



United Nations Conference on Trade and Development

Distr.: General
28 August 2019

Original: English

Trade and Development Board
Intergovernmental Group of Experts on Financing for Development
Third session
Geneva, 4–6 November 2019
Item 3 of the provisional agenda

Financing for development: International development cooperation and interrelated systemic issues*

Note by the UNCTAD secretariat

Summary

This note provides an overview of trends in official development assistance (ODA) and blended finance. It concludes that, alone, they are insufficient in both quantum and nature to enable the finance needed to achieve the Sustainable Development Goals. Definitional and measurement inconsistencies contribute to an increasingly blurred picture on the ability of ODA in combination with blended finance to make a sufficiently substantive contribution to achieving developmental goals, including the Sustainable Development Goals. On current trends towards leveraging public funds to attract private finance, low-income developing countries and the least developed economies seem to be losing out, alongside efforts to ensure environmental protection through longer-term investment in developing countries routinely affected by natural disasters. This requires concerted efforts in the North to meet their original commitments and reinvigorate international development cooperation through transparent and effective non-concessional resource transfers to the South. South–South cooperation can, and increasingly has, backstopped fledgling North–South development cooperation, but does and should remain complementary to this.

* The present document was scheduled for publication after the standard publication date owing to circumstances beyond the control of the UNCTAD secretariat.



I. Introduction

1. At the second session of the Intergovernmental Group of Experts on Financing for Development, held in Geneva, Switzerland on 7–9 November 2018, it was decided that the topic of its third session, to be held in Geneva on 4–6 November 2019, should be “International development cooperation and interrelated systemic issues”. Agreed guiding questions for this third session of the Intergovernmental Group of Experts are the following:¹

(a) How can the commitment by the Addis Ababa Action Agenda [of the Third International Conference on Financing for Development] to reverse recent declines in ODA be met, and how can ODA play a more effective role in efforts to scale up development finance required to achieve the Sustainable Development Goals?

(b) How can the quality and impact of both concessional and non-concessional official flows be improved and coordinated to support these efforts, including through innovative financing models and tools?

(c) What institutional, policy and regulatory changes at the international level will be helpful to ensure that global economic governance appropriately supports effective international development cooperation, to facilitate domestic public resource mobilization?

2. This discussion topic corresponds to action area II. C (International development cooperation) of the Addis Ababa Action Agenda of the Third International Conference on Financing for Development. The Agenda emphasizes the “important role” that international public finance plays “in complementing the efforts of countries to mobilize public resources domestically, especially in the poorest and most vulnerable countries with limited domestic resources” (paragraph 50) and expresses concern “that many countries still fall short of their ODA commitments” (paragraph 51). It stresses that “the fulfilment of all development assistance commitments remains crucial” and reaffirms existing commitments by ODA providers, “including the commitment by many developed countries to achieve the target of 0.7 per cent of ODA/gross national income (GNI) and 0.15 to 0.20 per cent of ODA/gross national income to least developed countries” (paragraph 51). The Agenda states that the use of international public finance “is to catalyse additional resource mobilization from other sources, public and private”, including by using international public finance to “unlock additional finance through blended or pooled financing and risk mitigation, notably for infrastructure and other investments that support private sector development” (paragraph 54). It commits to “open, inclusive and transparent discussions on the modernization of the ODA measurement” (paragraph 55) and welcomes “efforts to improve the quality, impact and effectiveness of development cooperation and other international efforts in public finance” (paragraph 58). It furthermore recognizes the importance of South–South cooperation “as a complement to, not a substitute for, North–South cooperation” (paragraph 56), and underlines the critical contribution that development banks, both national and multilateral, make to the delivery of development finance (paragraphs 70, 75). The Agenda also takes note of the special challenges faced by middle-income developing countries, in particular in regard to the eligibility criteria for access to concessional finance and the possibility that they “may not be able to access sufficient affordable financing from other sources to meet their needs” (paragraph 72). Other areas of international development cooperation highlighted in the Agenda include environmental sustainability (paragraphs 59–65), closing the peacebuilding finance gap (paragraph 67), health (paragraph 77) and education (paragraph 78).

3. This note provides an overview of the main trends in recent ODA and blended finance indicators, summarizing the current channels through which international development cooperation operates, and highlighting challenges arising from these, for

¹ TD/B/EFD/3/3, annex I, p.15.

deliberation during the third session of the Intergovernmental Group of Experts on Financing for Development.²

II. Official development assistance: Ongoing malaise?

A. Balancing the development agenda with financing for development

4. The year 2015 was a landmark year for multilateralism and international decision-making that intended to fundamentally shape the post-2015 policy agenda for development. Member States reached consensus on several major development agreements that include the Addis Ababa Action Agenda (July 2015), the 2030 Agenda for Sustainable Development (September 2015) and the Paris Agreement under the United Nations Framework Convention on Climate Change (December 2015). These agreements substantially established and expanded the work of the United Nations to pursue a bold global development agenda. In particular, the 2030 Agenda identified 17 Sustainable Development Goals, spanning 169 targets, which aim to end poverty, improve education and health, reduce economic inequalities, spur economic growth and tackle climate change, among others. These international agreements renewed the discourse surrounding the important role of international public finance, in particular of ODA, as well as the need to mobilize additional sources of development financing to support this ambitious undertaking.

5. The expansion of the international agenda has significantly increased the estimated costs and total investment needs in developing countries. UNCTAD estimates that the average annual financing gap to achieve the Sustainable Development Goals amounted to approximately \$2.5 trillion per year from 2015–2030.³ But the boldness of the Addis Ababa Action Agenda has not yet begun to reflect in development outcomes, with time running out rapidly. Official development assistance has as its basic principle the economic development and welfare of developing countries and plays an important role in providing funding for developing countries,⁴ especially the least developed economies. While the Development Assistance Committee countries⁵ committed to donating 0.7 per cent of their annual GNI to ODA in developing countries, and 0.15–0.20 per cent of their GNI to ODA in the least developed countries,⁶ apart from a handful of countries, the target has not been reached. Instead, ODA has remained at less than half of that commitment, with

² See also outcomes and documentation for the first session of the Intergovernmental Group of Experts on Financing for Development, available at

<https://unctad.org/en/pages/MeetingDetails.aspx?meetingid=1442> (accessed 23 August 2019).

³ UNCTAD, 2014, *World Investment Report 2014: Investing in the Sustainable Development Goals: An Action Plan* (United Nations publication, Sales No. E.14.II.D.1, New York and Geneva).

⁴ Official development assistance excludes loans and credits for military purposes. The Organization for Economic Cooperation and Development (OECD) maintains a list of developing countries and territories; only aid to these countries counts as ODA. The list is updated periodically and currently contains over 150 countries or territories with annual per capita incomes below \$12,276 in 2010. The list of ODA recipients effective as at 1 January 2018 can be found at www.oecd.org/dac/financing-sustainable-development/development-finance-standards/daclist.htm (accessed 23 August 2019).

