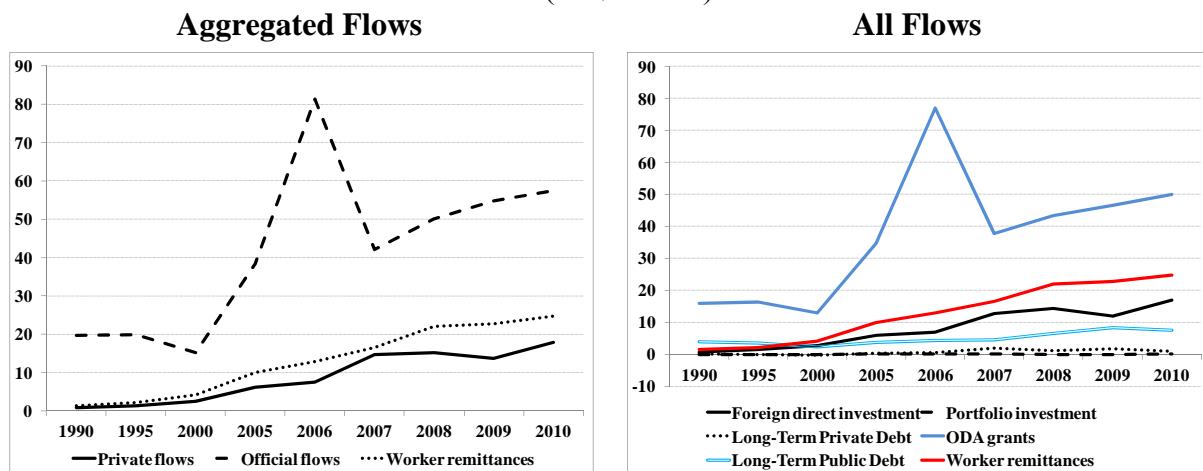
⁶ See Global Development Finance 2005.

Figure 1. Trends in Net Financial Flows to MICs, 1990-10
(US\$ billion)



Sources: World Bank Debtor Reporting System, IMF, Bank for International Settlements and World Bank staff estimates. ODA grants data are from OECD/DAC.

Figure 2. Trends in Net Financial Flows to LICs, 1990-10
(US\$ billion)



Sources: World Bank Debtor Reporting System, IMF, Bank for International Settlements and World Bank staff estimates. ODA grants data are from OECD/DAC.

B. Impact of the Global Financial Crisis

11. **The global financial crisis had a pronounced impact on net financial flows to MICs** (Table 2). Between 2007 and 2009, FDI and private debt each fell by about 25 and 75 percent, respectively, reversing their earlier upward trend. In addition, portfolio equity and ODA grants each fell by about 20 percent. Offsetting these declines to a limited extent were increases in worker remittances (9 percent)—which have generally been more resilient to the global financial crisis—and higher lending by official creditors—in particular the multilateral development agencies, which responded by providing emergency countercyclical financing to MICs most severely impacted by the global financial crisis. In 2010, net private flows (FDI, portfolio investment and long-term debt)

showed a sharp increase compared to their 2009 levels. They, however, did not reach their pre-crisis levels.

Table 2. Estimated Net Financial Flows to MICs and LICs before and after the Crisis
(US\$ billion)^{1/2/}

	2007	2009		2010 3/
			% change compared to 2007	
All Developing Countries (1)+(2)+(3)	1,310.3	1,041.4	-20.5	1,267.2
(1) Private flows	954.9	579.6	-39.3	790.0
Foreign direct investment	531.8	399.9	-24.8	505.7
Portfolio investment	133.0	108.8	-18.2	128.4
Long-Term Debt	290.1	71.0	-75.5	155.8
(2) Official flows	79.4	156.1	96.5	158.3
ODA grants	78.0	78.9	1.2	89.0
Long-Term Debt	1.4	77.2	5,231.7	69.2
(3) Worker remittances	275.9	305.7	10.8	319.0
Middle Income Countries (1)+(2)+(3)	1,236.8	950.1	-23.2	1,167.0
(1) Private flows	940.2	565.9	-39.8	772.1
Foreign direct investment	519.1	387.8	-25.3	488.8
Portfolio investment	132.8	108.8	-18.1	128.4
Long-Term Debt	288.3	69.3	-76.0	154.9
(2) Official flows	37.3	101.2	171.5	100.7
ODA grants	40.3	32.3	-19.7	39.0
Long-Term Debt	-3.0	68.9	---	61.7
(3) Worker remittances	259.3	283.0	9.1	294.2
Low Income Countries (1)+(2)+(3)	73.5	91.3	24.3	100.2
(1) Private flows	14.7	13.7	-7.0	17.9
Foreign direct investment	12.8	12.0	-5.8	16.9
Portfolio investment	0.1	0.0	-110.2	0.0
Long-Term Debt	1.8	1.7	-7.1	1.0
(2) Official flows	42.2	54.9	30.1	57.5
ODA grants	37.7	46.5	23.3	50.0
Long-Term Debt	4.4	8.3	87.6	7.5
(3) Worker remittances	16.6	22.8	37.2	24.8

Sources: World Bank Debtor Reporting System, IMF, Bank for International Settlements and World Bank staff estimates. ODA grants data, which include debt relief grants, are from OECD/DAC.

Notes: 1/ Data are at current prices.

2/ LICs are defined as countries with a GNI per capita of US\$995 or less as of 2009. MICs are defined as countries with a GNI per capita of about US\$996 or above but less than US\$12,195 as of 2009. India is classified as a MIC for the purposes of these data.

3/ Preliminary estimates.

12. LICs were less impacted by the global financial crisis in terms of net financial flows (Table 2). In 2009, net FDI were down by only 6 percent relative to the pre-crisis level in 2007, while ODA grants and worker remittances increased by 23 percent and 37 percent, respectively. The combined result was that LICs were able to maintain a positive and increasing trend in the overall net capital flows even in the wake of the global financial crisis (with total flows increasing from the pre-crisis level of US\$73 billion in 2007 to about US\$91 billion in 2009). The upward momentum on financial flows to LICs continued in 2010.

C. Relative Importance of ODA in MICs and LICs

13. **MICs and LICs rely on fundamentally different sources of development finance.** Specifically:

- **For LICs, official flows—most of which are ODA grants—remain the most important source of financing.** On average for the period 2005-10, they accounted for more than 60 percent of the total external financing—close to three times as important as worker remittances, and more than four and a half times as important as net FDI. Combined, official flows and remittances accounted for more than 80 percent of the total financing for development to LICs over the 2005-10 period.
- **For MICs, FDI and private debt financing constitute the most important source of external financing.** On average for the period 2005-10, they accounted for more than 60 percent of the total external financing. MICs—which are home to about two thirds of the world’s poor—still receive about 40 percent of ODA grant financing. ODA grants, however, accounted for only 4 percent of the total financing for MICs.

14. **These differences point to the reality of a development finance architecture with an emphasis on different sources of financing for both groups of countries.** MICs are increasingly more reliant on private flows and LICs remain dependent on official flows.

D. Trends in Official Development Assistance⁷

15. This section takes a closer look at major trends in ODA flows. Subsection 1 examines overall trends in ODA flows and its breakdown between bilateral and multilateral aid. Subsection 2 reviews the distribution of ODA across country groupings and sectors. The figures reported in this section come from the OECD’s DAC database, as well as from the Creditor Reporting System (CRS).

1. Overall Trends in ODA Flows

Main Trends in Volumes

16. **ODA has seen unprecedented growth in volume and diversity over the past decade.** After a period of decline in much of the 1990s, net ODA disbursements from donors reporting to the DAC⁸ increased at an annual average rate of 5.1 percent since 1997, reaching an all time high of US\$133 billion (at constant 2009 prices) in 2010, as shown in Figure 3. In real terms, this was almost double the 1997 level which was the lowest since 1983. Net ODA disbursements in 2010

⁷ ODA is defined as “grants or loans provided by official agencies (including state and local governments, or by their executive agencies) to developing countries (countries and territories on the DAC List of Aid Recipients) and to multilateral institutions for flows to developing countries, each transaction of which meets the following test: (a) it is administered with the promotion of the economic development and welfare of developing countries as its main objective; and (b) it is concessional in character and contains a Grant Element of at least 25 percent (calculated at a rate of discount of 10 percent). Technical co-operation is included in aid.

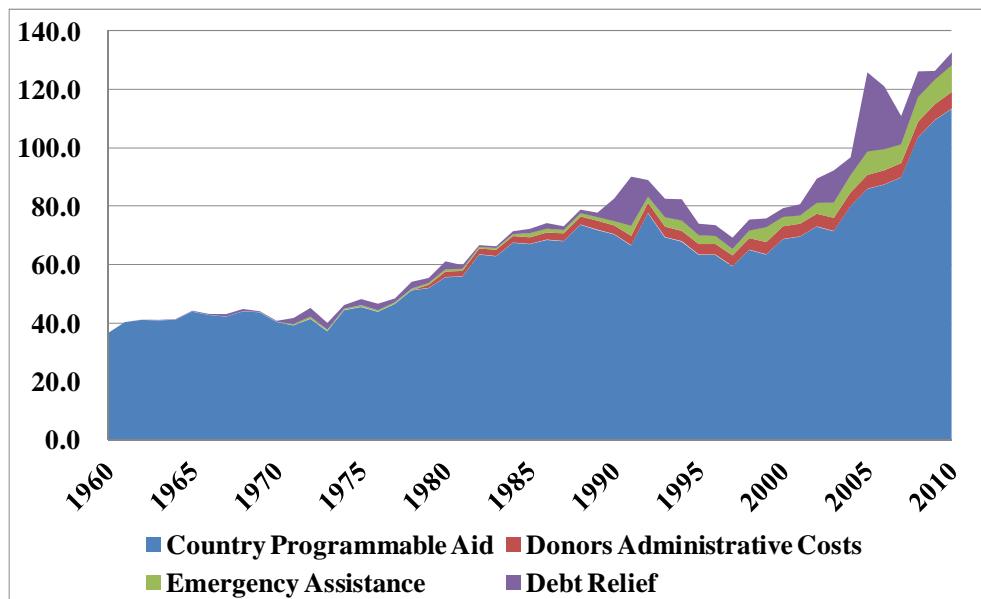
⁸ DAC donors plus non-DAC donors, using the terminology of DAC statistics. Net ODA from DAC donors amounted to US127.5 billion (at constant 2009 prices) in 2010.

can be decomposed as follows: 85.3 percent for country programmable aid (CPA); 7.1 percent for emergency assistance; 4.3 percent for donors' administrative costs and 3.3 percent for debt relief.

17. **ODA growth was partly driven by massive debt relief which peaked in 2005-2006.** Debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI), together with debt relief under traditional mechanisms and debt relief from Paris Club creditors beyond the HIPC Initiative, implied a 90 percent cut in the debt burden of beneficiary countries. Concomitant with progress under the HIPC Initiative and the MDRI, beneficiary countries have been able to increase their poverty-reducing expenditures by an estimated 3 percentage points of GDP between 2001 and 2009, while debt service payments declined by a similar amount.⁹

18. **ODA increased rapidly, even excluding debt relief.** As shown in Figure 3, CPA increased since 1997, albeit less rapidly than total ODA until 2006. Since 2007, however, substantial growth in CPA—averaging 6.2 percent a year—more than compensated for a significant drop in debt relief. In real terms, only since 2005 did CPA exceed its 1992 level.

Figure 3. ODA Net Disbursements to Developing Countries
(US\$ billion at 2009 prices, 1960-2010)^{1/2/}



Source: DAC online (Table 1)

Notes: 1/ Preliminary figures for 2010.

2/ Data includes all donors reporting to DAC plus multilateral organizations. Data is presented from a source of funds perspective, whereby recipient country groups cannot be distinguished. Debt relief includes all actions relating to debt (forgiveness, conversions, swaps, buy-backs, rescheduling, refinancing). Administrative costs refer to the administrative costs of development assistance programs not already included under other ODA items as an integral part of the costs of delivering or implementing the aid provided. Donors started reporting administrative costs as part of ODA in 1979.

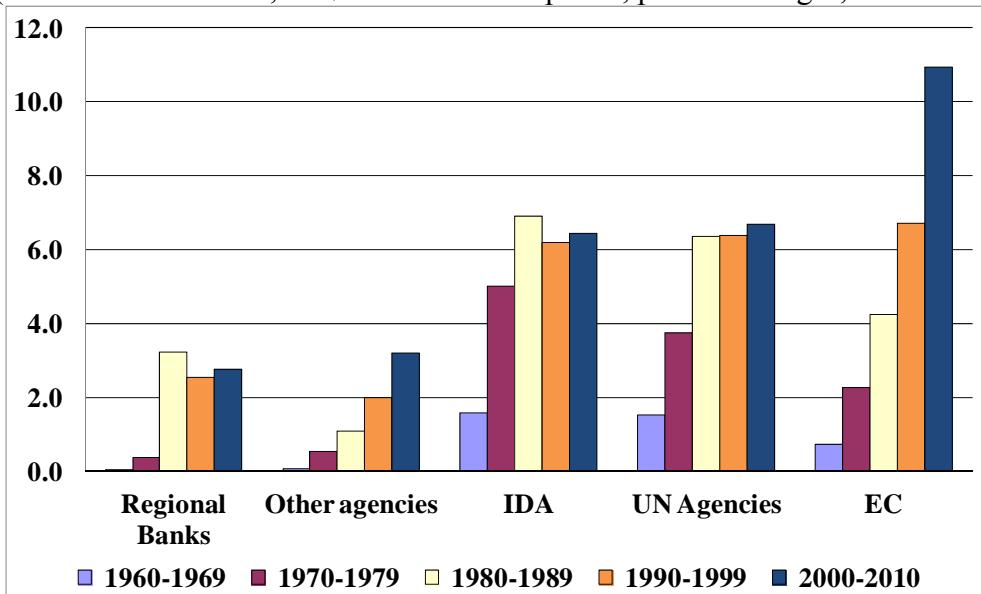
⁹ For details on the HIPC Initiative see IDA and IMF (2010) "Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI)—Status of Implementation," September.

Bilateral vs. Multilateral ODA

19. The share of bilateral and multilateral ODA in gross ODA (excluding debt relief) has remained relatively stable at around 70 percent and 30 percent, respectively. This breakdown reflects average *core contributions* from DAC members to bilateral and multilateral channels and varies significantly from donor-to-donor, with contributions to multilateral channels ranging from 11-12 percent on average for 2007-2009 for countries like the United States, Greece, and Portugal to 26-29 percent for South Korea, Italy, and Sweden.¹⁰

20. Core multilateral contributions declined to a low of 28 percent of total ODA in 2009, compared to a peak of 33 percent in 2001. The bulk of these core contributions (90 percent) were concentrated in six multilateral clusters: the EC (38 percent), IDA (19 percent), UN agencies (17 percent), the Regional Development Banks (9 percent), and the Global Fund (6 percent).

Figure 4. Core Contributions to Main International Organizations
(Gross disbursements, US\$ billion at 2009 prices, period averages, 1960-2010)



Source: DAC online (Table 1)

21. Since the 1990s, the most important channel for core multilateral contributions has been the EC followed by the UN and IDA (see Figure 4). The relative share of IDA and the UN in core contributions has been declining, after peaking in the 1970s, in favor of the EC and new multilateral organizations established during the 2000s such as the Global Fund and GAVI. IDA's share in total multilateral ODA declined from about 40 percent in the 1970s to an average of 21 percent in the 2000s. However, IDA's capacity to support IDA recipients is greater than what would be implied by the size of core contributions because IDA also relies on credit reflows (see Annex II).

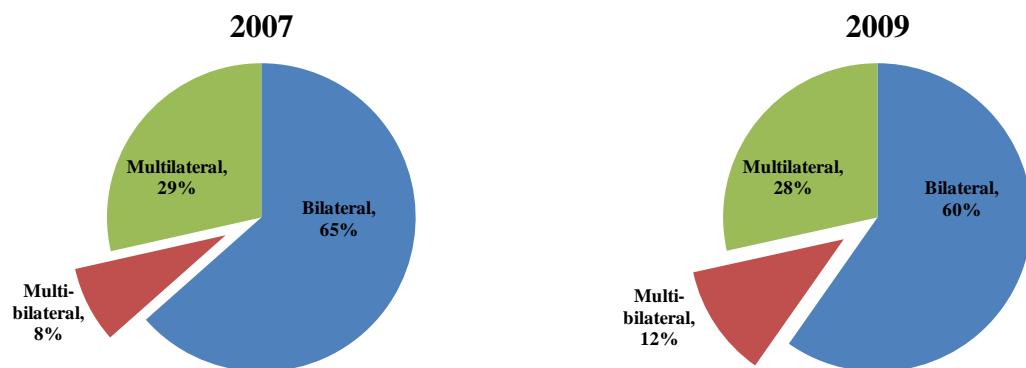
¹⁰ OECD DAC (2001c), “2001 DAC Report on Multilateral Aid.”

