# Development Initiatives: Submission to Intergovernmental Committee of Experts on Sustainable Development Financing, April 2014

## Recap of key points from Cluster 1

### *What is your assessment of the effectiveness, consistency and synergies of current flows and instruments for financing sustainable development?*

**1.1 Developing countries have seen a huge increase in inflows from private and commercial sources.**The resource landscape has changed considerably since the MDGs were agreed and is increasingly complex- financial flows like private foreign direct investment (FDI) vastly outstrip the amounts of official development assistance (ODA), or aid, flowing into developing countries [fig 1].

**1.2 But many of these resources are not visible or transparent.** A pre-condition for assessing the effectiveness, consistency and synergies of current flows and instruments is visibility and transparencyof all resources available. The current international aid architecture is not equippedto measure and recognise the contributions of many providers(including private trusts and foundations,corporations and business) to development in any systematic way, let alone measure the impacts of these investments on poor people or make such investments accountable and transparent to those they are intended to help. Without such measurement mechanisms, there will be little incentive for harmonising such spending around common goals or spending targets (like 0.7%).

### *The biggest challenges...*

**Challenge #1: Mobilising domestic resources & catalysing the most value out of new aid instruments**

**2.1**The first action that the Monterrey Consensus called forwas for donors to support the mobilisation of domestic resources. Since then, domestic resources have increased in many developing countries, but 380 million people living below $1.25 a day still live in countries where annual government expenditure is less than PPP$500 per person [fig 2].Such low spending barely covers the costs of providing basic services.

**2.2** Recent research found that aid to domestic resource mobilisation (DRM) is not visibly a priority for donors, with core DRM projects accounting for 0.07% of total ODA spend in 2011 [fig 3]. In some cases multiple donors carried out DRM projects in one country, with limited coordination of their efforts. And though most of ODA for DRM goes to countries with low domestic capacity levels, not all low domestic capacity countries receive ODA for DRM[1].

**2.3**The positive impacts of new public-private aid instruments such as blended finance mechanisms, which are already mobilising large increases in resources from development finance institutions (DFIs) and the European Union into developing countries,are in danger of being undermined by a lack of transparency and in robust, publicly available impact reporting. There is also little evidence that investments into micro, small and medium enterprises (MSMEs) by DFIs are having much of their intended positive impacts on the economic wellbeing of developing countries.[2]

**2.4**Meanwhile, scarce ODA resources are increasingly diverted from other investments into these mechanisms. However, if the impacts on poverty can be demonstrated and measured against impacts of other, more traditional uses of ODA, this should not be a disincentive for donors to explore public-private partnerships, which have the potential to leverage huge investments into development. The key is transparency: on who benefits, where money flows and how it is spent. This is essential if projects financed this way are to be accountable to partner countries, to meet their needs, and have the greatest impact on poverty.

**Challenge #2: Building capacity of domestic governments to tackle illicit outflows and invest resources in basic services**

**3.1**Illicit financial flows such as capital flight, transfers related to illicit activities such as bribery, theft, kickbacks and smuggling; and trade mispricing costs developing country governments US$160 billion each year – more than total ODA[3]. These, and other legitimate but unproductive outflows (such as interest repayment on loans)represent a serious challenge to the ability of developing country governments to invest in basic services, and could hamper

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[1] Strawson, T., and Ifan, G. (2014) *Aid for Domestic Resource Mobilisation; how much is there?*
[2] Griffiths, J. Martin, M. Pereira, J. and Strawson, T., '*Financing for Development Post-2015: Improving the Contribution of Private Finance*'. (2014). Study commissioned by European Parliament Directorate-General for External Policies of the Union
[3] Development Initiatives (2013), *Investments to End Poverty,*Ch2, p39

the capacity of developing countries to get the most impacts on poverty from foreign direct investments [see full range of inflows vs outflows in fig 4].

**3.2** Many governments that do have increasing domestic resources will face a huge challenge in channelling that resource into the provision of quality basic services for their citizens. Countries such as India, Indonesia, the Philippines and Viet Nam are likely to experience a doubling (or more) of per capita government resources between now and 2030[4]. However, developing state capacity to deliver entirely new services, and expanding and deepening the reach of existing services is complex and expensive for any government; demanding sustained investment in infrastructure, processes, systems and people (capacity building).