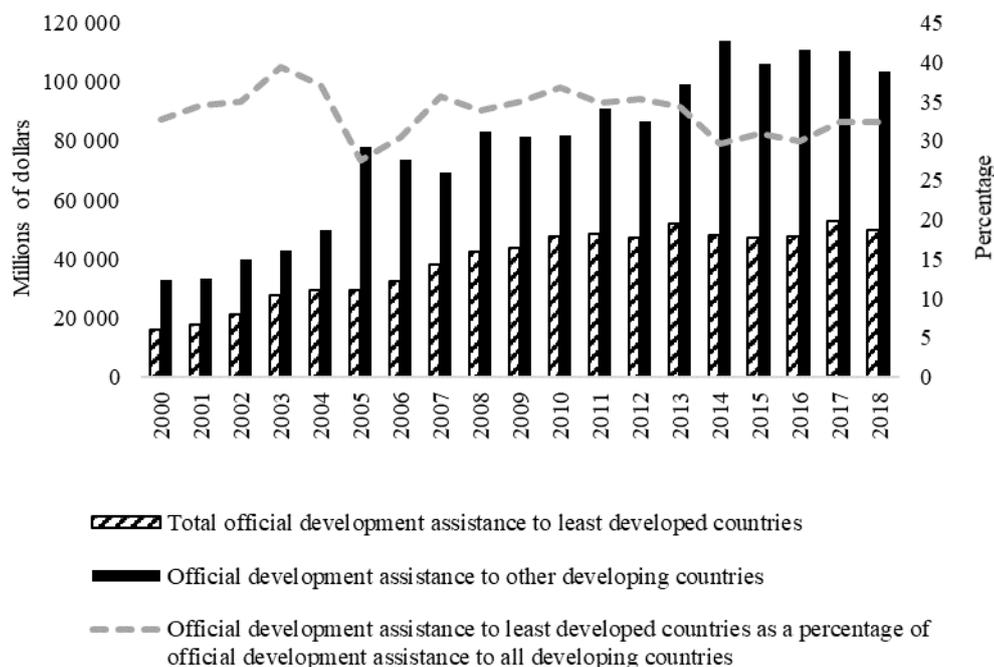
⁵ The members of the Development Assistance Committee are as follows: Australia, Austria, Belgium, Canada, Czechia, Denmark, the European Union, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, the Republic of Korea, Luxembourg, the Netherlands, New Zealand, Norway, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, Switzerland, the United Kingdom of Great Britain and Northern Ireland and the United States of America.

⁶ The possibility of a supplementary target for net ODA of 0.75 per cent of the gross national product (GNP) of developed countries, within an overall target of financial resource transfers of a minimum net amount of 1 per cent of their GNP was first considered at the second session of the United Nations Conference on Trade and Development in 1968. The third session of the Conference (1972) subsequently adopted resolution 61 (III) on financial resources for development and the total flow of public and private resources, asking developed countries to increase ODA to reach a minimum net amount of 0.7 per cent of GNP by 1975. The UNCTAD secretariat undertook the task of compiling data and preparing an expert report on aid targets that formed the basis of the current targets. See, for example, OECD, 2016, *History of the 0.7 % [Per cent] Official Development Assistance Target*.

Development Assistance Committee donors reaching 0.31 per cent of GNI, on average, in 2017. While ODA flows drifted upwards marginally in 2016, they moderated in 2017 and the latest OECD estimates for 2018 suggest that at \$153 billion,⁷ the ODA flows are only marginally above their 2013 levels, with 32.5 per cent of this flowing to the least developed countries. These data are for all official flows to developing countries and include the flows from multilateral donors (figure 1).

Figure 1
Official development assistance to all developing countries and to the least developed countries, 2000–2018

(Current millions of United States dollars and percentage)



Source: UNCTAD secretariat calculations based on OECD online database, OECD Statistics, Aid (ODA) disbursements to countries and regions [DAC2a].

Note: 2018 data are based on estimates by OECD and UNCTAD.

B. Official development assistance: Past and current issues

6. Official development assistance includes grants, soft loans (where the grant element is at least 25 per cent of the total) and the provision of technical assistance. There has been a gradual shift in the direction of concessional loans rather than grants, with concessional loans and long-term capital accounting for 16 per cent of ODA in 2008, growing to 23 per cent in 2017.⁸ Like non-concessional loans, concessional loans need to be repaid, albeit at a favourable (below-market) interest rate. For some time, there has been a debate regarding the extent of concessional loans, as the full-face value of the

⁷ OECD and United Nations Capital Development Fund, 2019, *Blended Finance in the Least Developed Countries 2019*, OECD Publishing, Paris. Official donors contributing ODA can also include non-Development Assistance Committee countries and multilateral organizations. The latest estimate, for 2017, puts ODA flows from all official donors at \$206.7 billion. On average, multinationals have contributed about 21 per cent of this and non-Development Assistance Committee countries about 6 per cent, although the non-Development Assistance Committee country share has recently increased, contributing as much as 11.7 per cent of ODA in 2014. The least developed country share of total ODA from official donors has averaged just under one quarter. Given that there is great transparency relating to the Development Assistance Committee share of ODA, these data are typically used for ODA analysis.

⁸ OECD and United Nations Capital Development Fund, 2019.

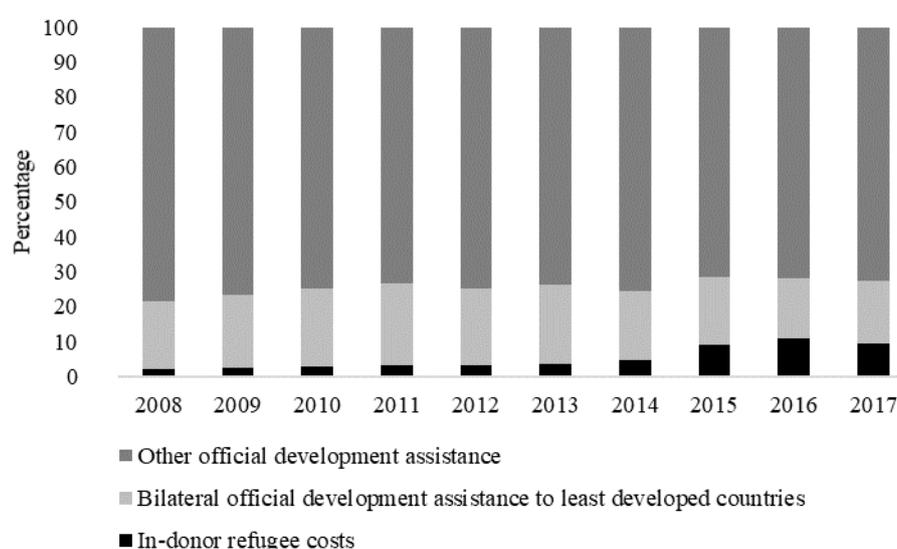
loan is considered ODA, even if only 25 per cent of the loan has concessional terms. OECD has committed to changing the way it accounts for these loans from 2018 onwards.

7. Reported ODA clearly falls short of the internationally agreed targets but obtaining a clear picture as to the extent to which ODA reaches the recipient country is complicated by how it is spent. For example, the OECD Development Assistance Committee definition of ODA allows a significant portion of ODA to be spent in the donor country itself, such as housing for refugees and costs associated with their integration. Data for the last three years show that in-donor country refugee costs make up a full 10 per cent of Development Assistance Committee country ODA (figure 2).

