



Synthesis  
Report

# An age of choice for development finance

Evidence from country  
case studies

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Cover photo: Zackary Canepari/2010 (Laos, Chiang Saen. A man loads boxes of Chinese manufactures onto a boat travelling down the Mekong River. The goods are bound for sale throughout Indochina.)

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# List of acronyms

<b>ADB</b>	Asian Development Bank
<b>AfDB</b>	African Development Bank
<b>ASEAN</b>	Association of Southeast Asian Nations
<b>BOF</b>	'Beyond ODA' flow
<b>bn</b>	billion (\$)
<b>CSO</b>	Civil society organisation
<b>CCA</b>	Climate change adaptation
<b>CPIA</b>	Country Policy and Institutional Assessment
<b>DAC</b>	Development Assistance Committee
<b>DFAA</b>	Development Finance and Aid Assment
<b>DFI</b>	Development finance institution
<b>DFID</b>	Department for International Development
<b>DSF</b>	Debt Sustainability Framework
<b>FDI</b>	Foreign direct investment
<b>GDP</b>	Gross national product
<b>GEF</b>	Global Environment Fund
<b>GFATM</b>	Global Fund to Fight AIDS, Tuberculosis and Malaria
<b>GNI</b>	Gross national income
<b>HIPC</b>	Heavily Indebted Poor Countries
<b>IAD</b>	Institutional Analysis and Development
<b>IATI</b>	International Aid Transparency Initiative
<b>IBRD</b>	International Bank for Reconstruction and Development
<b>IDA</b>	International Development Association
<b>IMF</b>	International Monetary Fund
<b>Lao PDR</b>	Lao Peoples' Democratic Republic
<b>LDC</b>	Least developed country
<b>LIC</b>	lower-income country
<b>LMIC</b>	lower-middle-income country
<b>m</b>	million (\$)
<b>MDB</b>	Multilateral Development Bank
<b>MDG</b>	Millennium Development Goal
<b>MDRI</b>	Multilateral Debt Relief Initiative
<b>ND-GAIN</b>	Notre Dame - Global Adaptation Index
<b>NGO</b>	Non-governmental organisation
<b>ODA</b>	Official development assistance
<b>OECD</b>	Organisation for Economic Cooperation and Development
<b>OOF</b>	Other official flows
<b>PDA</b>	Private development assistance
<b>PNG</b>	Papua New Guinea
<b>PVO</b>	Private voluntary organisation
<b>SDG</b>	Sustainable Development Goal
<b>SSA</b>	Sub-Saharan Africa
<b>SSC</b>	South–South Cooperation
<b>SWG</b>	Sectoral working group
<b>UMIC</b>	Upper-middle-income country
<b>USA</b>	United States of America
<b>\$</b>	US\$ (unless otherwise stated)

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# Executive summary

The Sustainable Development Goals (SDGs) have been agreed and the world is gearing up for their implementation. The SDGs are ambitious, and their achievement will require financing that is not only massive in scale, but effective in delivering impacts at the country level

Governments pursuing the SDGs find themselves in ‘age of choice’ for development finance, with new financing instruments and providers to choose from – far beyond the traditional donors – to support their development priorities.

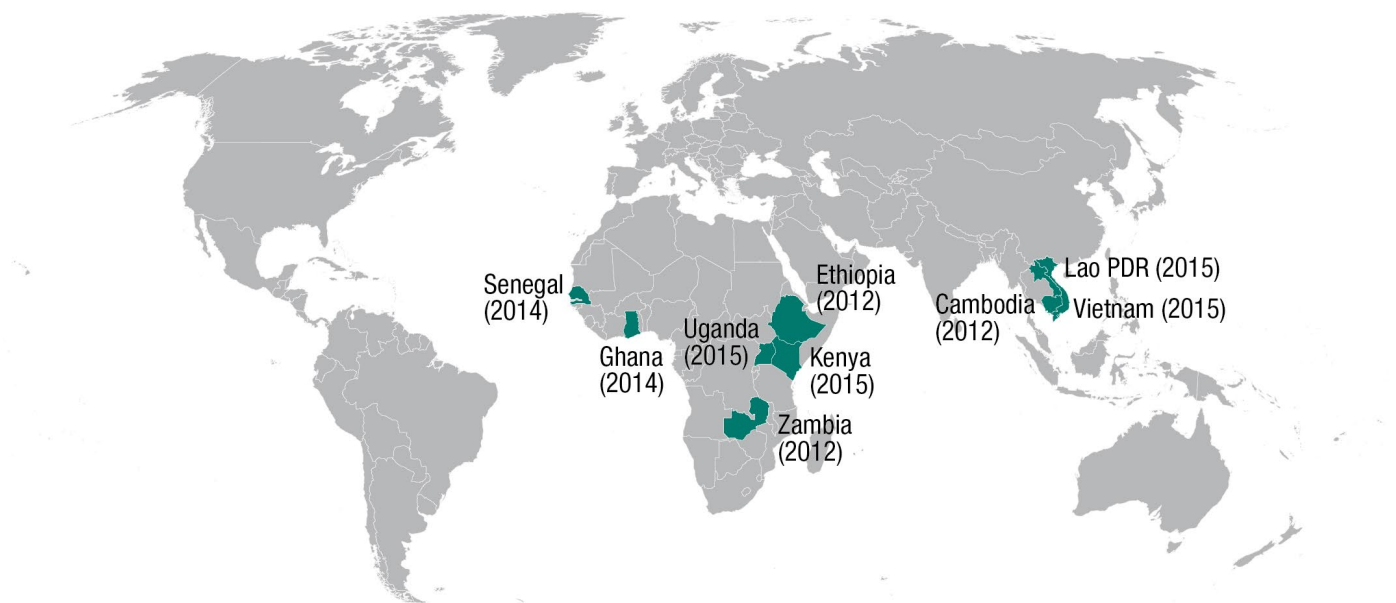
This age of choice could not be more timely, as the comprehensive and universal SDGs demand a multitude of financing tools and partnerships. It also means, however, that developing countries need a far better understanding of the different financing options and partners available to them. At the same time, donors that want to be chosen

as partners must work harder to give developing countries what they actually need if the finance they offer is to have a real impact on national priorities.

This report examines the viewpoints of developing country governments on this new age of choice in general, and on non-traditional sources of development finance in particular. It looks at the ‘beyond ODA flows’ (BOFs) that developing countries can select, explores their choices and the factors that shape them.

The findings in this report are based on nine country case studies (Figure 1) that were carried out in stable lower-income countries (LICs) and lower-middle-income countries (LMICs) from 2012 to 2015, drawing on interviews with government officials, development partners and civil society organisations.

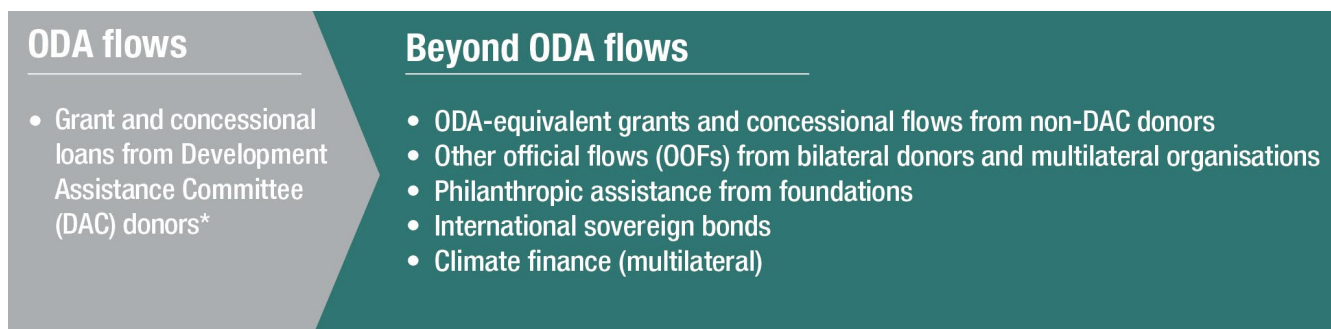
**Figure 1: Case study countries**





BOFs are not part of traditional official development assistance (ODA), but they are sources of external finance

that could be available to governments to fund national development strategies. They include: <sup>2</sup>



ODA: Official development assistance  
\* Excluding climate finance (multilateral)

## A new age of choice for developing countries

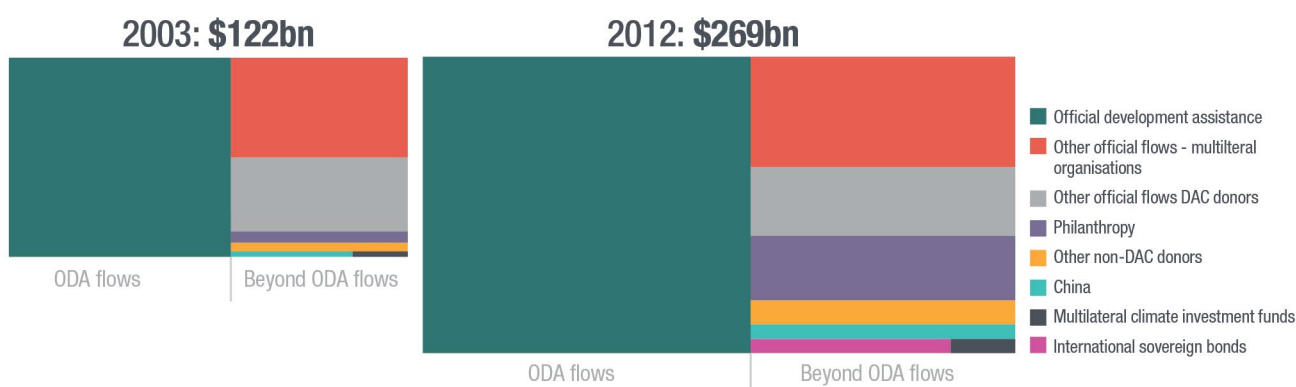
Developing countries now have more external finance available to them to fund national development than ever before. Total external development finance to all developing countries more than doubled between 2003 and 2012 to \$269 billion, with BOFs accounting for \$120 billion, or around 45%. In 2012, the bulk of this \$120 billion came from OOFs (37%) and bilateral DAC donors (23%), followed by philanthropic assistance (22%) and emerging donors (13%), marked

by a growing share from China. Other sources were international sovereign bonds (4%) and multilateral climate finance (1%) (Figure 2).

### More choice means more potential bargaining power for national governments

The emergence of new development finance providers has strengthened the negotiating power of some developing countries with traditional donors. This seemed to be the case for Cambodia, Ethiopia and Uganda, where China's presence as a donor stood out.

**Figure 2: Global external development finance flows and BOFs 2003–2012**



Source: Authors' elaboration on the basis of CPI (2014a); Greenhill and Prizzon (2012); Hudson Institute (2013); IMF (2014); OECD (2002, 2003, 2015); OECD.stat website (accessed 2015); Strange et al. (forthcoming); Tierney et al. (2011); Tyson (2015). Notes: see page 26

1 OOFs are official finance flows from sovereign donors that either do not have a development objective or do not meet the concessionality criterion set by the Development Assistance Committee (DAC) of having a grant element of at least 25%.  
2 Classified as ODA, multilateral climate funds are the only exception in this classification.

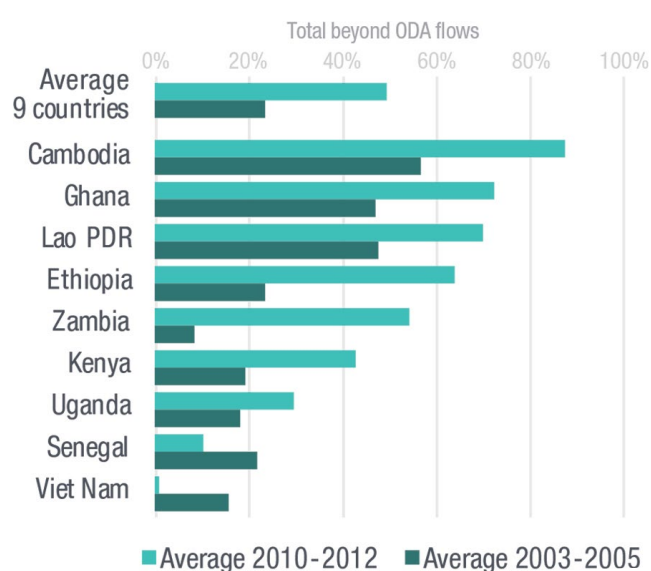
The Government of Cambodia, for example, cancelled the 2012 Cambodia Development Cooperation Forum to review progress against conditionalities – a cancellation some interviewees blamed on disputes with the World Bank. In Ethiopia, some interviewees said that the emergence of new donors has allowed the government to adopt policies that do not tally with the conventional policy conditions set by the International Monetary Fund (IMF) and World Bank. Similarly, interviewees in Uganda believed that the growing influence of China has allowed the Government to pay less attention to the governance concerns of traditional donors.

## A landscape dominated by ODA, China and sovereign bonds

### Development finance from traditional donors still matters, and is growing

ODA remains the largest single source of external development finance at country level and its flows are growing, even in middle-income countries (MICs). Its volume increased in all case study countries except Zambia. Kenya and Viet Nam have seen five-fold and three-fold increases of ODA respectively in the last ten years. In Cambodia, Ethiopia, Lao PDR, Senegal and Uganda, the volume of ODA doubled between 2003 and 2012.

**Figure 3: Share of Chinese official finance in beyond ODA flows (BOFs)**



Source: Authors' elaboration on the basis of Climate Funds Update; Foundation Centre; Khennavong (2014); OECD.stat website (accessed 2015); Strange et al. (forthcoming); Tierney et al. (2011); Tyson (2015). Notes: Average 2010-2012 for Senegal refers to the average 2009–2011

## China is the largest non-traditional donor at country level

China accounted for half of all BOFs from 2010 to 2012 (Figure 2) across the case study countries, and for more than 70% in Cambodia, Ghana, and Lao PDR. The average financial contribution from China surpasses that of any other emerging donors (like Brazil, India and South Africa).

This doesn't mean, however, that every government can count on massive amounts of finance from China. Much seems to depend on geopolitical factors, as countries recovering from or embroiled in tense diplomatic relationships with China (such as Senegal and Viet Nam) receive less of its official finance.

## International sovereign bonds are the second largest source of non-traditional flows

Every case study country except Cambodia and Uganda (both LICs) has accessed international capital markets over the past decade, particularly to fund their investment in infrastructure.

## The volume of philanthropic assistance and climate finance is very small

Philanthropic assistance may be the second largest source of external BOFs at the global level, but its volume at country level is minimal; amounting to the equivalent of just 1% of ODA flows in both Ghana and Senegal between 2003 and 2012. This is because philanthropic organisations rarely deal directly with governments – instead, they channel their funds via trust funds and international organisations.

The volume of climate finance funds is also extremely small at country level, even in the countries most vulnerable to climate change. Senegal, for example, ranks high (number 137 of 180 countries) on the Notre Dame Global Adaptation Index, but total climate finance pledged to the country since 2003 amounts to only \$32 million, and only 60% of this had been disbursed by 2013. This stands in stark contrast to the more than \$1 billion of ODA Senegal received in 2011 alone.

## What shapes the choices made on development finance?

### Developing country priorities: volume, speed, ownership, alignment and diversification

The top priorities for developing countries remain largely in line with the principles of aid effectiveness, regardless of the changing finance landscape. Some countries stressed speed of disbursement, while many prioritized their ownership of development programmes that are aligned with national development strategies, consistent with the principles of the Paris Declaration. Several, including Kenya, Lao PDR and Cambodia, emphasised the sheer volume of finance, as they need to invest heavily in infrastructure projects. They have issued international sovereign bonds over the past 10 years to diversify their funding portfolio because they require amounts that other

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lenders, especially multilateral development banks (MDBs) and bilateral DAC donors, have not been able to provide.

A general trend across the case study countries was the increasing issuance of sovereign bonds even though their terms and conditions are not as favourable as loans from bilateral and multilateral lenders. Governments issue bonds because it allows them to re-finance previous obligations and sends a clear signal: this country can access international financial markets. Developing countries also valued the absence of the policy conditionality and delays that often characterise the disbursement of traditional development finance.

### **Non-traditional donors have little interest in aid coordination mechanisms**

It seems that the energy around the aid effectiveness agenda is faltering, given the lack of interest among developing country governments and emerging donors, even in countries that were very active in the processes around the Paris Declaration, the Accra Agenda for Action and the Busan High Level Forum

on Aid Effectiveness. Emerging donors take no active part in aid coordination mechanisms in the case study countries, with the exception of Zambia. They are either entirely absent from such processes or only participate as observers. Most negotiations with developing country governments are bilateral and often involve discussions with contractors (especially those from China) at a very early stage in the project implementation process.

### **Public debt is on the rise**

Public debt levels have soared over the past decade in Kenya, Lao PDR, Uganda and Viet Nam. With the exception of Lao PDR, these countries have debt-to-GDP ceilings, set by parliament or regional organisations, which they will reach very soon. This could make it difficult for them to take on more loan financing to meet national development priorities. Loan financing is essential, as the SDGs cannot be achieved through grant financing alone.

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## Managing a new age of choice – a way forward

The range of recommendations offered by this report can be condensed into 10 recommendations to help developing countries and donors navigate their way through a transformed development finance landscape.

### Developing country governments can take five main steps to capitalise on the new age of choice:

1. **Know what you want.** Countries with clear national development strategies, such as Ethiopia and Uganda, were more confident when dealing with potential donors. Governments should put together national development strategies that identify priority sectors and how funds should be spent. The clear message is: seek a range of funding that supports your development strategy, reject any funding that does not, and agree clear priorities for the ‘terms and conditions’ of the development finance flows you choose.
2. **Know how much finance is coming in, and keep track of where it goes.** The case study countries often lack data monitoring on development finance by Ministries of Finance and Planning. Ministries should, therefore, improve their efforts to build and maintain good data sets so they can see how much finance is coming in, what kind of finance it is, where it is from, and where it is going. This would allow governments to see the links between financial flows and tangible progress. At the global level, a data revolution is needed to support achievement of the SDGs. At local level, a data revolution is needed for good strategic planning and better evaluation.
3. **Think outside the ODA box.** Most financing strategies in the case study countries *still* focus on ODA but, in the new age of choice, alternative sources of finance generated \$120 billion for developing countries in 2012 alone. While ODA still matters, access to it will decline as economies grow. So include public and private non-concessional financing in your national development strategies. This will help you achieve a range of development objectives in the face of rising debt levels and limits on the amount of traditional financing you can access.
4. **Play the field.** Don’t just stick to traditional donors. China and the international sovereign bond markets are already major sources of development finance at country level, and philanthropists and other non-DAC donors at the global level. Negotiate with both new and old development finance providers and be strategic in managing your relationships with them. Recognising the distinctive characteristics of a provider will increase your chances of a successful negotiation.
5. **Don’t forget about macroeconomic performance.** This might seem obvious, but successful sovereign bond issuances rely on good macroeconomic indicators and their forecasts. Poor macroeconomic performance means lower credit ratings and higher interest rates for future issuances, making the refinancing of international sovereign bonds unsustainable.

