



Mixing finance sources and instruments for faster SDG progress

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EU Development Policy After 2015, Court of Auditors, Luxembourg, 20 October 2015

Presentation summary

- Changes in the development landscape
- Implications for development agencies
- Specific consideration of “blend” approaches

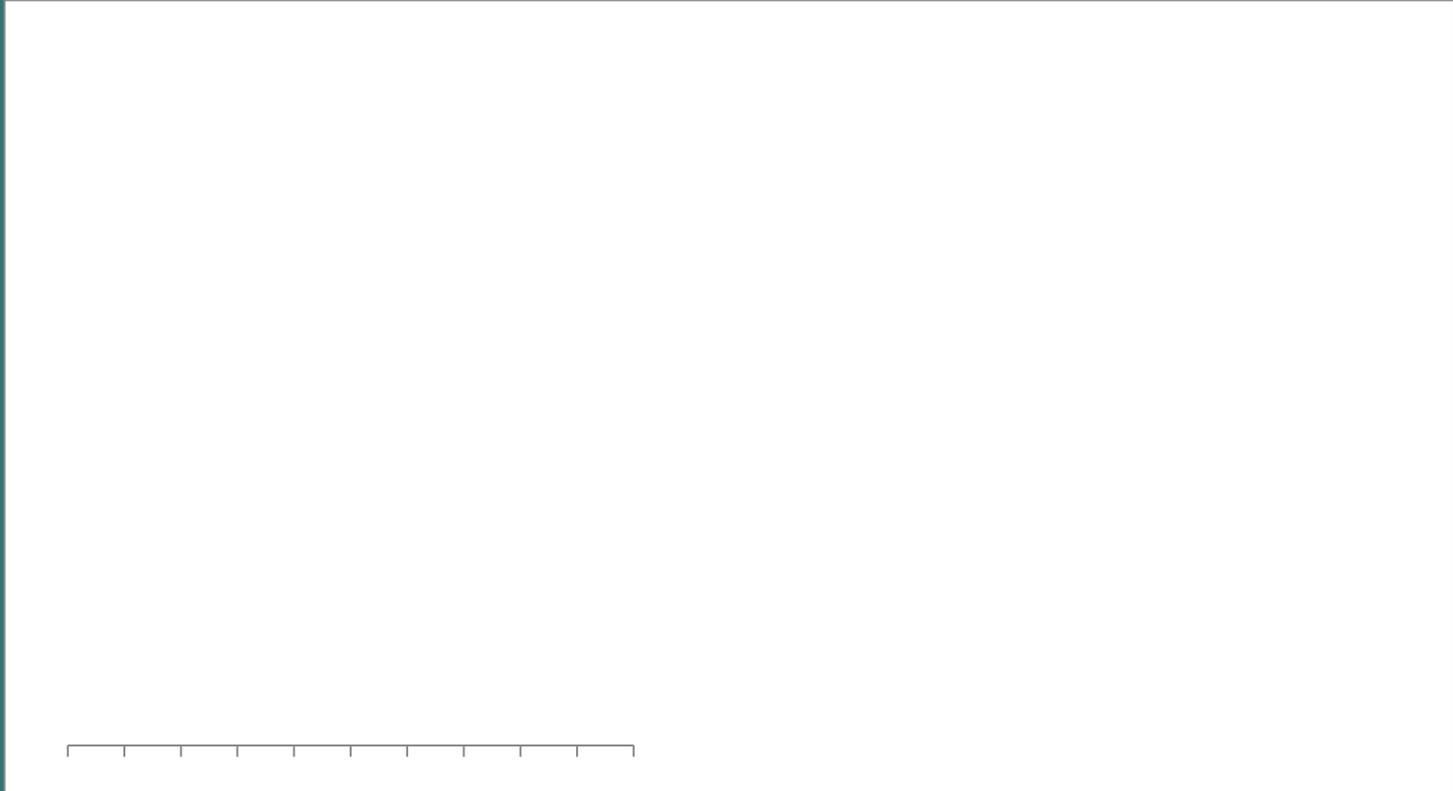




Theme 1:

How is the development
landscape changing?