**Challenge #3 Aid is an increasingly precious resource. We need more of it, targeted where it is needed**

**4.1**Official development assistance (ODA) remains the only financial flow specifically available to target the social and economic welfare of developing countries. It can provide stable, counter-cyclical investments in social sectors and cannot be easily substituted by other sources of finance. Despite the scarcity of this precious resource, many donors are still not meeting their commitments to invest 0.7% of their income on aiding poor countries [fig 5]. And not all aid is going where it is needed most- into countries with the high numbers of poor people but low domestic capacity to invest in poverty reduction [fig 6].

## *...and the biggest opportunities*

**5.1 A pre-requisite for a successful post-2015 financing plan is increasing the visibility and transparency of all resources.** Alongside placing an increasing focus on the massive potential of domestic drivers of growth in developing countries, we must now harness the enthusiasm of other actors- such as the private sector and large NGOs – in investing in sustainable development. We must ensure that their contributions can be counted, recognised and their impacts understood and accountable to people in developing countries, through building mechanisms for greater transparency and visibility of these contributions.

**5. 2** All investments in development should be focused on meeting common development goals, either at the national level, or on global public goods.With political will, the investments of all actors into development (private, public, and third sector) could be visible and transparent, possibly through the publication of all spending data to a common, open and machine readable standard (as with the International Aid Transparency Initiative, or IATI).

**5. 3**Visibility of the impacts of these other investments would stimulate political and public interest in the targets on global public goods and ending poverty, and allow all providers to be publicly recognised for their contributions- providing incentives for sustained effort.

## *Other key recommendations:*

**Challenge #1**

**6.1**Donors should continue to focus on supporting countries with low domestic resources,by investing incore domestic resource mobilisation (DRM) projects on a long-term basis, harmonising with other donor efforts.

**6.2**All actors should work to sustain the transformative potential of public-private partnerships by a) ensuring they are harmonised and focused efficiently around the new common goals for sustainable development, b) maintaining hard-won standards for transparency and accountability- to ensure greater ownership and impact for the benefit of developing countries. We need more clarity on exactly who is benefiting and ensuring that beneficiaries are people in poverty to justify this use of public finance. This can be achieved by investments in greater transparency and impact reporting.

**6.3**Donors can increase the effectiveness and ownership of public-private partnerships, by working with the private sector to sustain and advise on pro-poor commercial investments and importantly by strengthening domestic capacity to design and enforce policies that strengthen the developmental impact of private inflows.

**Challenge #2**

**7.1**All actors should work to sustain the current momentum around tackling illicit capital flight and other outflows from developing countries- for example, urging compliance for all countries with the Financial Action Task Force's (FATF) recommendations on transparency of corporate ownership information.[5]

**7.2**Each developing country is different, and will benefit from different types of financial instrument being invested in development- donors should ensure that the choice of instrument is made not on a political basis but on the basis of what form of finance is most appropriate. In particular, donors currently giving high amounts of ODA in the

[4] Ibid, p46
[5]Financial Action Task Force: *International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation - the FATF Recommendations 2012*

form of loans could consider using loans as instruments only when grants would not be preferable, especially in already indebted countries.[6]

**7.3**Donors should work alongside developing countries which are seeing large increases in available domestic resources, by investing in their domestic capacity for expanding, deepening and scaling up provision of basic services. ODA in this case can be targeted at hard-to-reach groups – such as the rural poor- where the benefits of private investments are unlikely to be felt in the short term.

**Challenge #3**

**8.1**The strengths of ODA, as an increasingly scarce resource (essential for countries with little domestic resource and limited potential to attract foreign investment)must be valued, in the increasing focus on other types of financial investment in development. Donors should maintain their investments into ODA, in line with their stated commitments to the poorest countries. This should be in addition to stepping up investments into global public goods, such as climate change adaptation and mitigation.