Figure 2

Flows of official development assistance to developing countries and the least developed countries, 2008–2017

(Relative shares)



Source: OECD Development Assistance Committee statistics on resource flows.

8. In a similar fashion, the cost of scholarships for students from developing countries studying in a donor country is reported as ODA, although there are no consistent data on how many of those students return to their country of origin and contribute to the future development of the country. There is also a grey area of administrative costs of delivering aid, which includes items such as vehicles for consultants in the field and various other expenditures whose developmental impact cannot be measured.

9. Efforts to measure the amount of ODA that is available for developing countries using country-programmable aid removes from ODA items that are unpredictable by nature, entail no cross-border flows, do not form part of cooperation agreements between Governments, or are not country programmable by the donor. The data suggest that the diversion of ODA to in-donor costs may have a significant impact. This figure stood at \$103.7 billion in 2018 (down from \$105.6 billion in 2014), compared with \$153 billion of overall ODA (see <http://stats.oecd.org/Index.aspx?DataSetCode=CPA>; accessed 23 August 2019).

10. The long-standing problem of double-counting ODA funds has not still been resolved. While at the onset it was mostly the practice of providing debt relief and reporting those figures as ODA flows that raised concerns,⁹ at present the problem mostly revolves

⁹ During the height of debt cancellations in the context of the Heavily Indebted Poor Countries Initiative, a significant percentage of what was reported as ODA flows were in fact debt write-offs. See UNCTAD, 2019, *The Least Developed Countries Report 2019* (United Nations publication, Sales No. E.20.II.D.2, Geneva), chapter 2.

around accounting for funds earmarked for climate finance.¹⁰ In 1992, the United Nations Framework Convention on Climate Change agreed to make climate finance “new and additional” to existing commitments.¹¹ Further, in 2009 at the Copenhagen Climate Change Conference, developed countries committed “... to a goal of mobilizing jointly \$100 billion dollars a year by 2020 to address the needs of developing countries.”¹² In practice, the phrase “new and additional funds” has come to be interpreted loosely, and in some years, most of the public part of climate finance funding has come directly from ODA budgets, potentially opening the way for donor countries to report the use of each dollar of ODA channelled to climate finance as meeting both their commitments concerning ODA and the Copenhagen Accord.

11. OECD and the United Nations are developing a new framework for monitoring and measuring development aid flows that aims to measure all external financial flows from traditional and emerging donors (public/private/blended, concessional/non-concessional) that are delivered to support global public goods and sustainable development in developing countries. The stated purpose of the framework, known as total official support for sustainable development, is not to supplant ODA but to provide transparency on other financial flows that support the Sustainable Development Goals. The framework seeks to support target 17.3 (mobilize additional financial resources for developing countries from multiple sources) under Goal 17 (strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development). Subsequently a task force of 24 members from international organizations, developing and developed country Governments, and national statistical offices was set up to develop recommendations for improving the framework. Following several years of consultations, pilot studies for the implementation of the framework have recently begun (see <http://www.oecd.org/dac/financing-sustainable-development/tossd-public-consultation.htm>; accessed 23 August 2019).

12. Consultations have raised a number of concerns about the framework. Most of these focus on its transparency and clear and separate accounting of the longer-term costs and benefits of different types of financial flows and financing instruments, and their true developmental impact. A specific concern in this regard relates to the continued additionality of conventional ODA and the potential risk of donor countries downsizing their aid allocations by replacing ODA with other forms of financing under the framework, thereby further undermining completion with the 0.7 per cent ODA-to-GNI United Nations target for ODA. In addition, critiques have pointed to the broad scope of the financial flows under the framework, more generally, arguing that this dilutes the core economic functions of development finance and the focus on Sustainable Development Goal delivery, by diverting development finance into inevitably related but also much wider areas, such as conflict resolution.¹³

13. The ODA delivery system also remains misaligned with national budgeting processes that reflect domestic policy priorities. Despite various international commitments to reinforce country ownership of development priorities, such as the Paris Declaration on Aid Effectiveness, few donor funds are channelled through domestic public finances. For instance, between 2013 and 2017, less than 25 per cent of external support, including aid, was allocated through the national budgets of the least developed countries. Thus, not only are the actual volumes of aid below internationally agreed targets, but the actual use of the existing amounts is suboptimal from the point of view of recipient countries.

14. About one third of ODA from Development Assistance Committee countries flows to the least developed countries, which is estimated to account for some two thirds of all

¹⁰ See UNCTAD, 2015, “New and additional” climate finance: A continuing lack of clarity, Policy Brief No. 41.

¹¹ United Nations, 1992, United Nations Framework Convention on Climate Change.

¹² FCCC/CP/2009/11, p. 7. The Copenhagen Accord (FCCC/CP/2009/11/Add.1) in paragraph 8 recommits to making climate finance “new and additional”, pp. 6 and 7.

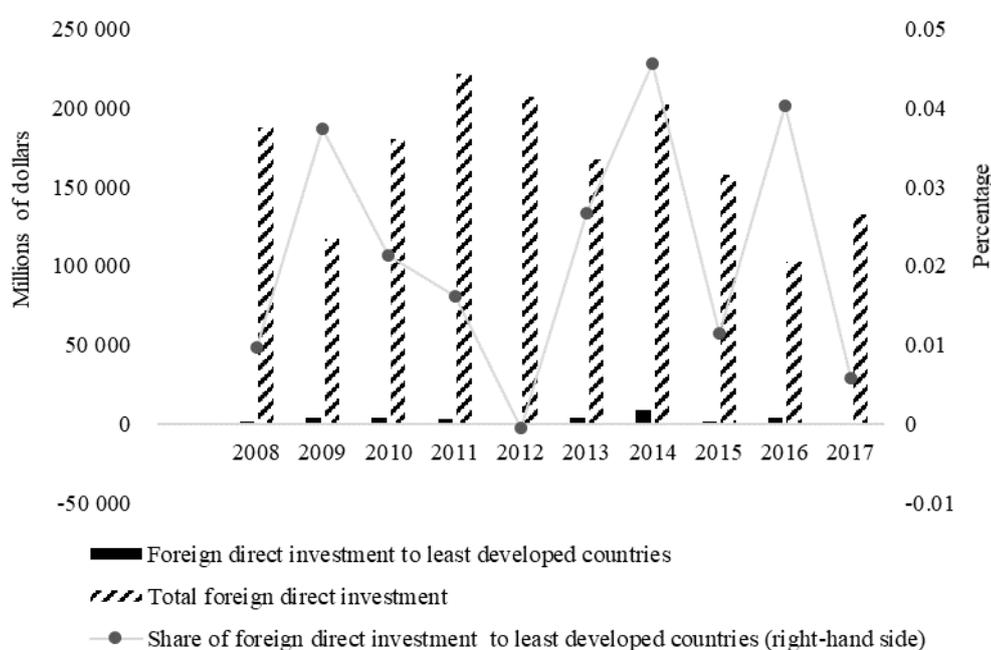
¹³ See J Griffith, 2017, Financing for development: Current issues for international development cooperation, Background paper to the first session of the Intergovernmental Group of Experts on Financing for Development, UNCTAD, available at <https://unctad.org/en/pages/MeetingDetails.aspx?meetingid=1442> (accessed 23 August 2019).

external finance flowing to such countries.¹⁴ In States where capacity to mobilize domestic resources through increased tax revenue from a narrow tax base is constrained, and where access to international capital markets remains non-existent or capricious, grants and concessional loans through ODA are crucial to financing for development and productive capacity. But if the total ODA flows are stagnating and falling, it is the neediest countries that are most affected, and achievement of the Sustainable Development Goals becomes even less likely.