### Donors can take five main steps to provide more effective development finance:

1. **Remember that ODA still matters.** It is still by far the largest source of external development finance available to governments in developing countries. While debates on ‘beyond ODA’ are important, donors must ensure that ODA itself is effective in supporting national development plans and progress towards the SDGs.
2. **Support countries’ own strategies and policies, and do it quickly.** Evidence suggests that developing countries are using the availability of new financing options to their advantage, and that this has bolstered their negotiating position with donors. Traditional donors need to give developing country governments what they want – ownership, alignment and swift disbursements – or risk losing ground to other providers and, ultimately, losing relevance.
3. **New donors need to respond to developing country priorities.** The biggest new donor – China – on average accounts for more than 50% of ‘beyond ODA flows’ across all case study countries, and for more than 70% in three of them. All providers, including China, need to ensure that their finance contributes effectively to the achievement of the SDGs, is ‘owned’ by the country that receives it, is aligned to that country’s priorities, and promotes macroeconomic and debt sustainability.
4. **Find out what is going on with the very small flows of philanthropic and climate finance.** It may be that philanthropic finance is subsumed into flows from NGOs and global funds, but better tracking is needed. Given the recent landmark agreements on climate change, it is alarming that so little climate finance goes to countries that are vulnerable to climate change.
5. **Don’t forget about debt management.** Debt levels have risen rapidly in many countries, and those with debt ceilings are about to hit them. Given the vast financing needs for the SDG agenda, donors and aid-recipient governments must work together to identify funding options that do not heighten the risk of debt distress. This also requires multilateral development banks to reflect on whether limited supply and terms and conditions are pushing developing countries towards more expensive – and perhaps more risky – capital markets.

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# 1 Introduction

## 1.1 A changing development finance landscape

The development finance landscape has changed rapidly since the early 2000s. It has undergone what Severino and Ray (2009) describe as a ‘triple revolution’ among actors, goals and tools. Greenhill et al. (2013) define it as an ‘age of choice’ for development finance. There are many new providers of development finance, including new donors, such as China and India; philanthropic foundations, such as the Bill and Melinda Gates Foundation, expanded international grant-making. New goals, such as those related to climate change adaptation (CCA) and mitigation have been set, and have led to the creation of vertical funds. Complex finance tools to increase the involvement of the private sector in financing public investment have been pioneered and scaled up. In addition, low-income countries (LICs) have issued 25 international sovereign bonds between 2005 and 2014<sup>3</sup> (IMF 2014). These changes have taken place over a period of fiscal retrenchment in OECD countries, which has often been equated with pressure to cut aid budgets. Meanwhile, the number of lower-income countries (LICs) has been shrinking in the last ten years. Graduation to lower-middle-income (LMIC) status changes the financing mix, reducing access to concessional financing from multilateral development banks (MDBs)<sup>4</sup> and grant aid from some bilateral donors.

## 1.2 Why this report?

In September 2015 the UN General Assembly adopted the Sustainable Development Goals (SDGs), which will drive the global agenda until 2030. This agenda will primarily be implemented at the national and subnational level, and national governments and financing strategies will play a key role.

This report aims to highlight country-level perspectives on financing development, and analyse the sources of external finance that might support a given country in this effort, in addition to traditional Official Development Assistance (ODA). Analyses of ‘beyond ODA flows’ (BOFs), as defined below, are far less copious than those on traditional ODA, hence our focus on them.

We use the term BOFs to refer to sources of external finance that can enter government budgets or are directly, at least in principle, controlled by the government. These include assistance from new and emerging donors; non-concessional flows from DAC donors (or other official flows, OOFs)<sup>5</sup> (see also Box 1 below); philanthropic assistance; international sovereign bonds; multilateral climate funds ‘and PPPs. We define these as ‘development finance flows beyond ODA’ (BOFs).

For aid-recipient governments to finance and implement the SDGs is far from an easy task. Yet there is very limited evidence and policy advice on how to obtain access to, negotiate and manage the increasingly complex array of financing options from the perspective of such governments. For example, several governments in sub-Saharan Africa (SSA) have issued bonds in international financial markets rather than borrowing from harder MDB facilities, despite their lower interest rates and longer maturities. Yet we have limited evidence on why this is the case.

This report has three main objectives:

- To separate the ‘hype from reality’, measuring the extent to which countries have accessed BOFs; whether the number of funders has expanded; and whether the share of BOFs has grown.
- To provide an analytical framework and a tool to help develop and support aid and development finance strategies at the country level, by analysing and comparing

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3 Only issuances from the first two quarters of 2014 are included.

4 The graduation process starts when a country’s per capita is higher than the operational threshold set by the World Bank (slightly higher than the analytical threshold referred in the text). The country joins the ranks of ‘blend status’, meaning that it is still eligible for International Development Association (IDA) assistance but that it can also borrow at International Bank for Reconstruction and Development (IBRD) terms. The other requisite to become an IBRD country (the World Bank facility at tougher lending terms than IDA) is the assessment of ‘creditworthiness’.

5 At the time of writing, by OOFs we use the OECD definition: ‘Official sector transactions which do not meet the ODA criteria, e.g.: i.) Grants to developing countries for representational or essentially commercial purposes; ii.) Official bilateral transactions intended to promote development but having a grant element of less than 25 per cent; iii.) Official bilateral transactions, whatever their grant element, that are primarily export-facilitating in purpose’.

6 These are usually classified as ODA and they are the only exception to the definition. See section 2.1 on the criteria adopted for the definition of ‘beyond ODA’ flows.

- the experience of different countries in accessing, negotiating and managing development finance flows.
- To better understand government priorities and preferences regarding development finance. This will not only help to increase the ownership and alignment of development programmes at the country level, but also help development agencies to remain relevant and provide their assistance more effectively.

While other studies have explored global trends in BOFs (for example, Development Initiatives (2015) and Hudson Institute (2013)), few have explored what these trends mean at the country level. The Development Finance and Aid Assessments (DFAAs) UNDP conducted in Asia-Pacific (UNDP 2015) is one type of such studies. These consist mainly of descriptive historical and scenario analyses of the development finance landscape at the country level. The Asia Foundation (2014) investigated selected countries in Asia in great depth, but the flows analysed are confined to emerging donors rather than the entire spectrum of external resources going to governments.

The analysis of development finance flows at the country level is an important question since large and rising volumes of external finance at the global level do not necessarily translate into more resources reaching developing countries' budgets. Some funds may cover administration costs, while others may support international organisations, vertical or trust funds rather than reaching the government directly (although they may of course indirectly benefit such countries by increasing the overall volume of funds).

The approach followed in the ODI case studies goes beyond data analysis and a single category of financiers. Its political economy analysis aims to identify the nature and the evolution of the relations between diverse providers of development finance and partner country governments. In the course of the research, teams have interviewed nearly 200 government officials in 9 countries across central and line agencies. This research provides a good basis for understanding partner country governments' priorities regarding the terms and conditions of development finance, but without taking the Paris Principles of Aid Effectiveness as a starting point. It also considers the strategies governments adopt in negotiating with development partners.

### 1.3 Methodology and case studies

The main theoretical frame informing the case studies combines elements of the 2008 Fraser and Whitfield study 'The Politics of Aid: African Strategies for Dealing with Donors' and the Institutional Analysis and Development (IAD) framework developed by Ostrom et al. (2001).

We consider development finance as the outcome of negotiations between the government and financiers rather than a principal-agent problem as in most of the literature.

This report presents the evidence from 9 country case studies that ODI has conducted over a three-year period, namely:

- The first synthesis report (Greenhill et al. (2013) on **Cambodia, Ethiopia and Zambia**.
- OECD (2014a) on **Ghana, Senegal and Timor-Leste** conducted by ODI on behalf of the OECD, and following a similar methodology to Greenhill et al. (2013).
- Four case studies conducted by ODI on **Kenya, Lao PDR, Uganda and Viet Nam** in 2015.

Most of the analysis in this report focuses on the countries in SSA and Asia (nine in total). The Pacific Islands share distinctive features – notably geographical location and size, a small-scale civil service, and fewer development partners than other recipient countries, with Australia being the most dominant. For these reasons, we do not include and compare them in the data analysis in Section 4, but we present some of the key findings on these countries in Section 5.<sup>7</sup>

An analysis of the entire set of case studies ODI conducted since 2013 brings out a wealth of evidence and experiences across East Africa, South East Asia and the Pacific, and shows the benefit of comparing them, despite some methodological differences (see Section 2). We are aware that our findings cannot necessarily be extrapolated and applied to other countries. Case studies conducted over a three-year period also means that the information on which the analysis was based may in some cases have become out-dated. This synthesis report uses the data collected at the time of each research visit since it informed and shaped the case study analysis.<sup>8</sup>

Given the ambitious nature of the study, we have had to limit its scope in order to keep the analysis manageable. First, we analyse the perspective of governments (central and line agencies), rather than those of non-state actors, which may be different. Second, we focus only on financial flows. For instance, guarantees are not explicitly included because they do not generate a flow unless they are called. Third, domestic resource mobilisation is the largest source of finance in nearly all developing countries but we focus only on external flows. Fourth, we do not examine private flows such as foreign direct investment (FDI) and remittances because the government does not directly control these (more on this in the next section). Finally, we did not look into development outcomes of development finance flows, only at access to and management of finance.

The report is structured as follows:

7 For a comparative analysis of the Pacific Islands reviewed see Schmaljohann and Prizzon (2015).

8 We recognise that the report does not present information for the same time period in every case and is not the most up to date for some countries.

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- Section 2 defines what we mean by external development finance, the set of flows we investigated and how we selected them. It sets out the theoretical framework that guided the case study analysis, the research and policy questions that guided our analysis, the methodology used and the criteria for case study selection.
  - Section 3 highlights the main features of the economic, political, institutional and climate change context that shaped the negotiating capital in the countries we analysed, ultimately affecting the strategies and outcomes for development finance.
  - Section 4 maps and estimates the volume of external development finance to developing countries since early 2000s.
  - Section 5 summarises the main findings of the quantitative analysis and section 5 on qualitative findings from the case studies in relation to the main research and policy questions.
  - Section 7 recommends various actions and interventions for recipient country governments and development partners to make access, management and negotiations of development finance more effective and aligned to partner countries' priorities and preferences.



Photo: Stefan Boness/2004 (Laos, Luang Prabang Young pupil during a lesson at primary school.)Rich Mallet

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# 2 Beyond ODA flows: definition and research framework

## 2.1 The focus of this report: beyond ODA flows

This report focuses on external finance flows that are available, or potentially available, for governments to fund national development strategies. We specifically focus on ‘beyond ODA flows’ (BOFs). ODA has been comprehensively studied, but there are few studies and limited evidence on the access, negotiation, and management of BOFs. We include flows that meet the following criteria:<sup>9</sup>

- Cross-border flows: domestic bond markets and taxation are therefore excluded.<sup>10</sup>
- Flows that are spent for a public or philanthropic motive: FDI is private in nature and remittances are personal, so both are excluded.
- Flows that are not managed via traditional bilateral and multilateral aid systems. This means that we include multilateral public climate funds when their allocation mechanisms are based on project- or programme-level competition even though they are often classified as ODA. This is the only exception to the definition.
- Flows that are potentially under the direct influence if not control of the government and that are accounted for, in principle, in government budgets, independently from the level of concessionality, and that potentially have an impact on government budgets (such as contingent liabilities). This would be the case of issuances of sovereign bonds in international financial markets but not of FDI and personal remittances, as the government has only indirect responsibility for the

latter; the same would apply to export credits, which are aimed primarily at the private sector.<sup>11</sup>

Our definition of BOFs might be debatable, especially given the current process to revise the definition of ODA (OECD 2014b), but is intended here as short hand to refer to the flows examined in this report. This section defines the boundaries of our research in the country case studies and what we refer to as external development finance.

Similarly, other terms (such as non-traditional development finance) are not entirely satisfactory or precise. As in the definition was provided in the first synthesis report (Greenhill et al. (2013), see Box 2) our classification is not intended to generate yet another term for external development finance.

The flows that meet the criteria above and are summarised in this report and informed the case study analysis are (see Table 1):

- Other official flows (OOFs) from DAC/multilateral development agencies.<sup>12</sup> We are aware that the OECD/ DAC approved new guidelines for assessing the concessionality of ODA flows (OECD 2014b and Box 1). As the guidelines have not been fully implemented, this report reflects the previous rules for defining eligibility based on a constant discount rate (10%) and a minimum grant element of 25%.
- Flows from non-DAC sovereign donors, both ODA and OOF equivalent. Flows from China are commitments while flows from non-DAC donors reporting to the DAC are disbursements.

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9 The first three criteria applied in the first phase of the project.

10 The domestic bond market and trends in tax revenues form part of the analysis of the economic context.

11 We do not apply a balance of payments approach, i.e. reviewing all cross-border flows.

12 This report considers gross disbursements unless otherwise indicated because of data availability. See Table 1.



- Philanthropic assistance from foundations.
- Climate finance (multilateral).
- International sovereign bond issuances.
- PPPs. This is an exception as PPPs are an instrument rather than a source. In the case study analyses we looked into this instrument because it helps to illustrate how governments, development partners and the private sector work together. The measurement of the public stake in PPPs is, however, hard if not impossible, so we do not include this instrument in our analysis of global and country-level trends.

The concept of external development finance corresponds to beyond ODA flows plus ODA flows<sup>13</sup>. Thus providers of development finance beyond ODA include non-DAC donors, DAC donors when they provide non-concessional assistance (hard windows or special agencies for most of the DAC donors/multilateral agencies), philanthropic organisations and multilateral climate funds. Traditional donors are defined as members of the DAC that provide ODA.

**Table 1: Development finance flows analysed**

ODA flows	Beyond ODA flows	Other flows not considered
Grant and concessional loans from DAC donors (excluding multilateral climate finance) disbursements	ODA-equivalent grants and concessional flows from non-DAC donors. Commitments are used for China while disbursements are used for non-DAC donors reporting to the DAC.	FDI and equity flows
	OOF disbursements from DAC and non-DAC donors, multilateral organisations	Remittances
	Philanthropic assistance from foundations	Domestic resource mobilisation
	Climate finance (multilateral) commitments	Domestic financial markets
	International sovereign bond issuances	

### Box 1: Changing rules for assessment of ODA concessionality

In December 2014, the DAC High-Level meeting agreed on a new way to measure ODA loans. As this new approach will be gradually introduced over the coming years, we use the previous definition (i.e. a loan is ODA eligible if its grant element is at least 25% of its nominal value, applying a constant discount rate of 10%).

The reform in late 2014 introduced a 5% discount rate with an adjustment factor of 1% for upper-middle-income countries (UMICs), 2% for LMICs and 4% for Least Developed Countries (LDCs) and other LICs. To ensure that loans to LDCs and other LICs are provided at highly concessional terms, only loans with a grant element of at least 45% will count as ODA. Loans to LMICs need to have a grant element of at least 15%, and those to UMICs of at least 10%, in order to qualify as ODA.

Roodman (2015) suggests that the new measure for assessing ODA concessionality will not largely affect total ODA.

## 2.2 A political economy analysis research framework

Our primary objective is to understand how governments make choices across the spectrum of financing options and which criteria they apply. While there is a large literature on public choice and how governments allocate resources across sectors and ministries on the expenditure side (see Mogues 2012 for a recent review), papers reviewing criteria applied by governments to choose among financing options are narrow and mainly empirical (see Benedek et al. 2012 for a review on aid and tax), often focusing only on tax and revenue mobilisation (see von Hagen 2005). Furthermore, the few theoretical frameworks usually model financing choices by partner country governments only between aid and tax revenues (Heller 1975; White 1994) and not across the spectrum of cross-border and domestic flows.

In order to address this question, we relied primarily on a case study methodology combining elements of the 2008 Fraser and Whitfield study ‘The Politics of Aid: African Strategies for Dealing with Donors’ and the Institutional Analysis and Development (IAD) framework developed by Ostrom et al. (2001). Greenhill et al. (2013) describe the framework applied in detail. Here we outline its main elements.

<sup>13</sup> We are aware some reports such as the European Development Report and Investments to End Poverty/Development Initiatives include FDI and remittances in this definition.

## Box 2: Defining development finance – our previous approach

Greenhill et al. (2013) mapped how the development finance landscape evolved between 2000 and 2009, concentrating on ‘non-traditional development assistance (NTDA)’ flows. It was an imperfect definition since the boundaries between traditional and non-traditional providers and flows are quite subjective. China is often referred to as an emerging donor (e.g. Smith et al. 2010; Woods 2008), but Chinese technical and development cooperation programmes have existed since the 1950s, with the Tazara Railway between Tanzania and Zambia being a notable example.

We have taken stock of the lessons from the first set of case studies, whose findings are summarised in Greenhill et al. (2013). Our current definition of ‘beyond ODA flows’ is therefore slightly different to the NTDA used in the 2013 report, in the following respects:

We no longer analyse the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM)<sup>a</sup> separately. The GFATM was singled out in Greenhill et al. (2013) because of the separate coordination mechanism it used in liaising with Ministries of Health at the country level. This meant that funding decisions made by the government and the GFATM were often on separate tracks. The recently introduced joint funding mechanisms between the recipient government and the GFATM better integrate decision-making on funding. Also most (if not all) resources to GFATM are ODA eligible.

In Greenhill et al. (2013) assistance from Korea was considered separately because it had recently joined the DAC donors at the time of the first case studies. Korea is now fully considered among DAC donors, and it endorses and applies aid effectiveness principles.

We no longer review social impact investment since mapping it proved very hard if not impossible. There was no evidence of funding or coordination between governments and social impact investors.