**8.2**Given the unique properties of ODA, as a resource flow which can provide stable, counter-cyclical investments in social sectors and cannot be easily substituted by other sources of finance, and noting that increasingly diverse forms of international financial flows (including private funds) can contribute positively to sustainable development, it may be appropriate to re-purpose ODA to focus explicitly on 'poverty eradication'. This would both incentivise more targeted sub-national ODA investments, especially in middle-income countries, and encourage the collection of better poverty data.

## Further reading


- Strawson, T. (2013)*Mobilising all resources to meet the post-2015 goals*. http://devinit.org/policy-briefings/mobilising-resources-meet-post-2015-goals/
- Strawson, T., and Ifan, G. (2014) *Aid for Domestic Resource Mobilisation; how much is there?http://devinit.org/policy-briefings/aid-domestic-resource-mobilisation-much/*
- Development Initiatives (2013), *Investments to End Povertyhttp://devinit.org/report/investments-to-end-poverty/*
- Griffiths, J. Martin, M. Pereira, J. and Strawson, T., *'Financing for Development Post-2015: Improving the Contribution of Private Finance'* (2014). Study commissioned by European Parliament Directorate-General for External Policies of the Union.http://devinit.org/wp-content/uploads/2014/04/Financing-for-development-Final-report.pdf
- Tew, R. *(2013) ODA Loans: Investments to End Poverty Discussion Paper http://devinit.org/wp-content/uploads/2013/09/ODA_loans_discussion_paper3.pdf*


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## About Development Initiatives

***Development Initiatives works to end extreme poverty by 2030 by making data and information on poverty and resources transparent, accessible and useable. We work with decision-makers to use information to increase their impact, for the poorest people in the most sustainable way.***

*www.devinit.org*

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[6] Tew, R., *ODA loans: Investments to End Poverty Discussion Paper (2013)*

# Figures and data

***All graphs are by Development Initiatives based on data from a number of sources- please use them freely, citing Development Initiatives. Please contact us for further information or for images in different file formats.***