15. At the same time, while foreign direct investment flows to all developing countries have remained relatively stable over the past decade,¹⁵ the OECD *Global Outlook on Financing for Sustainable Development 2018* notes that the committed and anticipated surge in financing for the Sustainable Development Goals has not materialized, and the overall supply of sources of financing for development to developing countries is in decline.¹⁶ Moreover, the share of foreign direct investment flows to the least developed countries is still miniscule. In the ten-year period under review, the share of total foreign direct investment flows to the least developed countries has only breached the 4 per cent threshold twice, and has been highly volatile (figure 3).

Figure 3
Flows of foreign direct investment to all developing countries, and to least developed countries, 2008–2017

(Millions of United States dollars and percentage)



Source: UNCTAD secretariat calculations based on OECD online database, OECD Statistics, Private direct investment and other private capital [DAC4].

¹⁴ OECD and United Nations Capital Development Fund, 2019; OECD, 2019a, Development aid drops in 2018, especially to neediest countries, 10 April.

¹⁵ UNCTAD, 2019, *World Investment Report 2019: Special Economic Zones* (United Nations publication, Sales No. E.19.II.D.12, Geneva), p. 3. According to the report, flows of foreign direct investment to developing countries rose by 2 per cent in 2018. Largely as a result of a steep fall of foreign direct investment in developed countries, the share of developing countries in global foreign direct investment therefore increased to 54 per cent.

¹⁶ OECD, 2018, *Global Outlook on Financing for Sustainable Development 2019: Time to Face the Challenge*, OECD Publishing, Paris, p. 98.

III. Blended finance to the rescue?

16. The current narrative on ODA and development finance is that given the inadequacy of official resources – whether national or international – to meet the Sustainable Development Goals, the private sector needs to provide assistance through financial innovation – broadly described as blended finance. In essence, this has come to mean that in order to meet the financing requirement of billions and trillions of dollars in guarantees, sureties and co-financing from development banks, donors and the recipient countries themselves will create the necessary private sector subsidies and incentives to generate the required finance. The general aim of the approach is de-risking the investment environment to overcome the inhibitors that exist, so that private sector financial institutions and investors from both within and without the recipient countries will utilize innovations such as lines of credit, securitization and special-purpose vehicles to unlock finance for development. This expectation is sometimes referred to as the billions-to-trillions narrative.

17. Blended finance lacks a common definition, and different definitions can have substantive implications for the implementation of blended financing programmes. For example, while most definitions refer to concessional finance as the public blending component, others include non-concessional public development finance. Similarly, blended financing can refer simply to the combination of public with private financial resources, while others more specifically reflect the concept of additionality, such that ODA or public funds more generally, should provide only specific inputs and services that will not crowd out those delivered by market-based and private finance.

18. Blended financing also encompasses a myriad of financing instruments and mechanisms (table 1). This further complicates measuring both the size and developmental impact of blended finance.

Table 1
Selected blended finance instruments and the mechanics of blending

<i>Instrument</i>	<i>Purpose of instrument and use of official development assistance</i>
Investment grants	To fund specific costs and activities that decrease overall project costs and increase chances of success. These are mostly used to purchase or upgrade existing fixed capital such as tools or facilities. Some specific forms such as interest rate subsidies can help lower the costs of finance.
Technical assistance	Various uses. It can do the investor's homework, thus lowering the high transaction costs and risks for investors linked to new projects or in uncharted territories. It can also help to improve the quality of the project, for example by funding impact studies thus increasing the likelihood of success or the development impact.
Loan guarantees	To protect investors against losses and/or improve the financing costs (government guarantees reduce borrowing costs)
Structured finance: first-loss piece	Absorbs risks by making the public entity the first to take on losses that may occur
Equity investment	Equity investors take a percentage of the ownership of the company/project/fund. The money provides funding for the project, but also demonstrates viability and provides other comfort for investors.

Source: Adapted from World Economic Forum, 2015, *Blended Finance Vol. 1: A Primer for Development Finance and Philanthropic Funders – An Overview of the Strategic Use of Development Finance and Philanthropic Funds to Mobilize Private Capital for Development*, World Economic Forum, Geneva.

19. It is thus unsurprising that there remains an evidence gap as to how effective blended finance has been to date,¹⁷ underlining the need for greater transparency and accountability relating to blended finance. Insofar as empirical evidence has been gathered, available data estimates of the mobilization of private funds within and without developing countries range from \$26 billion¹⁸ to \$52 billion¹⁹ per year. A 2015 OECD survey of blended finance instruments found these had mobilized an estimated \$36.4 billion over three years (2010–2014) of private capital, as against the UNCTAD estimate of the annual financing gap for the Sustainable Development Goals in the region of \$2.5 trillion per year. This broad picture is confirmed by a recent report by the Overseas Development Institute²⁰ that suggests that leverage ratios are not encouraging. They show that for low-income and upper-middle-income countries, a dollar invested in aid or concessional finance does not even mobilize itself again. Specifically, every \$1 invested by multilateral development banks or development finance institutions in low-income countries mobilizes only \$0.37 of private sector finance. The comparison is \$1 to \$0.65 in the case of upper-middle-income countries. It is only in lower-middle-income countries that the investment looks slightly more encouraging, with \$1 mobilizing \$1.06. This is a far cry from the leverage ratio of 1:7 that is still claimed for blended finance.²¹

A. Mobilizing private finance for development

20. Blended finance is intended not only to mobilize foreign, but also domestic, sources of private finance for development. The OECD report shows a mixed outcome on this – while beneficiary countries remain a significant source of additional capital, both in volume and number of transactions, their importance has diminished from 42 per cent of finance mobilized in 2012 to 14 per cent in 2017. Involvement of the domestic financial sector is likely to involve far greater spillovers than from foreign players, but current trends suggest domestic players are being crowded out.

21. Less than 6 per cent of the blended finance flows measured between 2012 and 2017 have made their way to the least developed countries.²² The OECD data suggest a shrinking share from year to year, so that by 2017, the least developed country share represents only 4.8 per cent of all blended finance. This is alarming, considering the stagnant ODA flows in general and the fact that ODA may be diverted to encourage blended finance (table 2).