Multi-bilateral ODA

22. **Multi-bilateral ODA reached 12 percent of ODA in 2009, bringing the use of multilateral channels to 40 percent of ODA.** Multi-bilateral aid is bilateral ODA earmarked for a specific purpose, sector, region or country and channeled through multilateral agencies—i.e., in the form of non-core contributions to trust funds.¹¹ Figure 5, adapted from DAC's 2010 and 2011 Reports on Multilateral Aid, shows an increase in multi-bilateral ODA both in absolute and relative terms. Indeed, between 2007 and 2009, multi-bilateral aid was the fastest growing component of ODA.

23. **About two thirds of multi-bilateral aid is channeled through UN agencies, and one fifth through the World Bank Group.** Main recipients include UNDP, the WFP and UNICEF, which are also earmarked channels of aid delivery. About 20 percent of multi-bilateral ODA is channeled through the World Bank Group (including IBRD, IDA and IFC). Non-core contributions to the regional development banks and the EC are small (below US\$0.5 billion in 2009).

Figure 5. Gross ODA in 2007 and 2009
(Disbursements, excluding debt relief, percentages of total ODA)



Source: OECD DAC

24. **When multi-bilateral ODA is added, the UN is the most important multilateral channel.** Recent data provided by the UN Secretariat show that the United Nations System received a total of US\$22 billion of contributions for its operational activities for development, of which only US\$6 billion were core (i.e., multilateral) and US\$16 billion non-core (i.e., multi-bilateral) contributions, suggesting a great degree of fragmentation and unpredictability of funding.¹²

2. Distribution of ODA

25. **This subsection examines four dimensions of the distribution of ODA across recipient countries:** (i) the distribution of ODA per income group; (ii) ODA trends for IDA-eligible, low-income countries; (iii) the geographical distribution of ODA; and (iv) the sectoral distribution of ODA.

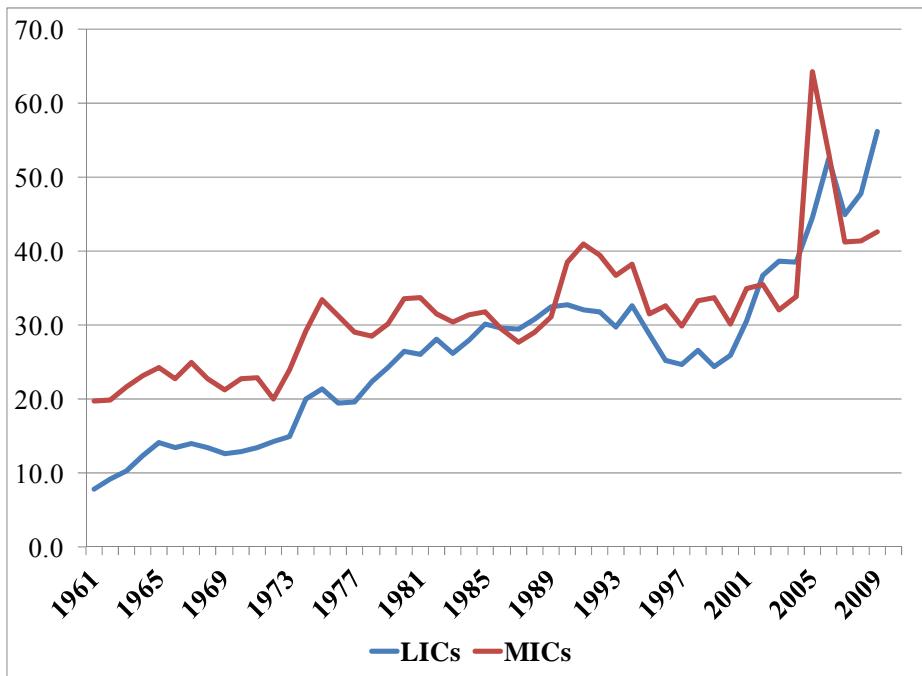
¹¹ This includes mainly trust funds and other multi-bilateral ODA, targeted sectorally, thematically or by country. See OECD DAC, 2010 DAC Report on Multilateral Aid.

¹² See UN Secretariat, "Analysis of the funding of operational activities for development of the United Nations system for 2009" (May 2011).

Distribution of ODA per Income Group

26. **Net ODA going to LICs has only recently surpassed net ODA to MICs.** Figure 6 below shows that only since 2007 has there been a widening lead of ODA to LICs over ODA to MICs. The same trend is visible when only CPA is considered.

Figure 6. Net ODA Disbursements to Low- and Middle-Income Countries
(US\$ billion, 2009 prices, 1961-2009)



Source: DAC online (Table 2a).

Note: LICs and MICs as per the DAC list of ODA recipients for reporting in 2009 (i.e., LICs are defined as the Least Developed Countries (LDCs) and other countries with a GNI per capita below US\$935 in 2007; MICs are defined as countries with a GNI per capita between US\$936 and 11,455 in 2007). Under these definitions, China is included in the MICs throughout the period.

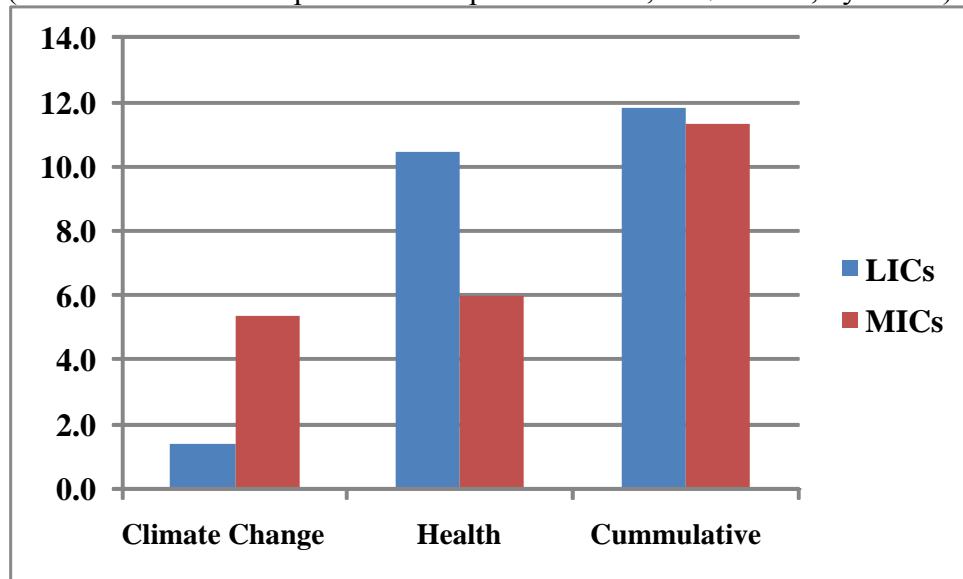
27. **The distribution of cumulative funding provided through Financial Intermediary Funds (FIFs) administered by the World Bank varies according to the sector.**¹³ In the case of environment and climate-related FIFs (see Figure 7),¹⁴ about 20 percent (US\$1.4 billion) of the approved country-level funding was allocated to LICs and about 80 percent (US\$5.4 billion) to MICs. In contrast, about 64 percent of the country-level funding approved from the three main

¹³ FIFs are funds that typically support global programs often focused on the provision of global public goods. The World Bank's distinctive role across FIFs is the provision of financial intermediary services as Trustee of the funds. The World Bank can also play a role as one of the implementing agencies responsible for the appraisal and/or supervision of projects or programs financed by the FIFs. FIFs represent about 62 percent of the amounts held in trust by the World Bank. The Global Fund, the Global Environmental Facility (GEF), the Climate Investment Funds (CIFs), and the International Finance Facility for Immunization (IFFIm) account for 85 percent of FIF held in trust at the World Bank. Aggregate funding as of September 30, 2010.

¹⁴ The GEF and its two related funds (Special Climate Change Fund, or SCCF and Least Developed Countries Fund, or LDCF), the two Climate Investment Funds, and the Adaptation Fund.

health-related FIFs was allocated to projects in LICs (US\$10.4 billion) and the remaining 36 percent to projects in MICs (US\$6.0 billion).¹⁵ Overall, this has resulted in a slightly higher cumulative allocation to LICs in these two sectors.¹⁶

Figure 7. FIFs: Distribution of Aggregate Country-Level Funding
(cumulative since inception as of September 2010, US\$ billion, by sector)



Source: World Bank

ODA Trends for IDA-Eligible Countries

28. **Total ODA to IDA-eligible countries has been increasing over time.**¹⁷ Figure 8 shows the increased importance of emergency assistance, in the context of recurrent natural disasters and fragility in many IDA countries, as well as of debt relief. The share of debt relief in total ODA for IDA countries peaked at 24 percent in the two-year period from 2005 to 2006, before falling back to 6 percent in 2009.

29. **Moreover, IDA-eligible countries received more CPA in the 2000s than they did during the 1990s** (Figure 8). The average annual core ODA received by IDA-eligible countries in the 2000-2009 decade – about US\$39.4 billion at 2009 prices—is higher than the 1990-1999 average—about US\$33.8 billion per year. After showing a steep decline between 1994 and 1999, CPA for IDA-eligible countries rapidly increased in the following decade.¹⁸

¹⁵ These include Global Fund, the International Finance Facility for Immunization (IFFIm) and the Pilot Pneumococcal Advance Market Commitment (AMC).

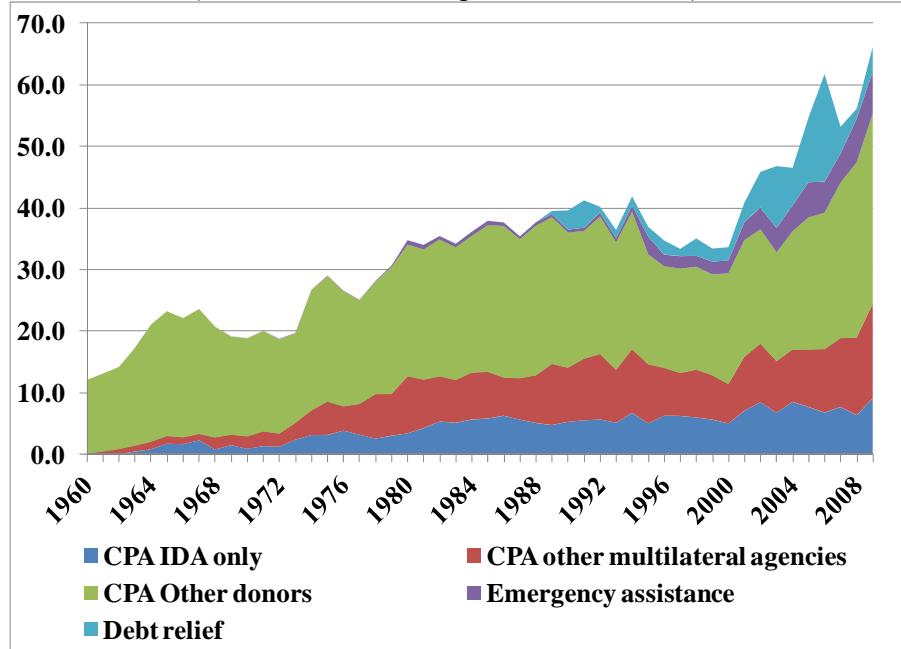
¹⁶ In per-capita terms, the average country-level funding from the six environment and climate-related FIFs is slightly higher for MICs than for LICs. However, in four of these (GEF, LDC, SCCF and Adaptation Fund), per capita country-level funding is higher for LICs than for MICs. In the health sector, average country-level funding approved per capita by the GFATM is almost seven times higher for LICs than for MICs.

¹⁷ Data refer to the list of FY11 IDA-eligible countries.

¹⁸ The total amounts refer to ODA received from bilateral and multilateral sources. The chart is presented from a *uses of funds* perspective.

30. **IDA's share of CPA disbursements in IDA-eligible countries has been growing, even on a net basis.** As indicated in Figure 8, between 2000 and 2009, IDA's *cumulative* net CPA exceeded US\$70 billion (at 2009 prices), or about 18 percent of the total CPA in IDA-eligible countries or over 40 percent of CPA from multilateral agencies. Furthermore, CPA from IDA showed greater stability (compared to overall core ODA) during the 1990s, fluctuating between US\$5 billion and US\$6 billion (both figures at 2009 prices) during this period.

Figure 8. IDA-Eligible Countries: Net Disbursements from DAC Donors and Multilateral Organizations for Country Programmable Aid
(US\$ billion at 2009 prices, 1960-2009)



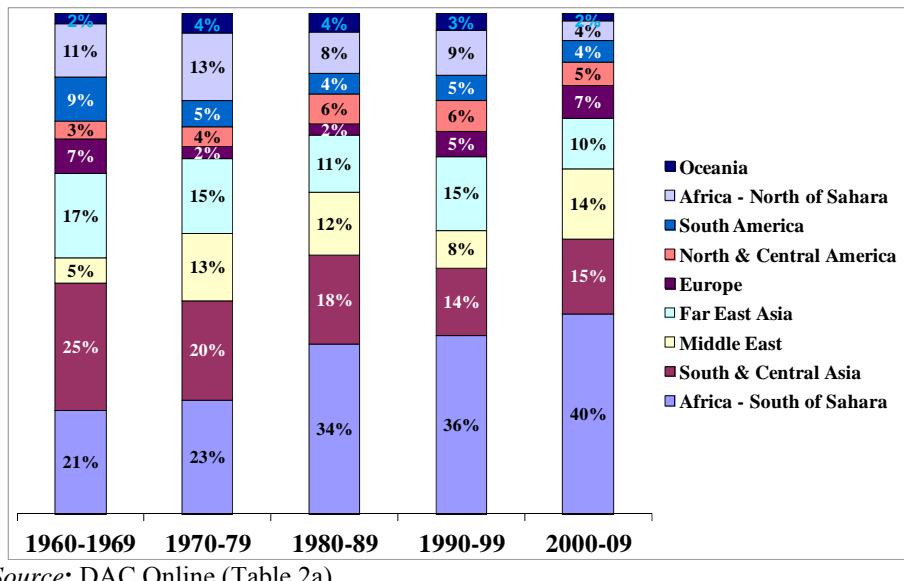
Source: DAC online (Table 2A)

Geographical Distribution of ODA

31. **Sub-Saharan Africa's (SSA) share of total ODA has been growing for nearly half a century, almost doubling from a little more than 20 percent in the 1960s to 40 percent of total ODA in the 2000s (Figure 9).¹⁹** During the period from 2000 to 2009, most ODA flows were directed to SSA (40 percent), followed by South and Central Asia (15 percent), the Middle East and North Africa (14 percent), and Far East Asia (10 percent).

¹⁹ ODA is the most important source of capital inflows for most countries in Sub-Saharan Africa, "contributing nearly half of all net capital flows." See Sundberg, M. And A. Gelb (2007). "Making Aid Work". *Finance and Development*, Vol. 43, No. 4, December, p.2.

Figure 9. Breakdown of ODA by Region
(percent, 1960-2009)



Source: DAC Online (Table 2a)

Sectoral Distribution of ODA

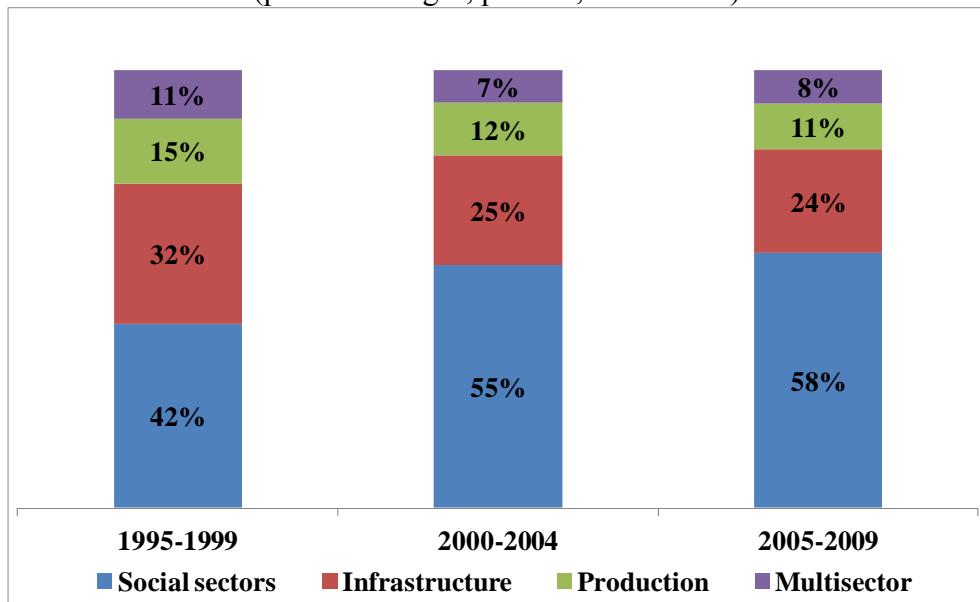
32. The share of the social sectors in total sector allocable ODA²⁰ to LICs has grown from 42 percent in the second half of the 1990s to 58 percent in 2005-2009 (see Figure 10). Since 1990 there has been an overall shift from infrastructure and production toward the social sectors,²¹ as shown in Figure 10.²² In contrast, infrastructure ODA for LICs has declined in relative terms. In particular, in the case of SSA, the share of infrastructure ODA in total sector allocable ODA fell from 26 percent in the period 1995-1999 to 20 percent in 2005-2009. This shift reflects greater emphasis by DAC bilateral donors on health and education, including through earmarked resources to address communicable diseases such as HIV/AIDS, malaria and tuberculosis.