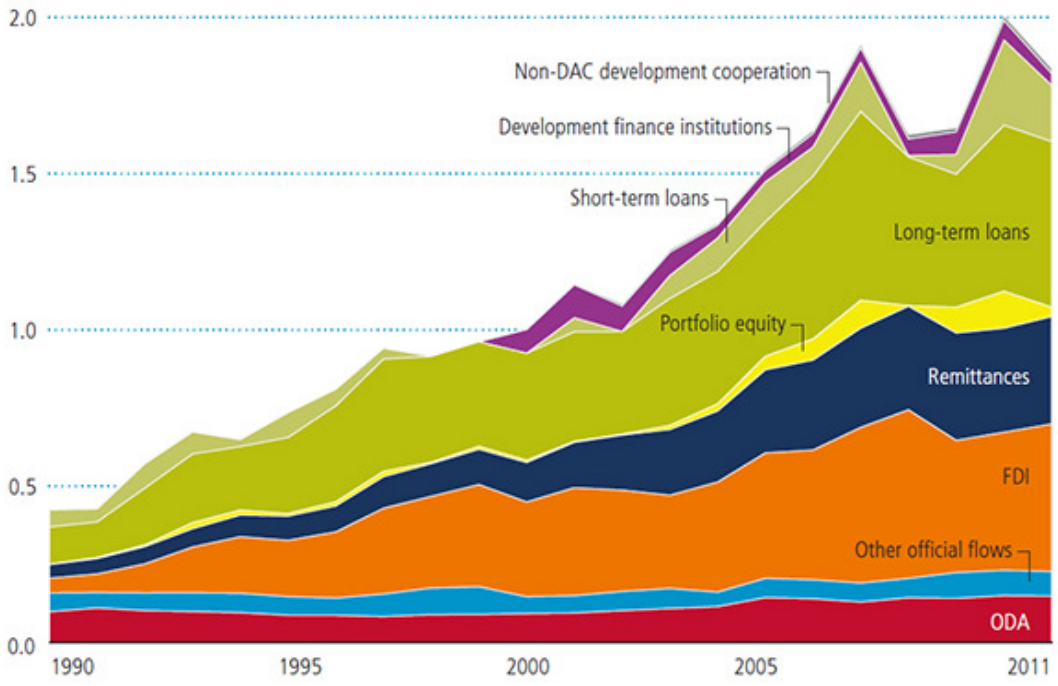


**Figure 1: International resource flows to developing countries in US$ trillions, 2011**

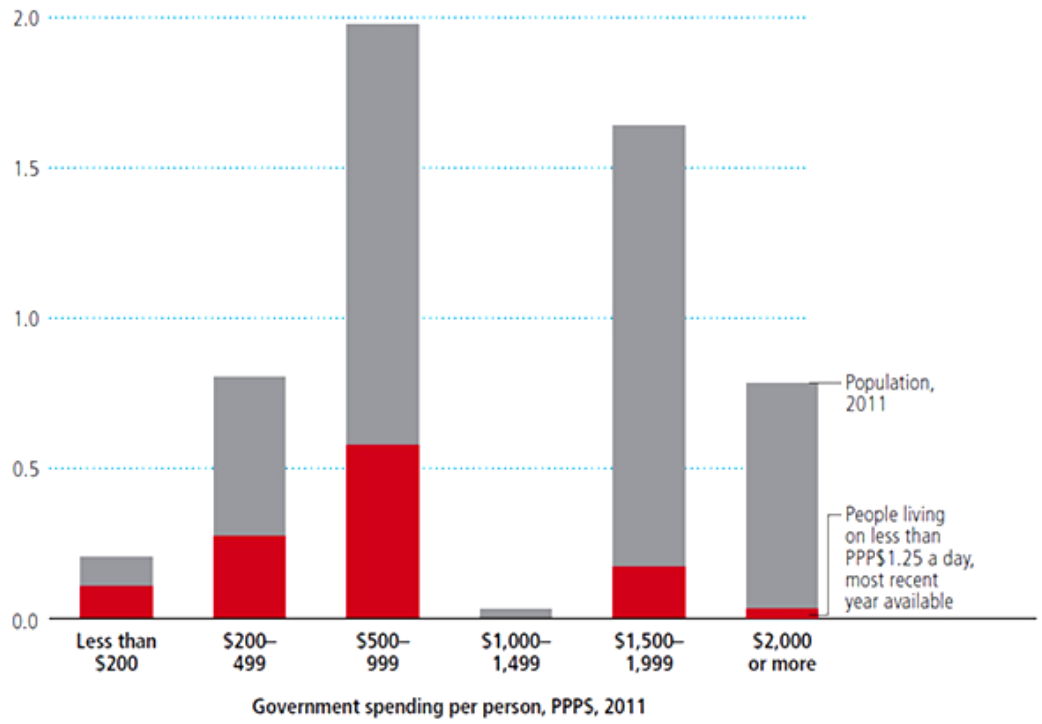


**Figure 2: Billions of people, and government spending per person**

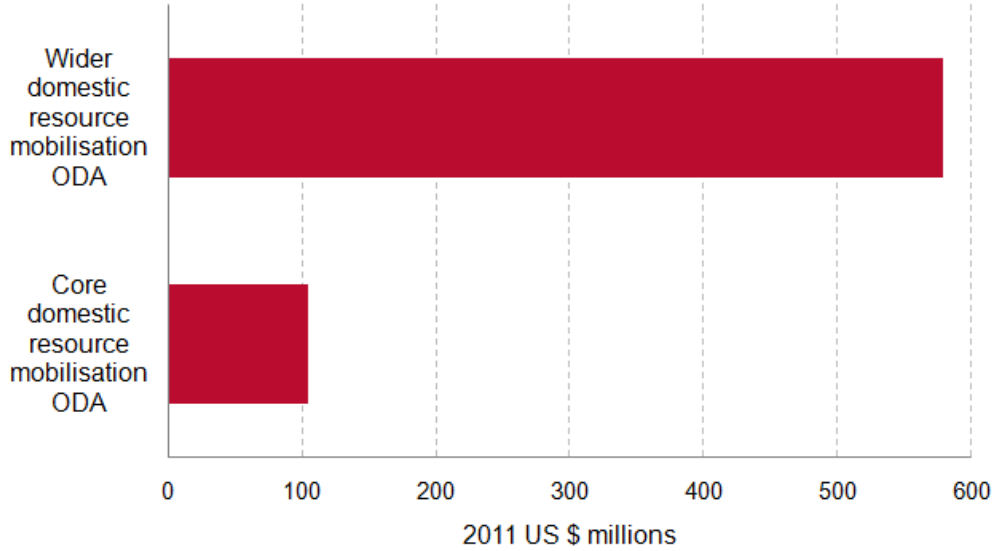