We now include certain flows and instruments, such as international sovereign bonds, non-concessional financing from bilateral and multilateral donors, and PPPs. Since 2012, these have gained prominence at the international level and, to a certain extent, at the country level.

*Notes:<sup>a</sup> Assistance from GFATM was treated as a ‘non-traditional development assistance’ flow because of its distinctive coordination system (based on Country Coordination mechanism) from that of the main health sector, which is country-led and characterised by a bottom-up approach (demand from local CSOs and health operators/groups) with a competitive funding mechanisms administrated in Geneva. The new GFATM funding mechanism adopted in 2013 is now based on government co-funding and aims to better integrate government programmes with GFATM’s; funding is no longer based on a challenge grant but on country allocations.*

The key insight from Fraser and Whitfield (2008) is in seeing the process of engagement between governments and donors or providers of development assistance as one of negotiation. This is in contrast with much of the literature on the political economy of aid. Some of this literature assumes donors and recipients have a shared set of objectives (e.g. the Millennium Development Goals (MDGs) or human rights), and thus that there is a cooperative relationship or ‘partnership’ between them, with no divergence of objectives (Fraser and Whitfield 2008). Other literature uses principal-agent theory to examine the relationships between donor countries (principals), contractors and donor agencies (agents) and potentially ultimate recipients (also principals) (Bertens et al. 2001). This study follows Fraser and Whitfield (2008) in seeing aid agreements (with any provider) as the

result of aid negotiation, in which both sides have a set of (potentially divergent) interests and priorities they need to negotiate in order to reconcile them.

Fraser and Whitfield (2008) present a simplified model of an aid negotiation, in which recipient negotiating capital (derived from context) leads to certain negotiating strategies (derived from perceptions of relative negotiating capital and policy preferences). Development assistance providers also have negotiating capital, derived from the same set of prior conditions, which lead in turn to their negotiating strategies. A combination of these strategies leads to aid agreements, which involve priorities and ‘terms and conditions’ of the aid transfer. Implementation follows these agreements. Fraser and Whitfield determine outcomes as the relative degrees of provider and recipient control over implemented policy.

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From Fraser and Whitfield (2008) we retained the focus on context in shaping country and provider negotiating capital. As a simplified example, countries that are less aid dependent are likely to have a stronger position in negotiating with providers of development assistance than those that are heavily so, while those with weaker governance may find it more difficult to negotiate. Countries with strong and sustained performance in economic growth or human development may also be more attractive recipients of aid, and thus strengthen their bargaining power. For this reason Section 3 below and the first section in each case study briefly analyses the main elements of the context shaping the country's negotiating capital. We adapt the context analysis presented by Fraser and Whitfield (2008)<sup>14</sup> and concentrate on four dimensions:

- **Economic conditions:** economic growth; income level; aid dependency; access to natural resources; access to private flows; risk of debt distress; and progress in human development.
- **Political conditions:**<sup>15</sup> geopolitical importance and position in relation to DAC and non-DAC donors; political orientation and structure of the country; performance against key governance indicators.
- **Institutional conditions and national development priorities:** main elements of national development strategies and structures for aid management and coordination
- **Climate context:** vulnerability to adverse effects of climate change.

Section 3 highlights the contextual elements we consider most likely to have affected negotiating capital in the countries reviewed.

Unlike Fraser and Whitfield (2008) we do not assume the ultimate desired outcome is maximum government control over policy. Rather, one of the key research questions is to understand government priorities in relation to the volume, purpose and 'terms and conditions' of finance they receive, and how successful they are in achieving those priorities. We define 'terms and conditions' fairly loosely as a set of aid quality elements such as conditionality, alignment, concessionality, speed and so on. This loose definition is deliberate because we wanted to allow space for governments to outline their own priorities, rather than applying a predetermined set (e.g. as defined by the Paris Declaration and Busan Outcome Document).

The other theoretical framework used to inform this study is the Institutional Analysis and Development (IAD)

framework developed by Ostrom et al. (2001), who also stress the importance of context in shaping interactions. The key insight to be gained from the IAD analysis is the importance of identifying the arenas in which negotiations take place, and of taking account of context in shaping behavioural interactions. Drawing on the IAD framework we also emphasise the importance of negotiation arenas. Rather than taking these as a given, we ask whether governments seek to engage with different kinds of development assistance providers in the same arenas. We focus particularly on arenas related to in-country aid coordination (e.g. sectoral or technical working groups, regular high-level donor-government meetings), as these are often key arenas in which donors and government discuss sectoral strategies, project identification, policy dialogue and conditionality. As discussed below, however, alternative arenas are also growing in importance, particularly for non-DAC donors.

The framework applies to all flows negotiated at the country level, notably with donor country governments and DAC member countries, non-DAC donors and philanthropic organisations. This might not be the case for other sources that are traded in international financial markets, such as international sovereign bonds. This is because of the scattered nature of investors, and because the government does not negotiate with them but it only sets up – together with investment banks – terms and conditions that international investors may find profitable for the risk profile of the bond issuances; market demand will then adjust yields (interest rates) on the secondary markets.<sup>16</sup>

While negotiations do not take place in arenas similar to other flows reviewed in this report, part of the context analysis, especially economic and political, affects the demand for international bonds by financial investors. A country that records a strong growth performance not only starts negotiations with development partners from a stronger position (lower dependency on aid, often due the ability to expand domestic revenues and attract more FDI) but it also improves the country's credit rating and investors' confidence. Government priorities for these flows are also important, but we recognise that the modified Fraser and Whitfield (2008) and IAD (2001) frameworks cannot be fully applied to the case of international sovereign bonds. The findings and reflections in this report triangulated the desk-based analysis with interviews with senior government officials (more on this below).

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14 The authors focus on four elements of context: economic conditions; political conditions; ideological factors; and institutional conditions.

15 Institutional conditions as defined by Fraser and Whitfield (2008).

16 Demand for international bonds is also highly influenced by the general conditions of international financial markets. For instance, low interest rates in OECD economies have boosted market appetite for bonds in riskier countries with higher yields.

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## 2.3 Research and policy questions

Against this backdrop, this report addresses four main questions:

1. How much BOFs do governments in aid-recipient countries receive and has the volume changed since 2003?
2. What are governments' priorities for the terms and conditions of development flows they would like to receive?
3. In which arenas do governments seek to engage with providers of development finance and what strategies do governments use to negotiate with them? How do these differ from the arenas and strategies in which governments engage with DAC donors?
4. Are governments planning to raise additional funds in international financing markets? Why do governments raise funds in international financial markets at market rates? If so, what are the implicit or explicit criteria guiding their decisions?

## 2.4 Case study selection and methodology for case study research

This research project mainly focuses on stable LICs and MICs. Our analysis is based on a most-similar approach to selecting such studies (see Gerring 2007) in order to draw out common elements and differences among them. We selected countries that are considered as 'typical cases', i.e. receiving neither too little nor too much aid.<sup>17</sup> Although the sample is very small and we are aware of the limitations of inferring results from such a narrow number of countries,

there are valuable lessons to share among the experiences of the countries analysed for this project. Annex 1 provides details on the methodology applied for case study selection and the implications for the interpretation of the findings illustrated in Section 5.

The research methodology for all case studies comprised a desk-based review of key documents (national strategies, budget documents aid policies, debt-management strategies, country strategies of main development partners), and data collection and analysis from national sources (national budgets and statistical offices) and international databases (World Bank World Development Indicators, AidData, Development Initiatives, Foundation Centre, Climate Funds Update).

This desk-based review was triangulated and gaps filled during a two-week country visit with the support of a team of national consultants to help identify stakeholders, support research and schedule interviews. During the visit, the ODI team conducted semi-structured interviews with at least 35 informants in each case study including senior civil servants in aid management/coordination in relevant ministries, negotiation and management of climate-related finance, and PPPs; debt-management offices; officials in charge of issuances and management of international sovereign bonds; non-DAC donors; philanthropic organisations; development partners; and CSOs. The list of interviewees who agreed to be identified by name is included at the end of each case study report.

The studies conducted in 2015 (in chronological order, Viet Nam, Uganda, Kenya and Lao PDR) also benefited from feedback from national workshops where the ODI team presented the provisional findings and recommendations.

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17 We created an index assigning a score 1 for each development finance flow (as a share of GDP to take into account different country sizes) when the country was in the interval denoted by 30<sup>th</sup> and 70<sup>th</sup> percentile of the distribution. In the long list we included countries whose score was at least 3 (six were the flows that were measurable across countries for the case study selection), bilateral and multilateral ODA (from DAC donors), OOFs from DAC/multilateral development partners, flows from non-DAC sovereign donors both ODA and OOF equivalent, assistance from development finance institutions (DFIs), philanthropic assistance from foundations and international NGOs, and climate finance.

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# 3 The economic, political, institutional and climate change context shaping aid negotiations in the country case studies

Assessing the impact of context on a country's negotiating positions is not an exact science. Some contextual factors may turn out to be extremely important, while others may be less so. Different contextual factors may also affect negotiations with groups of finance providers in different ways. For example, governance performance may have an impact on negotiations with DAC donors, but less so with the non-DACs. Climate considerations are obviously much more likely to affect relationships with providers of climate finance than with others. Some contextual factors may also overlap: for example, countries with faster growth may also have better governance and better human development, which makes it hard to separate out the impact of any single factor. It is also difficult for some factors to be compared across countries in the absence of published rankings. This is the case for geostrategic importance and relationships with major donors, for example, as illustrated in Section 2.2.

- Here in Section 3 we provide examples on how the country context is likely to have a major impact on its negotiating position with regard to ODA and BOF providers. This section factors that might be expected to influence negotiating positions. We divide our analysis into economic, political, institutional, and climate context as highlighted in the research framework in Section 2.2.
- We focus on the contextual factors that were relevant at the time of the research, which ranges from 2012

to 2015, since these are what influenced negotiating positions. Our analysis of cross-country trends (see Table 2) is based on 2012 and 2013 data for the same reason. It is likely that different contextual factors affect BOF providers in different ways, and we have tried to reflect this where relevant (e.g. official donors are more likely to be interested in economic growth, while philanthropists may focus more on issues relating to human development).

## 3.1 Economic context

We assume that higher rates of **economic growth** would increase a country's negotiating position with official donors. Donors are more likely to want to support countries they deem to be successful, and their commercial interests would also lead them to prioritise fast-growing economies. Apart from Senegal and Kenya, all case study countries have seen average or above average growth rates over the past decade. Ethiopia grew at an average of 9.7% per year between 2003 and 2012, and Cambodia, Ghana, Lao PDR and Uganda were all within the 7–8% range. Senegal, by contrast, has been stuck in a low-growth trap, with average GDP growth rates of only 4.1% over the past decade.

Most of the countries reviewed are now **lower-middle income countries (LMICS)**. This is the case for Ghana, Kenya, Lao PDR, Senegal, Viet Nam, and Zambia.

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Only Cambodia, Ethiopia and Uganda remain LICs, and all are expected to graduate to LMIC status within the next few years. As a result of rising income levels, Viet Nam reached **blend** status<sup>18</sup> for World Bank lending, meaning that it can borrow on both IDA and IBRD terms. At the time of the case study, there were discussions on the graduation process in Ghana and Kenya.

High rates of economic growth have also translated into **falling aid dependency across most of the case study countries, although in almost all cases aid levels have been rising**, with ODA/GNI ratios falling only because of even faster income growth. The only countries that have not followed this trend are Zambia, Senegal and Kenya. Zambia saw traditional ODA nearly halving between 2000 and 2010 as a share of GNI. Kenya, by contrast, has seen rising aid levels accompanied by rising aid dependency, because it started from a low base, as a result of improved relations between Kenya and donors after a particularly difficult period in the early 2000s. Senegal has also experienced greater aid dependency. Aid dependency may remain high in certain sectors or for certain types of expenditure (such as capital investment), even in the context of an overall decline.

Another factor that might be expected to increase negotiating strength is **access to natural resources**, and here the findings are more mixed. Ethiopia, Ghana, Lao PDR and Zambia could be described as resource-rich countries, because of access to hydropower (Ethiopia and Lao PDR) gold and more recently oil (Ghana) and copper (Zambia). Other countries in the sample have recently discovered oil and gas reserves, which have the potential to significantly alter their bargaining position. In Cambodia, IMF predictions in 2007 (IMF 2007) suggested that oil revenues could reach \$1.7bn by 2021, although these are not firm estimates. Kenya's oil and gas discoveries have also been assessed as having the potential to provide significant foreign exchange and fiscal resources (IMF 2014), although these are not yet factored into the country's fiscal framework. Uganda is also expected to have access to oil revenues from 2020 onwards.

Another factor expected to improve a country's bargaining position would be **access to private flows**, giving the government financial alternatives to ODA or BOFs. Here too the picture is mixed. Ghana, Cambodia and Zambia all have relatively high volumes of FDI, well above the average for their income groups, while Ethiopia and Kenya are at the opposite end of the spectrum.

We would expect countries with a **low risk of debt distress and/or constant or falling debt levels** to have a stronger negotiating position in relation to donors.

Highly indebted countries may be required to take on additional financing to service previous loans, and may have fewer other options to finance their budgets. Across the case studies, there is a general picture of **low risk of debt distress, but in most cases alongside growing external indebtedness**. Cambodia, Ethiopia, Kenya, Senegal, Uganda, Viet Nam and Zambia were all assessed (at the time of each case study) as being at low risk of debt distress by the IMF/World Bank Debt Sustainability Analyses. However, in many cases, debt levels are growing. In Ethiopia, for example, the ratio of external debt to Gross Domestic Product (GDP) ratio doubled between 2008 and 2012. In Senegal, the external debt/GNI ratio rose from 21% in 2008 to 31% in 2011. In Kenya, although the country is at low risk of debt distress, contingent liabilities have been assessed as presenting a fiscal risk, while in Viet Nam, public debt is rapidly approaching the ceiling set by the National Assembly. All SSA countries in the sample – with the exception of Kenya – benefitted from debt-relief initiatives in the 1990s and 2000s.

The two countries with a higher risk of debt distress are Ghana and Lao PDR.<sup>19</sup> Ghana was assessed in 2013 as having a moderate risk of debt distress, with external debt standing at 30% of GDP in that year. Lao PDR was classified as having a moderate risk in 2012, following previously high-risk rankings, and remains on the cusp of returning to a high-risk classification. This may be because Lao PDR, unlike most of the other case study countries, did not obtain debt relief under the Multilateral Debt Relief Initiative (MDRI) or the Heavily Indebted Poor Countries (HIPC) initiative.

Finally, a country's progress in **human development and poverty eradication** would also be expected to influence its negotiating position. DAC donors in particular could be expected to offer greater support to countries making faster progress in human development, since they want to be associated with progress and effective use of resources. It also possible that donors would provide more support to countries struggling with crises (e.g. Ebola, conflict), which would also affect human development, but this is less likely to be the case in our sample of largely stable countries. All countries have made progress in human development between 2005 and 2012, but some still have low scores on the Human Development Index (HDI), including Ethiopia, Kenya, Senegal and Uganda. Ghana, Zambia and the Asian countries have medium HDI scores, with Viet Nam at the top of the list. However, in Ethiopia's case, there has been exceptionally high HDI progress, and it has also been relatively high in Cambodia, Uganda and Zambia.

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18 Among the sample of Pacific Islands, Timor-Leste was, and now PNG also has become, a blend country.

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## 3.2 Political context

### Geopolitical context

We would expect countries of geostrategic importance to be in a stronger negotiating position in relation to donors. Given their size and location, none of the case study countries is among the most strategically important for either DAC or non-DAC donors, but most are relatively stable and in some cases are seen as beacons of stability in otherwise unsettled regions. This is the case for Ethiopia, Kenya and Senegal. Cambodia, Lao PDR and Viet Nam have obvious geographical importance given their proximity to China. Lao PDR is at the centre of several important transport corridors from China, and Cambodia is seen as a key ally of China in Asia and the Association of Southeast Asian Nations (ASEAN) (Hille 2012).

In all countries, the historical and geopolitical relationship with DAC and non-DAC donors is likely to influence their negotiating position. Here we see a difference between the regional groupings. In South East Asia, Viet Nam, Lao PDR and Cambodia have very different relationships with their larger neighbour, China. Cambodia had historically a charged relationship with China, but political relations were restored in 1997 and the two countries are now strong allies. Viet Nam and Lao PDR both have similar socialist forms of government to China, but engage with the country in very different ways. In Viet Nam, diplomatic ties with China have been overshadowed by territorial disputes in the South China Sea, which build on the troubled history between the two countries since the Viet Nam war and military dispute over the northern Vietnamese border in 1979. Lao PDR, by contrast, has a much closer relationship with China, and has successfully maintained strong diplomatic relations between both Viet Nam and China since the early 1990s.

The African countries have fewer historical relationships with China, although these are growing and are generally friendly. Ethiopia, Ghana and Kenya are seen by China as important regional hubs. Zambia has had diplomatic and commercial relations with China since the 1950s, with the Tazara Railway between Tanzania and Zambia. The one exception is Senegal, which between 1996 and 2005 recognised Chinese Taipei. China then broke off diplomatic relations due to the One China policy (governments can maintain official relations either with China or with Chinese Taipei (Gehrold and Tietze 2011)<sup>20</sup>). In 2005 the Senegalese government resumed diplomatic relations with China in order not to miss the opportunities offered by the expansion of China on the continent.

The case study countries have also had different relationships with the DAC donors. Historically, Ethiopia, Ghana, Uganda, Viet Nam and Zambia, have all been 'donor darlings', although today that remains true only

for Ethiopia, Ghana and Viet Nam. In Zambia, corruption scandals in the health sector, leading to a suspension of Global Fund disbursements, have undermined Zambia's reputation as a responsible aid recipient, and so weakened its negotiating position. In Uganda, relations with DAC donors over the past decade have been adversely affected by governance concerns relating to the conduct of elections, corruption, and human rights. Ethiopia, by contrast, remains a donor darling due to its rapid progress in economic growth and poverty reduction.

### Domestic political and governance context

We might expect that countries in which one political party, whether formally or in practice, holds a monopoly are also likely to have a stronger negotiating stance with donors. This is the case for Ethiopia, for example, which has been dominated since 1991 by the Ethiopian People's Revolutionary Democratic Front (EPRDF), with a very weak opposition. Both Lao PDR and Viet Nam are one-party states.