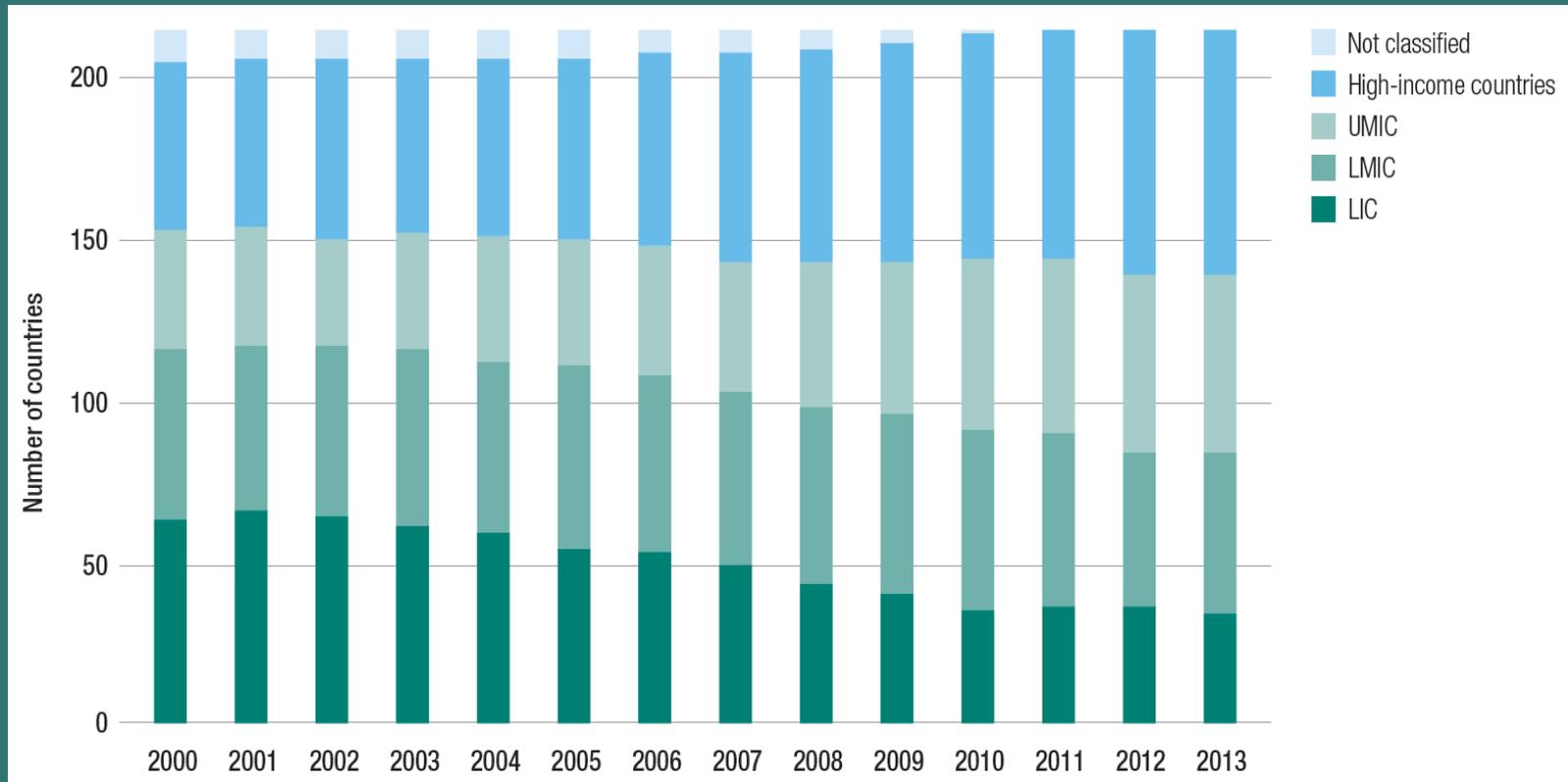
1. Developing and emerging economy share of global GDP is rising, and forecast to continue