**Figure 3: Aid going to mobilising domestic resources (DRM) projects in 2011, representing 0.07% of total ODA.**

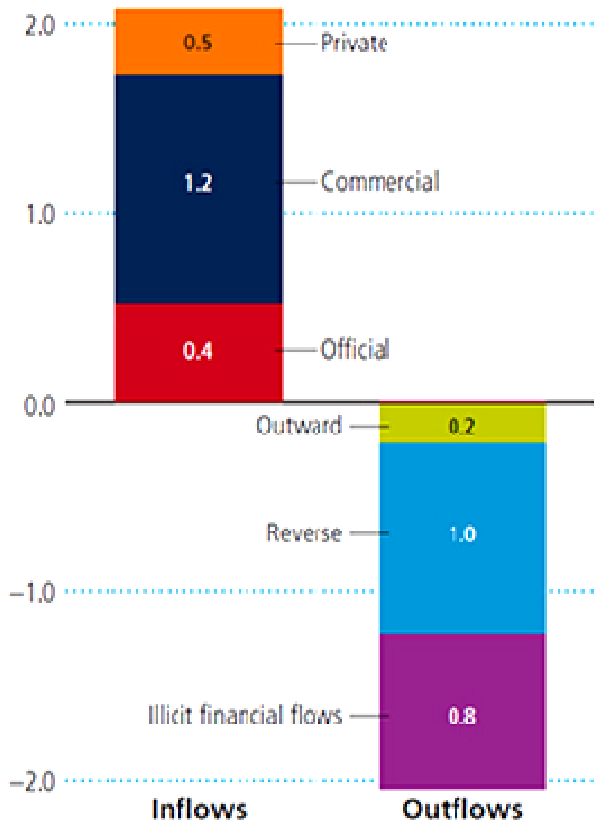


**Figure 4: Inflows and outflows related to resource types, for all developing countries in 2011, US$ trillions**