Other things being equal, we would expect countries with better governance to be in a stronger negotiating position with donors, although this may vary between DAC and non-DAC donors. DAC donors are likely to be less heavy-handed in imposing conditionality on countries that are perceived to be performing well. Performance-based aid-allocation formula are also likely to favour this group of countries, which are also more likely to be able to use resources well, leading to continued support. This may be somewhat different with non-DAC donors, however, which tend to place less emphasis on governance concerns.

We might also expect countries with a strong developmental leadership to have a stronger negotiating position. Governments with a strong developmental orientation will both be better able to achieve progress in human development and economic performance, and to demonstrate to donors their commitment to reform. Ethiopia is said to have strong developmental leadership (Fraser and Whitfield 2008), and the same might be said of Viet Nam. Since there is no easy way to rank this across countries, however, we have not included this variable in Table 2 below.

**There is a mixed picture across the case study countries in relation to performance on governance indicators.**

Ghana scores well on most governance indicators, for example scoring 64/176 on the Transparency International Corruption Perceptions Index, and 3.7 on the World Bank's Country Performance and Institutional Assessment (CPIA) of public sector management (the highest score is 6). Senegal and Zambia also do relatively well. At the other end of the spectrum, Uganda, Cambodia and Lao PDR rank 130, 157 and 160/176 on the Transparency International Corruption Perceptions index and have CPIA scores of only 3, 2.8 and 3.1 respectively, the lowest in our case study group.

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19 The Wade government resumed diplomatic relations with China in late 2005 in an attempt to gain a temporary seat at the UN Security Council and to not miss the opportunities offered by the expansion of China on the continent (Gehrold and Tietze 2011).

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### 3.3 Institutional context and main national development priorities

Infrastructure is a strong priority in most, if not all, the case study countries. In Kenya, infrastructure is the top priority in key strategy documents. The Ethiopian government is also prioritising infrastructure as part of its push to shift from a communist to a more market economy, although it also emphasises the social sectors. In Zambia, infrastructure is one of three sectoral priorities, as well as rural investment, poverty reduction and enhancing human development. Similarly, Uganda has shifted priorities over time from the social sectors to infrastructure, and this is clearly reflected in the most recent National Development Plan.

All countries have established aid coordination structures, with some combination of high-level forum, donor coordinating groups, and sectoral/technical working groups. While the exact composition and functioning of the groups varies across countries, there is remarkable similarity between the institutional arrangements for aid coordination. All countries have a high-level diplomatic forum for dialogue, called a High-Level Policy Dialogue (HLPD) in Zambia, the Cambodia Development Cooperation Forum in Cambodia, the Round Table Meeting in Lao PDR, and the Government–Development Partners group in Ghana, to cite a few examples. In some countries there are also donor-only groups, such as the ‘G50’ in Senegal. All countries also have sectoral or technical working groups, although their effectiveness and functioning vary by country and sector. Other donor–government groups focus on aid effectiveness in some countries, such as the Mutual Accountability group

in Zambia and the Government–Donor Coordinating Committee in Cambodia.

### 3.4 Climate context

We include a contextual factor regarding climate change in this framework since climate finance is one of our ‘beyond ODA’ flows. We would expect countries that are most vulnerable to the adverse effects of climate change, and the most significant carbon emitters, to receive larger volumes of climate finance.<sup>22</sup> Most countries in our selection are ranked fairly vulnerable to climate change. Kenya, for example, scores 155/180 on the ND-GAIN index, which summarises a country’s vulnerability to climate change and readiness to respond. Ethiopia and Uganda are not far behind at 149, and Senegal at 138 and Cambodia are at 135. Viet Nam and Ghana score better, at 96 and 104 respectively.

### 3.5 Conclusions on the impact of context on negotiating positions

Table 2 below summarises the key contextual factors for each country which might be expected to increase negotiating power. The main aim is to synthesise the information provided in this section of the report. Overall, it suggests that Cambodia, Ethiopia, Ghana and Zambia should all be in a relatively strong negotiating position in relation to donors, Kenya and particularly Senegal in a relatively weak position, and Lao PDR, Uganda and Viet Nam somewhere in the middle. Whether this reflects reality is discussed in the following sections. Table 3 in Annex 1 provides detailed data on the variables included in Table 2.

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20 Studies have found that in practice adaptation financing does not tend to be channelled to the most vulnerable countries (Development Initiatives 2015).

21 5.9% is the LIC average for the period



**Table 2: Key indicators of economic, political, institutional/governance context and climate change**

	SSA countries						East Asia countries		
	Ghana	Ethiopia	Kenya	Senegal	Uganda	Zambia	Cambodia	Lao PDR	Viet Nam
<b>Economic</b>									
Average growth above 5.9% <sup>a</sup> 2003-2012	X	X			X	X	X	X	X
Falling aid dependency 2003-2012	X	X			X	X	X	X	X
Natural resource rents/GNI above 14.9%, or potential identified <sup>b</sup> , 2012	X	X	X		X	X	X	X	
Private flows: FDI/GNI more than 6% in 2012 <sup>c</sup>	X					X	X		
Medium or fast growing human development ranking <sup>d</sup>	X	X				X	X	X	X
Low risk of debt distress <sup>e</sup>		X	X	X	X	X	X		X
<b>Political</b>									
Close relationship with DAC donors	X	X							X
Close relationship with China	X	X	X			X	X	X	
One-party state		X					X	X	X
<b>Institutions/Governance</b>									
Corruption Perceptions Index ranking under 100 <sup>f</sup> , 2012	X			X		X			
<b>Climate change</b>									
Climate vulnerability above 140 <sup>g</sup> , 2013		X	X		X				

Sources: Human Development Report (2014); IMF (2015); Notre Dame Global Adaptation Index (2013); Transparency International (2012); World Development Indicators (2015)

Notes: X indicates that the country meets the criteria.

<sup>a</sup>5.9% is the LIC average for the period

<sup>b</sup>The average share of natural resource rents/GNI was 14.9% in 2012. Three countries have also identified significant natural resource potential (Cambodia, Kenya and Uganda)

<sup>c</sup>The LIC average in 2012 was 6%.

<sup>d</sup>Measured as being medium human development in the Human Development Index (HDI). We include Ethiopia because, although it has a low HDI score in 2012, growth over the period was exceptionally high.

<sup>e</sup>As at the time the case study was carried out, according to the World Bank/IMF Debt Sustainability Analysis

<sup>f</sup>According to the Transparency International Corruption Perceptions Index.

<sup>g</sup>Measured by having a ranking of more than 140/180 countries in the ND-GAIN index

# 4 Beyond ODA flows: global trends

To understand the changing development finance landscape in a given country, it is useful first to examine the picture at the global level in order to measure the scale and composition of the flows we might expect to find at the country level (Section 5.1). We therefore looked at the evolution of ODA and BOFs and their global composition between 2003 and 2012. Our estimates are to be interpreted conservatively, as there was limited data for certain sources (such as OOFs and non-concessional official finance for emerging donors other than China, for example).

Figure 1 illustrates two key points. First, total external development finance flows are now much larger than ten years ago. The figures are nominal but, as mentioned above, our approach has been very conservative in estimating the different components. External development finance flows more than doubled from \$122 bn in 2003 to \$269 bn in 2012.<sup>22</sup> We describe the methodology behind these figures below.

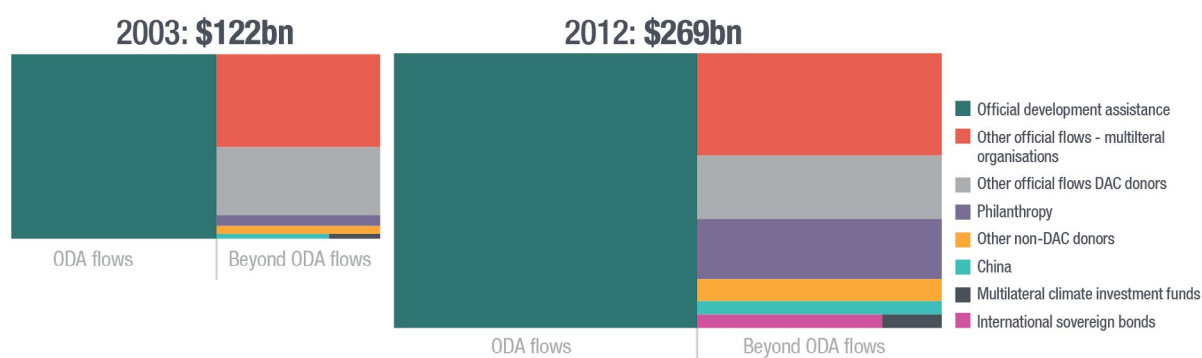
Second, the relative weight of ODA flows is little changed and it is still by far the single largest source of external development finance that, in principle, can directly

support government activities in aid-recipient countries. Gross bilateral and multilateral ODA disbursements were \$148.9 bn in 2012,<sup>23</sup> more than doubling from \$67.9 bn in 2003.

While the share of BOFs in total external development finance has not significantly increased over the last decade, their composition has changed (Figure 2a and 2b), from 44% of total external development finance flows on average between 2003 and 2005 to 45%, again on average, between 2010 and 2012. In 2003 the largest flows were OOFs from multilateral organisations (50%), followed by OOFs from DAC countries (37%), philanthropy (6%), non-DAC bilaterals (4%) and China (2%). In 2012, OOFs from multilateral organisations were still the largest, but their share had declined to 37% of total BOFs. This trend is due to the rise of flows from philanthropic organisations (in 2012, 22% of total BOFs), and the issuance of international sovereign bonds (4%). The share of Chinese ODA- and OOF-equivalent flows also increased slightly between 2003 and 2012 (from 2% to 5%).

We now look at each flow in greater detail.

**Figure 4: Global external development finance flows and BOFs 2003–2012**



Source: Authors' elaboration on the basis of CPI (2014a); Greenbill and Prizzon (2012); Hudson Institute (2013); IMF (2014); OECD (2002, 2003 & 2015); OECD.stat website (accessed 2015); Strange et al. (forthcoming Tierney et al. (2011); Tyson (2015).

Notes: \* China includes ODA and OOF-like flows. 2003 includes estimates of these flows to Africa alone, while 2012 is an estimate of China's total development assistance to developing countries though OOF-like flows are still to African countries alone. \*\* Other non-DAC bilaterals in 2003 is based on development assistance from non-DAC donors reporting to the DAC in 2000 while 2012 estimates includes non-DAC countries reporting to the DAC as well as those not reporting to the DAC. \*\*\* Commitments to Multilateral Climate Investment Funds in 2003 are based on multilateral ODA commitments to the GEF and Montreal Protocol in 2000 while 2012 includes commitments to 15 Multilateral Climate Investment Funds. \*\*\*\* Philanthropy figure for 2003 is based on 2000 estimates while the 2012 figure is based on 2010–2011

**Other official flows.** Gross disbursements of OOFs from multilateral organisations increased by more than 50%, from \$27.1 bn in 2003 to \$44.7 bn in 2012 (OECD 2015), remaining by far the largest BOF at the global level.

OOFs from DAC countries were the second-largest source of BOFs in 2003 and 2012, increasing from \$20.1 bn in 2003 to \$27.8 bn in 2012 (OECD 2015).

The financial terms and conditions of these flows mean that they are currently classified as non-concessional, and do not count as ODA. They are available only to countries that have started the graduation process from the soft windows of multilateral organisations, and are moving to blend status, although with some exceptions.

**Philanthropic assistance.** Philanthropic assistance is estimated to be the third-largest source of BOF at the global level. In 2011, US-based foundations, corporations and private voluntary organisations (PVOs) disbursed more than \$26 bn in international grants, according to the Hudson Institute (2013).<sup>24</sup> These figures have been stable since 2009 (\$25.9 bn as reported in Greenhill et al. 2013). This volume is certainly an underestimate since it includes assistance only from US-based organisations. We did not impute estimates for volunteering activities as in Greenhill et al. (2013). Against these caveats, philanthropic assistance is most likely to be the BOF source that grew the

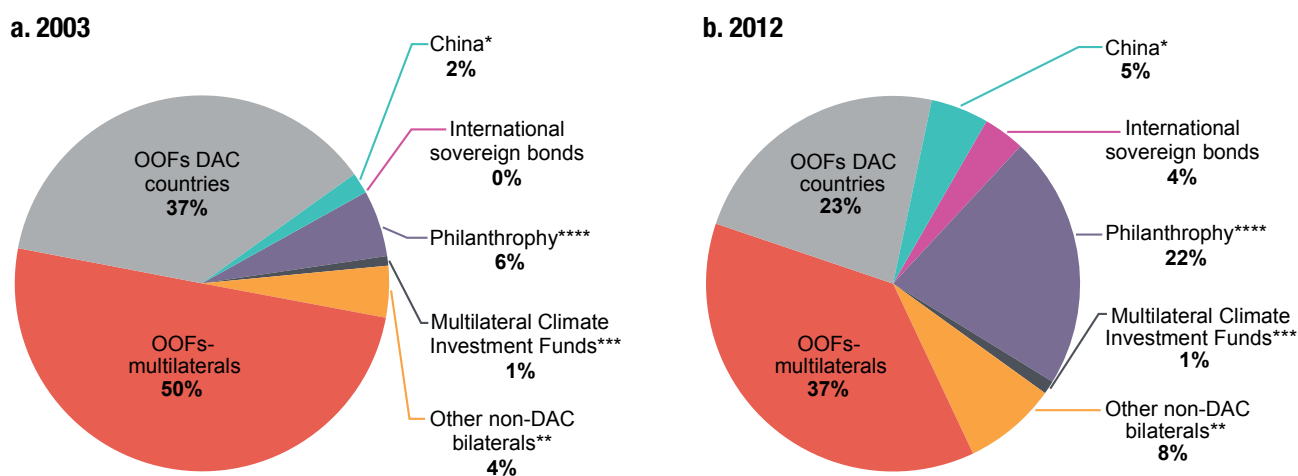
most, starting from \$3.1 bn in 2000, again for US-based organisations only (OECD 2003).<sup>25 26</sup>

**ODA- and OOF-equivalent flows from non-DAC donors.** There have been several attempts to map South–South Cooperation (SSC). Greenhill et al. (2013) reviewed figures from the Economic and Social Council (ECOSOC 2008), Park (2011) and Prada et al. (2010), ranging between \$9.5 bn and \$15 bn for 2008 (see also Greenhill and Prizzon (2012) for a review). These figures refer mainly to ODA-equivalent flows. More recent estimates include UN (2014), which assessed SSC at between \$16.1 bn and \$19 bn in 2011. Development Initiatives (2015) estimated that development cooperation from other providers almost quadrupled from \$6.4 bn to \$24.4 bn<sup>27</sup> between 2004 and 2013.

This paper draws on several sources: OECD data on ODA-equivalent only for non-DAC countries reporting to the DAC,<sup>28</sup> OECD Development Cooperation report (2015b) and AidData for emerging economies such as China, Colombia, India, Indonesia, Mexico and South Africa.<sup>29</sup> Volumes reported in Figure 1 are underestimates as for most of these only ODA-equivalent and not OOF-equivalent figures are mapped. China is the only exception. There are a few trends worth mentioning.

First, according to our figures, total ODA- and OOF-equivalent figures for non-DAC donors more than

**Figure 5: Composition of BOFs in 2003 and 2012**



Source: Authors' elaboration on the basis of CPI (2014a); Greenhill and Prizzon (2012); Hudson Institute (2013); IMF (2014); OECD (2002, 2003, 2015); OECD.stat website (accessed 2015); Strange et al. (forthcoming); Tierney et al. (2011); Tyson (2015).

Notes: \* China includes ODA and OOF-like flows. 2003 includes estimates of these flows to Africa alone, while 2012 is an estimate of China's total development assistance to developing countries though OOF-like flows are still to African countries alone. \*\* Other non-DAC bilaterals in 2003 is based on development assistance from non-DAC donors reporting to the DAC in 2000 while 2012 estimates includes non-DAC countries reporting to the DAC as well as those not reporting to the DAC. \*\*\* Commitments to Multilateral investment funds in 2003 are based on multilateral ODA commitments to the GEF and Montreal Protocol in 2000 while 2012 includes commitments to 15 multilateral climate investment funds. \*\*\*\* Philanthropy figure for 2003 is based on 2000 estimates while the 2012 figure is based on 2010–2011 estimates.

22 In this section, all numbers are current US\$ and disbursements, unless otherwise stated.

23 ODA figures in the text and in Figure 2 do not include commitments to multilateral climate finance funds. These flows are ODA-eligible and therefore we deducted these flows from ODA to avoid double counting.

quadrupled from nearly \$3 bn in 2003 to \$15.7 bn in 2012. Only philanthropic assistance flows grew faster. These increases may, however, be partly due to better data availability for these donors, and better data tracking and recording (see also Development Initiatives 2015).

Second, two groups of donors drove this rise in ODA- and OOF-equivalent figures for non-DAC donors.

- China is by far the largest non-DAC donor and its importance, at least in volume terms, has grown over time. In 2002, ODA-like flows to Africa amounted to \$628 m and by 2012 they were \$3.1 bn; in 2003, OOF-like flows were \$349 m and had jumped to \$2.9 bn by 2012. OOF-like figures are based on Strange et al. (2013) and information on commitments. While the

estimation method has been criticised (see Brautigam 2013), this is still the most comprehensive data set on Chinese development finance. At the same time, there is no single repository tracking OOFs from other non-DAC countries.

- Greenhill and Prizzon (2012) estimated ODA-equivalent flows from non-DAC members reporting to the DAC at \$2.4 bn in 2000. We estimated these flows to have reached \$7.1 bn in 2012, which is lower than the 2011 estimate of \$9.5 bn. This was mainly due to a significant decrease in Saudi Arabia's development cooperation, which fell from \$5 bn in 2011 to \$1.3 bn in 2012 (OECD 2014c). On the other hand, Turkey nearly doubled its development cooperation from \$1.2 bn in 2011 to \$2.5 bn in 2012.



Photo: Sven Torfinn/2010 (Kenya, Dadaab, North Eastern Province) A mother carries her malnourished baby on her back at an intensive care ward at a hospital run by IRC)

24 Development Initiatives (2015) estimates that private development assistance (PDA) – the resources committed to development purposes by NGOs, foundations and philanthropists – at \$44.9 bn in 2013.

25 Data in Figure 1 for philanthropic assistance in 2003 are based on 2000 figures. No information was available in 2003.