²⁰ DAC defines sector allocable ODA as: “Total sector allocable ODA is used to better reflect the sector focus of donor’s programs. It concerns all ODA flows aimed at fostering a peculiar sector in the recipient country (examples of sectors are: agriculture, education, health, water supply and sanitation, government and civil society, transport and storage, etc.) and thus excludes all the contributions that are not susceptible to allocation by sector (e.g., balance-of-payments support, actions relating to debt, emergency assistance, and internal transactions in the donor country - administrative costs of donors, support to NGOs and unallocated/unspecified ODA)”.

²¹ “Other social sectors” comprise water and sanitation, population, health, government and civil society, and conflict, peace and security. “Production” includes agriculture, forestry and fishery; industry and mining; and tourism.

²² In Sub-Saharan Africa, the share of social sectors is now over 60 percent of all sector allocable ODA.

Figure 10. Distribution of Sector Allocable ODA Commitments to LICs
(period averages, percent, 1995-2009)



Source: DAC Online (Table 2a)

III. THE INCREASING ROLE OF NEW DEVELOPMENT PARTNERS AND PRIVATE DEVELOPMENT ASSISTANCE

33. New development partners are becoming increasingly important in the international finance landscape. The past decade has seen a growing engagement of sovereign development partners often referred to as “non-DAC” donors, “new” or “emerging” donors, for lack of better definitions.²³ While these countries share the common feature of operating outside the DAC, this category includes a diverse group of countries from rich middle-income countries to poorer developing countries, with different development experiences and approaches for providing development assistance.²⁴ Some have a long history of engagement while others are newcomers or re-engaging after a long period of time. Some are both providers and recipient of aid, or were so until recently. In particular, the so-called BRICS (Brazil, Russia, India, China and South Africa) have emerged as important growth poles and sources of development finance in recent times. In addition, the role of private aid through foundations and non-governmental organizations (NGOs) has also expanded.

34. Aid from new development partners is becoming more visible also thanks to recent improvements in reporting. For instance, a number of non-DAC donors report aid data to the OECD-DAC on a voluntary basis, albeit some of the data may still be partial. While the BRICS and

²³ The terminology “new development partners” is used in the report while recognizing its limitations. As a category it not only refers to new and emerging donors but also to countries that may have a long history of providing development assistance although while not being OECD-DAC members.

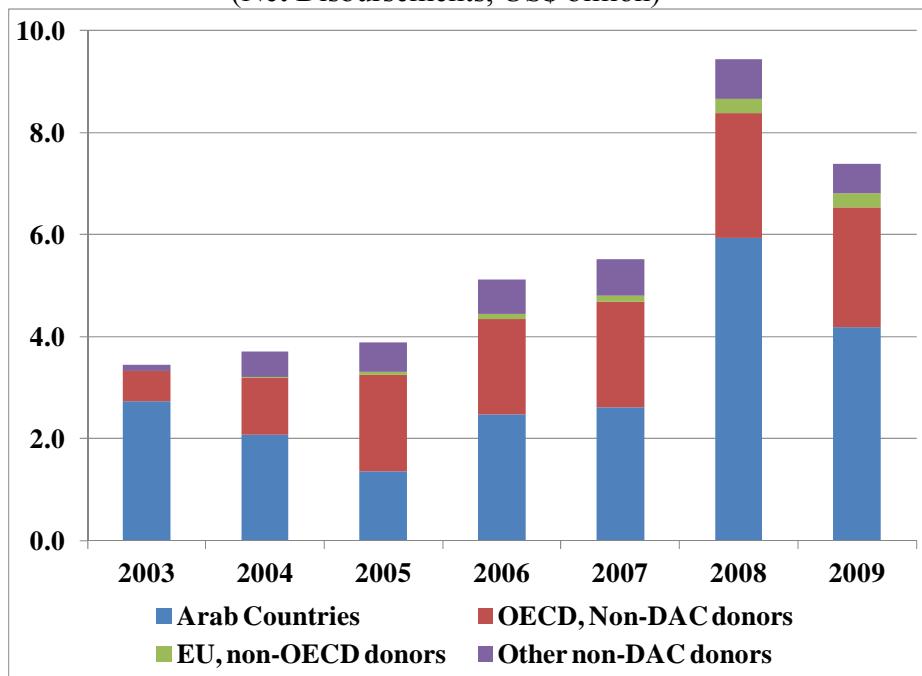
²⁴ See Manning, R. (2006). “Will ‘Emerging Donors’ Change the Face of International Co-operation?”, *Development Policy Review*, 24(4).

several other non-DAC donors do not report aid data to the OECD-DAC, today there is more official information on their aid than a few years ago.²⁵ Reflecting the different nature of available data sources, Section A below analyses aid flows from twenty non-DAC donors that currently report to the OECD-DAC and hence their data are comparable. Section B discusses aid flows and other external flows from the BRICS based on recent data from official and un-official sources, but due to different definitions these data are not comparable with that of the OECD-DAC. Section C presents a brief overview the aid flows from private sources, based on OECD-DAC and other sources.

A. Aid from Non-DAC Donors, excluding the BRICS

35. **In 2009, ODA from reporting non-DAC countries was U\$7.4 billion or 6.7 percent of total ODA.**²⁶ These non-DAC countries can be grouped as follows: (i) OECD countries not members of DAC comprised of South Korea,²⁷ Turkey, the Czech Republic, Hungary, Poland, Slovak Republic, and Iceland; (ii) new European Union (EU) countries consisting of Estonia, Latvia, Lithuania, Romania and Slovenia; (iii) Arab countries made up of Saudi Arabia, Kuwait and the United Arab Emirates; and (iv) other non-DAC countries. Within this group of non-DAC donors, the Arab countries accounted for nearly 60 percent of the total in 2009, followed by the OECD non DAC donors (32 percent). Annex V provides country-level details.

Figure 11. ODA from Non-DAC Donors Excluding BRICS, 2003-09
(Net Disbursements, US\$ billion)



Source: OECD DAC and Zimmermann and Smith (2011).

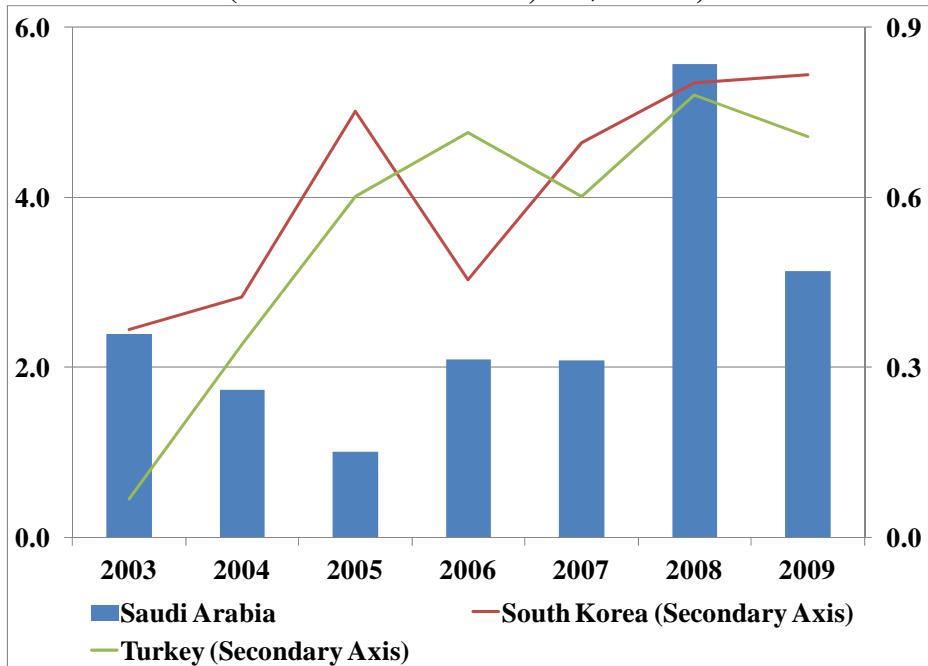
²⁵ In November 2011, Russia started reporting aid data to the OECD-DAC

²⁶ See Annex 5 for country details.

²⁷ South Korea became a DAC member in 2010, but is included in the category of non-DAC donors for the purpose of this analysis.

36. **The largest donor countries among this group are Saudi Arabia, South Korea and Turkey.** Saudi Arabia has been a long-standing player in development aid and one the largest single donors. Between 2005 and 2009, Saudi Arabia's reported net ODA tripled from US\$ 1 billion to US\$3.1 billion in 2009, peaking at US\$5.6 billion in 2008. South Korea and Turkey, which until a few years ago were aid recipients, reported net ODA of US\$816 million and US\$707 million, respectively, in 2009. Net ODA from South Korea more than doubled between 2003 and 2009 in nominal terms while that of Turkey increased ten-fold over the period, although starting from a low base (Figure 12).

**Figure 12. ODA from Saudi Arabia, South Korea and Turkey, 2003-09
(Gross Disbursements, US\$ billion)**



Source: DAC Annual Reports and IDS Statistics (Table 1)

B. Development Finance from BRICS

37. **The BRICS have emerged as important growth poles and sources of development finance.** These countries are bringing additional resources to help developing countries reach their Millennium Development Goals (MDGs). At the same time, a better understanding of the level and impact of these resources is limited by the lack of systematic and comparable reporting. Official aid data are not published regularly, and available data are often not comparable. In addition, most BRICS subscribe to the principles of South-South cooperation (see Box 1) and generally provide ODA as part of integrated packages involving trade, investment, and other commercial deals—as a strategy for inducing development in recipient countries (Brautigam, 2009), and disentangling the ODA component from the rest of the package is often difficult.

Box 1. South-South Cooperation

Several new development partners, including most BRICs, follow South-South cooperation approaches which differ from those of traditional DAC donors in important respects:

First, they are generally reluctant to describe themselves as donors or to use the terminology of donor-recipients. They are guided by principles of solidarity, equality, mutual benefit/cooperation, and non-interference in the internal affairs of another country—and they do not attach policy conditions to their assistance.

Second, aid is often delivered in deals consisting of both ODA and non-ODA components. The mix between concessional and non-concessional funding makes it difficult to get a clear picture of the scale of aid from these countries.

Third, in most cases, their assistance focuses on infrastructure development and productive sector investments. This is in contrast to ODA from the traditional DAC donors, the bulk of which goes to support the social sector (health, education, and social protection).

Fourth, the great majority of their aid is bilateral and usually provided without policy conditions, in the form of in-kind grants or (mainly) loans for projects or technical cooperation. In contrast to assistance from DAC donors, program and budget support is not frequent, but project assistance is almost always tied to the purchase of goods and services.

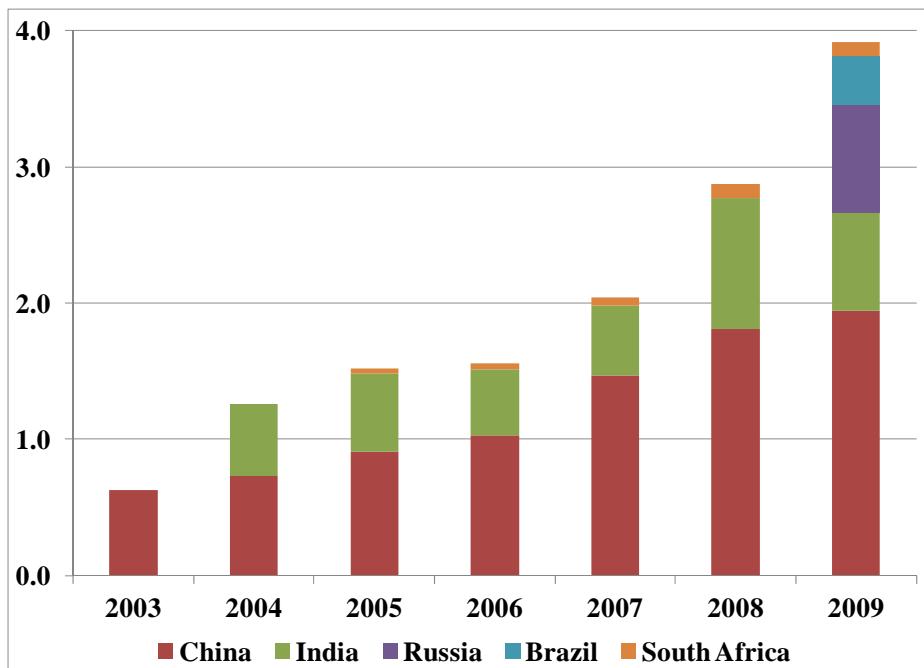
Finally, these donors tend to focus their aid on neighboring countries (although there are exceptions such as China which operate in a vast array of partner countries across the globe), but are increasingly providing humanitarian assistance in response to emergencies and disasters world-wide.

Trends in Aid from BRICS

38. While information on aid from the BRICS is improving, the use of different methodologies and irregular reporting make it difficult to assess the extent and impact of their contributions. Based on various official and unofficial sources, the combined aid flows from Brazil, Russia, India, China, and South Africa are estimated at US\$3.9 billion or about 3 percent of ODA in 2009. China accounted for close to 50 percent, followed by Russia and India. While the overall level remains modest, recent trends clearly show that aid from BRICS has grown rapidly (by an average annual growth rate of 16 percent over the period from 2005 to 2009) from a low base (see Figure 13).²⁸

²⁸ The estimated average annual growth rate excludes Brazil and Russia in 2009 due to the lack of figures for 2005-2008.

Figure 13. Estimated Aid from BRICS, 2003-2009
(US\$ billion) 1/



Sources: Brautigam (2008); Smith and Zimmerman 2011; and Government budgets for India and South Africa.

Note: 1/The aid figures for BRICS are a mixture of budget allocations and best estimates, as such not directly comparable with the OECD ODA data. For China, the budgeted expenditures presented above reflect only the interest subsidy, and not the face value of the concessional loans extended by China Eximbank.

39. **China.** The publication in April 2011 of China's first White Paper on Foreign Aid²⁹ represents a major step toward improving the understanding of the role of Chinese aid (see Annex VII). The paper provides a helpful overview of policies, sectoral, geographical, and income level distribution as well as modalities of Chinese aid. While the paper does not provide annual data on aid volumes, it indicates that between 2004 and 2009 China's aid grew by 29.4 percent annually. In 2009, almost half of that aid was directed to Africa³⁰ and about a third to Asia. By sector, China's aid focused on infrastructure in the economic and social sectors. Aid is provided in the form of grants (40 percent), 20-year interest-free loans (30 percent), and concessional loans (30 percent); the latter provided by the Export-Import Bank of China. China aid is often combined with trade and investment deals. Based on various other official and unofficial sources, aid from China is estimated to have quadrupled over the period from 1999 to 2009, rising from US\$0.5 billion in 1999 to US\$1.9 billion in 2009.³¹

²⁹ See the report at: http://news.xinhuanet.com/english2010/china/2011-04/21/c_13839683.htm

³⁰ Note that the paper does not distinguish between Sub-Saharan Africa and North Africa.

³¹ Brautigam (2008); and Smith and Zimmerman 2011.

40. **India.** Data on budget allocations since 2004 show that, after peaking in 2008,³² India's aid stabilized at just over US\$700 million in 2009 and 2010. Its assistance is similar to China's (see Chanana 2010) in that aid is just one element of a broader engagement package involving bilateral trade, and private sector participation. Unlike Chinese aid, however, India's aid has been largely focused on neighboring countries like Bhutan, Bangladesh, Nepal, Sri Lanka and Myanmar, although recent trends indicate that India too has started to take greater interest in Africa.³³ Well over 80 percent of India's aid over the period 2004-2010 was bilateral and about 80 percent of it in the form of grants. Indian aid is provided primarily through technical assistance; and in some cases financing of physical infrastructure. It carries no conditionalities but the aid is often tied, with a substantial part spent in India.