22. The OECD data²³ show that for the blended finance mobilized between 2012 and 2017, the upper-middle-income countries received the lion's share of 43.1 per cent, followed by lower-middle-income countries (28.5 per cent). Guarantees are the instrument of choice in the blended finance originated over this period, regardless of income group (table 3). Guarantees represent over 41 per cent of all private finance mobilized, followed by syndicated loans, which accounted for 17.4 per cent of all mobilized finance mobilized. Guarantees feature prominently in the least developed countries and low-income countries and were used in 35 least developed countries to mobilize private finance over the period. However, five such countries – Angola, Bangladesh, Myanmar, Senegal and Zambia – received over half of all private finance mobilized through guarantees. While this may be

¹⁷ See for example, OECD, 2018, *The Next Step in Blended Finance: Addressing the Evidence Gap in Development Performance and Results*, Workshop report, Copenhagen, 22 October 2018.

¹⁸ OECD and United Nations Capital Development Fund, 2019.

¹⁹ International Finance Corporation, 2018, *Mobilization of Private Finance by Multilateral Development Banks and Development Finance Institutions 2017*.

²⁰ S Attridge and L Engen, 2019, *Blended Finance in the Poorest Economies: The Need for a Better Approach*, Overseas Development Institute, London. Attridge and Engen discount some of the indirect mobilization claimed by the World Bank and so reduce the World Bank leverage ratio from 1:1.5 to 1:1.3.

²¹ See, for example, Convergence, 2018, *The State of Blended Finance 2018*. The report states that “to illustrate the potential of blended finance, an allocation of 10 per cent of total development assistance to blended finance structures with an average leverage ratio of seven could crowd in \$105 billion per annum of private investment to developing countries...” (p. 5).

²² OECD and United Nations Capital Development Fund, 2019.

²³ Ibid.

seen as de-risking, there is currently not enough information to assess whether this is merely a shifting of the risk to the parties offering the guarantee, which may be the public sector of the developing country concerned. Additional estimates²⁴ suggest that this is, in fact, the case, with the public sector on average having picked up 57 per cent of the cost of blended-finance investments so far and as much as 73 per cent of the cost in low-income countries.

Table 2
Share of blended finance mobilized to the least developed countries, 2012–2017

Year	<i>Private finance mobilized in least developed countries</i>	<i>Total private finance mobilized in all developing countries</i>	<i>Private finance mobilized in least developed countries as percentage of total</i>
	<i>Billion dollars</i>	<i>Billion dollars</i>	
2012	0.752	15.274	4.9
2013	1.448	9.363	7.5
2014	1.677	22.653	7.4
2015	1.911	27.674	6.9
2016	1.803	34.272	5.3
2017	1.676	34.685	4.8

Source: OECD Statistics. Amounts mobilized from the private sector by official development finance interventions, as of 1 April 2019. OECD and United Nations Capital Development Fund, 2019, *Blended Finance in the Least Developed Countries 2019*.

Table 3
Blended finance, by financial instrument and country grouping, 2012–2017

(Shares in percentage)

Country grouping/financial instrument	<i>Direct investment in companies and special- purpose vehicles</i>			<i>Shares in collective investment vehicles</i>	<i>Simple co- financing</i>	<i>Syndicated loans</i>	<i>Country group share</i>
	<i>Credit lines</i>	<i>Guarantees</i>					
Unallocated by country	9.6	26.4	23.4	21.7	2.2	16.7	20.7
Least developed countries	5.4	12.7	63.3	2.3	4.0	12.2	6.0
Other low-income countries	0.9	13.8	61.4	2.1	2.5	3.6	1.6
Lower-middle-income countries	14.8	12.1	51.1	6.6	1.6	13.8	28.5
Upper-middle-income countries	22.2	12.0	39.4	3.4	1.6	21.4	43.1
Total	16.4	15.1	41.2	8.0	1.9	17.4	100.0

Source: UNCTAD calculations based on OECD and United Nations Capital Development Fund, 2019, *Blended Finance in the Least Developed Countries 2019*.

23. That the least developed countries are missing out is apparent when viewed from the perspective of the sectors and relative amounts that are attracting developing flows (figure 4). Only in the case of water and sanitation (33 per cent), communications (23 per cent) and agriculture, forestry and fishing (14 per cent) does the share of flows to these countries exceed 10 per cent of the mobilized flows. However, in two of these cases,

²⁴ Attridge and Engen, 2019.

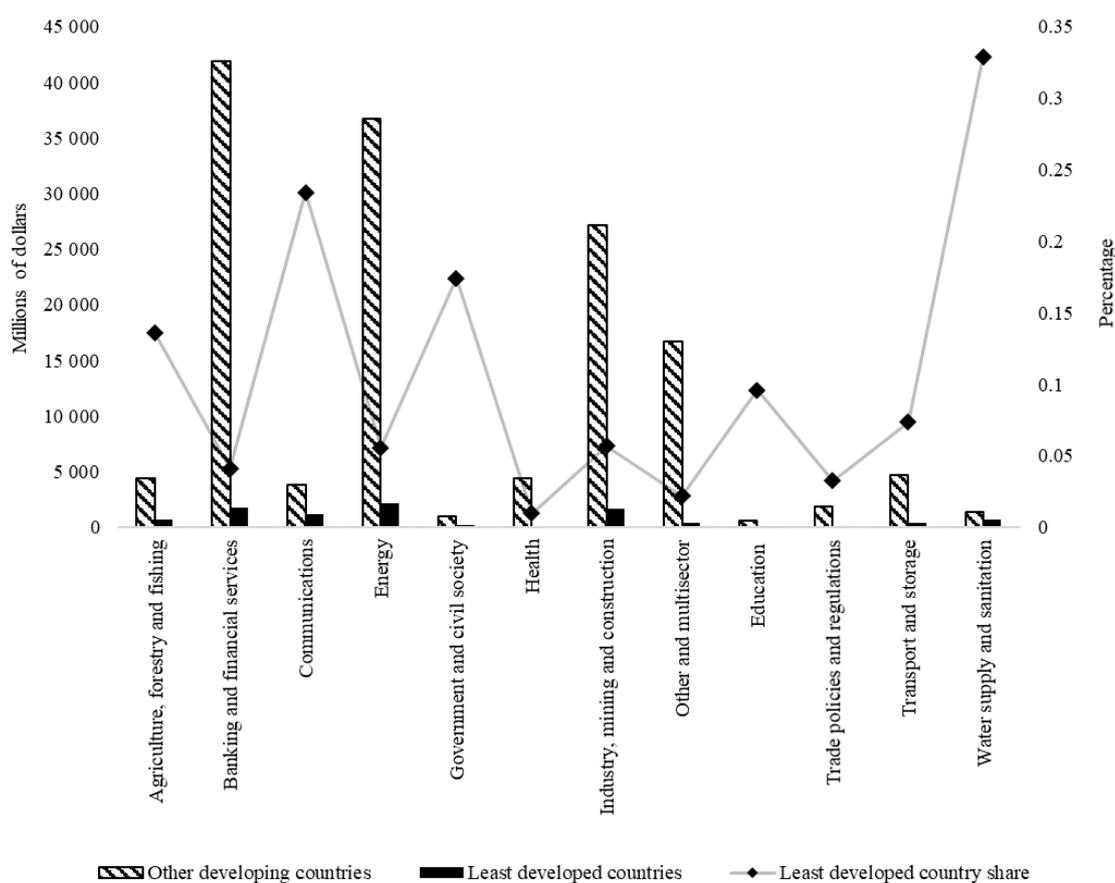
the total flows to developing countries taken together are so low (less than \$5 billion) that the least developed country share is relatively large. In the case of government and civil society, for example, while the least developed countries attracted 17 per cent of the total flows, the value was just over \$200 million.