26 A more recent study estimated that the resources committed to development purposes by NGOs, foundations and philanthropists amounted to \$44.9 bn in 2013, which would make philanthropic assistance the largest of the BOFs considered in this report (Development Initiatives 2015). However the focus in this report is mainly on foundations only.

27 These estimates are in constant 2012 prices.

28 These are Bulgaria, Chinese Taipei, Croatia, Cyprus, Estonia, Hungary, Israel, KFAED, Latvia, Liechtenstein, Lithuania, Malta, Romania, Russian Federation, Saudi Arabia, Turkey, Thailand, and UAE

29 These figures also include Qatar, classified as a high-income country (HIC).

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**International sovereign bonds.** International sovereign bonds were the fifth-largest source of BOFs in 2012, with \$4.3 bn and \$6.3 bn issued in 2012 and 2013 respectively, including SSA countries (Tyson 2015) and other low-income developing economies according to the IMF classification (IMF 2014). This trend is not surprising. Many LICs are seeking to exploit this borrowing space to finance public investment and are increasingly relying on borrowing on non-concessional terms (Prizzon and Mustapha 2014). Since 2007, several HIPC countries (such as Ghana, Mozambique, Rwanda, Senegal, Tanzania and Zambia) have issued sovereign US dollar-denominated bonds in international capital markets, with an average of a \$1 bn tranche; te Velde (2014) estimates that bonds issued in SSA in 2013 were equivalent to 20% of bilateral aid and 12% of FDI to the region (totalling nearly \$6 bn in 2013).

**Multilateral climate finance.** Among the flows that we classify as BOFs (although they are often classified as ODA – it is the only exception to the definition – we consider them separately because their access and management differ from bilateral ODA in most cases), multilateral climate funds (commitments) is the smallest. In 2000, multilateral ODA commitments to the GEF and Montreal Protocol accounted for \$444 m (OECD 2002), rising to \$1.4 bn in 2012 (CPI 2014a). The Clean Technology

Fund, the GEF trust Fund (GEF 5) and the Pilot Program for Climate Resilience (PPCR) drove this increase, respectively accounting for 30%, 17% and 14% of the total commitments of 15 multilateral climate finance funds in 2012.

Before moving to the case study analysis, it is worth highlighting that the flows analysed here come with different financial terms and conditions. Some BOFs do not entail any liabilities for the recipient country (philanthropic assistance, which usually takes the form of a grant, and ODA-equivalent grants from non-DAC donors and part of climate finance), but most of the others do (i.e. concessional loans and OOFs).

For instance, IBRD loans (fixed or variable spread loan) come with a maturity of up to 20 years and a variable interest rate that is linked to the six-month LIBOR plus a fixed or variable spread, front-end fees are equivalent to 0.25% of the nominal loan. The repayment profile is currently quite favourable due to the very low interest rates in international financial markets. On the contrary, international sovereign bonds are characterised by shorter maturities, on average ten years at issue (see Tyson 2015) and average issue yield between 5% and nearly 12% (ibid.). Why do governments borrow from international financial markets despite the less favourable financial terms and conditions? We elaborate on this point in Section 5.

# 5 Beyond ODA flows at country level: a quantitative analysis

This section reviews to whether countries analysed in this project accessed the set of external development finance flows beyond ODA, their volumes and whether figures at the global level resonate with countries' experiences. Annex 2 provides detail information for each country reviewed in this report.

## 5.1 BOFs have grown in absolute and relative terms since 2002, but their share is smaller than global figures suggest

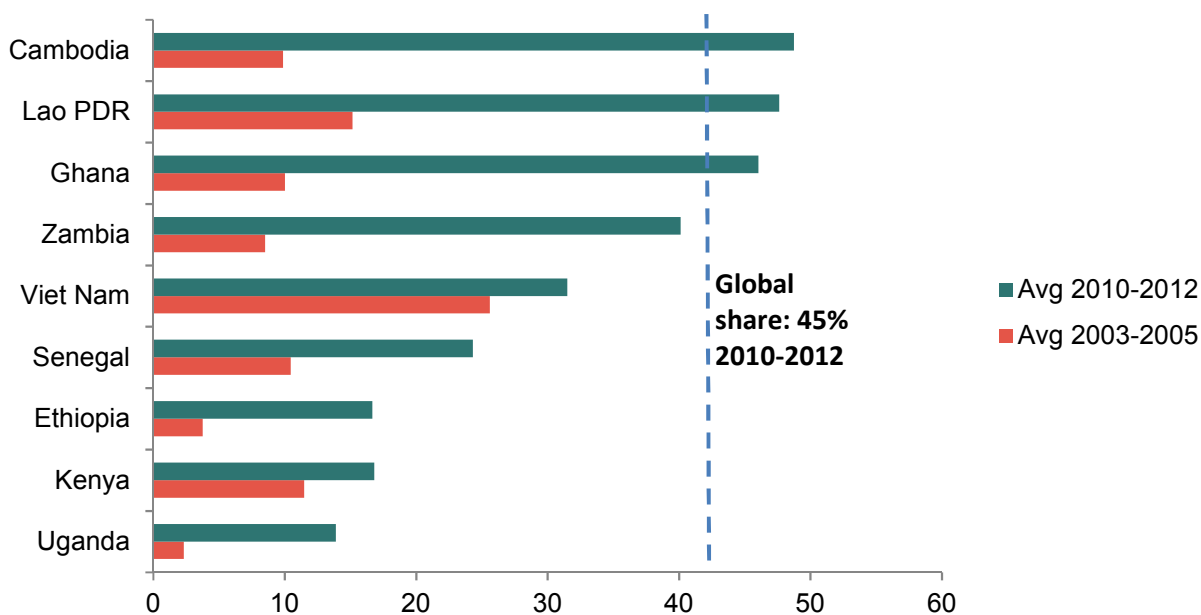
Section 4 showed that the share of BOFs in relation to total development finance at the global level was 45% in 2012, and this has increased only marginally since 2003. Are there similar trends at the country level? We have already

underlined that the cases reviewed in this synthesis report are not representative of all developing countries, but the size of the sample and the diverse characteristics of their economies offer a good snapshot. The overall conclusion is that the trends are rather different at the country level.

In 2003–2005, the share of BOFs was around or below 10% of total external development finance for all countries except Viet Nam, far below the global average of 44%. This is likely to be because BOFs were primarily accounted for by OOFs in that period, and our case studies were predominantly LICs at that time, and thus unable to access most OOFs.

As Figure 3 highlights, in all countries BOFs as a share of development finance grew between 2003–2005 and 2010–2012, in some cases quite rapidly. This is a contrast to the global level figures, in which the share of BOFs hardly increased between 2003 and 2012.

**Figure 6: BOFs as a share of total external development finance**



Source: Authors' elaboration on the basis of Climate Funds Update; Foundation Centre; OECD.stat website (accessed 2015); Strange et al. (forthcoming); Tierney et al. (2011); Tyson (2015)

Notes: Senegal's 2010–2012 average refers to the 2009–2011 average

The share rose from 10% in 2003–2005 to 49% in 2010–2012 in Cambodia, from 15% to 48% in Lao PDR, and from 10% to 46% in Ghana. In Ethiopia, Kenya and Uganda the rise has been far more modest (for example, from 11% to 17% in Kenya). This rise in the share of BOFs applies to the LICs and LMICs reviewed. Despite these growth rates, by 2012 the share of BOFs at the country level remained below the global average. In six of the nine countries, the share of BOFs in 2012 was 40% or below, and in three it was below 20%. Three countries exceeded the global average (Cambodia, Lao PDR and Ghana, with shares of 49%, 48%, and 46% respectively) As discussed below, these trends are mainly driven by Chinese lending, and these countries – particularly Cambodia and Lao PDR, which saw the highest levels of BOF – tend to have a stronger geopolitical and historical relationship with China.

There is also a major discrepancy between the global and the country level in terms of the composition of BOFs. At the global level, we found that OOFs from MDBs were the largest source of BOFs, but that this was not the case at the country level. This discrepancy is largely explained by the case study selection. Most of the countries reviewed are IDA-classified, meaning that they are not yet eligible for non-concessional funding. Viet Nam is the only blend country, making it eligible to both IDA and also IBRD/ non-concessional resources. As a share of total BOFs, OOFs to Viet Nam (from bilateral DAC donors and multilaterals) increased from 57% in 2003–2005 to 86% in 2010–2012.<sup>30</sup>

## 5.2 ODA continues to dominate external development finance. but has shifted from grants to loans in several countries

ODA flows expanded in all the countries that we reviewed, albeit at different rates, mirroring global trends. In Kenya and Viet Nam, ODA flows rose dramatically, with a five-fold and three-fold increase respectively in ten years (See Section 3.1).<sup>31</sup> ODA doubled between 2003 and 2012 in Cambodia, Ethiopia, Lao PDR, Senegal, and Uganda. Albeit of smaller magnitude, similar trends occurred in the other countries we reviewed, with the exception of Zambia.<sup>32</sup> This is in line with the global growth in ODA, which more than doubled over the same period (see Section 4). This trend across the countries reviewed here can also be attributed to the case study selection, which focused on non-fragile and stable countries.

Again, as noted in Section 3, however, the expansion of ODA has not led to increased aid dependency. Almost all countries have seen a decline in their ODA/GNI ratio.<sup>33</sup> High growth rates in all countries, apart from Senegal and Kenya, meant that GNI rose faster than ODA. Nevertheless, the contribution of ODA to government budgets remains significant in many countries. In Senegal, for example, ODA still funds 25% of the total budget (AfDB et al. 2013).

The composition of ODA has shifted from grants to loans. Loans increased from 24% to 33% of ODA in Kenya, and from 68% to 79% in Viet Nam, over the period 2004–2012 (OECD 2015). Similar trends occurred in Cambodia, Ghana and Senegal. These trends are no surprise. They mirror global trends in ODA, in which loans have grown faster than ODA as a whole since 2007 (Tew 2013). This trend may also be informed by case selection: most of the countries reviewed for this project are LMICs, and donors tend to shift from grant to loan financing as countries reach middle-income status. Within IDA, loans are aimed at countries at low risk of debt distress under the Debt Sustainability Framework (so-called green light countries), which includes most of the cases here.

Two exceptions among the case studies were noted. In Lao PDR, loans as a share of ODA declined from 25% in 2003 to 4% in 2012. This trend is now in reverse, however: Lao PDR has received only loans, and not grants, from ADB since 2013 while the World Bank made a similar decision in January 2015. In Uganda, one of the few LICs in the sample, assistance from DAC donors has been almost entirely in grant form, with loans accounting for less than 2% of bilateral assistance since 2003.

## 5.3 China is by far the largest provider of BOFs

In nearly all the case studies, by far the largest source of BOFs was China. Figure 4 illustrates that the share of Chinese official finance (ODA and OOF equivalent) predominates among BOFs: on average, Chinese official finance accounted for 50% of BOFs in the period 2010–2012. China accounted for 50% or more of all BOFs in five of nine countries (on average 74% of BOFs in the period 2010–2012), and for more than 70% in three. In Cambodia, the rise in development finance flows is due overwhelmingly to the rise of Chinese support, which grew from roughly \$30 m in 2003 to \$722 m in 2012 (AidData). China is the second-largest donor to Cambodia after Japan. In Kenya, China is as significant as the African

30 Although it should be noted that for historical reasons, Viet Nam has a particularly distant relationship with China, which may also explain the low share of China and high share of OOFs in beyond ODA flows.

31 ODA flows to Kenya rose from \$621 m in 2003 to \$3.1 bn in 2012, and from \$1.5 bn in 2003 to \$4.7 bn in 2012 in Viet Nam.

32 In Zambia gross ODA rose from \$956 m in 2003 to \$990 m in 2012, only \$34 m rise in ten years in nominal terms.

33 The exceptions among the countries we reviewed for this project are Vanuatu and Kenya. In Vanuatu, the ODA/GNI ratio rose from 9% in 2002 to 13% in 2012, with a peak of 17% in 2009. In Kenya, ODA/GNI rose from 3.5% in 2003 to 5.3% in 2012.

Development Bank (AfDB), the sixth-largest donor to the country. China is Kenya's second-largest bilateral creditor, accounting for 37% of bilateral debt (National Treasury 2015). The \$4 bn Standard Gauge Railway project from Mombasa to Nairobi, which is 90% funded by the Chinese Ex-Im Bank, is larger than total ODA to Kenya in 2013,<sup>34</sup> and in 2010–2012 China gave a total of around \$2.7 bn in concessional loans per year.

In Lao PDR, Chinese assistance has been one of the main factors contributing to the rise in BOFs, accounting for 71% between 2010 and 2013 against 48% between 2003 and 2005. In the case of Uganda, 30% of BOFs came from Chinese sources, albeit from a low base. The picture is similar in Cambodia, Ghana, Ethiopia and Zambia.

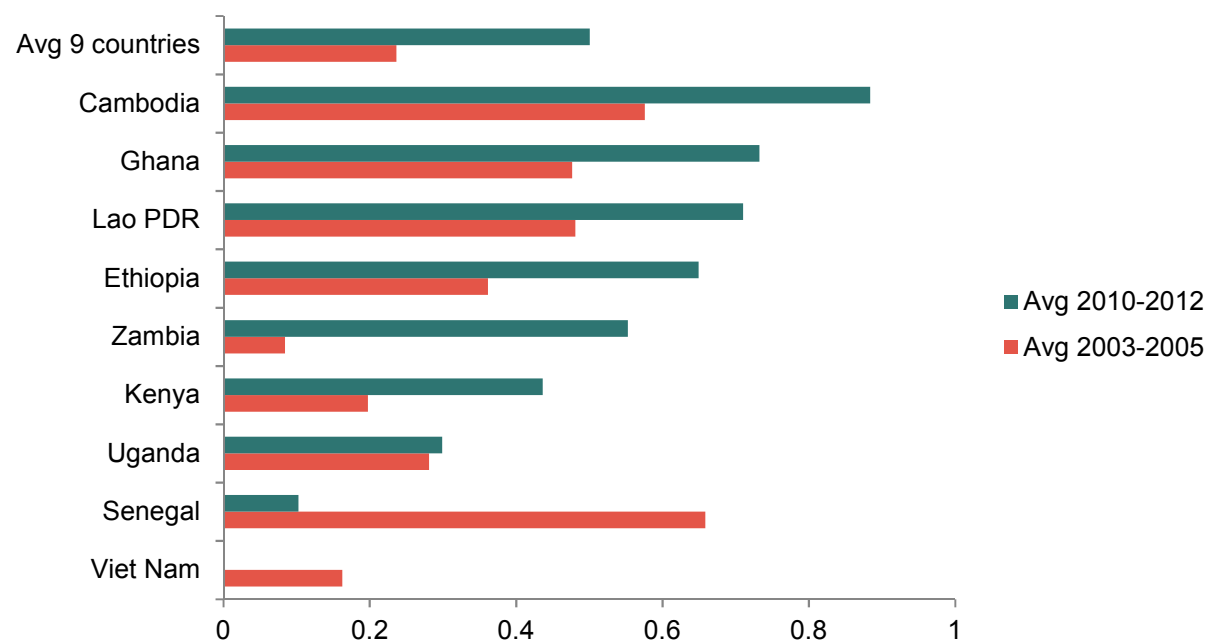
**China dwarfs the other non-DAC development partners.** In the case of Kenya, India remains a relatively small donor and initial negotiations have started with Brazil for the first small project in Kenya. More than 90% of Uganda's non-DAC flows in most years between 2003 and 2012 were provided by China.

**Viet Nam and Senegal are exceptions because of their different trajectory of diplomatic relations with China.** As noted earlier, Viet Nam and Senegal have had difficult diplomatic relationships with China, which explains their very low shares of Chinese assistance. Interviewees in

Viet Nam confirmed that cooperation between Viet Nam and China is influenced by their political relationship, noting also that there is little publicly available information on Chinese assistance. Senegal resumed diplomatic relations with China only in 2005 as the Senegalese government recognised Chinese Taipei in line with the 'One China' policy.

**China was one of the few options for Fiji.** In Fiji, the 2006 coup dramatically restricted financing options for the country's development strategy. Australia, New Zealand, the European Union (EU) and other bilateral DAC donors imposed diplomatic and financial sanctions after the government failed to hold elections in 2009. As a result of reduced funding from traditional donors, Fiji has expanded its 'Look North Policy' to identify new partnerships and intensify its engagement with Southern partners. It borrowed extensively from China Eximbank and EXIM Bank of Malaysia. Following the elections in September 2014 most of the traditional donors planned to re-engage with the government and increase funding. In the round of interviewees our understanding was that the Government of Fiji was keen to re-engage with traditional donors, especially to obtain resources on cheaper terms and conditions and also that they should provide technical assistance rather than only 'turnkey' projects.

**Figure 7: Share of Chinese official finance (ODA and OOF equivalent) in total BOFs**



Source: Authors' elaboration on the basis of *Climate Funds Update*; Foundation Centre; Khennavong (2014); OECD.stat website (accessed 2015); Strange et al. (forthcoming); Tierney et al. (2011); Tyson (2015)

Notes: Average 2010–12 for Senegal refers to the average 2009–2011

34 <http://www.chinaafricarealstory.com/2014/07/chinas-second-foreign-aid-white-paper.html>



**Table 3: Total value of bond issuance, 2002-2014**

Country	Year of issue	Total issuance (million US\$)
Ethiopia	2014	1,000
Ghana	2007	750
	2013	750
	2014	1,000
Kenya	2014	1,500 and 500
Senegal	2009	200
	2011	500
	2014	500
Zambia	2012	750
	2014	1,000
Lao PDR	2013	150
	2014	170
Viet Nam	2005	750
	2010	1,000
	2014	1,000

Source: Case study reports and Tyson (2015)

## 5.4 International sovereign bonds are the second-largest source of BOFs in the countries reviewed

With the exception of Uganda and Cambodia (both LICs), all the countries reviewed in this project have accessed international capital markets over the last decade, often for the first time, and especially the countries that benefited from bilateral and multilateral debt-relief initiatives (HIPC and MDRI) in the 1990s and 2000s (Ghana, Ethiopia, Senegal and Zambia). International sovereign bonds are the second-largest source of BOFs in the countries reviewed, after assistance from non-DAC donors. They are the fifth largest at the global level, in aggregate across all countries. In Section 5.1 we explained above why OOFs are small in the countries reviewed, and Section 5.5 elaborates on the case of philanthropic assistance.