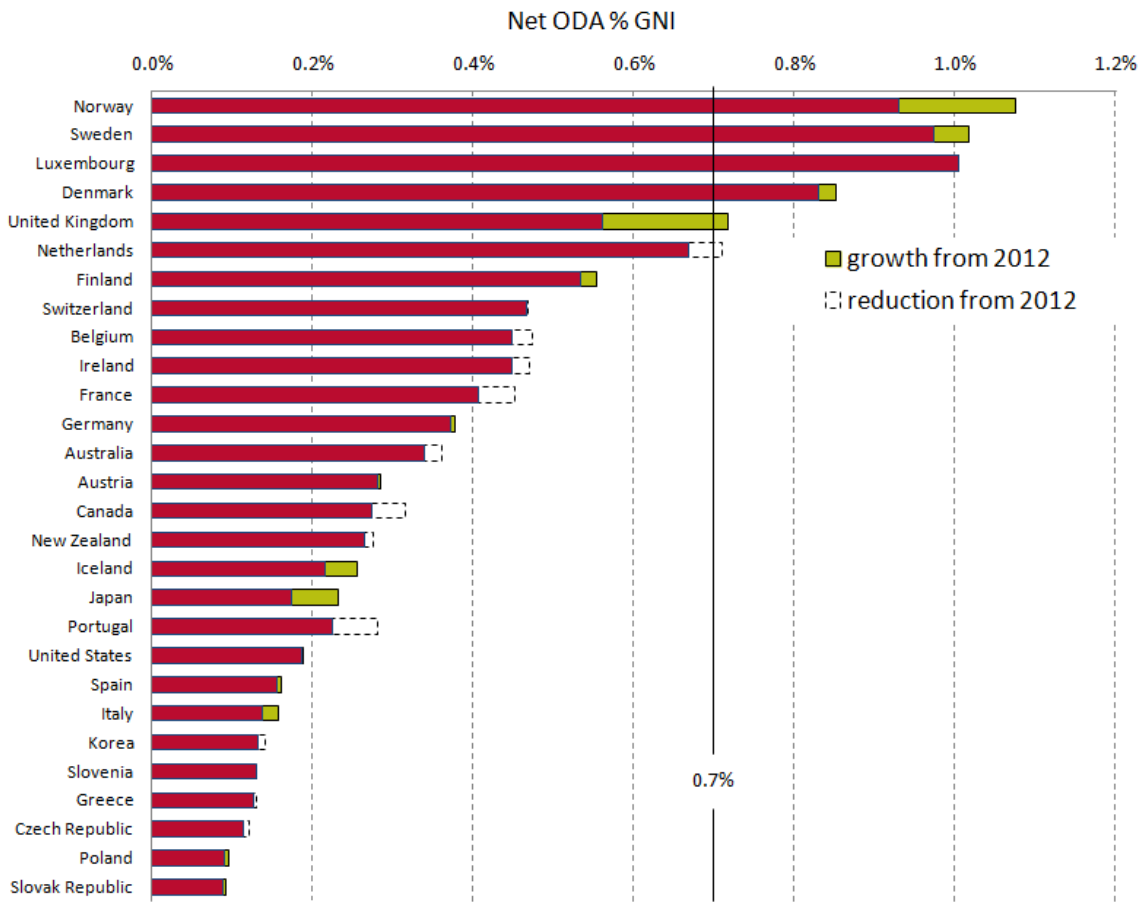


**Figure 5: ODA as a proportion of national income, measured against the 0.7% target**

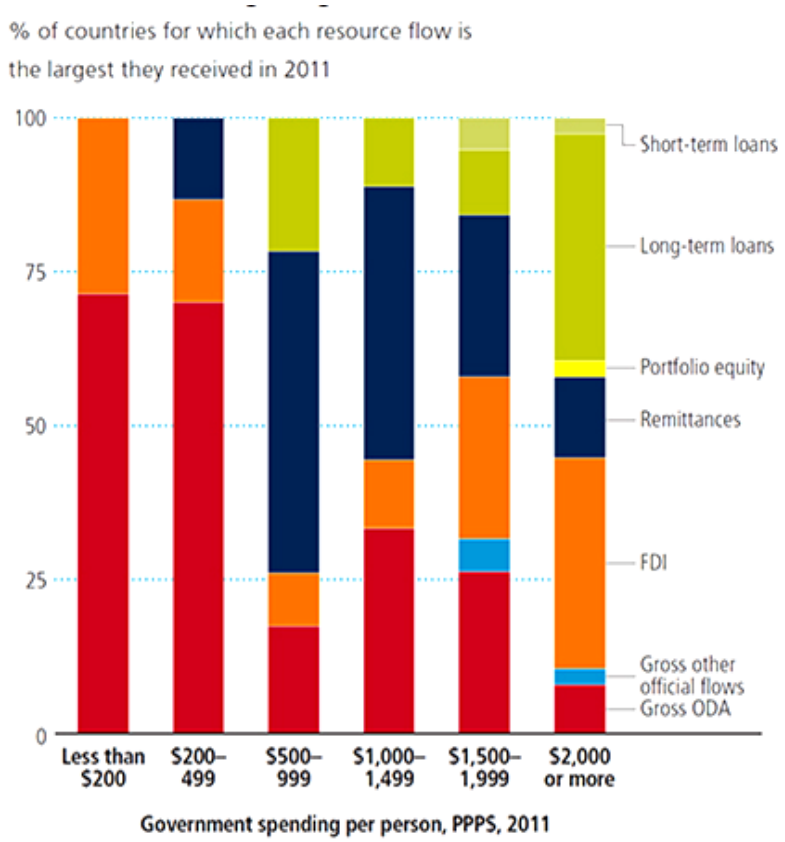


**Figure 6: ODA is the largest proportion of income in countries with the least domestic resources**