24. From a sectoral perspective, most blended finance goes to infrastructure (with a high bias towards energy and information and communications technology) and banking and finance. A more detailed breakdown suggests that blended finance is directed towards certain kinds of commercial activity that is attractive enough for private sector buy-in but may not be prioritizing the development needs of the least developed countries. The infrastructure share of the blended finance spent is also concentrated into energy and information and communications technology – which together made up about 67 per cent of flows between 2008 and 2017.²⁵ Almost completely absent are flows to support infrastructure in water and sanitation (only 7 per cent of blended finance), and while a quarter of blended finance goes towards transportation, this is not for the building of roads in the least developed countries; instead it is directed towards middle-income countries. The banking and finance flows are for the most part lent to local finance institutions to on-lend. This may be for different kinds of credit – including credit to small and medium-sized enterprises and household credit through microfinance, and so on.

Figure 4

Blended finance flows to sectors in developing and least developed countries

(Millions of United States dollars and percentage)



Source: UNCTAD calculations, based on OECD and United Nations Capital Development Fund, 2019, *Blended Finance in the Least Developed Countries 2019*.

²⁵ JE Tyson, 2018, Private infrastructure finance in developing countries: Five challenges, five solutions, Overseas Development Institute Working Paper No. 536.

25. Blended finance appears to be flowing to middle-income countries, in particular to upper-middle-income countries. According to OECD,²⁶ 71.7 per cent of blended finance flows to middle-income countries, with the bulk – 43.2 per cent – flowing to upper-middle-income countries. These distributional data are supported by data from the Overseas Development Institute that show that middle-income countries received an estimated 98 per cent of all private infrastructure finance in the last decade (2008–2017).²⁷ Again, the bulk of this (63 per cent) went to upper-middle-income countries. According to these data, 2 per cent of infrastructure financing went to the least developed countries. Given the lack of detailed mapping of the inputs that generate blended finance, the distributional shifts associated with mobilizing blended finance remains unclear. For example, it is impossible to know conclusively that funds being used to leverage blended finance are not displacing ODA. In particular, there may be a distributional shift away from the least developed countries as ODA is used to leverage projects that are large enough to be bankable and hence offer a commercial return in other developing countries. To the extent that this is taking place, the least developed countries may be losing out, and their achievement of the Sustainable Development Goals may be further undermined.

B. Blended finance and the Sustainable Development Goals

26. Data insufficiencies also affect insights into the extent to which blended finance contributes to meeting the 2030 Agenda. Convergence²⁸ finds that 100 per cent of blended finance flows align with Sustainable Development Goal 17 (partnerships), 90 per cent with Goal 1 (no poverty) and 84 per cent with Goal 9 (industry, innovation and infrastructure). By comparison, OECD²⁹ suggests that 60 per cent of blended finance aligns with Goal 17, 70 per cent with Goal 1 and 80 per cent with Goal 9. While both estimates of the impact of blended finance mention Goal 1, figure 5 suggests relatively limited distribution towards what may be seen as the other fundamental goals such as Goals 2, 3 and 4, and a small proportion towards Sustainable Development Goals with good, strong public features, such as clean water (Goal 6) and life on land and below water (Goals 15 and 14, respectively).

27. This concurs with the understanding that not all Sustainable Development Goals can be easily transformed into profitable asset classes amenable to private sector investment and that public policy interventions other than blended finance are necessary to address fundamental development needs. Overall, available data suggest that claims on the developmental achievements of blended finance need to be made cautiously and that more evidence on its effect on the poorest and most vulnerable groups needs to be gathered.

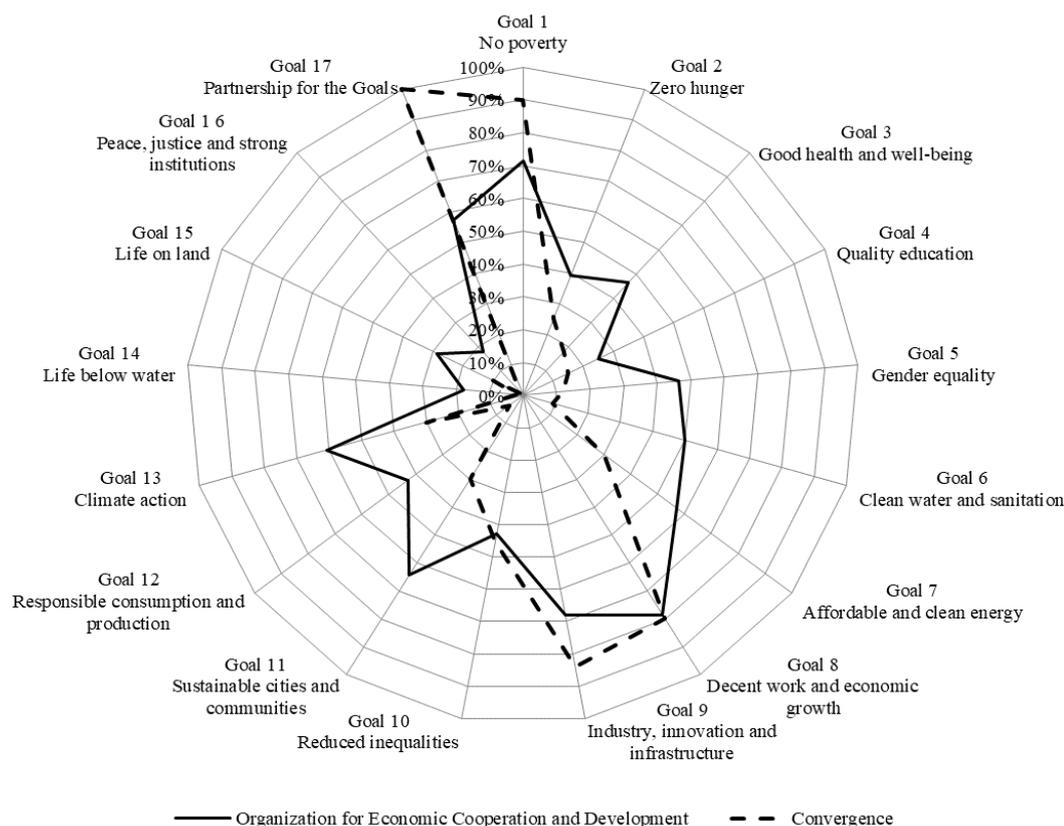
²⁶ OECD and United Nations Capital Development Fund, 2019.

²⁷ Tyson, 2018.

²⁸ Convergence, 2018.

²⁹ OECD and United Nations Capital Development Fund, 2019.

Figure 5
Claimed Sustainable Development Goal impact on blended finance to date



Source: UNCTAD depiction, based on data from OECD and United Nations Capital Development Fund, 2019, *Blended Finance in the Least Developed Countries 2019*, and Convergence, 2018, *The State of Blended Finance 2018*.