Source: Dercon, 2014

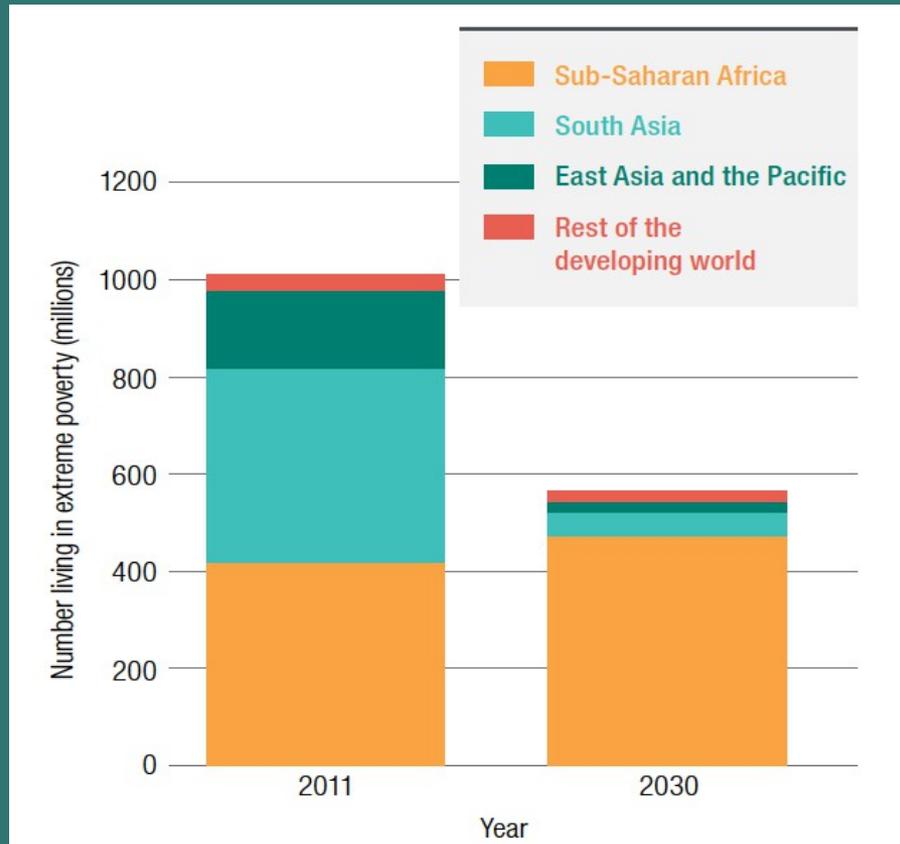
The number of low-income countries is falling ...

34 left and counting



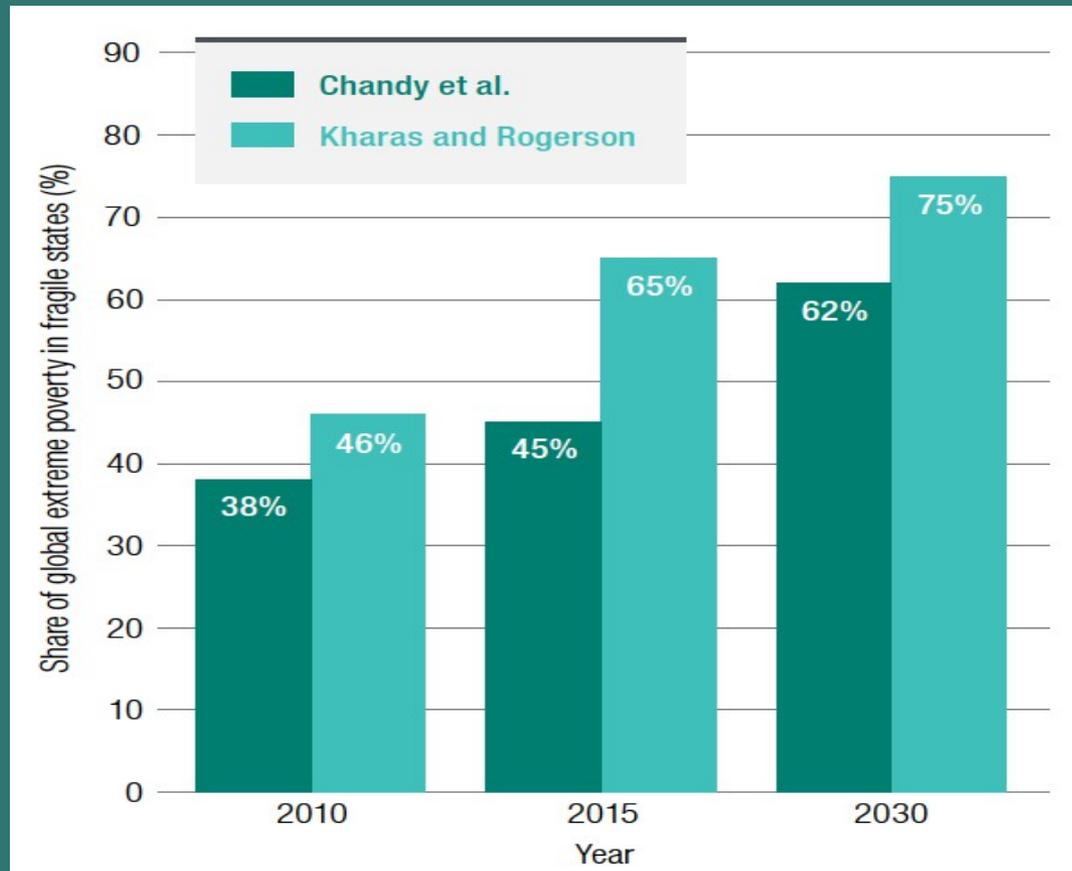
Source: Kharas et al. (2015)