International sovereign bonds are characterised by lumpy volumes, i.e. large influx in a single year, but their amount is often quite significant relative to ODA channelled through the public sector for that year. The bonds issued include (see Table 3 for a summary):

- **Ghana**, which raised \$1 bn in 2013. The Eurobonds went oversubscribed (ten-year maturity at an annual rate of approximately 9%).<sup>35</sup>
- **Senegal** issued international sovereign bonds in 2009 and 2011, but plans for another \$500 m in 2013 were shelved in favour of a less expensive (6% instead of the 8.75% annual rate for Eurobonds) regional syndicated loan.
- Since May 2013 four tranches of Thai Baht bullet bonds of growing volumes issued by the Government of **Lao PDR** have largely been seen as successful with a good response from investors and banks.
- **Viet Nam** issued its first international sovereign bond in 2005 (\$ 750 m), then in 2010 and 2014 (\$ 1 bn each), again oversubscribed and with interest rates declining over time. Three tranches of international sovereign bonds have been issued with a good response from investors; interest rates have declined over time. We understand the Vietnamese government plans to issue international sovereign bonds more frequently in the future.
- **Kenya** issued its first sovereign bonds in 2014, having been planning this since 2007.<sup>36</sup> It was the largest debut bond issue by an African country at \$2 bn and consisted of \$1.5 bn with a ten-year maturity, and \$500 m with a five-year maturity.
- **Ethiopia** issued its first bond of \$ 1 bn in 2014.
- **Zambia** issued its first tranche of \$750 m in 2012 and \$1 bn in 2014 (Tyson 2015).

In the case of Uganda, the government has not issued international sovereign bonds to finance public investments, and has no plans to do so in the near future. Although sovereign bonds are recognised as a potential source of financing in the national development plans, the government has taken a policy decision not to pursue them at present (Section 5.10 elaborates on this point).

## 5.5 Philanthropic assistance and climate finance flows are very small

In Section 4 we mapped philanthropic assistance at the global level. At the country level philanthropic flows were found to be very small, echoing the findings of earlier studies (Greenhill et al, 2013; OECD 2014a).

In most cases, philanthropic assistance from US foundations, for which data is available, was extremely small. To give a rough idea of their relative magnitude, this assistance was equivalent to 1% of ODA flows in Ghana and Senegal between 2003 and 2012. In Uganda,

35 Proceeds from the Eurobond are meant to be used to finance counterpart funds for capital projects (10%), capital expenditures approved in the 2013 Budget (31%), early redemption of the 2007 Eurobond (25%) and finally to refinance domestic debt (34%) (see GoG, 2013a; GoG, 2013b).

36 Kenya had started planning to go to the markets in 2007, following improved economic management under President Kibaki. Following the post-election violence, planning for sovereign borrowing was halted. The 2007–2008 post-election violence meant the government was unable to seek financing from the international markets, as its rating was downgraded to a B rating. The global financial crisis caused a further delay while credit markets stabilised, and in 2012 the government took a bridge-syndicated loan of \$600 m from commercial banks ahead of elections in 2013.

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data from the Foundation Centre on the activities of US foundations shows grants of \$14 m each year between 2003 and 2012 (as a comparison, ODA in 2012 was \$1.7 bn). In the case of Lao PDR there is very little information on philanthropic assistance. Based on available data, this type of assistance accounted for less than 0.1% of BOFs between 2010 and 2012. The same share was 0.9% in Viet Nam. Kenya might appear to be an exception. US grant-making organisations provided \$915 m to 518 organisations in Kenya between 2003 and 2012. This is equivalent to roughly 6% of gross ODA disbursements over the same period. Philanthropic organisations based in Kenya do not focus only on Kenya, however, and its status as a regional hub means it is also a hub for organisations financed by philanthropic foundations.

The flows reaching developing countries small and in addition philanthropic organisations seldom transfer funds directly to governments, making it difficult to track them. This is one of the reasons why governments find it difficult to have an accurate idea and overview of these flows. Philanthropic organisations rarely have country-based representatives who might attend relevant meetings. There have been some attempts (such as in the case of the Kenyan aid portal 'E-Promis') to track the flows, but these have not always been successful. We also found anecdotal examples of philanthropic organisations working directly with governments.<sup>37</sup>

Small volumes of philanthropic flows at the country level should not necessarily be seen as a problem, since philanthropic organisations tend to concentrate their resources via trust funds or other international organisations or to fund NGOs and grassroots organisations directly reducing fragmentation. It is therefore possible that philanthropic flows are not evident at the country level because they are being channelled via these other bodies, but are nevertheless increasing the volume of development resources available. These trends need to be better understood.

Climate finance was another very difficult area to map and flows were very small also in relative terms, mirroring trends at the global level. Senegal, for instance, is prone to floods, droughts and climate shocks, which affect agricultural growth (AfDB et al. 2013) and tourism. Since 2003, climate finance grant pledges to Senegal totalled over \$32 m, with approximately 60% disbursed by 2013

(ODA flows in 2011 were more than \$1 bn). Viet Nam is also highly exposed to the risks of climate change, yet climate finance remains low (albeit increasing). Overall, multilateral climate finance has expanded since 2009, having provided \$14 m in approvals to Viet Nam in 2009 and \$37 m in 2012. But with approvals accounting for only 2.8% of BOFs in that year the volume of external support for climate change adaptation (CCA) is still marginal in the context of the country's vulnerability. Climate funds received were also quite low in other cases,<sup>38</sup> and Kenya receives relatively little climate finance, despite its high vulnerability to climate change (see Section 3). According to the Climate Funds update, \$37 m had been approved since 2006, but only \$6.6 m had been disbursed. Kenya does receive ODA for green energy, although it is not categorised as climate finance. It established the Geothermal Development Corporation in 2008 to develop geothermal energy sources. We understand from interviews that it has received over \$600 m in financing from sources such as the MDBs and bilateral development finance institutions.

There could be several explanations for this finding. First, most of the countries here analysed are not among the top recipients of climate change-related financing (see Nakhoda et al. 2013). This was also the case for the Pacific Island economies like Fiji and Vanuatu that are highly vulnerable to the adverse effects of climate change. Second, most climate finance is classified as ODA and by source (the donor) rather than by the motive (climate finance), so it is possible that some money is being channelled to support CCA and mitigation but is not formally classified as climate finance. In Kenya there are plans for the tracking system of government accounts (IFMIS Integrated Financial Management Information System) to include a coding and classification system of CCA and mitigation projects. Third, in some cases the government cannot directly obtain climate finance, again the case of Pacific Island economies such as Fiji and Vanuatu, because of lack of capacity to negotiate these flows. For instance, the governments of Uganda and Lao PDR have experienced problems in accessing multilateral funds such as the Adaptation Fund. In the round of interviews the main reason given was a time-consuming accreditation process.

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37 For example, in Lao PDR the Rockefeller Foundation provided grants to the Ministry of Agriculture and Forestry, the Ministry of Health and the Ministry of Information and Culture, though in small amounts. In Uganda, between 2003 and 2004 the Ministry of Finance and Economic Planning and Development received three small grants from the Rockefeller Foundation (totalling \$400,000). In Viet Nam the Rockefeller Foundation provides direct funding to the Ministry of Health to develop the health system or for training activities and the Bill and Melinda Gates Foundation supported the Ministry of Information and Communication to scale up public internet access.

38 Climate finance pledges from multilateral climate funds to Ghana totalled over \$22 million from 2006 to 2011, with approximately nearly \$17.6 m disbursed so far, most of it in the form of grants, with most funds going to meet mitigation objectives (nearly half of total climate finance) (ODA flows were \$ 1.9 bn in 2011). Multilateral climate finance to Lao PDR has expanded since 2009, having approved \$5.5 m to Lao PDR in 2009 and \$12.5 m in 2011 (ODA was \$ 444 m in 2011). Levels of multilateral climate financing to Uganda are fairly low. Climate Finance from the Global Environment Fund (GEF) averaged \$2.85 m per year between 2002 and 2013, and amounted to \$ 3.45 m in 2013.

## 5.6 PPPs are still small and difficult to map in the countries studied

All the countries analysed in 2015 have a PPP unit in place and see the potential of stronger private-sector involvement to implement national plans, especially with regard to infrastructure. Implementation is limited to a few examples, albeit with some differences, and projects proved quite difficult to map.

In Viet Nam, at the time of the case study analysis in January 2015, a PPP decree was in the making: its scope was to reorganise and clarify policies in the PPP sector. At the time of the case study only five pilot PPPs were in the pipeline and feasibility studies were underway.

In Uganda, the government adopted a national PPP policy in 2010, and parliament has passed a revised PPP Bill. The objective of the policy was to encourage private investment and participation in public infrastructure and related services where value for money can be clearly demonstrated. The Ugandan government has engaged in a number of PPPs since 2003 across various sectors and plans to continue using this form of finance for selected sectors.

Expansion of PPPs is a priority for the government of Kenya. The key rationale for undertaking PPPs is because of lack of sufficient resources for all the infrastructure projects the government would like to undertake to address the estimated \$2 bn per annum infrastructure investment deficit (Briceño-Garmendia and Shkaratan 2010:31). The Kenyan government is nearing its 50% of GDP debt limit (see Section 3), and thus has limited fiscal space to take on large volumes of new borrowing. In Kenya PPPs have to date been more successful in the energy sector, but the government is also seeking to expand the transport sector. There has been a rapid expansion in the number of PPPs with the adoption of a coherent policy framework.

In Lao PDR, the government sees the potential for stronger private-sector involvement, particularly through PPPs, as an opportunity to develop a comprehensive and modern infrastructure system, as envisaged in the NSEDP (GoL 2011). At present, there are few examples of hydropower projects with PPP characteristics (as defined in the draft PPP decree) in Lao PDR. However, given the lack of a formal institutional framework and no clear definition of a PPP, there is a lack of consensus on whether these projects are indeed PPPs.



Photo: Reuters/Thomas Mukoya, 2012 People ride a motorbike during sunset, past a bridge under construction along the Nairobi-Thika highway in Nairobi January 12, 2012. The road, which is being built by China Wuyi, Sinohydro and Shengeli Engineering Construction group, is funded by the Kenyan and Chinese government and the African Development Bank (AFDB).

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# 6 Access and management of development finance flows at the country level: qualitative analysis

This section outlines key findings emerged in the semi-structured interviews on access and management of external development finance flows beyond, governments' priorities for the terms and conditions of development finance and the role of in-country coordination mechanisms between the government and the providers of development finance.

## 6.1 In some countries, new providers of development finance have enhanced the recipient country's negotiating position

In some countries, interviewees suggested that the emergence of 'beyond ODA' providers of development finance was helping to strengthen the country's negotiating power in relation to traditional donors. This was particularly true of China, less so of private sector funders. In Cambodia, for example, interviews and earlier studies (e.g. Chea et al. 2008) suggested that the government is becoming more assertive in dealing with traditional donors and thus better able to meet its objective of greater ownership, particularly at the political level. At the time of the study, it was reported that the government intended to phase out infrastructure lending from the World Bank because of concerns about land rights-related conditionality, and because it has alternative funding sources. The government also cancelled the 2012 Cambodia Development Cooperation Forum, which reviews progress against conditionalities, which some interviewees attributed to disputes with the World Bank. Interviewees in Uganda also believed that the government needs to pay less attention to the governance concerns of OECD-DAC donors because of China's entry. Similarly in Ethiopia, some interviewees observed that the emergence of 'beyond ODA' donors had further increased the government's negotiating power in relation to traditional donors, enabling it to adopt more heterodox policies than would usually be negotiated under the conventional policy conditionality of the IMF and World Bank.

The picture was not uniform across all countries. In Lao PDR, for example, there were some examples of non-DAC support being favoured over that from DAC donors, but this was explained as being more to do with political interests and the need to stay on good terms with near neighbours rather than a desire to escape conditionality. In Kenya and Zambia, there was no strong evidence of China's presence as an alternative source of finance helping to strengthen governments' negotiating power vis-à-vis traditional partners.

## 6.2 Volume, national ownership, alignment, speed and diversification emerge as priorities for governments

Government officials were asked about their priorities for the 'terms and conditions' of development finance – both ODA and beyond ODA. Their responses were triangulated by looking at published strategy and policy documents and by interviewing donor and non-governmental stakeholders. Interestingly, some countries struggled to clearly articulate their priorities in this area, and we also found that in countries playing an active role in the Paris/Busan agendas, government officials were less inclined or less able to articulate priorities/preferences beyond the main Paris principles. The volume of funding was a priority in several countries. In Kenya, for example, one of the top priorities expressed by government officials was increased financing to support Kenya's development plans. Similarly, in Lao PDR, it was reported that there is very high demand for financing for projects, particularly those in the hydropower sector, but traditional multilateral donors such as the World Bank and the ADB offered very limited funding in relation to the scale of need. Ethiopia has substantial infrastructure needs, which traditional ODA was found to be insufficient to finance, and which has prompted the country's strategy of tapping into new financing sources.

Cambodia also identified the need for additional resources as the number one priority.

Overall, **ownership, alignment and speed** continued to be identified as key priorities in relation to the ‘terms and conditions’ of development finance, broadly in line with the Paris principles on aid effectiveness and consistent with our earlier findings (see Greenhill et al. 2013). Ownership was expressed as a priority in most countries, with reduced conditionality considered an important way to achieve this. In Uganda, for example, the 2<sup>nd</sup> National Development Plan specifically criticises the conditions attached to traditional ODA. In Ethiopia, the prioritisation of ownership is such that even grants might not be accepted if they do not finance the priorities set out in the national plan, or threaten conditions that are considered unacceptable to the government. In Kenya and Viet Nam, ownership emerged less strongly, with the main issue being alignment to national priorities.

**Alignment** continues to be a key priority. Countries seek to ensure that development finance is both provided to the sectors and priorities articulated in the country’s national strategy (policy alignment), and use government systems to the maximum extent possible, for example through budget support (systems alignment). In terms of the sectoral priorities, in line with overall national development strategies (see Section 3), the preferred projects tend to be in the public infrastructure sector. However, policy alignment can be a loose concept, with national strategies so broad that often every sector is a priority. Certainly, apart from Ethiopia, there was little evidence of projects being turned down because they did not fit with national strategies, with countries such as Lao PDR tending to accept all offers of support. In Kenya, for example, some projects are being carried out despite not being aligned to government priorities – although those priorities are so broad that most projects could fit within them (Development Initiatives 2014). Uganda was more successful in this regard, being able to guide development finance providers towards the government’s sectoral priorities, with the MFPED also checking for consistency with the National Development Plan.

Systems alignment was frequently raised as a priority, with several countries expressing a strong preference for budget support, although few are achieving this objective. In Uganda, for example, the share of aid accounted for as budget support has fallen rapidly. A similar story is found in Lao PDR, with perceived weaknesses in government systems, and lack of budget transparency, undermining greater use of systems. In Kenya, there is a similar preference for budget support, but only a few donors use this modality, partly because the USA, Kenya’s largest donor, does not generally use budget support, and because of alleged misappropriation of funds in the education sector in 2010.

Strikingly, other key elements of the Paris/Accra aid effectiveness agendas did not emerge as strong priorities, except in Zambia. Tying was very rarely mentioned, even

in response to a prompt from interviewers. Harmonisation, or the need for joint programming, were not raised significantly, except in Zambia, despite the growing number of development finance providers.

**Speed of delivery** continued to be a priority, although not included in the Paris Declaration. In Kenya, for example, government officials argued that concessional and non-concessional loans often have similar total costs if one takes into account the impact of delays with some projects funded by concessional loans. These delays involve greater administrative and opportunity costs of projects not yet in place or fully operational. In Ethiopia, speed was considered of such high priority that one interviewee gave examples of concessional loans being rejected in favour of less concessional financing from China because the process was taking too long and the safeguards were too burdensome. In Uganda, there were also complaints about the time it can take to develop projects using financing from OECD-DAC donors and multilaterals, although in this case delays appeared to influence only the prioritisation or selection of funding sources for the most politically important projects. In some cases, this is a concern about predictability as well as speed, because the longer a project is delayed, the greater the risk that the funding may not materialise at all. Not all countries placed so much value on speed, however. In Viet Nam, for example, it was remarked that in some cases it is the government bureaucracy that causes delays, while in Lao PDR interviewees did not feel that speed was a priority.

Finally, as discussed in Section 5.4, **diversifying funding sources** is a strong priority in some countries, and led them to issue sovereign bonds. In Zambia, for example, the government has sought to diversify funding sources as a result of the fall in traditional ODA resulting from its transition to MIC status, and is exploring futures markets, PPPs, hedge funds and new climate finance mechanisms.

### 6.3 Interest in aid coordination is fading and providers of BOFs tend to negotiate bilaterally

As noted in Section 3, all countries have established aid coordination structures, involving some combination of a high-level donor–government grouping, technical or sector working groups, and specific groups on aid effectiveness, donor coordination, mutual accountability and so on. Many countries also have specific donor-only groups that coordinate joint positions on key issues.

Overall, it was found that the impetus behind the aid effectiveness agenda is fading, even in countries that were very active in the Paris/Accra/Busan agendas. It was also found that, with the exception of Zambia, non-DAC donors do not actively participate in these arenas, either not attending at all or doing so only as observers. This was the case across the full spectrum of coordination fora. For example, in Uganda, the 1<sup>st</sup> National Development

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Plan requested that all donors participate in the Local Development Partners Group, to provide a single point of contact between the government and its partners, but to date China has declined to attend, preferring to maintain a bilateral approach. In Kenya, BOFs providers attend annual ‘Summits’ or High-Level Development Partners meetings, but go only to listen to government and other development partners rather than to speak. Such providers do not attend other parts of the aid coordination system, for example the Aid Effectiveness Group or Sector Working Groups (SWGs). A similar picture emerged in Lao PDR. Zambia appears to be something of an exception, with Brazil, China, India and South Africa all participating in donor coordination mechanisms and some sectoral advisory groups, although with different levels of frequency and activity.

In general, non-DAC donors that regard themselves more as ‘donors’ were more likely to engage in these dialogues and to report to aid management platforms, such as Turkey in Ethiopia and Thailand in Viet Nam and Lao PDR.