IV. Private donations: A drop in the bucket?

28. Philanthropy has increasingly attracted attention. While this represented 1.9 per cent of ODA in 2009, it increased to 3.7 per cent of ODA in 2017. According to OECD data,³⁰ private foundations provided \$13.9 billion for development from 2015 to 2017 (figure 6).

29. In specific sectors, the relative size of philanthropic funds makes them a crucial source of funding. These private resources appear to target social issues more than other private international flows, with philanthropic activities toward the Sustainable Development Goals focused mainly on general health and education (62 per cent of the total), followed by agriculture, forestry and fishing (9 per cent), and government and civil society (8 per cent). Africa is the main beneficiary region of philanthropic giving (28 per cent of the total), followed by Asia (17 per cent), Latin America (8 per cent) and Europe (2 per cent).³¹

30. Figure 7 shows that lower-middle-income countries and the least developed countries have been the main recipients of philanthropic flows. On average, 47 per cent of the flows went to lower-middle-income countries and 37 per cent, to the least developed countries between 2009 and 2017. About 57 per cent of the funds cumulatively went to middle-income countries, with a noticeable shift of these funds going towards

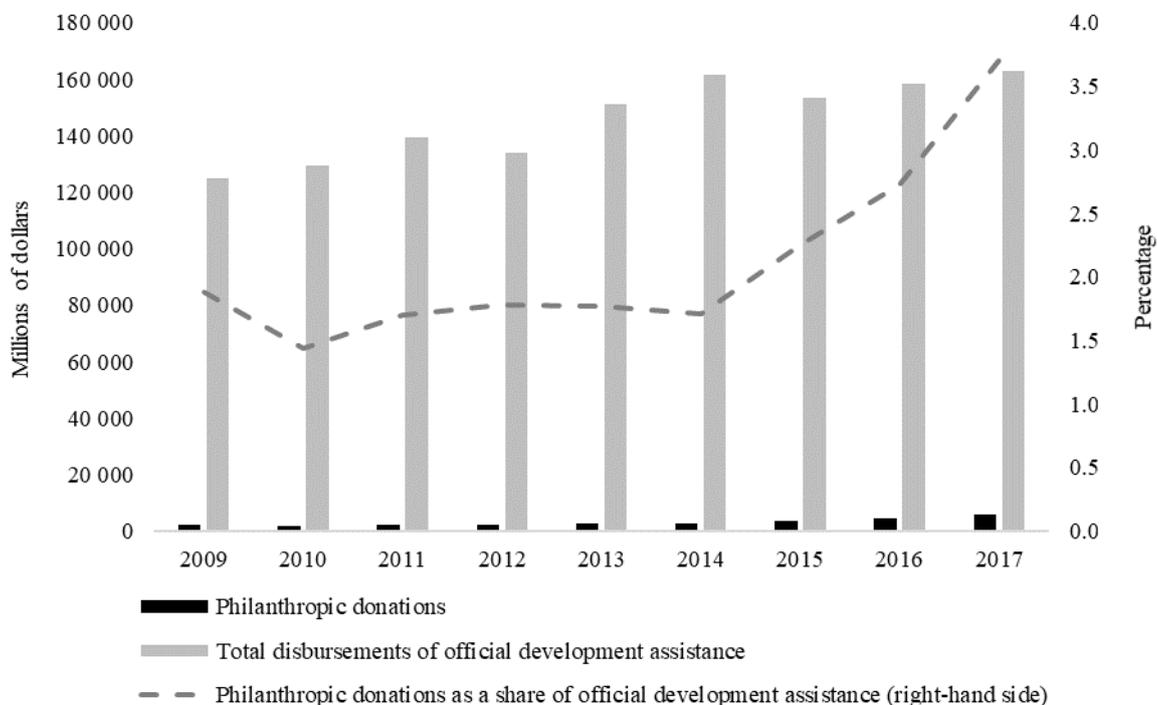
³⁰ OECD statistics, available at <https://stats.oecd.org/> (accessed 23 August 2019).

³¹ OECD, 2019b, *Private Philanthropy for Development*, OECD Publishing, Paris.

upper-middle-income countries in 2017, while the least developed countries' share fell to 34 per cent of the total.

Figure 6
Philanthropic donations as a share of official development assistance, 2009–2017

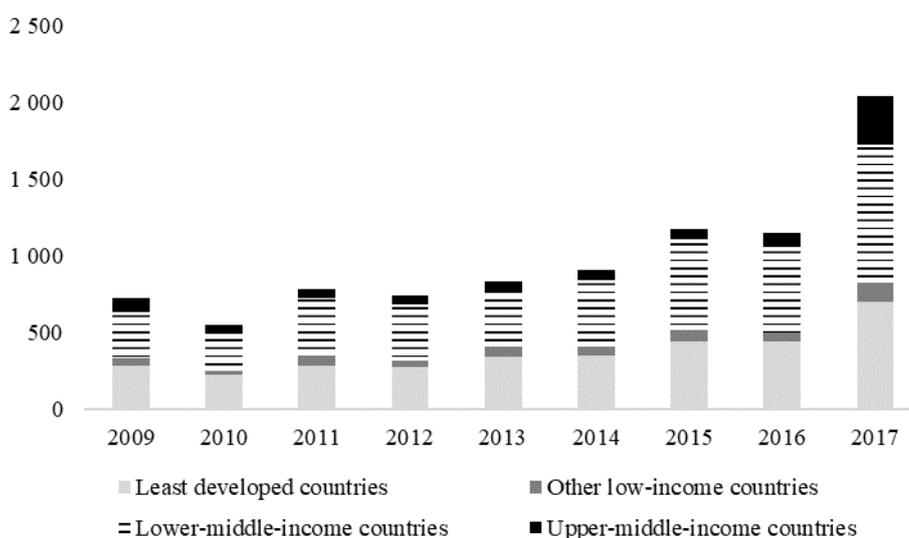
(Millions of United States dollars, current prices)



Source: UNCTAD secretariat calculations, based on OECD online database, OECD Statistics, Private philanthropy for development (creditor reporting system).

Figure 7
Philanthropic giving by country income group, 2009–2017

(Millions of United States dollars)



Source: UNCTAD secretariat calculations, based on OECD online database, OECD Statistics, Private philanthropy for development (creditor reporting system).

31. Despite its growing influence, philanthropy in financing for development raises a number of questions, including the high concentration from a few foundations and data transparency. Data from private foundations are not strictly comparable with official data sources, and foundations have limited public disclosure obligations.

V. Further challenges in international development cooperation

A. South–South and international development cooperation

32. Not least in response to muted progress in North–South development cooperation, with commitments and expectations not being matched by actual North–South resource mobilization through ODA or blended finance for the 2030 Agenda, South–South development cooperation has gained renewed attention. Discussions on promoting South–South cooperation go back to the 1940s when developing countries, many of which were still emerging from colonial rule, explored South–South trade as a reliable mechanism to facilitate structural transformation in a context in which North–South trade suffered severe setbacks.

33. The Buenos Aires Plan of Action for Promoting and Implementing Technical Cooperation among Developing Countries, which was agreed in 1978, saw South–South cooperation largely in terms of technical assistance programmes, with a view to deriving mutual benefits from the sharing of experience and knowledge, rather than wider intra-South coordination of development financing.