41. **Russia.** There are no time-series data on Russian aid, but according to a recent estimate by the OECD staff,³⁴ Russia provided US\$785 million in 2009, up from level of about US\$100 million in 2005. However, a government report recently published for the G8 meeting³⁵ shows that its ODA in 2010 has declined to US\$472 million. Of this amount, close to 40 percent was spent on food security in the Eurasian region and health investments. Nearly one-half of Russian development cooperation is directed to poor countries in neighboring regions.

42. **Brazil.** Estimates from the Brazilian Institute for Applied Economic Research and the Brazilian Agency for Cooperation suggest that Brazilian aid was around US\$362 million in 2009.³⁶ Brazilian contributions to multilateral organizations increased by 31 percent over the period from 2005 to 2009, reaching US\$248 million (at 2009 constant prices). Of the total multilateral aid, close to one-third (30 percent) went to Mercosur's structural fund for competition, social cohesion and institution-building (Paraguay, Uruguay, Brazil and Argentina); about one-fifth (20 percent) to the Inter-American Development Bank's concessional window; and the remainder to other development banks, and UN agencies. Nearly half of Brazil's aid is delivered in the form of technical cooperation and knowledge transfer. Other sources that include technical cooperation estimate that total ODA from Brazil was more than US\$1 billion in 2010, with nearly half delivered through of technical cooperation.³⁷

43. **South Africa.** There is no systematic reporting of aid data for South Africa. Estimates suggest, however, that South Africa's aid in recent years has stood at about US\$100 million per year. Most of its aid is focused on Africa, including for Africa regional organizations and multilateral development agencies operating in Africa (AfDB, IDA, UNDP). Although not formally

³² Data refer to budget allocations for aid. The peak in 2008 was due to a substantial increase in contributions to international organizations.

³³ India held two Afro-India summits over the last three years. In its second summit (held in May 2011), it announced a major scaling up of its financial commitment to the continent: US\$5 billion for the next three years (an increase of US\$1.6 billion over the US\$3.4 billion that remains unspent from previous commitments) under lines of credit to help Africa achieve its development goals, and an additional US\$700 million for new institutions and training programs to be established in consultation with the African Union.

³⁴ Zimmerman and Smith (2011).

³⁵ Russian Federation, "2011 Deauville Accountability Report: G8 commitments on health and food security state of delivery and results". See also the *2011 DAC Multilateral Aid Report* by OECD/DAC.

³⁶ Zimmerman and Smith (2011).

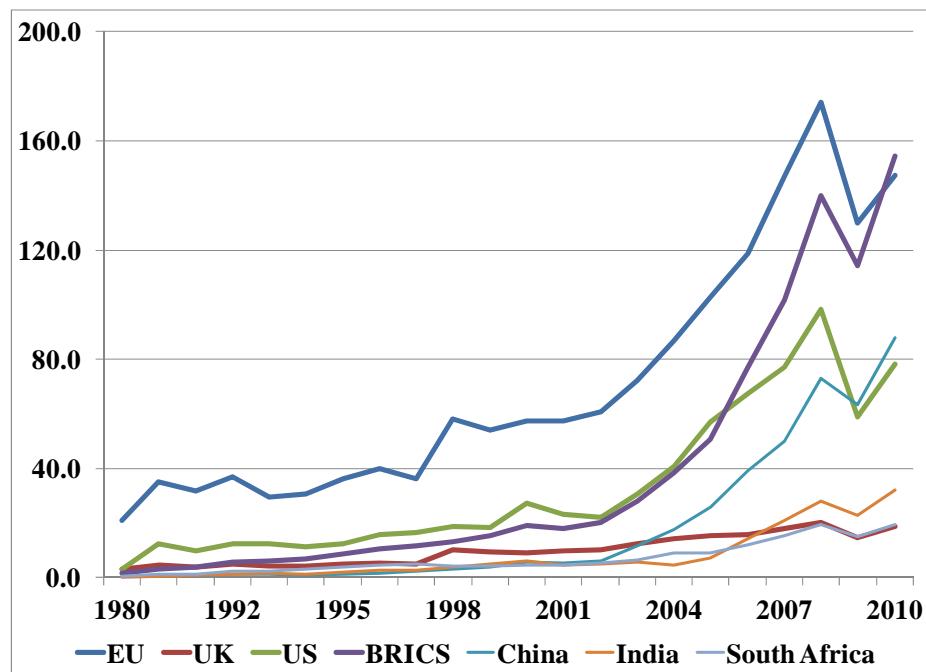
³⁷ ODI (2010), Brazil: An Emerging Aid Player. Lessons on emerging donors, and South-South and trilateral cooperation, Briefing Paper n. 64 October 2010.

tied, most bilateral aid projects rely on South African inputs in terms of human resources and technology.

Other External Flows from BRICS: trade, investment and debt

44. **Beyond aid flows, BRICS are playing an even larger role when it comes to trade, investment, and debt flows—significantly impacting the broader financing architecture for low income countries, particularly in Sub-Saharan Africa (SSA).** BRICS, led by China, are rapidly expanding their trade and investment relations with SSA. Between 2000 to 2010, trade between BRICS and SSA surged by more than 25 percent annually, hitting a high of US\$155 billion in 2010 (IMF DOTS). For China alone, the value of merchandize trade with SSA grew by 35 percent annually during the same period, reaching US\$90 billion in 2010. India, Turkey, South Korea and Brazil are also boosting trade with Africa, eroding the market share of the continent's traditional European and North American trading partners (2011 African Economic Outlook). Together, emerging economies accounted for nearly 40 percent of Africa's total trade of US\$629 billion in 2009. For the first time in 2010, BRICS as a group overtook the EU as SSA's major trading partners (Figure 14)

Figure 14. Trade Flows: Total Merchandise Trade between SSA and BRICS, 2000-10 (US\$ billion)



Source: IMF Directions of Trade Statistics (DOTS).

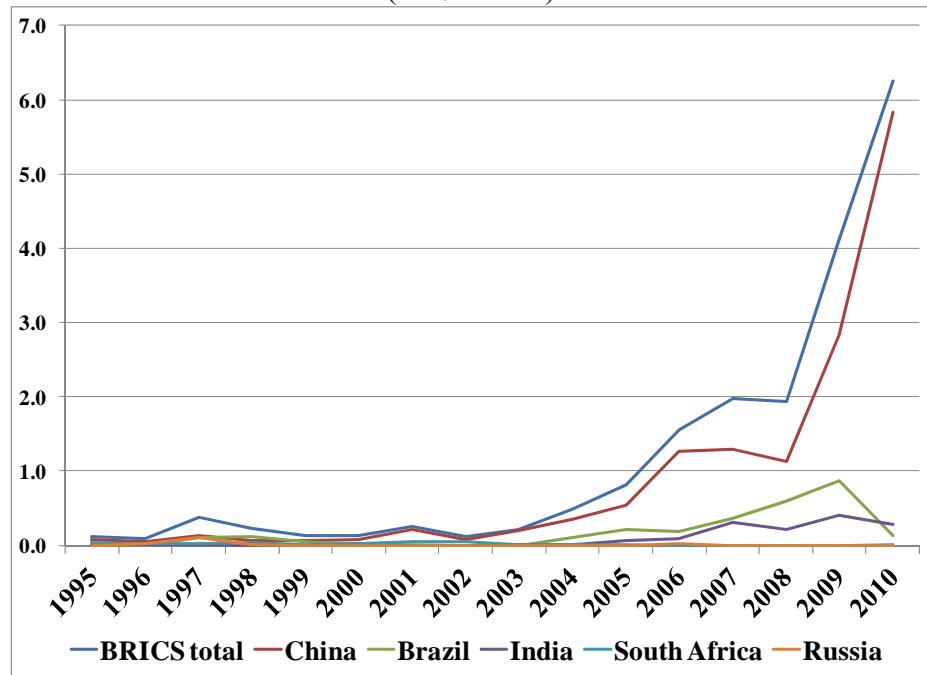
45. **China's FDI flows to Africa, closely linked to its trade and development assistance, have increased by an average of 46 percent annually over the last decade.**³⁸ Estimated at

³⁸ See Hany Besada, Yang Wang, John Whalley (2008), "China's Growing Economic Activity in Africa" *NBER Working Paper 14024*, Cambridge, Massachusetts, July.

around US\$1 billion in 2009, China's FDI is concentrated in a handful of resource-rich countries (Sudan, Algeria, Zambia, Nigeria and South Africa) which together account for more than 50 percent of its FDI in SSA. Most of China's investments target strategic sectors such as oil, minerals, or infrastructure, and are undertaken by state owned companies. With respect to infrastructure, over 35 African countries are engaged with China in infrastructure financing arrangements with the largest recipients being Nigeria, Angola, Sudan and Ethiopia.³⁹

46. **Debt flows have shown a similar rapid growth.** Total loan commitments from BRICS to SSA grew by an average of 87 percent annually over the period 2000-10. Loan disbursements grew by an average of 60 percent annually over the same period, reaching over US\$6 billion in 2010 (Figure 15). China plays a predominant role in this overall trend (as in others): its loan commitments to SSA grew by an average of 100 percent annually over 2000-10 while its disbursements grew by 80 percent annually during the same period.

Figure 15. Debt Flows: Total Loan Disbursements from BRICS to SSA, 2000-10
(US\$ billion)



Source: World Bank Debtor Reporting System (DRS).

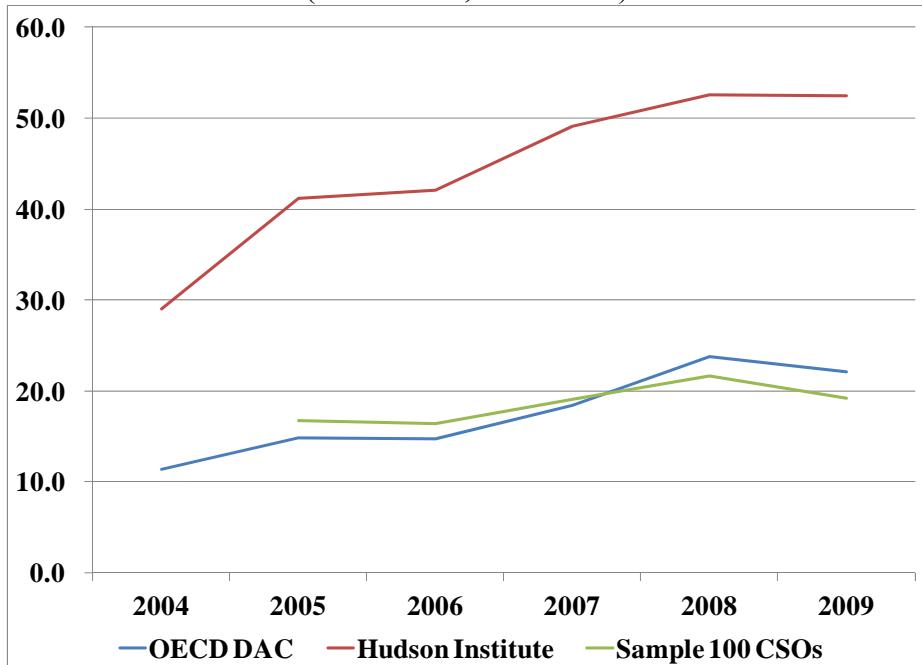
47. Overall, the rapidly growing aid, trade, investment, and debt relations between BRICS and SSA clearly demonstrate that these countries are indeed significantly impacting the development finance architecture for LICs, in particular SSA.

³⁹ See African Development Bank (2010), "Chinese Trade and Investment Activities in Africa," Policy Brief Vol.1, Issue 4, Office of the Chief Economist, Tunis, July.

C. Aid Flows from Private Sources

48. **The role of private aid has expanded in the past decade.** In tandem with the period of economic growth and prosperity experienced over the 1990s and much of the 2000s, a number of private actors have also entered the development aid landscape, including foundations (such as the Bill and Melinda Gates Foundation), corporations and hundreds of civil society organizations (CSOs). As noted by researchers of this topic, private and official aid tend to play complementary roles.⁴⁰ Notably, private actors have increased their engagement in and funding of some “global programs” through public private partnerships like in the case of the Global Fund and GAVI. Metcalf Little (2010) defines private development assistance (PDA) as aid that is: (i) undertaken by private actors including individuals, foundations, corporations, private voluntary organizations, universities and colleges or religious organizations; (ii) focused on promotion of economic development and humanitarian needs as the objective; and (iii) at concessional financial terms where commodities and loans are concerned.

Figure 16. Alternative Estimates of Net Private Grants, 2004-09
(US\$ billion, 2004-2009)



Sources: Hudson Institute’s Global Philanthropy Index (various years), OECD DAC, Migliorisi 2010.

49. **While data are scattered, available estimates for private aid to developing countries in 2009 range from US\$22 billion⁴¹ and US\$53 billion⁴² (Figure 16).** OECD DAC compiles estimates on a net grants basis by CSOs from member countries. Their aggregate for private giving

⁴⁰ See Raj M. Desai and Homi Kharas. "The California Consensus: Can Private Aid End Global Poverty." *Survival* 50.4 (2008): 155-168.

⁴¹ OECD DAC estimate.

⁴² According to estimates by the Hudson Institute, a US think-tank focusing on international aid giving.

in 2009 amounts to over US\$22 billion, equivalent to 16 percent of ODA from all donors in the same year and up from 2005 (12 percent of ODA). The Hudson Institute's Index of Global Philanthropy uses a variety of methods, including large scale surveys, to estimate the magnitude of private giving. For 2009, the Institute estimated that roughly US\$53 billion in private donations and non-governmental program funding flowed from OECD countries to developing countries, an amount almost 2.5 times greater than the DAC estimate. A third source, a recent study carried out for the World Bank on a sample of 100 large international CSOs that publish their financial statements (Migliorisi 2010), estimated a total of purely private giving of US\$19 billion in 2009. Aside from the large discrepancies between these estimates, they provide very limited information on the sectoral and regional destinations of non-governmental flows.⁴³

50. All estimates show a reduction in private giving in 2009, suggesting an adverse impact from the global financial crisis. A preliminary analysis of financial statements published by key CSOs so far also points to a further reduction in 2010, although the decline appears less pronounced.

IV. GROWING COMPLEXITY OF THE GLOBAL AID ARCHITECTURE

51. The global aid architecture has become increasingly complex, with a continued proliferation of aid channels as well as a rising fragmentation and earmarking of aid. Over the last half century, the number of bilateral donors and international organizations, funds and programs, has significantly expanded, with the number of bilateral donors growing from 5-6 in the mid-1940s to at least 56 today. There has also been a dramatic increase in the number of international organizations, funds and programs, many of which are specialized in a particular sector or theme. In particular, recent years have seen a growing importance of sector/thematic international organizations and private philanthropy,⁴⁴ both of which have further increased the complexity of the aid architecture from the recipients' standpoint.

52. Figure 17 illustrates the complexity of the various inter-linkages. In addition to ODA, the figure also shows the various channels of aid such as global programs and private aid, including foundations and CSOs, in aid funding and implementation.