There was a varied picture in terms of the degree of priority governments place on the involvement of non-DAC donors in aid coordination mechanisms. In Zambia, it was reported that the government had sought to encourage the participation of non-DAC donors, and that this, in combination with efforts from the DAC donors, had helped to secure their participation. In Uganda, some line ministries reported that the non-involvement of key donors in sector coordination mechanisms complicates the overall dialogue, although it is acknowledged that these problems can be mitigated to some extent by having a strong sector strategy with which to guide bilateral discussions. In Kenya, line ministries expressed the hope that new development partners would attend the aid effectiveness group and the SWGs, but also noted that because they generally provide infrastructure and other hardware, rather than recurrent supplies or technical assistance, coordination of this support is easier and thus attendance at SWGs is less important. In Lao PDR, there was no clear government consensus on how important it was for non-DAC donors to engage in these groups. At the other end of the spectrum, Ethiopia, Cambodia, Ghana and Senegal showed very limited interest in involving non-DAC donors in such fora.

Engagement with non-DAC donors is largely bilateral. In the case of China, there was evidence that Chinese companies are also involved at a much earlier stage of developing project proposals than is usual for DAC donors. In Uganda, this is called ‘Contractor Facilitated Finance’, in which the government allows the contractor to facilitate the process of obtaining the finance required to undertake projects. Contractors submit tenders, and a bid is selected

both on the basis of technical competence and on who offers the most acceptable financing terms. A similar process occurs in both Lao PDR and Cambodia. In Lao PDR, it was observed that projects with interest-bearing concessional loan funding tend to originate with Chinese companies, or are at least developed in interaction with them (Khennavong 2014; Sato et al. 2011).

In many countries it proved more challenging to involve non-state actors, including philanthropic organisations and NGOs, in aid coordination fora. In Uganda, there is no formal mechanism for coordinating with providers of development finance that work directly with the private sector or civil society, and philanthropic providers are not reported to participate in government-led SWGs. In Lao PDR, the government has recently taken steps to include local NGOs, international NGOs and private-sector representatives in the high-level Round Table Process, although a recent government report on this process concluded that this involvement was ‘too little, too late’ (MPI 2015). Similar arguments apply in Kenya and Viet Nam.

## 6.4 Governments issued international bonds to diversify their portfolio, and because of their large volume, signalling effects, speed, and lack of conditionality

In the four cases we examined in 2015 we looked at international sovereign bonds in more detail. Of the four countries, three issued international sovereign bonds in the international financial markets over the last ten years (Kenya and Viet Nam, Lao PDR in a non-domestic currency).<sup>39</sup> There are different reasons why these governments decided to issue sovereign bonds.

First, the primary rationale for international borrowing was to **finance infrastructure** at amounts that other lenders, especially MDBs and bilateral DAC donors, might not have been able to mobilise. In Kenya the bond was needed to help finance the ambitious plans set out in the national long-term strategy, Vision 2030. It could not all be financed by Kenya’s traditional lenders, which justified taking on non-concessional borrowing. While in Lao PDR funds raised from the first bond issuance in 2013 were used to finance the sudden increase in the budget deficit as a result of the wage increase, which would have been difficult to finance through donor loans, subsequent issuances were used to finance hydropower projects, specifically government equity share in joint ventures. In Viet Nam sovereign bonds were meant for on-lending to private enterprises and state-owned enterprises.

Second, there is a **signalling effect to international financial markets**. International sovereign bond issuance

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<sup>39</sup> Ethiopia, Ghana, Senegal and Zambia issued international sovereign bonds but the relevant research question was not addressed at the time of these case studies.

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can provide a benchmark for pricing corporate bonds in international markets, over time expanding the yield curve, and help increase access for the private sector and parastatal companies (Prizzon and Mustapha 2014). This motivation emerged in both Kenya and Viet Nam. More specifically in Kenya the introduction of a benchmark sovereign bond is expected to accelerate international private investment into the economy (Vision 2030: 11). If the government and parastatals and large private firms are not borrowing domestically, it was hoped this would bring down the cost of credit for local firms. Kenya never received debt relief under the HIPC and MDRI initiatives, and the Kibaki government made the decision in 2003 that it would repay Kenya's debt in full to send a signal to the markets.

Third, issuing sovereign bonds in the international markets is also part of **portfolio diversification strategy and refinancing previous obligations**, as emerged from the interviews in Kenya and Lao PDR. In this latter case the decision to issue Baht bonds on the Thai market in 2013 was partly motivated by this priority. In Viet Nam the government also sees international capital markets as an alternative source of finance with increasing importance since Viet Nam attained LMIC status and expects a decline in ODA.

Finally, issuances of sovereign bonds are managed by investment banks and target private investors. This borrowing source does not come with policy conditionality and funds are immediately available without delays. Interviews with government officials in Kenya indicated that the government felt donors had placed governance conditions, and sovereign borrowing would allow access to finance to be determined by the market rather than by donors' political decisions. A similar point emerged in the interviews in Viet Nam.

As mentioned in Section 5.1, the Ugandan government decided not to issue bonds in international financial markets for a number of reasons. First, the Ministry of Finance, Planning and Economic Development (MFPED)) recognises that sovereign bonds are expensive, and is concerned that public debt could rise to unsustainable levels during currency depreciation, increasing bond yields (international sovereign bonds are usually denominated in US dollars, with Lao PDR being an exception among the countries reviewed). Second, MFPED is aware of the repayments risks associated with sovereign bond financing in the event that projects are poorly designed or face delays in implementation.

## 6.5 Financing national priorities will require additional non-concessional resources with implications for public debt sustainability

National development plans focusing on infrastructure development, coped with the broad SDG agenda, will demand for additional resource mobilisation to meet such objectives. Public debt in the four countries we analysed in 2015 rose substantially over the last decade, starting from a low risk of debt distress (with the exception of Lao PDR – see Section 3). Again with the exception of Lao PDR,<sup>40</sup> the other three countries have debt/GDP ceilings approved by parliament or the regional organisation to which they belong. Kenya aims to keep debt below 50% of GDP in line with the fiscal convergence targets of the East African Monetary Union Protocol, which also applies to the Ugandan government (although it set a more prudent limit of 30% on the net present value of external debt to GDP). In Viet Nam the official limit is 65% of GDP in 2016. All of the three countries are about to hit this limit or expected to do so. For instance by 2014, the external debt to GDP ratio in Uganda had risen to 16% of GDP, and it is expected to double again over the next six years, exceeding 30% of GDP by 2020. There was no evidence in the case studies of projects having been turned down because they were putting pressure on debt management.

While these debt-to-GDP thresholds are intended to improve fiscal management and avoid falling into another debt trap (Kenya and Uganda) or becoming unmanageable and expensive to serve (Viet Nam), there is no strong evidence on the optimal debt ratio to avoid it becoming unsustainable (for a recent discussion see Ostry et al. 2015). Prudent debt management requires a more technical analysis to compare the expected cash flow generated by a project – and more broadly its economic and social returns – and the cost of borrowing, especially when governments seek resources to fund infrastructure development.

It is also worth noting that PPPs are not yet captured in the IMF–World Bank debt sustainability framework to assess future debt ratio trajectories. According to Romero (2015), the last decade saw a huge increase in the resources invested in PPPs in developing countries, with high risk for public finance. This might not be a current issue in Viet Nam where only five projects are in the pipeline. We understood there are some efforts in the Debt Management Office in Kenya to start tracking sovereign guarantees and in Uganda the government prefers to enter into PPPs that do not incorporate public guarantees in the contracts.

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<sup>40</sup> Lao PDR's draft decree on debt management seems to have been under development since 2011, but not yet approved. Possibly as a result, interviewees had conflicting reports of the debt indicators being considered by the government, including whether debt-service-to-revenue ratios or debt-stock-to-GDP ratios were considered the more significant. There appears to be no publicly announced threshold for the debt-to-GDP ratio.

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# 7 Conclusions and policy recommendations

This report has examined how the governments of selected developing countries negotiate and manage the external development finance they receive from non-traditional sources, known as beyond ODA flows (BOFs). We have reviewed the proliferation of development finance providers over the past 10 years, whether their finance has been accessed by governments, the shifting priorities for the terms and conditions of development finance and the way in which financing decisions are made.

Our assessment of BOFs looked at assistance from new and emerging donors; philanthropic assistance; climate change financing from multilateral organisations; other official flows (OOFs) from traditional bilateral Development Assistance Committee (DAC) donors and multilateral organisations; international sovereign bonds; and public-private partnerships (PPPs).

Our case studies were carried out in relatively stable low-income or lower middle-income countries. The findings, therefore, may not represent all developing countries, but they do provide useful insights into the reality of the ‘new development finance landscape’ at country level.

Key findings have emerged from our analysis as follows:

- **At the global level:** more external development finance, ODA from traditional donors still matters, the share of BOFs holds steady

Total external development finance flows to all developing countries more than doubled between 2003 and 2012, with BOFs accounting for roughly 45% of these flows in the same period. ODA remains the largest source of external development finance (as defined in this report) and continues to grow in absolute terms, even in countries that have crossed the middle-income threshold. It is, however, falling as a percentage of GDP.<sup>41</sup> At the global level, the largest sources of BOFs in 2012 were OOFs from multilateral and bilaterals (60%), followed by philanthropic assistance (22%) and flows from emerging donors (13%), including a growing share from China. Other notable sources were international sovereign bonds (4%) and multilateral climate finance (1%).

- **In the case study countries:** a lower profile for BOFs  
The share of BOFs was much lower than the global average in 2003-2005 across the countries reviewed. While the share of BOFs increased, it remained below the global average in six of the nine case study countries (Ethiopia, Kenya, Senegal, Uganda, Viet Nam and Zambia) from 2010 to 2012. OOFs from traditional donors and multilateral development banks account for a very small share of development finance at the country level with the exception of Viet Nam. However, all of our case study countries are International Development Association (IDA) members, which have, to date, received very limited disbursements of non-concessional official loans.
- **In the case study countries:** China is the largest non-traditional donor, and international sovereign bonds are the second-largest source of BOFs. China may account for only a small share of development assistance at the global level, but the picture is different at the country level, at least in relative terms. It is by far the largest provider of BOFs in our case study countries, accounting for an average of 50%, rising to more than 70% in three of them. This dwarfs the contributions from other emerging donors such as Brazil, India and South Africa. International sovereign bonds are the second-largest source of BOFs in our case study countries and their volume can be significant in relation to ODA, particularly in the year in which they are issued. Governments issue bonds because of their large volume, the positive signal they send to international financial markets, their speed of delivery and their lack of conditionality.
- **In the case study countries: small volumes of finance from philanthropic assistance and climate-related assistance.** The volume of philanthropic assistance remains extremely small at country level, even though it is the second-largest source of development finance globally. The same is true for multilateral climate finance, even in countries that are very vulnerable to the adverse effects of climate change.
- **Economic performance, macroeconomic prospects and the diplomatic relationship with China are**

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<sup>41</sup> This finding, therefore, does not conflict with the ‘missing middle’ hypothesis of development finance for LMICs as in Kharas et al. (2014). ODA flows might have grown over time but denominators (GDP) grew even faster, so the relative measure of ODA as a share of GDP fell in most countries reviewed, with the exception of Kenya and Senegal.



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key determinants of how much choice developing country governments can exercise. Economic and political context matter for the ability of recipient countries to access financial resources. Sustained economic performance and good macroeconomic prospects are critical for the successful issuances of international sovereign bonds. The maintenance of robust macroeconomic management is, therefore, a prerequisite for the expansion of the financing options available to recipient countries. On the political side, funds from China, for example, appear to be heavily determined by the political relationship with the recipient country: countries recovering from, or embroiled in, tense diplomatic relationships with China (such as Senegal and Viet Nam) receive less of its official finance.

- **More choice means more potential bargaining power for national governments.** New providers of development finance have enhanced the bargaining power of recipient governments, although this varies by country. Cambodia, Ethiopia and Uganda, for example, have used the emergence of new finance providers to their advantage, while there was no evidence of this in Kenya and Zambia.
- **Developing country priorities: volume, speed, ownership, alignment and diversification.** The top priorities for developing countries remain largely in line with the principles of aid effectiveness, regardless of the changing finance landscape. Some countries stressed speed of disbursement, while many prioritized their ownership of development programmes that are aligned with national development strategies, consistent with the principles of the Paris Declaration. Several, including Kenya, Lao PDR and Cambodia, emphasised the sheer volume of finance, as they need to invest heavily in infrastructure projects. They have issued international sovereign bonds over the past 10 years to diversify their funding portfolio because they require amounts that other lenders, especially multilateral development banks and bilateral DAC donors, have not been able to provide.
- **Public debt is on the rise.** Public debt levels have soared over the past decade in Kenya, Lao PDR, Uganda and Viet Nam. With the exception of Lao PDR, these countries have debt-to-GDP ceilings, set by parliament or regional organisations, which they will reach very soon. This could make it difficult for them to take on more loan financing to meet national development priorities. Loan financing is essential, as the SDGs cannot be achieved through grant financing alone.

## Developing country governments can take five main steps to capitalise on the age of choice:

1. **Know what you want.** Countries with clear national development strategies, such as Ethiopia and Uganda, were more confident when dealing with potential donors. Each government should put together a national development strategy that identifies priority sectors and how funds should be spent. The clear message is: seek a range of funding to support your development strategy, reject any funding that does not, and agree clear priorities for the ‘terms and conditions’ of the development finance flows you choose.
2. **Know how much finance is coming in, and keep track of where it goes.** The case study countries often lack data monitoring on development finance by Ministries of Finance and Planning. Ministries should, therefore, improve their efforts to build and maintain good data sets so they can see how much finance is coming in, what kind of finance it is, where it is from, and where it is going. This would allow governments to see the links between financial flows and tangible progress. At the global level, a data revolution is needed to support achievement of the SDGs. At local level, a data revolution is needed for good strategic planning and better evaluation.
3. **Think outside the ODA box.** Most financing strategies in the case study countries *still* focus on ODA but, in the new age of choice, alternative sources of finance generated \$120 billion for developing countries in 2012 alone. While ODA still matters, access to it will decline as economies grow. So include public and private non-concessional financing in your national development strategies. This will help you achieve a range of development objectives in the face of rising debt levels and limits on the amount of traditional financing you can access.
4. **Play the field.** Don’t just stick to traditional donors. China and the international sovereign bond markets are already major sources of development finance at country level, and philanthropists and other non-DAC donors at the global level. Negotiate with both new and old development finance providers and be strategic in managing your relationships with them. Recognising the distinctive characteristics of a provider will increase your chances of a successful negotiation.
5. **Don’t forget about macroeconomic performance.** This might seem obvious, but successful sovereign bond issuances rely on good macroeconomic indicators and their forecasts. Poor macroeconomic performance means lower credit ratings and higher interest rates for future issuances, making the refinancing of international sovereign bonds unsustainable.

## Donors can take five main steps to provide more effective development finance:

1. Remember that ODA still matters. It is still by far the largest source of external development finance available to governments in developing countries. While debates on ‘beyond ODA’ are important, donors must ensure that ODA itself is effective in supporting national development plans and progress towards the SDGs.
2. **Support countries’ own strategies and policies, and do it quickly.** Evidence suggests that developing countries are using the availability of new financing options to their advantage, and that this has bolstered their negotiating position with donors. Traditional donors need to give developing country governments what they want – ownership, alignment, and swift disbursements – or risk losing ground to other providers and, ultimately, losing relevance.
3. **New donors need to respond to developing country priorities.** The biggest new donor – China – accounts for more than 50% of ‘beyond ODA flows’ across all case study countries on average, and for more than 70% in three of them. All providers, including China, need to ensure that their finance contributes effectively to the achievement of the SDGs, is ‘owned’ by the country that receives it, is aligned to that country’s priorities, and promotes macroeconomic and debt sustainability.
4. **Find out what is going on with the very small flows of philanthropic and climate finance.** It may be that philanthropic finance is subsumed into flows from NGOs and global funds, but better tracking is needed. Given the recent landmark agreements on climate change, it is alarming that so little climate finance goes to countries that are vulnerable to climate change.
5. **Don’t forget about debt management.** Debt levels have risen rapidly in many countries, and those with debt ceilings are about to hit them. Given the vast financing needs for the SDG agenda, donors and aid-recipient governments must work together to identify funding options that do not heighten the risk of debt distress. This also requires multilateral development banks to reflect on whether limited supply and terms and conditions are pushing developing countries towards more expensive – and perhaps more risky – capital markets.

These findings call for specific policies and actions by recipient developing country governments and development partners as well as other providers of development finance.

In addition, donors could usefully **build awareness of, and an evidence base for, the potential for PPPs before moving on to scaling up.** The use of PPPs is in its very earliest stages in the four countries that were studied in 2015 (Kenya, Laos, Uganda and Viet Nam). There are, to date, few examples of project implementation and they have proved difficult to map. Approaches to SDG

financing that rely heavily on PPPs, therefore, need to raise stronger awareness of, and an evidence base for, the potential of such instruments. Also **donors will benefit from improvements in the availability and transparency of information.** This includes reporting on OOFs – for which reporting to the DAC is not compulsory – and on flows from non-DAC donors. The IATI has agreed on a standard for reporting information that can be used by governments in a timely manner, which could form the basis for increased transparency for a range of providers.



Photo: Reuters/Thomas Mukoya, 2011 construction worker walks on a scaffolding on a tunnel along the Nairobi-Thika highway project, under construction near Kenya's capital Nairobi, September 23, 2011. The road, which is being built by China Wuyi, Simohydro and Shengeli Engineering Construction group, is funded by the Kenyan and Chinese government and the African Development Bank (AFDB).