34. Since then, a more substantive South–South agenda has emerged to build productive capacities and regional value chains, promote strategic infrastructure investment and effective industrialization strategies, leverage new digital technologies and technological innovation for development, and make international financial and trade architectures work for the South.³² A survey by the Department of Economic and Social Affairs in 2017 found that 74 per cent of developing countries provided some form of South–South development cooperation, confirming a rising trend.³³ However, for the vast majority of developing countries, these expenditures remain below \$1 million, with only 16 per cent of countries reporting higher expenditures on South–South cooperation. The Belt and Road initiative of China, now including over 100 developing countries, clearly is the dominant driver of South–South cooperation today, with India also approving nearly \$28 billion in concessional credits, including about \$10 billion for approximately 40 African partners, with a special emphasis on partnerships with the least developed countries and small island developing States.

35. As highlighted in the Addis Ababa Action Agenda (see paragraph 2 of this note), South–South cooperation therefore remains a complement rather than a substitute for North–South international development cooperation and is not based on concessional development financing. This broad perspective was confirmed at the second High-level United Nations Conference on South–South Cooperation, held in Buenos Aires in March 2019. The future role of South–South cooperation in international development cooperation largely depends on the willingness of the North to scale up development finance.

B. Mitigating environmental vulnerabilities

36. The Agenda also calls for further strengthening of international development cooperation in areas relating to environmental protection, including climate change mitigation, as a central objective of international development cooperation. While challenges arising from the growing environmental crisis are wide-ranging, natural disaster

³² UNCTAD, 2018, *Forging a Path beyond Borders: The Global South* (United Nations publication, Sales No. E.19.II.D.2, Geneva).

³³ Inter-Agency Task Force on Financing for Development, 2019, *Financing for Sustainable Development Report 2019* (United Nations publication, Sales No. E.19.I.7, New York), p. 86.

has hit developing countries with increasing frequency in recent years, including repeated devastation by hurricanes in the Caribbean region and, more recently, the utter destruction inflicted on Mozambique and neighbouring Malawi and Zimbabwe by *Cyclones Idai* and *Kenneth*.

37. Such natural disasters, in particular when they cease to be freak events and become a fixed feature impeding sustainable development, require an appropriate preventative response through international development cooperation. This includes tackling the secondary and tertiary effects of environmental shocks on debt sustainability in developing economies. As stated in a 2010 UNCTAD study, 21 large-scale natural disasters struck low-income developing countries between 1980 and 2008. Such large-scale shocks can add, on average, 24 percentage points to the debt-to-GDP ratio of affected countries in the three years that follow the event.³⁴ If the event does not lead to a rapid increase in foreign aid, this figure can reach up to 43 percentage points. Poor and even middle-income developing countries hit by natural disasters still find themselves in a long-term debt trap: The use of public debt and renewed external borrowing to absorb the impact of a natural disaster lead to more burdensome debt servicing and limit the capacity to invest in long-term climate change mitigation. Financial vulnerabilities grow and domestic response capacities weaken with the advent of each new disaster.

38. At present, assistance from the international community relies on a combination of short-term aid, longer-term conditionalities of fiscal consolidation and preventative self-insurance schemes against catastrophic risk. A core task for international development cooperation might, however, be to revise such schemes and instead provide predictable and stable emergency funding without strict policy conditionalities or limiting eligibility criteria, such as those adopted by the Green Climate Fund.

VI. Conclusions

39. The analysis of ODA and the state of blended finance available from several sources creates an impression of disquiet. This in part is a consequence of the lack of transparency and accountability associated with these flows, the quantum and the parties involved, the lack of information relating to the share of concessional and non-concessional finance employed, the link between the flows and development needs and strategies, the debt implications for development countries and the longevity of development benefits. To the extent that the data permit, it is fair to say that ODA is not living up to its promises, private investment flows are unreliable and falling, and much less blended finance is being mobilized than hoped for.

40. The current push for a growing quantum of blending finance for investment appears to have dominated the narrative and action. There is a momentum that suggests that each year the growth of the quantum is not only desired but demanded. The clear urgency in terms of meeting the financial shortfall for development needs to be tempered with a hard look at the developmental needs, on a country basis, and aligned with development strategies. Ideally, a holistic view should be taken where the development needs of each country are evaluated in terms of the full range of development finance options, and an evaluation is made of the most effective use of grants, concessionary loans, non-concessionary loans, private investment, public investment and debt in terms of their capacity to achieve the Sustainable Development Goals. There are multiple and varied imperatives to undertake infrastructure projects that may lack secure positive cash flows; for example, grants may be necessary to strengthen the investment climates of the least developed countries, support country-led programmes of policy reform and develop local capital markets. While blended finance can clearly play a role in furthering this agenda, it does not seem to meet its promise for now.

41. The lack of a common official blended finance framework presents challenges in terms of data collection, analysis and comparability of data. This affects informed understanding of the following factors:

³⁴ UNCTAD, 2010, Haiti's recovery should start with cancelling its debt, Policy Brief No. 11.

- (a) How much private finance is being mobilized;
- (b) How much official development finance is being used to crowd in the private sector (the input) and at what cost (the subsidy);
- (c) What development impact the investment is having (the output). A better understanding of the poverty and development impacts of blended finance is required to ensure effective policymaking and allocation of ODA.

42. Creative and innovative ways to scale up blended finance need to be found. To date, the leverage ratios and use of risk-sharing (shifting) instruments suggest weak innovation. The data provide little evidence of innovation per se: The instruments used have long been in the development finance toolbox (debt finance, guarantees, direct equity, funds, insurance and risk-management tools), and they appear to be used without noticeable nuance reflecting tailoring or sensitivity to the income status of the destination country.

43. There is a need to protect existing ODA and put in place mechanisms to ensure that the risks and trade-offs associated with investing ODA in blended finance do not fall on the intended beneficiaries of aid. This is particularly important, as the pressure to incentivize blended finance may result in more aid being used in this way. In addition, aid and blended finance need to be managed by developing countries in the broader context of development finance and management of domestic resources. Even effectively increased aid and blended financing flows for sustainable development may achieve little if developing countries continue to face systemic failures of the global economy that undermine their external debt sustainability and divert their resources to prop up internal reserves for self-insurance against external capital flow and commodity price shocks.

44. While current blended financing trends might favour upper-middle-income developing countries, given the small scale of these flows, this will be insufficient to address concerns about these countries' diminished access to concessional finance – given eligibility criteria – as recognized explicitly in the Addis Ababa Action Agenda (see paragraph 2 above). This implies that future discussions on international development cooperation would also have to take more explicit account of the specific challenges faced by middle-income developing countries.

45. This is particularly the case for lower-income countries and the least developed countries, since the prioritization of the mobilization of private sector financial flows, including through leveraging ODA for blended finance, entails a preference for more advanced and higher-productivity developing country investment destinations with lower risk profiles attached to private investment.

46. More effective, long-term and non-conditional international development cooperation will also be required to mitigate the impact of climate change on developing countries, disproportionately affected by natural disasters, and more generally, promote environmental protection.