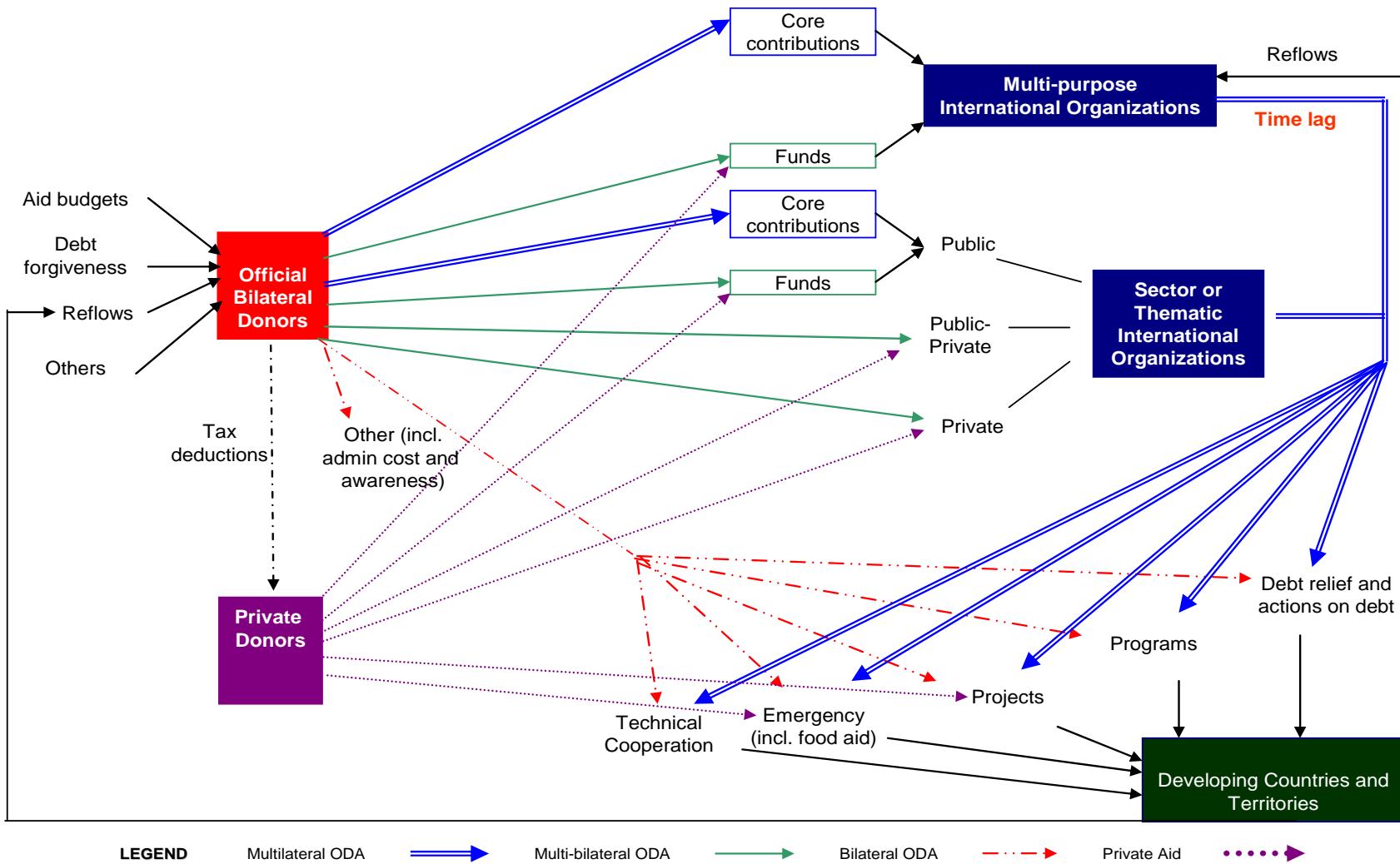
53. From the perspective of the aid recipient, donors can be responsible for *source proliferation*, which is the provision of aid to a particular country from a wide variety of donors in relatively small amounts, and *use proliferation* (or fragmentation), which is the division of aid among a wide variety of end-uses in-country.⁴⁵ In addition, evidence points to an increasing trend in aid earmarking.

⁴³ The 2011 Index of Global Philanthropy and Remittances provides estimates on the sectoral and regional destination of US private philanthropy. Migliorisi (2010) indicates a strong focus of CSO activities on social sectors (62 percent), humanitarian aid (30 percent) and a substantial presence in Africa (40 percent of assistance allocated by region).

⁴⁴ About 6 percent of all reported official aid to developing countries has been provided through CSOs and public-private partnerships.

⁴⁵ Acharya *et al.* (2006, p. 8).

Figure 17. The Complexity of Aid: A Recipient Country's View



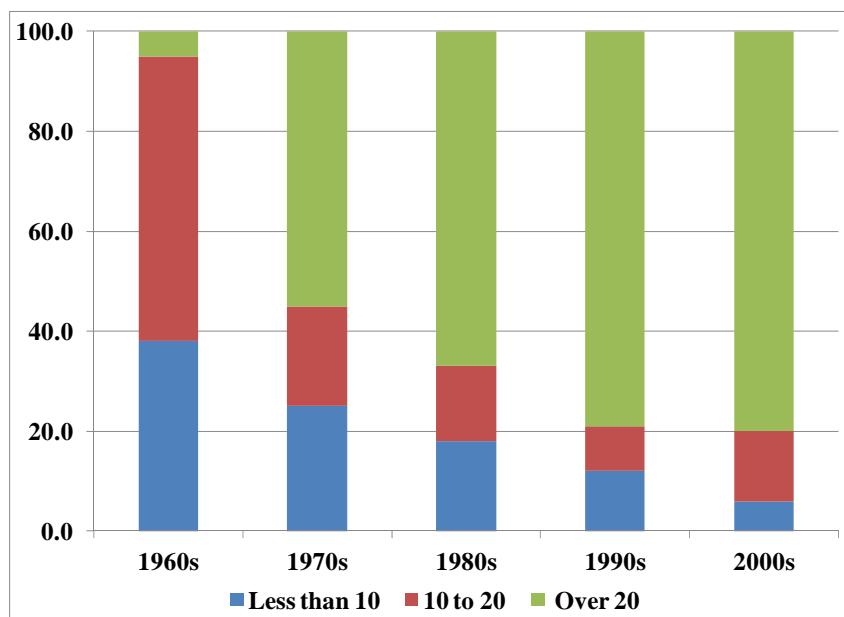
Source: IDA, 2007, "Aid Architecture: An Overview of the Main Trends in Official Development Assistance," Concessional Finance and Global Partnerships Vice Presidency, World Bank, Washington, DC, February.

54. Section A below discusses trends in the proliferation in aid channels, while Section B reviews trends in ODA fragmentation and Section C discusses recent trends in aid earmarking.⁴⁶

A. Proliferation of Aid Channels

55. **Donor proliferation at the country level has increased significantly over time** (Figure 18). The average number of donors and international organizations per country grew ten-fold over the last half century, rising from 3 in 1960 to 30 in the 2000s. Similarly, partner countries with less than 10 donors have fallen precipitously from almost 40 percent in the 1960s to less than 10 percent in recent years.⁴⁷ The combination of more bilateral donors and of an increasing number of multilateral channels has led to an increasingly crowded aid scene.⁴⁸ Aid proliferation at the country level has been substantial, particularly after the end of the Cold War, with the number of countries with over 40 active donors growing from zero to 24.⁴⁹ The number of international organizations, funds and programs is now higher than the number of developing countries they were created to assist.

Figure 18. Number of Donors per Recipient Country, 1960s-2000s
(percent of recipient countries)



Source: OECD/DAC – Database on Aid Activities and Francois Bourguignon, “Sustaining and Broadening Progress Toward the MDGs”, Presentation to the 2007 Development Committee Meeting, April 15, 2007.

⁴⁶ The discussion on fragmentation and earmarking (sections B and C, respectively) refers only to ODA from DAC donors.

⁴⁷ Francois Bourguignon, “Sustaining and Broadening Progress Toward the MDGs”. Presentation to the Development Committee Meeting, April 15, 2007.

⁴⁸ Available data do not indicate that donor proliferation has been particularly more severe in IDA-eligible countries.

⁴⁹ The year of the start of donor operations in a particular country has been made equal to the year when each donor reported its first disbursement to DAC. While this is the best available data, donors may have started operations earlier without reporting it to DAC, while some non DAC donors (e.g., China, India) do not report data on their activities to DAC and therefore are not included.

56. Multiple aid channels impose additional strains on already weak implementation capacities of low-income countries.⁵⁰ In fact, “managing aid flows from many different donors is a huge challenge for recipient countries, since different donors usually insist on using their own unique processes for initiating, implementing, and monitoring projects. Recipients can be overwhelmed by requirements for multiple project audits, environmental assessments, procurement reports, financial statements, and project updates.”⁵¹

57. There has been increased proliferation, particularly in the health sector, in recent years. Overall, more than 100 major organizations are involved in the health sector.⁵² Although the vast majority of these organizations are focused on communicable diseases—and many target the “big three” diseases of HIV/AIDS, tuberculosis (TB) and malaria—they are a heterogeneous group, ranging from advocacy to coordination to financing. Insufficient clarity of mandates and roles for the various donor organizations—coupled with the earmarking of such aid—makes it difficult to develop “a holistic approach to health systems and sustainable financing at the country level.”⁵³ A review of health sector assistance in 20 countries⁵⁴ concluded that the global health partnerships do not always pay sufficient attention to health systems, and often are insufficiently integrated into recipient countries’ priorities, thereby compounding the already weak institutional capacities in many recipient countries.

58. Similar to the health sector, climate change funding has seen a proliferation of donors in recent years.⁵⁵ In December 2009, developed countries committed to provide new additional resources to meet the climate change-related needs of developing countries. This funding would come from a variety of sources—public and private, bilateral and multilateral—which would include alternative sources of funding. Several lessons on aid effectiveness can be learned from the experience in the health sector. First, the climate change funding model should be flexible enough to support interventions that are an integral part of a country’s climate or development strategy. Second, funding should be delivered and monitored through the country’s own systems and processes. Third, it would be important to avoid a further proliferation of channels and institutions. Instead, it would be desirable to examine existing functions and determine whether existing institutions are able to fulfill the identified gaps in the climate change aid architecture. Otherwise, there is a danger that the effectiveness of the aid provided is undermined, thus limiting the development and environmental results achieved.

⁵⁰ See Knack and Rahman (2004). “Donor Fragmentation and Bureaucratic Quality in Aid Recipients”. World Bank Policy Research Working Paper 3186, January. The authors show that aid fragmentation across donors could be taxing on the bureaucratic quality of recipient countries (with causation running from fragmentation to bureaucratic quality). See also Rahman and Sawada (2010) “Can Donor Coordination Solve the Aid Proliferation Problem?”, World Bank Policy Research Working Paper 5252, March. The authors find empirical evidence showing that donor proliferation leads to inefficient aid supply in the recipient country.

⁵¹ Radelet (2006). “A Primer on Foreign Aid”. Center for Global Development Working Paper, No. 92, July, p. 15.

⁵² This figure includes private donors, but not CSOs. Schieber et al (2006). “Getting Real on Health Financing”. Finance and Development, Vol. 43, No. 4, December, p. 8.

⁵³ Schieber et al (2006), op. cit., p. 7.

⁵⁴ The Bill & Melinda Gates Foundation and McKinsey & Company. Global health partnerships: assessing country consequences. Paper presented at the Third High-Level Forum on the Health MDGs, Paris, 14-15 November 2005.

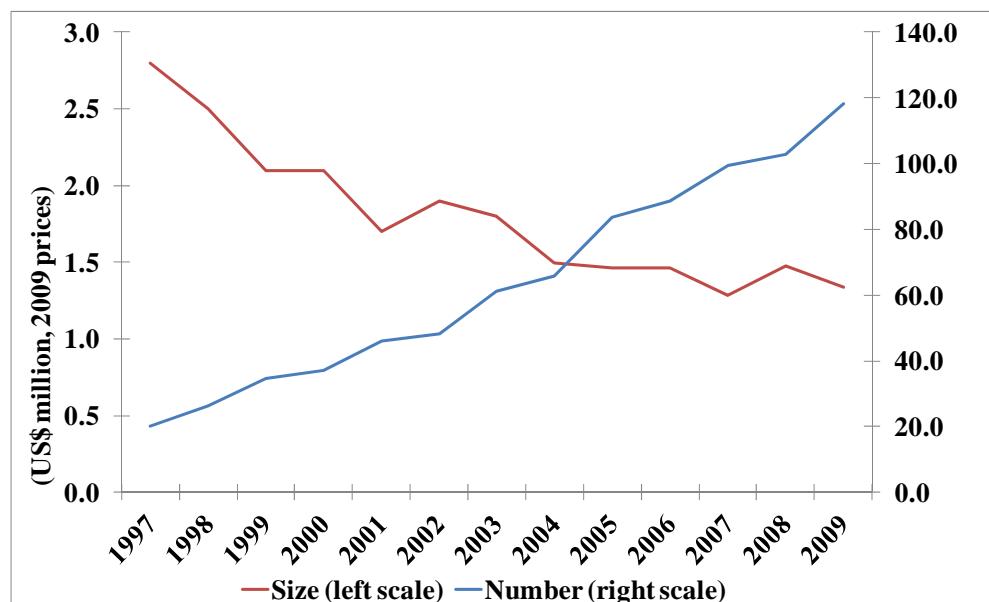
⁵⁵ For a detailed discussion on aid for environment see Castro and Hammond (2009). “The Architecture of Aid for the Environment. A Ten Year Statistical Perspective.”

B. Fragmentation of ODA

59. **The proliferation of aid channels has been combined with fragmented aid**—i.e., a larger number of donor-funded activities and a smaller financial size of aid commitments, coupled in many cases with a dispersion of small-scale free-standing technical assistance as an instrument of aid delivery.

60. **The average size of donor funded transactions/activities in developing countries is about US\$1.3 million and the total number of activities reached almost 120,000 in 2009** (see Figure 19). While aid fragmentation measured on this basis may be overstated,⁵⁶ the upward trend in aid fragmentation is corroborated by other recent research by the OECD-DAC.⁵⁷ In particular, a 2011 report from the Task Team on Division of Labor found that both in-country aid fragmentation and in-country donor proliferation have increased considerably from 2005 to 2009.⁵⁸

Figure 19. Number and Average Size of Donor Activities



Source: CRS Online (Table 1)

61. **Fragmentation raises transaction costs which, in turn, affect both donors and recipients.**⁵⁹ Such costs reflect a rising number of aid channels and donor activities/interventions; progressive earmarking of funding through multilateral and bilateral channels; and widespread use of often uncoordinated technical assistance. While there is ample anecdotal evidence of the increase

⁵⁶ It should be noted that fragmentation measured on this basis may be over-stated. In general, a "transaction" signifies allocation of funds to a specific activity (project or program) in a given sector in a given recipient country. However, donors have improved the accuracy of the CRS, and in many cases, individual CRS records refers to a transaction within an activity and should not be understood as a separate stand-alone activity/project.

⁵⁷ OECD DAC (2009), 2009 OECD Report on Division of Labour: Addressing Fragmentation and Concentration of Aid Across Countries." OECD TT DOL (2011), "Evidence on Trends in Fragmentation and Proliferation and Implementation and Results of Division of Labour Processes."

⁵⁸ OECD TT DOL (2011b), "Trends in In-country Aid Fragmentation and Donor Proliferation: An Analysis of Changes in Aid Allocation Patterns between 2005 and 2009."

⁵⁹ In Burall and Maxwell, with Menocal (2006), p. 1.

of transaction costs caused by aid fragmentation and donor proliferation, they have not been systematically quantified.

62. From the recipient countries' perspective, transaction costs are directly and indirectly associated with the administrative burden placed on them.⁶⁰ Acharya et al (2006, *op. cit.*) distinguish between *direct* and *indirect* transaction costs. Direct costs refer to the diversion of scarce resources in recipient countries – notably the time and attention of politicians and government officials – away from domestic priorities in order to attend to demands associated with managing aid-related activities. Such costs are especially relevant in situations where aid is subdivided into many small “pockets” with their own managerial and reporting requirements. Indirect costs result from the impact of aid proliferation and fragmentation on the incentive systems in recipient countries’ government bureaucracies. An example of such indirect costs is when donor-financed project implementation units lead to “brain drain” from line ministries where managerial skills are in short supply.

C. Earmarking of ODA

63. There are several arguments for and against earmarking.⁶¹ The main case for earmarking is that it helps raise funding to address specific development issues, protect high-priority programs, and ensure support of the general public for development aid. There are also significant challenges, both at the global and at the country level, that are associated with earmarking:

- At the global level, earmarking can create systemic aid effectiveness challenges related to: (i) the inadequate integration of priorities and fragmentation of systems and processes; (ii) the redistribution of overall aid across countries according to rules that could be perceived as unpredictable or opaque; and (iii) a possible increase of systemic sustainability risks related to long-term obligations that earmarking can generate, explicitly or implicitly.
- At the country level, the overarching argument against aid earmarking is that it explicitly limits the ability of countries to decide the priorities in their own development programs. In that sense, earmarking may undermine country ownership and long term sustainability of development programs. From a fiscal perspective, three drawbacks are often associated with earmarking: allocative inefficiency, erosion of fiscal discipline and increased demands on the public financial management systems; and increased transaction or administrative costs.

⁶⁰ There is a small but growing literature on the costs created by aid proliferation and fragmentation. See, for example, Easterly, W. (2002). “The Cartel of Good Intentions: The Problem of Bureaucracy in Foreign Aid.” *Journal of Policy Reform*, Vol. 5 (4); Djankov, S., J.G. Montalvo, and M. Reynal-Querol (2005). “The Effectiveness of Foreign Aid in a Donor Fragmented World.” World Bank, Washington, D.C.; T. Harford and M. Klein (2005). “The Market for Aid,” *Public Policy for the Private Sector*, Note No. 293, June; Acharya, A., A. De Lima and M. Moore (2006). “Proliferation and Fragmentation: Transactions Costs and the Value of Aid.” *Journal of Development Studies*, Vol. 42, No. 1; and Roodman, D. (2006). “Aid Proliferation and Absorptive Capacity,” *Center for Global Development Working Paper*. No. 75, January.

⁶¹ See Adugna (2009) for an in-depth discussion of aid earmarking, including the various definitions of earmarking, arguments for and against earmarking and an empirical estimate of recent trends in aid earmarking.