But poverty will increasingly centre on sub-Saharan Africa and may rise there in absolute terms



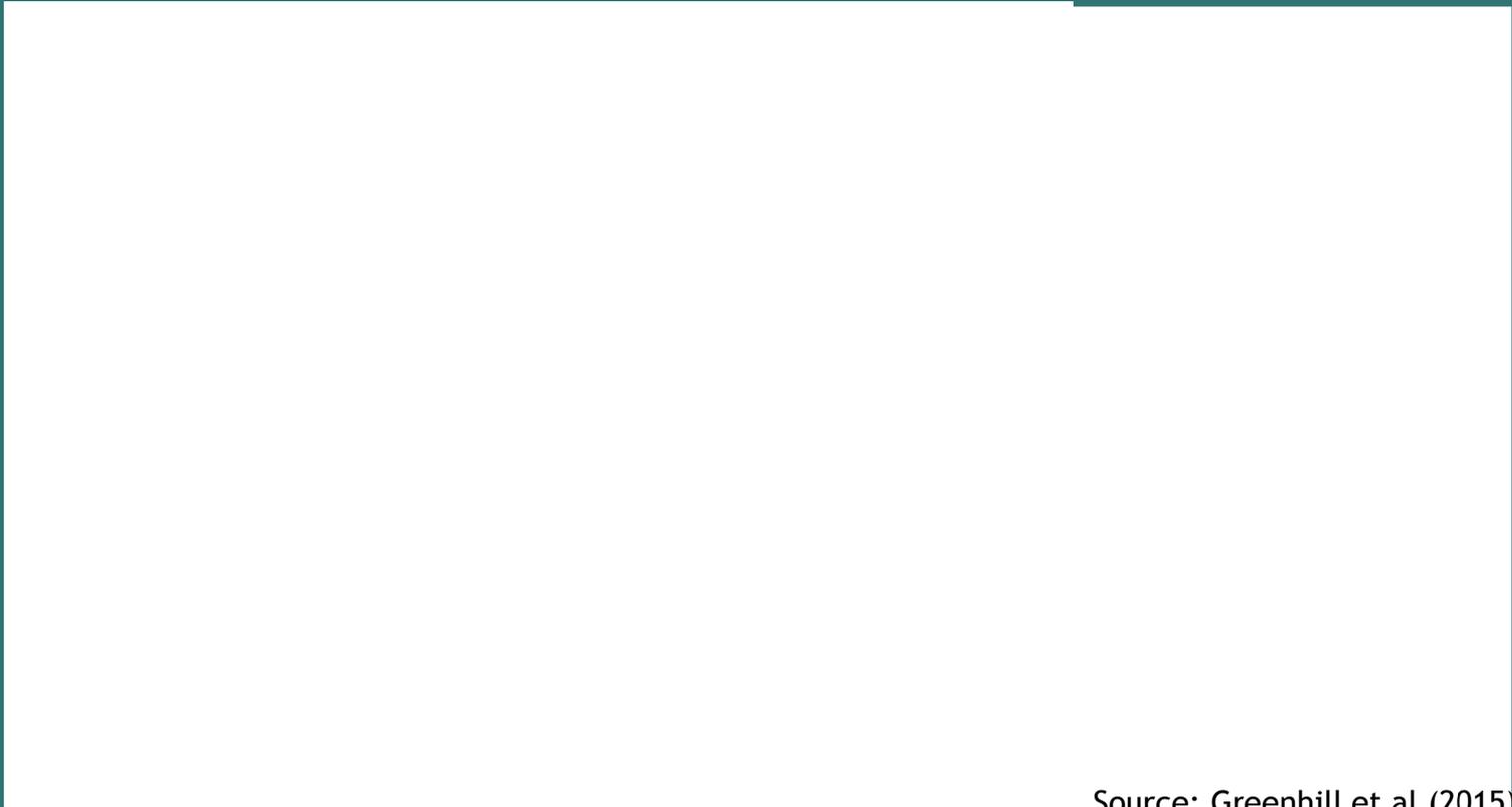
Source: Greenhill et al (2015)