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# Annexes

## Annex 1: Comparison of economic and governance context across case studies

Indicator	SSA countries					East Asia countries			
	Ghana	Ethiopia	Kenya	Senegal	Uganda	Zambia	Cambodia	Lao PDR	Viet Nam
<b>Economic</b>									
Net ODA received (% of GNI)	Decreased: 13.2% in 2003 and 4.5% in 2012	Decreased: 19% in 2003 and 7.5% in 2012	Increased: 3.5% in 2003 and 5.3% in 2012	Increased: 6.8% in 2003 and 7.8% in 2012	Decreased: 16.1% in 2003 and 7.1% in 2012	Decreased: 16.3% in 2003 and 3.9% in 2012	Decreased: 11.6% in 2003 and 6% in 2012	Decreased: 15.8% in 2003 and 4.7% in 2012	Decreased: 4.2% in 2003 and 2.8% in 2012
LIC average: 19% in 2003 and 11.6% in 2012									
LMIC average: 1.2% in 2003 and 0.7% in 2012									
FDI, net inflows (% of GDP)	1.8% in 2003 and 7.9% in 2012	5.4% in 2003 and 0.6% in 2012	0.5% in 2003 and 0.3% in 2012	0.8% in 2003 and 2% in 2012	3.2% in 2003 and 5.1% in 2012	7.1% in 2003 and 6.9% in 2012	1.8% in 2003 and 10.3% in 2012	1% in 2003 and 3.1% in 2012	3.4% in 2003 and 5.4% in 2012
224									
225 LIC average: 3.4% in 2003 and 6% in 2012									
226 LMIC average: 1.1% in 2003 and 2% in 2012									
Personal remittances, received (% of GDP)	0.9% in 2003 and 0.3% in 2012	0.5% in 2003 and 1.4% in 2012	3.6% in 2003 and 2.4% in 2012	7.4% in 2003 and n/a in 2012	4.7% in 2003 and 3.8% in 2012	0.7% in 2003 and 0.3% in 2012	3% in 2003 and 1.2% in 2012	0% in 2003 and 0.6% in 2012	4.9% in 2003 and n/a in 2012
LIC average: 3.8% in 2003 and 4.3% in 2012									
LMIC average: 4% in 2003 and 4.5% in 2012									
2 GDP growth (average 2003-2012)	7.3%	9.7%	5%	4.1%	7.4%	7.8%	8%	7.6%	266 6.5%
LIC average: 5.9%									
LMIC average: 6.3%									
Total natural resources rents (% of GDP) in 2012	20.8% in 2012	17.1% in 2012	3.6% in 2012	6.1% in 2012	13.6% in 2012	19.7% in 2012	4% in 2012	18.5% in 2012	282 11.3% in 2012
LIC average: 14.9%									
LMIC average: 8%									
Risk of debt distress (as of October 01, 2015)	High	Low	Low	Low	Low	Moderate	Low	Moderate	Low

## Annex 1: Comparison of economic and governance context across case studies (continued)

Indicator	SSA countries					East Asia countries			
	Ghana	Ethiopia	Kenya	Senegal	Uganda	Zambia	Cambodia	Lao PDR	Viet Nam
<b>Economic</b>									
<b>Governance</b>									
CPIA public sector management & institutions cluster average (1=low to 6=high)	No change: 3.7 in 2005 and 2012	Improved: 3.1 in 2005 and 3.4 in 2012	Improved: 3.3 in 2005 and 3.4 in 2012	No change: 3.6 in 2005 and 2012	Deteriorate: 3.3 in 2005 to 3 in 2012	No change: 3.2 in 2005 and 2012	Improved: 2.6 in 2005 to 2.8 in 2012	Improved: 2.5 in 2005 and 3.1 in 2012	No change: 3.5 in 2005 and 2012
LIC average: 2.9 in 2005 and 2.8 in 2012									
LMIC average: 3.2 in 2005 and 2012									
CPIA economic management cluster average (1=low to 6=high)	Deteriorated: 4.2 in 2005 and 3.5 in 2012	Deteriorated: 3.7 in 2005 and 3.5 in 2012	Improved: 4.2 in 2005 and 4.5 in 2012	No change: 4.2 in 2005 and 2012	Deteriorated: 4.5 in 2005 and 4.2 in 2012	Improved: 3.3 in 2005 and 3.7 in 2012	Improved: 3.7 in 2005 and 3.8 in 2012	No change: 3.7 in 2005 and 2012	Deteriorated: 4.3 in 2005 and 4.2 in 2012
LIC average: 3.3 in 2005 and in 2012									
LMIC average: 3.7 in 2005 and 2012									
<b>Corruption Perception Index</b> (Rank out of 176 countries and score in 2012)	Rank: 64 Score: 45	Rank: 113 Score: 33	Rank: 139 Score: 27	Rank: 94 Score: 36	Rank: 130 Score: 29	Rank: 88 Score: 37	Rank: 157 Score: 22	Rank: 160 Score: 21	Rank: 123 Score: 31
0= highly corrupt to 100=very clean									



## Annex 1: Comparison of economic and governance context across case studies (continued)

Indicator	SSA countries						East Asia countries			
	Ghana	Ethiopia	Kenya	Senegal	Uganda	Zambia	Cambodia	Lao PDR	Viet Nam	
<b>Economic</b>	Human development (HDI) in 2005 and 2012; and average annual growth 2000–2013)	Low human development, but improved: 0.339 in 2005 to 0.429 in 2012	Low human development, but improved: 0.479 in 2005 and 0.531 in 2012	3Low human development, but improved: 0.451 in 2005 and 0.484 in 2012	Low human development, but improved: 0.429 in 2005 and 0.480 in 2012	Medium human development, but improved: 0.471 in 2005 and 0.554 in 2012	Medium human development, but improved: 0.536 in 2005 to 0.579 in 2012	Medium human development, but improved: 0.511 in 2005 to 0.565 in 2012	Medium human development, but improved: 0.598 in 2005 to 0.635 in 2012	
<b>Other</b>	Average annual HDI growth (2000–2013): 3.35	Average annual HDI growth (2000–2013): 1.25	Average annual HDI growth (2000–2013): 1.25	Average annual HDI growth (2000–2013): 1.63	Average annual HDI growth (2000–2013): 2.19	Average annual HDI growth (2000–2013): 1.75	Average annual HDI growth (2000–2013): 1.44	Average annual HDI growth (2000–2013): 1.44		
ND-GAIN index, 2013 <sup>a</sup> (Rank out of 180 countries)	Rank: 104; Score: 48.4	Rank: 149; Score: 38.3	Rank: 155; Score: 37.5	Rank: 138; Score: 40.6	Rank: 149; Score: 38.3	Rank: 126; Score: 43.1	Rank: 135; Score: 41.5	Rank: 129; Score: 42.8	Rank: 96; Score: 49.1	

Sources: UNDP (2014); IMF (2015); University of Notre Dame (2013); Transparency International (2012); World Bank (2015)]

Notes: <sup>a</sup> The ND-Gain index summarizes a country's vulnerability to climate change and other global challenges in combination with its readiness to improve resilience.

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## Annex 2: case study selection criteria and methodology

We selected the case studies based on a two-stage process.<sup>42</sup> First, we defined a range of countries including LICs and LMICs.<sup>43</sup> In the last four studies in 2015 we deliberately concentrated on countries transitioning from LIC to MIC status in order to examine governments' strategies in managing the transition from concessional to non-concessional financing. Then, we considered countries that received BOFs. While this might create a selection bias, we shortlisted countries that currently obtain some or all the flows listed above. The main objective of this project includes, but it is not restricted to, data analysis. By analysing countries receiving these flows we were able to explore the challenges and opportunities in managing them. Subsequently, we opted for a 'typical case'. Although the sample is very small and we are aware of the limitations of inferring results from such a narrow number of country case studies, our analysis is based on a most-similar approach to selecting such studies (see Gerring 2007) in order to draw out common elements and differences among them. We selected countries that are considered as 'typical cases', i.e. receiving neither too little nor too much aid.<sup>44</sup>

Second, we shortlisted countries in recognition of the pragmatic criteria that would have to come into play, to ensure representation across the small sample, address research questions and manage practical considerations in terms of planning and feasibility. For instance in the last four case studies, we applied additional criteria such as including countries that had issued international sovereign bonds in the last five years. We also considered countries whose government had been in place for at least two budget cycles. During this period we expected the government to have developed strategic directions – formally or informally – on its financing strategy. Pragmatic considerations also influenced the final choice, for instance the degree of prior contact with ODI, consistency with other ODI work and the national budgeting calendar in order to avoid visiting during budget negotiations before cabinet approval.

The final selection for the case studies carried out in 2015 also benefited from interviews with 24 experts by phone and at a roundtable during the inception phase.

These experts included academics, NGO staff, and representatives of international organisations and bilateral donors.

Although the sample is small, we aimed to strike a balance between resource-rich and resource-poor countries, LICs and MICs, and regional balance (Asia and SSA) to build on the composition of the case studies in Greenhill et al. (2013).

Applying these criteria we selected: Cambodia, Ethiopia and Zambia (conducted in 2012); Ghana (2013) and Senegal (2014) and Kenya, Lao PDR, Uganda and Viet Nam (2015). Data included in Table 2 in Annex 1 are based on the latest sources available and might not be entirely consistent with the analyses in the case study reports published in 2013 and 2014.

ODI has also conducted similar case studies in Timor-Leste, Fiji, PNG and Vanuatu, but the findings are less likely to be of general relevance. The criteria for country selection did not apply to these cases since they were commissioned and/or were part of a grant aimed at Pacific Islands. We therefore we make reference to them as appropriate, but do not make direct comparisons. Their features in terms of geography, size, and the dominance of Australia as a bilateral donor make them outliers, a separate group from the other countries in our sample.

There are some caveats in interpreting the evidence from the individual case studies and the findings. First, we applied slightly different methodologies with minor changes over time. Some case studies took place in 2012, others in 2013 and 2014 and the last four in 2015. This means that they are not perfectly comparable. For instance, Ethiopia and Zambia have issued international sovereign bonds since the visits made in 2012. We do not attempt to update the analysis of these countries nor, therefore, the implications for their management of this particular flow.

Second, the selection may also generate a skewed picture for new and emerging donors. Some, such as India and the Islamic Development Bank (IsDB), have either concentrated large projects in a small set of neighbouring countries<sup>45</sup> or their recipient countries have to belong to an organisation (such as the Organisation of Islamic Cooperation in the case of the IsDB).

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42 Fiji, Papua New Guinea and Vanuatu were part of different grants for the Pacific Islands.

43 We also excluded countries whose population is below 1 million inhabitants and Europe and Central Asia as comprising mainly transition economies that established a relationship with DAC donors only in the last 20 years.

44 We created an index assigning a score 1 for each development finance flow (as a share of GDP to take into account different country sizes) when the country was in the interval denoted by 30<sup>th</sup> and 70<sup>th</sup> percentile of the distribution. In the long list we included countries whose score was at least 3 (six were the flows that were measurable across countries for the case study selection), bilateral and multilateral ODA (from DAC donors), OOFs from DAC/multilateral development partners, flows from non-DAC sovereign donors both ODA and OOF equivalent, assistance from development finance institutions (DFIs), philanthropic assistance from foundations and international NGOs, and climate finance.

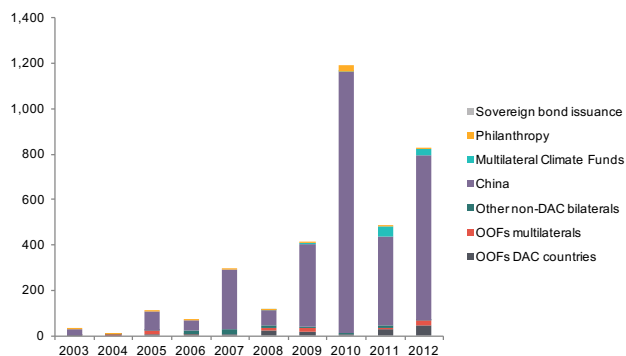
45 In the 2015 case studies Nepal was shortlisted to address this issue and better map the case of Indian assistance but had to be replaced with Lao PDR in view of the major earthquake in April 2015

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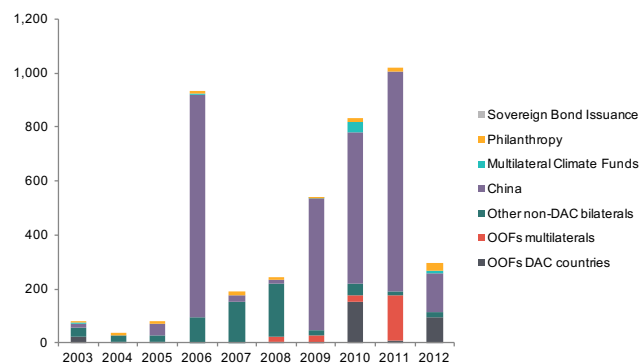
Finally, because fragile states tend to be under-aided, our sample includes only two such countries – Cambodia and Timor-Leste – so our findings and recommendations may therefore be less relevant for, or representative of, this set of countries. In the final set of case studies we also sought to select countries that were transitioning from LIC to LMIC status, and issuing sovereign bonds. Therefore our estimates of trends at the country level may give too much weight to sources of finance accessed by this group of countries (e.g. OOFs) and sovereign bonds.

## Annex 3: Breakdown of BOFs of case studies

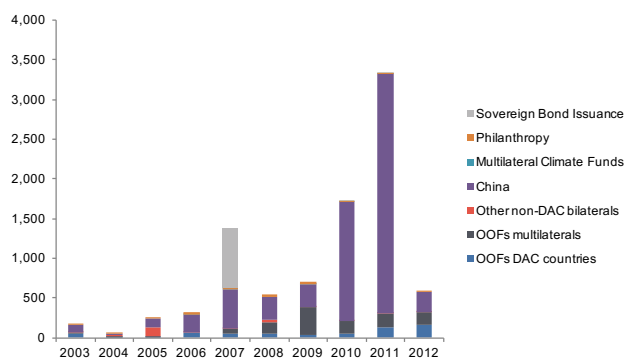
### Cambodia



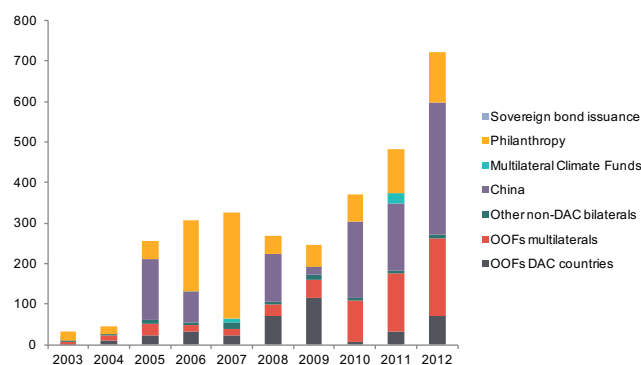
### Ethiopia



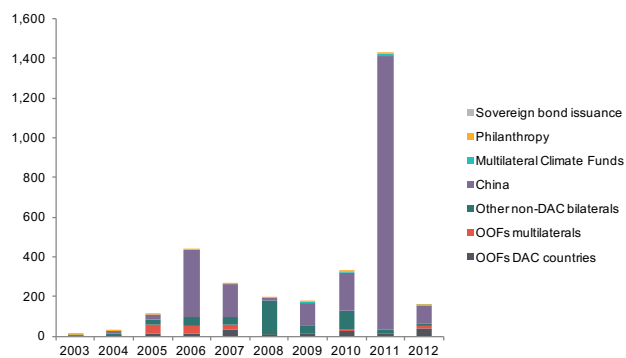
### Ghana



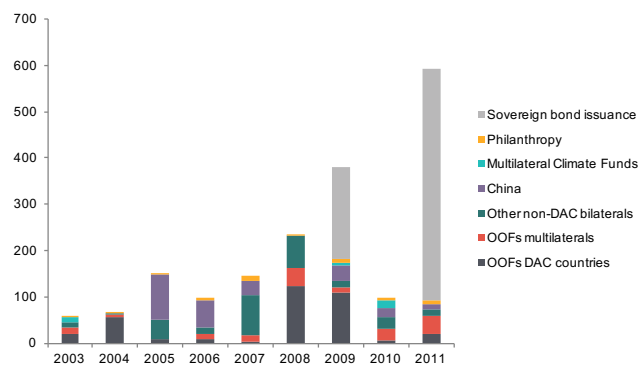
### Kenya



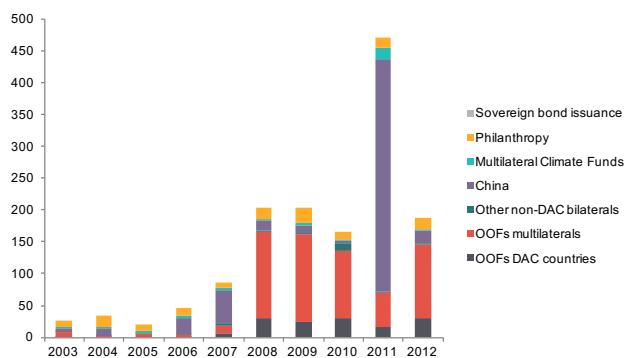
### Lao PDR



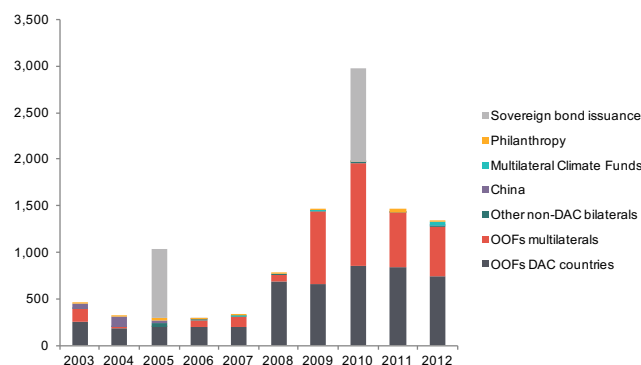
### Senegal



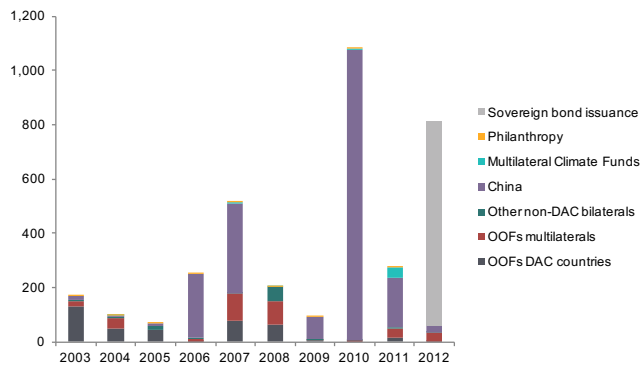
### Uganda



### Vietnam



## Zambia



Source: Authors' elaboration on the basis of *Climate Funds Update*; Foundation Centre; OECD.stat website (accessed 2015); Strange et al. (forthcoming); Tierney et al. (2011); Tyson (2015)



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Cover photo: Zackary Canepari/2010 (Laos, Chiang Saen. A man loads boxes of Chinese manufactures onto a boat travelling down the Mekong River. The goods are bound for sale throughout Indochina.)

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