64. **For the purposes of illustrating recent trends in aid earmarking, two types of earmarking can be distinguished:** (i) *Earmarked-at-source* aid, which includes aid earmarked by congressional authorities or by aid agencies themselves for specific themes or purposes. Such appropriations often specify, and require, that aid be spent on financing of specific themes, sectors, or services in recipient countries. (ii) *Earmarked-at-use* aid, which in addition to the earmarked-at-source may also include aid designated for specific purposes at the point of commitment or use.

65. **For the purposes of estimating recent trends in aid earmarking, this section uses the earmarked-at-source concept, a narrower definition of earmarking that would consist of three principal components:** (i) multi-bilateral aid, where the use of resources is earmarked by country, sector or theme; (ii) established global programs,⁶² and (iii) other earmarked bilateral ODA, particularly free-standing technical cooperation (FTC) and emergency assistance, whose specific uses are determined by donors at source.

***Multi-bilateral Aid*⁶³**

66. **From the perspective of multilateral organizations, multi-bilateral funds enable them to expand activities in priority areas such fragile states, disaster response and climate change.** For example, 72 percent of non-core multilateral ODA funds allocated to specific countries go to fragile states as opposed to 36 percent of core multilateral outflows and 34 percent of bilateral ODA. On the other hand, such funds can shift the overall balance of the organizations' activities. They may also incur higher transaction costs for the receiving organization (given the additional monitoring and reporting requirements that may be imposed). In addition, related governance structures may limit institutional oversight.

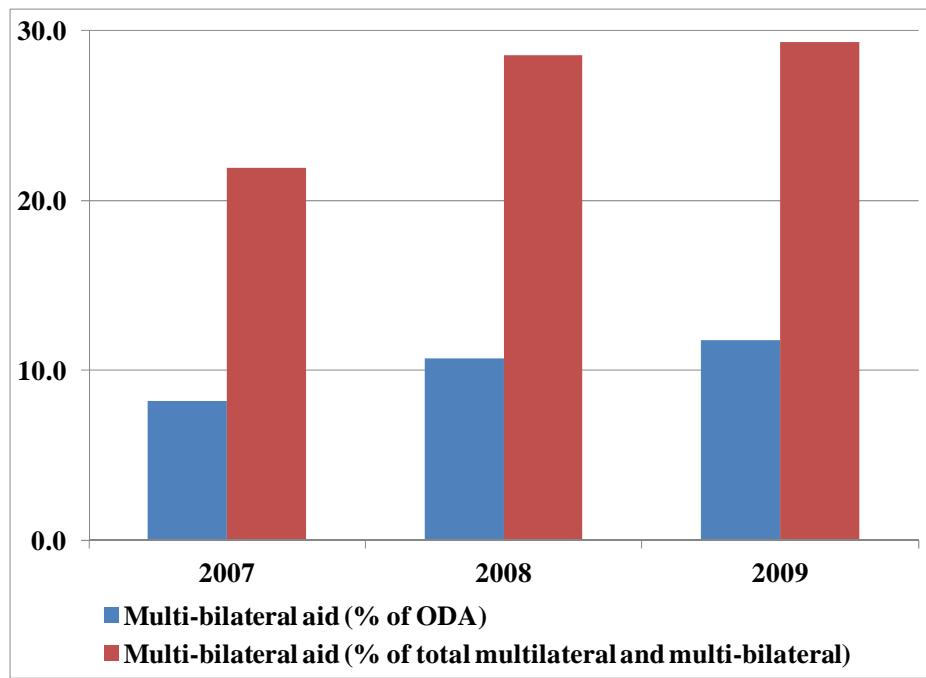
67. **From the aid effectiveness perspective**, the use of multilateral organizations as channels of bilateral aid reduces the proliferation of bilateral initiatives at country level and thereby reduces transaction costs for clients. In addition, it can help ensure the alignment of global initiatives with country priorities. On the other hand, excessive reliance on multi-bilateral aid can result in less predictability of funding for multilaterals.

68. **Recent estimates by the OECD/DAC show that the share of multi-bilateral aid in total ODA has increased in recent years** (Figure 20). The estimate for 2009 indicates that the share of multi-bilateral ODA has increased from 8 percent in 2007 to 12 percent. When considering total ODA channel to and through multilateral agencies, close to 30 percent was earmarked multi-bilateral, including to trust funds.

⁶² Global programs are defined as "international initiatives outside the UN system which deliver significant funding at country level in support of focused thematic objectives." They are large programs targeting specific sectors such as health, education, and the environment, and as such the financing through these programs is considered broadly earmarked to those specific themes and sectors.

⁶³ By earmarking funding to multilateral organizations, bilateral donors may seek to use multilaterals as service providers for specific bilateral programs, track results more easily, and raise their contributions' visibility to domestic constituencies (see DAC, 2010 DAC Report on Multilateral Aid, op. cit.).

Figure 20. Trends in Multi-bilateral Aid, 2007-09
(percent share)



Source: OECD DAC, 2010 and 2011 DAC Report on Multilateral Aid

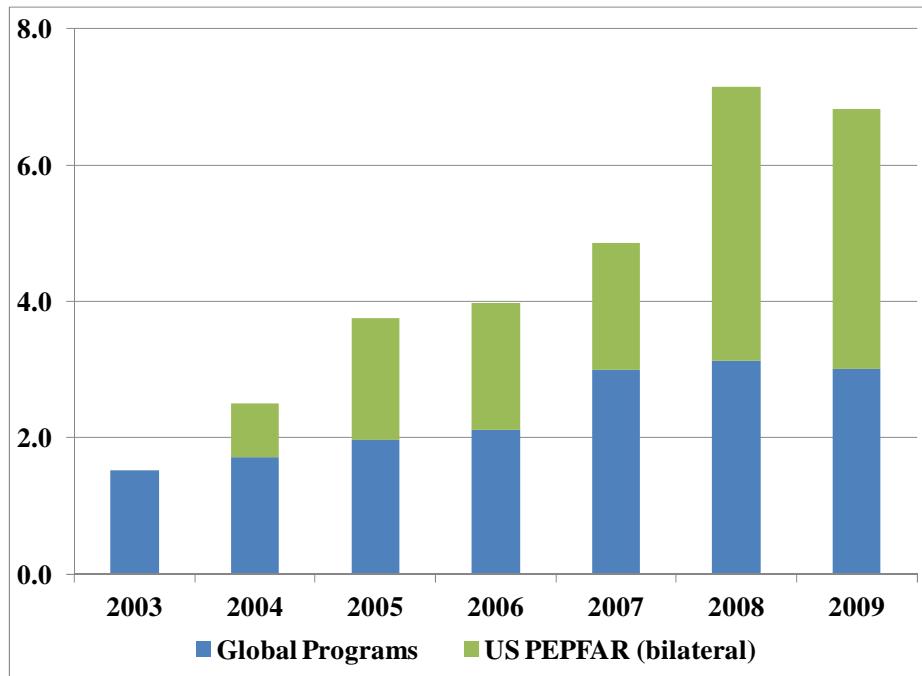
Global Programs

69. **There has been a considerable growth in the number and size of global programs since the early 2000s.** The main global programs are in health and environment, and include GEF, GAVI, GFATM, UNAIDS, WFP, and the Montreal Protocol. In addition, the United States President's Emergency Program for AIDS Relief (US PEPFAR) is a bilateral global program, whose financing is thematically directed at HIV/AIDS. Annex VII provides trends in ODA disbursements by these programs in recent years.

70. **Main global programs represented 3 percent of total ODA disbursements in 2009, double their level of about 1.5 percent in the early 2000s** (Figure 21). If the US PEPFAR is included, the share of earmarked global (bilateral) programs in total ODA is much higher at around 7 percent in 2009. This is indeed a very marked increase from the situation before 2003, when these funds either did not exist (in the case of PEPFAR) or accounted for very small proportions of total ODA. More recent figures are likely to show continued increases. Since 2009, more of these funds have been created, notably the GAFSP and CIFs, and the EFA-FTI has been restructured into a vertical fund model.⁶⁴

⁶⁴ Prospective new funds for food security and climate change will further raise this proportion.

Figure 21. Trends in Aid through Global Programs, 2003-09
(percent share in ODA)



Source: OECD/DAC

Other Earmarked ODA

71. **FTC and emergency assistance may be considered earmarked at source as their uses are pre-determined by donors.**⁶⁵ While directed thematically at capacity building, FTCs are typically more donor-driven than other types of aid such as budget and sector support or investment projects. Furthermore, most FTCs are tied to the purchase of goods and services in donor countries, and exempt from untying, as mandated by the 2001 OECD/DAC agreements.⁶⁶ Similarly, emergency assistance and reconstruction includes in-kind material and food assistance; relief coordination, protection and support services; and rehabilitation and disaster prevention and preparedness. Given that donors decide what kind of assistance would be delivered in both cases,⁶⁷ they could both be considered earmarked-at-source.

⁶⁵ Technical cooperation is of two types: (i) FTC, which is 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; and (ii) investment-or program-related technical cooperation. For the purposes of estimating earmarking, only FTCs are included (while TCs delivered in combination with other types of aid such as budget support, program aid, and investment projects are excluded).

⁶⁶ Since 2002, ODA to the least developed countries has been untied in the following areas: balance of payments and structural adjustment support; debt forgiveness; sector and multisector program assistance; investment project aid; import and commodity support; commercial services contracts, and ODA to CSOs for procurement related activities. However, technical cooperation and food aid are still exempt from untying. For more, see OECD/DAC “Untying Aid to the Least Developed Countries,” 2001.

<http://www.oecd.org/dataoecd/16/24/2002959.pdf>

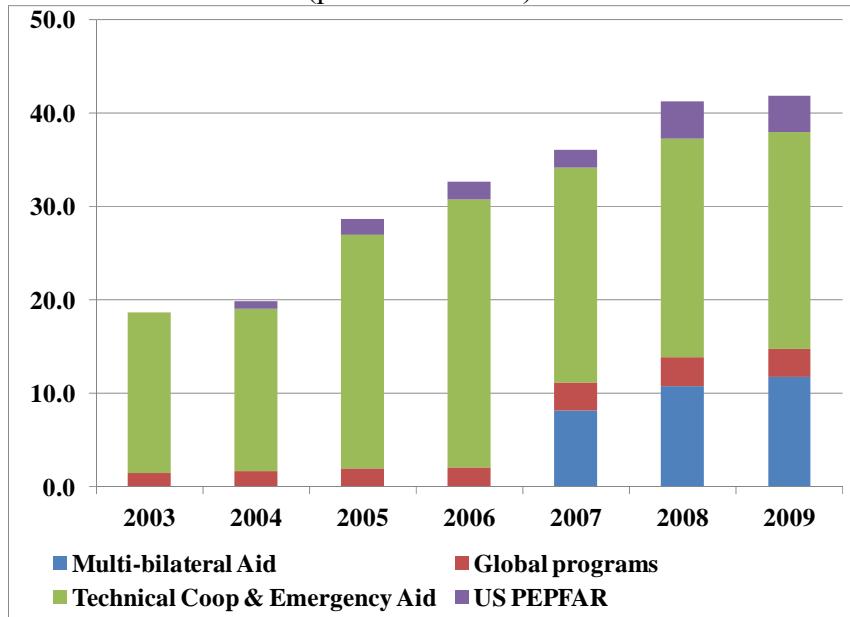
⁶⁷ Some emergency assistance may also be delivered as non-earmarked budget support to the government, but this is a small share of such aid and not separately available.

72. **FTC and emergency assistance grew from around 17 percent of ODA in the early 2000s to about 25 percent during 2005-2009.** The bulk of technical cooperation (about two-thirds) goes to the social sectors, including higher education, STD control including HIV/AIDS, narcotics control, and government administration.

73. **Overall, earmarked ODA is estimated at over 40 percent of total ODA in 2009.** The recent upward trend in multi-bilateral earmarked aid, coupled with the creation of large “vertical funds” in the health and education sectors, indicates increased earmarking of multilateral ODA, estimated at 15 percent of ODA in 2009. When bilateral ODA is added, such as PEPFAR, FTC, and emergency aid, earmarked ODA accounts for over 40 percent of total ODA.

74. While earmarked funds may fill important gaps in the global financing architecture, playing a complementary role to non-earmarked ODA, recent trends of increased earmarking nevertheless point to the need for consolidating/increasing strategic alignment and impact of earmarked ODA, including trust funds. In this context, the principle agreed in Accra of “thinking twice” should translate into a commitment to limiting the creation of new global funds to those addressing “real” global public goods coupled with clear implementation principles that ensure country ownership of global initiatives.

Figure 22. Trends in Overall Earmarked ODA, 2003-09
(percent of ODA)



Source: OECD DAC

Note: Figures on this series are not comparable due to the lack of reliable estimates of multi-bilateral aid prior to 2007.

V. OPPORTUNITIES AND CHALLENGES

75. The level and composition of net financial flows to developing countries has changed dramatically over the past two decades. These changes have led to a development finance architecture in LICs and MICs, each with an emphasis on different sources of financing—with MICs relying primarily on private flows and LICs dependent on official flows, in particular ODA. In the wake of the financial crisis, MICs saw significant declines in net private capital flows, while LICs were able to maintain financial flows thanks to a continued increase in ODA flows.

76. The past decade also saw unprecedented growth and diversification of aid. Between 2004—the base year for the Gleneagles summit—and 2010, net ODA disbursements from DAC countries rose by about 37 percent in real terms, reaching an all-time high of US\$129 billion in current prices. While this was the fastest growth for decades, it fell short by 39 percent of the Gleneagles pledges. The 2000s also saw the entry of new development partners, many of which are still aid recipients, and the expanded role of private aid. In particular, aid from BRICS is estimated to have grown rapidly by an average of 16 percent annually during 2005-09, albeit from a low base. The BRICS' relatively low aid volumes do not capture their growing impact in the LICs financing architecture, particularly in Africa. Although data are incomplete, aid volumes from new bilateral aid providers and private sources are estimated at around US\$11 billion and up to US\$53 billion, respectively in 2009.

77. The share of net ODA disbursements going to LICs has been increasing and is now ahead of ODA flowing to MICs. However, only since 2007 there has been a widening lead of ODA to LICs, particularly to the SSA. In addition, since 1990, sector allocable ODA has shifted from infrastructure and productive sectors to the social sectors, creating funding imbalances. The share of the social sectors has increased from an average of 42 percent in the second half of 1990s to nearly 60 percent in similar period over the 2000s. Much of this aid has been delivered through earmarked funding for health and education from bilateral and multilateral sources. On the other hand, funding for infrastructure and productive activities has declined over time.

78. Existing global coordinating frameworks, such as the OECD-DAC, do not include many emerging players that follow different approaches. Several new development partners, including most BRICs, follow South-South development cooperation approaches which differ from those of the traditional DAC in important respects. In particular, they: focus on infrastructure and productive sector investment; deliver aid as part of trade and investment deals; tie aid to the purchase of goods and services; and do not link aid disbursement to policy conditions. These differences contribute to slow progress in coordination between traditional and non-traditional development partners.

79. Proliferation and fragmentation of aid continue. The average number of donors per country grew ten-fold over the last half century, rising from 3 in 1960 to 30 in the 2000s; partner countries with less than 10 donors have fallen from almost 40 percent to less than 10 percent over the same period. Fragmentation has also increased, with the average size of donor funded activities declining and the total number of interventions/activities increasing.

80. In addition, ODA channeled through multilateral agencies has become more earmarked. The share of core multilateral ODA has remained relatively stable at about 30

percent of total aid flows (excluding debt relief) since the mid 1970s, but fell to a low of 28 percent in 2009. At the same time, the use of multilateral channels reached 40 percent of ODA, due to the rapid earmarked multi-bilateral aid estimated at 12 percent of ODA in 2009. In addition, several other large multilateral “global programs” created since the early 2000s—particularly in the health sector—add a further 3 percent of earmarked multilateral ODA bringing the total to 15 percent of ODA.

81. This complex landscape presents several opportunities and challenges:

- *Fiscal pressures in many donor countries.* Given the fiscal pressures and weak recovery prospects, traditional donors may cut back on ODA. This downside risk puts even more premium on increasing the effectiveness and development results of aid.
- *Additionality and sustainability.* Aid from new development partners is bringing additional financial resources and filling critical funding gaps in LICs, for instance in infrastructure. Coordination among all official and private aid sources is central to ensure complementarity and sustainability of results over time. On the other hand, insufficient coordination can pose significant risks:
 - *Long-term debt sustainability.* LICs, particularly those with increased “borrowing space” in the wake of the Multilateral Debt Relief Initiative (MDRI), might find it easier to borrow on non-concessional terms which may not be consistent with these countries’ long term debt sustainability.
 - *Reduced reform incentives.* LICs may have increased opportunities to access aid without having to address necessary policy reforms.
 - *Unproductive investments.* If good practices in project appraisal are not followed, increased financial flows could translate into more low return and/or unsustainable capital projects.

In the absence of adequate coordination, the efforts of the international community to help LICs reduce their debt burdens and preserve the gains of debt relief could be diluted or even reversed, even if aid is provided through concessional loans.

- *Continued aid proliferation, fragmentation and earmarking.* While there are on-going initiatives to mitigate the impact of the fragmented aid architecture, including by enhancing the division of labor among DAC donors, the root cause remains on the supply side. In a resource constrained environment, there is even more need for donors to consolidate funding mechanisms and make better use of existing channels, particularly multilateral channels, which can mitigate the adverse impact of the complex aid system. The principle agreed in Accra of “thinking twice” should translate into a commitment to limiting the creation of new global funds to those addressing “real” global public goods coupled with clear implementation principles that ensure country ownership of global initiatives.
- *Reporting of aid flows.* More transparent reporting on financial flows can facilitate a more systematic and comparable assessment of overall aid resources. For many new development partners, published data, if they exist, are often not up to date, incomplete, or not comparable. Similarly, the available information on private aid does not allow for a complete understanding of its actual magnitude, purpose, and geographic orientation.

- *Concessionality of ODA.* Given the substantial needs of LICs to achieve their development objectives, the donor community may need to revisit the terms of ODA in order to maximize the impact of scarce aid resources. While the LICs' share in overall allocations has increased overtime, about 40 percent of grant financing continues to be allocated to MICs, which generally have stronger economic and financing standing and greater ability to access alternative funding sources. A more differentiated approach to allocating concessional funding may be warranted based on aid recipients' economic and financial status, whereby grant financing would be focused on the poorest countries.

82. The Multilateral Development Banks (MDBs) can help address these challenges.

Drawing on their country-based model, non-earmarked resources, and diverse shareholding base, MDBs can help in several ways:

- *Mitigating the adverse impact of fragmentation and earmarking.* For instance, by reducing overlapping interventions and transactions costs; ensuring the alignment of “global programs” with country priorities (for instance, channeling multi-bilateral aid); and supporting the development of public sector management systems.
- *Providing a broad spectrum of concessional and non-concessional financing for a diverse client base.* Through differentiated arms, MDBs can cater to a wide range of client countries.
- *Providing a platform for inclusive partnerships globally and at country level.* In the context of recent voice reforms in the World Bank, the contribution of development partners from emerging and developing countries to the 16th replenishment of IDA has increased substantially both in terms of policy and financing frameworks.

BIBLIOGRAPHY

Acharya, A., A. De Lima and M. Moore (2006). “Proliferation and Fragmentation: Transactions Costs and the Value of Aid”. *Journal of Development Studies*, Vol. 42, No. 1; and Roodman, D. (2006). “Aid Proliferation and Absorptive Capacity”. *Center for Global Development Working Paper*. No. 75, January.

Adugna, A. (2009), *How much of Official Development Assistance is Earmarked?*, CFP Working Paper Series No.2, World Bank, Washington DC.

African Development Bank (2010), “Chinese Trade and Investment Activities in Africa”, Policy Brief Vol.1, Issue 4, Office of the Chief Economist, Tunis, July.

Alimov, Alexander (2007), *{Re-}Emerging as Donor Russia’s Participation In Global Development Cooperation*, Ministry of Foreign Affairs

An Analysis of Changes in Aid Allocation Patterns between 2005 and 2009, Report on behalf of the OECD Task Team on Division of Labour and Complementarity

Besada, H, Yang Wang , John Whalley (2008), “China’s Growing Economic Activity in Africa” *NBER Working Paper 14024*, Cambridge, Massachusetts, July.

Bill & Melinda Gates Foundation and McKinsey & Company, 2005, “Global health partnerships: assessing country consequences.” Paper presented at the Third High-Level Forum on the Health MDGs, Paris, 14-15 November 2005.

Bourguignon, Francois, 2007, “Sustaining and Broadening Progress Toward the MDGs”. Presentation to the 2007 Development Committee Meeting, April 15, 2007.

Brautigam, Deborah (2008), *China’s African Aid: Transatlantic Challenges - A Report to the German Marshall Fund of the United States*, International Development Program, School of International Service, American University, Washington, DC.

Brookings Institution (2010), *Aiding Development Assistance Reform for the 21st Century*, Brookings Blum Roundtable 2010 (including the Roundtable Development Briefs).

Burcky, Urs (2011), *Trends of In-country Aid Fragmentation and Donor Proliferation*

Castro, Rocio and Hammond, Brian (2009), “The Architecture of Aid for the Environment. A Ten Year Statistical Perspective.” CFP Working Paper Series No. 2, World Bank, Washington DC.

Chanana, Dweep (2010), *India’s Transition to Global Donor: Limitations and Prospects (ARI)*, ARI 123/2010, Real Instituto Elcano.

Davies, Penny (2010), *A Review of the Roles and Activities of New Development Partners*, CFP Working Paper Series No. 4, The World Bank, Washington, DC.

Davis, Kevin et al. (2010), *The Privatization Of Development Assistance: Symposium Overview*

Denney, Lisa (2011), *Arab Donors: Implications for Future Development Cooperation*, Policy Brief No. 13, EDC2020

Desai, Raj M. and Homi Kharas (2008), "The California Consensus: Can Private Aid End Global Poverty." *Survival* 50.4 (2008): 155-168.

Djankov, S., J.G. Montalvo, and M. Reynal-Querol (2005). "The Effectiveness of Foreign Aid in a Donor Fragmented World". World Bank, Washington, D.C.

Dreher, Axel et al. (2010), *Are 'New' Donors Different? Comparing the Allocation of Bilateral Aid between Non-DAC and DAC Donor Countries*

Easterly, W. (2002). "The Cartel of Good Intentions: The Problem of Bureaucracy in Foreign Aid". *Journal of Policy Reform*, Vol. 5 (4).

Foster, Vivien et al. (2008), *Building Bridges - China's Growing Role as Infrastructure Financier for Sub-Saharan Africa*, The World Bank.

Foundation Center (2010), *Foundation Growth and Giving Estimates*, 2010 Edition.

Foundation Center (2010a), *International Grantmaking Update A Snapshot of U.S. Foundation Trends*, December 2010.

G24 Secretariat (2008), *Financing Development in Africa: The Growing Role of Non-DAC Development Partners*, Paper prepared for Meeting of the African Caucus of the International Monetary Fund and World Bank, Nouakchott Mauritania, August 1st, 2008.

Girishankar, Navin (2009), "Innovating Development Finance: From Financing Sources to Financial Solutions", CFP Working Paper Series No. 1, World Bank, Washington, DC, June.

Harford, T. and M. Klein (2005). "The Market for Aid", *Public Policy for the Private Sector*, Note No. 293, June.

Hudson Institute, Center for Global Prosperity (2011), *The Index of Global Philanthropy and Remittances 2011*

Humphrey, John (2011), *Chinese Development Cooperation and the EU*, Policy Brief No. 17, EDC2020

IDA, 2007, "Aid Architecture: An Overview of the Main Trends in Official Development Assistance," Concessional Finance and Global Partnerships Vice Presidency, World Bank, Washington, DC, February.

IDA, 2008, "Aid Architecture Update: An Overview of the Main Trends in Official Development Assistance," Concessional Finance and Global Partnerships Vice Presidency, World Bank, Washington, DC, May.

IDA and IMF, 2010, "Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI)—Status of Implementation," September.

Information Office of the State Council of The People's Republic of China (2011), *China's Foreign Aid*, White Paper.

Johnson, Allison et al. (2011), *Trends in International Financial Cooperation for LDCs*, Background Study for the 2012 Development Cooperation Forum.

Kassenova, Nargis (2009), *China as an Emerging Donor in Tajikistan and Kyrgyzstan*, IFRI Russia/NIS Center

Knack and Rahman (2004). “Donor Fragmentation and Bureaucratic Quality in Aid Recipients”. World Bank Policy Research Working Paper 3186, January.

Kondoh, Hisahiro et al. (2010), *Diversity and Transformation of Aid Patterns in Asia’s “Emerging Donors”*, JICA Research Institute

Lundsgaarde, Erik (2011), *>New< Actors and Global Development Cooperation*, Policy Brief No. 19, EDC2020

Lundsgaarde, Erik (2011), *Global Philanthropists and European Development Cooperation*, Policy Brief No. 8, EDC2020

Metcalf Little, Heidi (2010), *The Role of Private Assistance in International Development*

Migliorisi, Stefano (2010), *The Role of Civil Society Organizations in Development Cooperation - Results from a sample of 100 Civil Society Organizations for the period 2005-2008*

NORRAG and the Swiss Network for Education and International Cooperation (RECI) (2010), *The Brave New World Of “Emerging” Donors And Their Support To Education & Skills Development*, Papers for a conference held on 19 November 2010 at the Swiss Development Cooperation in Bern

ODI (2010), *Brazil: An Emerging Aid Player. Lessons on emerging donors, and South-South and trilateral cooperation*, Briefing Paper n. 64 October 2010.

OECD DAC (2009), *2009 OECD Report on Division of Labour: Addressing Fragmentation and Concentration of Aid Across Countries*, OECD

OECD DAC (2010a), *Global Governance for International Development: Who’s In Charge?* Development Brief, Issue n. 2, 2010

OECD DAC (2010b), *2010 DAC Multilateral Aid Report*.

OECD TT DOL (2011a), *Evidence on Trends in Fragmentation and Proliferation and Implementation and Results of Division of Labour Processes*.

OECD TT DOL (2011b), “*Trends in In-country Aid Fragmentation and Donor Proliferation: An Analysis of Changes in Aid Allocation Patterns between 2005 and 2009.*”

OECD DAC (2011c), *2011 DAC Multilateral Aid Report*.

Rahman and Sawada (2010) “Can Donor Coordination Solve the Aid Proliferation Problem?” World Bank Policy Research Working Paper 5252, March.

Radelet, S. (2006). “A Primer on Foreign Aid”. Center for Global Development Working Paper, No. 92, July.

Rowlands, Dane (2008), *Emerging Donors in International Development Assistance*, Synthesis and five donor case studies, IDRC/CRDI, Canada.

Russian Federation, “2011 Deauville Accountability Report: G8 commitments on health and food security state of delivery and results”

Sato, Jin et al. (2011), *How do “Emerging” Donors Differ from “Traditional” Donors? An Institutional Analysis of Foreign Aid in Cambodia*, University of Tokyo and JICA Research Institute

Schieber, G., L. Fleisher, and P. Gottret (2006). “Getting Real on Health Financing”. *Finance and Development*, Vol. 43, No. 4, December.

Schiere, Richard (2011), *China and Africa: An Emerging Partnership for Development? – An overview of issues*, Working Paper no. 125, African Development Bank

Smith, Kimberly et al (2010), *Beyond the DAC: The Welcome Role of Other Providers of Development Co-Operation*, OECD DAC, DCD Issues Brief, May 2010.

Trade Negotiations Insight (2011), *Special Issue: African development : The role of traditional and emerging players reconsidered*, Issue 3, Volume 10, May 2011.

UN Secretariat (2011), *Analysis of funding for operational activities for development of the United Nations system for 2009 Report of the Secretary-General*, Draft.

White, Stacey (2011), *Emerging Powers, Emerging Donors: Teasing Out Development Patterns*, CSIS, Center for Strategic and International Studies.

World Bank (2005), *Global Development Finance*, Washington, DC.

World Bank (2011), “Innovative Finance for Development Solutions: Initiatives of the World Bank Group” Concessional Finance and Global Partnerships Vice Presidency, World Bank, Washington, DC, October.

Zimmermann, Felix and Kimberly Smith (2011), *More Money, More Actors, More Ideas: For Development Co-operation*, Journal of International Development.

ANNEXES

Annex I: Estimated Net Private and Official Flows to MICs and LICs

(% of GNI)^{1/2/}

	1990	1995	2000	2005	2006	2007	2008	2009	2010
									3/
All Developing Countries (1)+(2)+(3)	3.7	5.9	4.9	7.5	8.3	9.4	7.5	6.4	6.5
(1) Private flows	1.2	3.2	3.1	5.3	5.9	6.9	4.8	3.6	4.1
Foreign direct investment	0.6	2.0	2.6	3.3	3.5	3.8	3.8	2.5	2.6
Portfolio investment	0.1	0.3	0.2	0.7	1.0	1.0	-0.3	0.7	0.7
Long-Term Debt	0.5	1.0	0.2	1.3	1.4	2.1	1.4	0.4	0.8
(2) Official flows	1.7	1.6	0.4	0.2	0.4	0.6	0.7	1.0	0.8
ODA grants	0.9	0.7	0.5	0.9	1.1	0.6	0.5	0.5	0.5
Long-Term Debt	0.7	0.9	-0.1	-0.7	-0.6	0.0	0.2	0.5	0.4
(3) Worker remittances	0.8	1.1	1.4	2.0	2.0	2.0	1.9	1.9	1.6
Middle Income Countries (1)+(2)+(3)	3.2	5.6	4.6	7.1	7.5	9.1	7.1	6.0	6.2
(1) Private flows	1.2	3.3	3.1	5.4	5.9	6.9	4.9	3.6	4.1
Foreign direct investment	0.6	2.0	2.7	3.4	3.5	3.8	3.8	2.5	2.6
Portfolio investment	0.1	0.3	0.3	0.7	1.0	1.0	-0.3	0.7	0.7
Long-Term Debt	0.5	1.0	0.2	1.3	1.5	2.1	1.4	0.4	0.8
(2) Official flows	1.2	1.2	0.1	-0.2	-0.3	0.3	0.4	0.6	0.5
ODA grants	0.5	0.4	0.3	0.5	0.4	0.3	0.2	0.2	0.2
Long-Term Debt	0.6	0.8	-0.1	-0.7	-0.7	0.0	0.1	0.4	0.3
(3) Worker remittances	0.8	1.1	1.4	1.9	1.9	1.9	1.9	1.8	1.6
Low Income Countries (1)+(2)+(3)	13.8	15.8	12.6	21.6	36.3	21.9	21.7	21.3	21.6
(1) Private flows	0.5	0.9	1.4	2.5	2.7	4.4	3.8	3.2	3.9
Foreign direct investment	0.5	1.0	1.6	2.3	2.5	3.8	3.5	2.8	3.6
Portfolio investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-Term Debt	0.0	-0.1	-0.2	0.1	0.2	0.5	0.3	0.4	0.2
(2) Official flows	12.4	13.4	8.8	15.2	29.0	12.6	12.4	12.8	12.4
ODA grants	10.0	11.0	7.5	13.7	27.5	11.3	10.8	10.8	10.8
Long-Term Debt	2.4	2.4	1.4	1.4	1.5	1.3	1.6	1.9	1.6
(3) Worker remittances	0.9	1.5	2.4	4.0	4.6	4.9	5.5	5.3	5.3
Low Income/Middle Income									
Ratio of official financing terms (%)									
Interest	34.5	28.8	23.7	31.1	35.0	35.8	45.7	69.8	54.9
Maturity	159.2	185.4	194.5	169.3	155.7	159.5	152.8	150.7	154.0
Grace Period	142.9	178.9	199.6	161.9	143.5	144.6	144.3	128.5	143.2

Sources: World Bank Debtor Reporting System, IMF, Bank for International Settlements and World Bank staff estimates. ODA grants data are from OECD/DAC.

Notes: 1/ Data are at current prices.

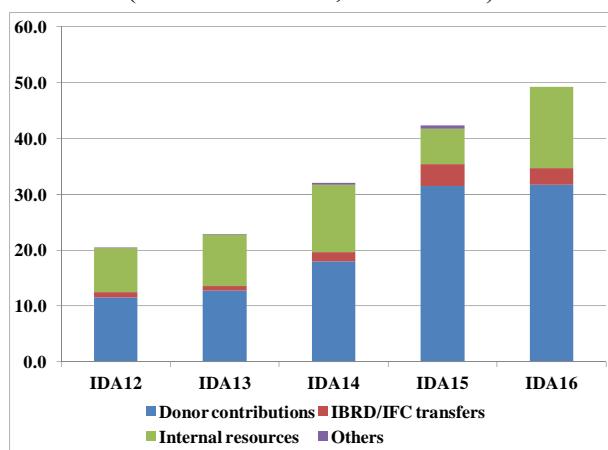
2/ LICs are defined as countries with a GNI per capita of US\$995 or less as of 2009. MICs are defined as countries with a GNI per capita of about US\$996 or above but less than US\$12,195 as of 2009. India is classified as a MIC for the purposes of these data.

3/ Preliminary estimates.

Annex II. Gross Disbursements and Credit Reflows

In addition to core donor contributions, multilateral institutions such as IDA, the AfDF, and the AsDF, rely also on credit reflows to fund disbursements to recipient countries. In the case of IDA, the resources available include transfers from IBRD and IFC, and internal resources in the form of credit reflows and investment income.^{1/} The table below presents the composition of IDA's available resources over the period covered by IDA12 through IDA16. In IDA16, the most recent replenishment, donor contributions (including compensation for MDRI) provide 64 percent of IDA's available resources, while internal resources and transfers from IBRD and IFC provide 36 percent (in IDA15, donors provided 72 percent of the financing).

Composition of IDA's Resources by Replenishment Period
(in nominal terms, US\$ billion)

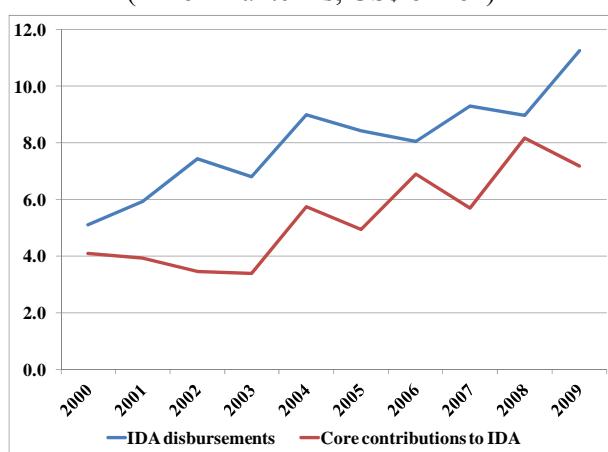


Source: World Bank.

Note: Figures are based on the agreed financing framework for each replenishment.

Due primarily to credit reflows, gross disbursements from some multilaterals, such as IDA, can exceed donor core contributions. The chart below illustrates the case of IDA.

IDA Disbursements vs. Donor Contributions to IDA
(in nominal terms, US\$ billion)



Sources: World Bank and DAC Online (Table 1).

1/ Credit reflows are borrower principal repayments on credits that have been disbursed and are outstanding.

Annex III. List of Bilateral Donors

A. DAC Members

1) Australia	12) Japan
2) Austria	13) Luxembourg
3) Belgium	14) Netherlands
4) Canada	15) New Zealand
5) Denmark	16) Norway
6) Finland	17) Portugal
7) France	18) Spain
8) Germany	19) Sweden
9) Greece	20) Switzerland
10) Ireland	21) United Kingdom
11) Italy	22) United States

B. OECD Members that are not part of DAC

1) Czech Republic	5) Poland
2) Hungary	6) Slovak Republic
3) Iceland	7) Turkey
4) South Korea 1/	8) Mexico

C. EU Members that are not part of OECD

1) Bulgaria	5) Lithuania
2) Cyprus	6) Malta
3) Estonia	7) Romania
4) Latvia	8) Slovenia

D. Other non-DAC donors

1) Brazil	11) Malaysia
2) China	12) Pakistan
3) Taiwan, China	13) Russian Federation
4) India	14) Saudi Arabia
5) Indonesia	15) Singapore
6) Iran	16) South Africa
7) Israel	17) Thailand
8) Kuwait	18) United Arab Emirates
9) Libya	19) Republica Bolivariana de Venezuela
10) Lichtenstein	

1/ South Korea is a member of the DAC as of January 2010.

Annex IV. Current Innovative Sources of Funding for Development

Development partners have implemented a variety of innovative financing mechanisms since the early 2000s, including the International Finance Facility, solidarity taxes on airline tickets, voluntary contributions, debt buy-down arrangements, blending arrangements, Advance Market Commitments, commodity-linked repayments, inflation-indexed local-currency lending, and deferred repayment schemes. At the same time, developing countries have also been seeking sustainable financial solutions, such as partnerships that mobilize private finance for the delivery of public services, risk-mitigation plans that increase incentives for private players to engage in productive sectors of low-income countries, and support for carbon-trading mechanisms.

Innovative financing complements traditional ODA by developing highly tailored, individual solutions for specific development tasks and for providing global public goods. Innovative financing stretches across all stages of financing, from additional funding to financial engineering to the effective use of funds. The innovation originates from getting the right funds from the right source, in the right form, at the right time, and to the right place, while setting the right incentives and managing risks.

Broadly, four types of innovative mechanisms make up the international landscape:

- *Private mechanisms* involve private-to-private flows in the market and in civil society;
- *Solidarity mechanisms* support sovereign-to-sovereign transfers and form the backbone of multilateral and bilateral ODA and other official flows (OOF);
- *Public-private partnership (PPP) mechanisms* leverage or mobilize private finance in support of public service delivery and other public functions, such as sovereign risk management; and
- *Catalytic mechanisms* involve public support for creating and developing private markets (*inter alia* by reducing risks of private entry).

Three of the above mechanisms—solidarity, PPP, and catalytic—depend on official flows (primarily ODA), which they either mobilize or deploy in support of country and global efforts using a wide range of financial instruments. These three mechanisms are highlighted in the table in the next page. The table identifies the funding sources and instruments used in a variety of innovative financing solutions.

Innovative fund-raising generated an estimated US\$57.1 billion in official flows and IFI bond proceeds between 2000 and 2008. The bulk of these efforts involved new debt offerings by development banks (such as bonds issued in developing country currencies or those targeting sustainable investors). Alternative sources of concessional flows including

solidarity levies and contributions from emerging donors totaled at least US\$11.7 billion or 1.3 percent of gross ODA over 2000–8. Carbon finance and frontloading of ODA for global programs, while modest in volume terms, also grew.

Funding Sources	Instruments
<p><i>Solidarity mechanisms</i></p> <ul style="list-style-type: none"> <input type="checkbox"/> ODA financed by budget outlays from emerging sovereign donors <input type="checkbox"/> Global solidarity levies (such as airline ticket tax, Adaptation Fund) <input type="checkbox"/> National lotteries <input type="checkbox"/> Stolen Asset Recovery <p><i>PPP</i></p> <ul style="list-style-type: none"> <input type="checkbox"/> Joint financing with private donors <input type="checkbox"/> New bonds (those in local currencies or those targeting sustainable investors) <input type="checkbox"/> Sovereign catastrophe risk (incl. derivatives, currency swaps) <input type="checkbox"/> Frontloading ODA <p><i>Catalytic mechanisms</i></p> <ul style="list-style-type: none"> <input type="checkbox"/> Carbon funds 	<p><i>Solidarity mechanisms</i></p> <ul style="list-style-type: none"> <input type="checkbox"/> Counter-cyclical lending <input type="checkbox"/> Debt swaps for results <p><i>PPP</i></p> <ul style="list-style-type: none"> <input type="checkbox"/> Private participation in social sectors and infrastructure (incl. through guarantees, OBA) <input type="checkbox"/> Sovereign catastrophe risk finance (through derivative and hedging, deferred drawdown options-DDOs) <p><i>Catalytic mechanisms</i></p> <ul style="list-style-type: none"> <input type="checkbox"/> Leveraging private investment in the financial and productive sectors (through local currency lending, guarantees, risk-sharing facilities) <input type="checkbox"/> Creating private insurance markets (through insurance pools and DDOs) <input type="checkbox"/> Advance market commitments <input type="checkbox"/> Copayment schemes

Source: Girishankar (2009)

In terms of the use of innovative financial solutions on the ground, a large share of innovative financing solutions involved catalytic mechanisms to promote private investment in the financial, private insurance, and productive sectors at the country level (using partial credit guarantees, local currency lending using derivatives, and insurance pools) and Advance Market Commitment (AMC) and copayment schemes to strengthen the market for vaccines and essential drugs at the global level. A second major component involved PPPs that leveraged private flows to support infrastructure and social service delivery using risk management instruments (such as partial risk and political risk guarantees) and Output-Based Aid (OBA) schemes. These also included sovereign catastrophe risk management and debt swaps funded by private donors. Innovative solidarity efforts comprised debt buy-downs by bilateral donors, and counter-cyclical loans that adjust terms and conditions in response to shocks.

Annex V. Non-DAC Donors' Net ODA, 2003-2010

(net disbursements, current prices, US\$ million)

	2003		2004		2005		2006		2007		2008		2009		2010*	
	ODA	% GNI														
OECD Non DAC	604.3		1,107.7		1,876.8		1,873.3		2,058.9		2,451.5		2,339.5		2,951.0	
Czech Republic	90.6	0.11	108.2	0.11	135.1	0.11	160.9	0.12	178.9	0.11	249.2	0.12	214.7	0.12	223.6	0.12
Hungary	21.2	0.03	70.1	0.07	100.3	0.11	149.5	0.13	103.5	0.08	106.9	0.08	116.9	0.10	112.6	0.09
Iceland	17.7	0.17	21.2	0.18	27.2	0.18	41.5	0.27	48.2	0.27	48.4	0.47	34.6	0.35	28.6	0.28
South Korea *	365.9	0.06	423.3	0.06	752.3	0.10	455.3	0.05	696.1	0.07	802.3	0.09	816.0	0.10	1,167.7	0.12
Poland	27.2	0.01	117.5	0.05	204.8	0.07	296.8	0.09	362.8	0.10	372.4	0.08	374.7	0.09	377.9	0.08
Slovak Republic	15.1	0.05	28.2	0.07	56.1	0.12	55.1	0.10	67.2	0.09	91.9	0.10	75.4	0.09	73.7	0.09
Turkey	66.6	0.04	339.2	0.11	601.0	0.17	714.2	0.18	602.2	0.09	780.4	0.11	707.2	0.11	966.8	0.13
EU non OECD	3.9		22.3		70.5		95.0		133.8		282.3		289.6		248.8	
Estonia	1.1		4.9	0.05	9.5	0.08	14.1	0.09	16.2	0.08	22.0	0.10	18.4	0.10	18.5	0.10
Latvia	0.9	0.01	8.3	0.06	10.7	0.07	11.9	0.06	15.9	0.06	21.9	0.07	20.7	0.07	15.9	0.06
Lithuania	1.9	0.01	9.1	0.04	15.6	0.06	25.0	0.08	47.6	0.11	47.9	0.11	41.8	0.11	37.4	0.10
Romania	n/a	n/a	122.9	0.09	137.4	0.09	113.9	0.07								
Slovenia	n/a	n/a	n/a	n/a	34.7	0.11	44.0	0.12	54.1	0.12	67.6	0.13	71.3	0.15	63.1	0.13
Arab Countries	2,726.2		2,076.4		1,364.6		2,471.5		2,618.2		5,935.4		4,188.7		3,479.6	
Kuwait	137.8	n/a	160.9	n/a	218.5	n/a	158.0	n/a	110.1	n/a	283.2	n/a	221.0	n/a		
Saudi Arabia	2,390.9	n/a	1,734.1	n/a	1,004.8	n/a	2,094.7	n/a	2,078.7	n/a	5,564.1	n/a	3,134.0	n/a	3,479.6	n/a
UAE	197.5	n/a	181.4	n/a	141.3	n/a	218.8	n/a	429.4	n/a	88.1	n/a	833.7	0.35	n/a	n/a
Other donors	111.8		505.2		578.4		676.6		711.7		774.9		575.5		140.6	
Taiwan, China	n/a	n/a	421.3	0.13	483.0	0.14	513.0	0.14	514.0	0.13	435.2	0.11	411.4	0.13	n/a	n/a
Israel	111.8	0.10	83.9	0.07	95.4	0.07	89.9	0.06	111.0	0.07	137.9	0.07	123.9	0.06	140.6	0.07
Lichtenstein	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	19.7	n/a	23.3		n/a	n/a	n/a	n/a
Thailand	n/a	n/a	n/a	n/a	n/a	n/a	73.7	0.04	67.0	0.04	178.5		40.2	0.02	n/a	n/a
TOTAL	3,446.2		3,711.6		3,890.3		5,116.4		5,522.6		9,444.1		7,393.2		6,820.0	

Source: DAC Annual Reports and IDS Statistics (Table 1)

n/a: Not available

* South Korea is a member of the DAC as of January 2010

Annex VI: China: first White Paper on Foreign Aid

China's Information Office of the State Council issued a white paper on China's foreign aid in April 2011. The paper provides an overview of China's foreign aid, including details on its foreign aid policy (which include: "adhering to equality and mutual benefit, stressing substantial results, and keeping pace with the times without imposing any political conditions on recipient countries"). In its conclusion, the paper calls for the international community to strengthen cooperation and jointly rise to the challenges facing development. Below are the key highlights of the document:

- Since 2004, on the basis of sustained and rapid economic growth and enhanced overall national strength, China's foreign aid has increased rapidly, averaging 29.4 percent from 2004 to 2009.
- China offers foreign aid in the form of: complete projects, goods and materials, technical cooperation, human resource development cooperation, medical teams sent abroad, emergency humanitarian aid, volunteer programs and debt relief.
- Financial resources for foreign aid are provided by the Government (as grants and interest-free loans) and the Export-Import Bank (as concessional loans).
 - Grants are mainly used to finance social welfare projects (e.g., construction of hospitals, schools, and low-cost houses), human resources development projects, technical cooperation, assistance in kind and emergency humanitarian aid.
 - Interest-free loans are mainly provided to developing countries with relatively good economic conditions and used to help recipient countries to construct public facilities and launch projects to improve people's livelihood.
 - Concessional loans are mainly used to undertake projects generating both economic and social benefits and large and medium-sized infrastructure projects, or to provide complete plant, mechanical and electrical products, technical services and other materials. Concessional loans are raised by the Export-Import Bank on the market, and have interest rates lower than the benchmark interest of the People's Bank of China, the Central Bank. At present, the annual interest rate of concessional loans is between 2 percent and 3 percent, and the repayment period is usually 15 to 20 years (including five to seven years of grace).
- By end-2009, China had provided a total of 256.3 billion yuan in foreign aid. Of this amount, 106.2 billion yuan were provided as grants, 76.5 billion yuan were provided as interest-free loans and 73.6 billion yuan were provided as concessional loans.
- Concessional loans:
 - Were provided to 76 countries, supporting 325 projects, of which 142 had been completed.

- 61 percent were used to help construct transportation, communications and electricity infrastructure, and 9 percent were used to support the development of energy and resources such as oil and minerals.
- Distribution of aid in 2009. Geographically, almost half of the aid was directed to Africa (no distinction between SSA and North Africa) and about a third to Asia. By sector, the aid focused on infrastructure in the economic and social sectors.

Annex VII: Data on Recent Trends in Aid Earmarking

ODA through Main Global Programs 2005-2009 (net disbursements, US\$ million, 2009 prices)

	2003	2004	2005	2006	2007	2008	2009
GEF	415.1	369.3	423.4	355.2	490.0	440.2	569.2
GAVI					428.5	606.7	367.4
GFATM	272.6	673.4	1131.4	1367.5	1639.6	2084.2	2321.3
UNAIDS			36.2	37.8	75.9	41.0	50.4
WFP	405.0	293.3	525.9	410.3	235.5	293.0	277.8
Montreal Protocol	84.5	69.0	94.0	89.7	96.5	73.4	29.3
IFAD	197.8	191.5	225.3	250.3	329.4	337.6	229.7
Total Global Programs	1375.1	1596.4	2436.2	2510.8	3295.4	3876.1	3845.2
US PEPFAR		746.4	2188.7	2193.6	2039.5	4954.2	4864.6
% share in ODA							
Global Programs	2%	2%	2%	2%	3%	3%	3%
US PEPFAR	0%	1%	2%	2%	2%	4%	4%
Total	2%	3%	4%	4%	5%	7%	7%

Source: DAC2 for all data except US PEPFAR, where data are obtained from:

<http://www.pepfar.gov/about/c24880.htm>

Estimated Earmarking as % of ODA

	2003	2004	2005	2006	2007	2008	2009
Multi-bilateral Aid	8%	11%	12%
Global programs	2%	2%	2%	2%	3%	3%	3%
Technical Coop & Emergency Aid	17%	17%	25%	29%	23%	23%	23%
US PEPFAR	0%	1%	2%	2%	2%	4%	4%

Source: DAC2 for all data except US PEPFAR, where data are obtained from:

<http://www.pepfar.gov/about/c24880.htm>

CFP Working Paper Series

	Title	Date	Author(s)
CFPWPS1	Innovating Development Finance: from Financing Sources to Financial Solutions	June 2009	Navin Girishankar
CFPWPS2	How Much of Official Development Assistance is Earmarked	October 2009	Abebe Adugna
CFPWPS3	The Architecture of Aid for Environment A ten-year statistical perspective	October 2009	Rocio Castro and Brian Hammond
CFPWPS4	Review of the Roles and Activities of New Development Partners	February 2010	Penny Davies
CFPWPS5	Analysis of Recipient Executed Trust Funds	March 2010	Wahida Huq
CFPWPS6	Intergovernmental Fiscal Systems and Development Aid Comparisons and Lessons of Experience	May 2010	Abebe Adugna and J. Fitz Ford
CFPWPS7	Will Countries with Insufficient Aid Please Stand Up?	September 2010	Robert Utz
CFPWPS8	Finance for Development: Trends and Opportunities in a Changing Landscape	November 2011	Abebe Adugna, Rocio Castro, Boris Gamarra and Stefano Migliorisi