Extreme poverty is increasingly concentrated in fragile states ... and persists in middle income countries



Source: Greenhill et al (2015)

... but persists in middle income countries

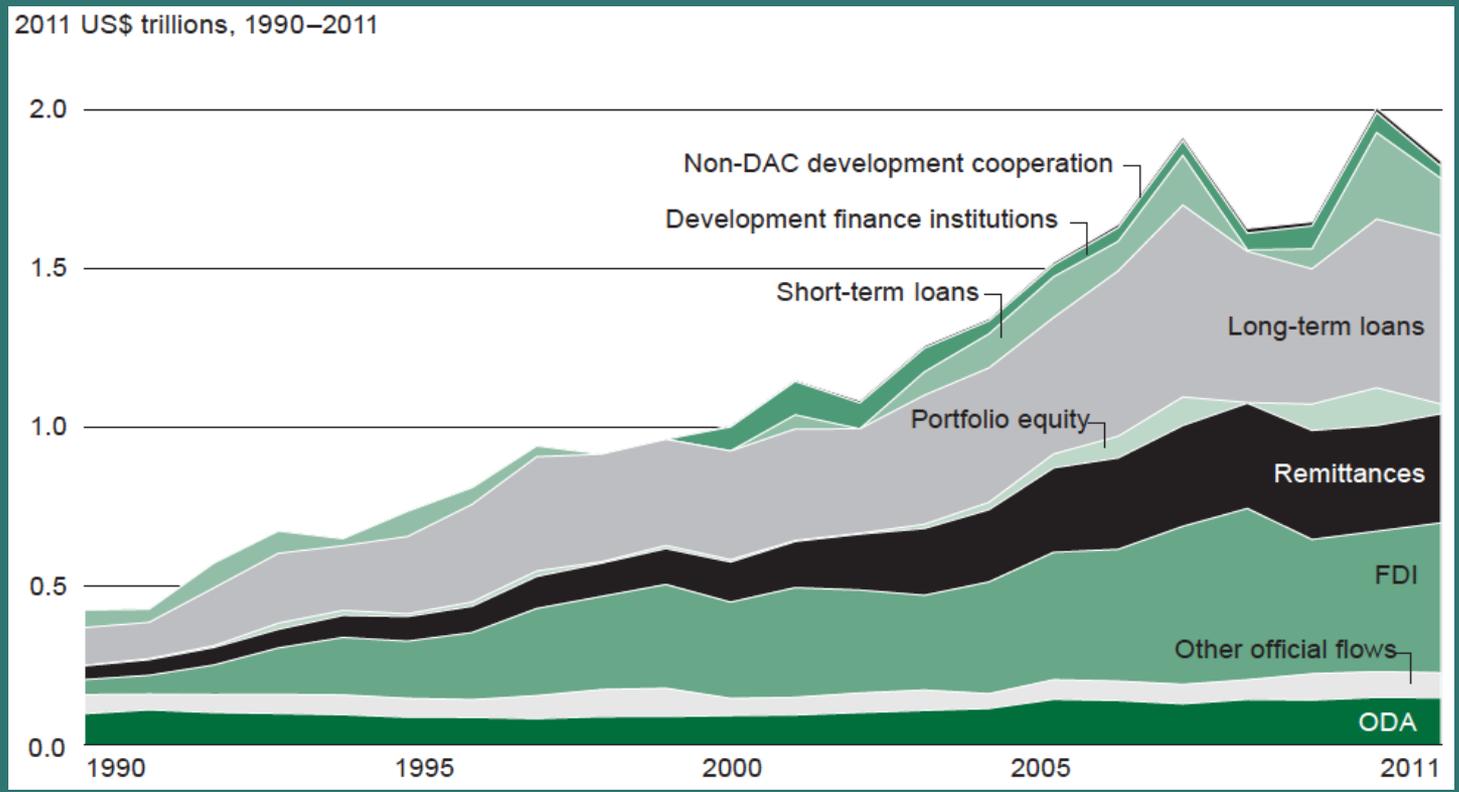


Source: Greenhill et al (2015)

Source: DFID staff projections (2014)



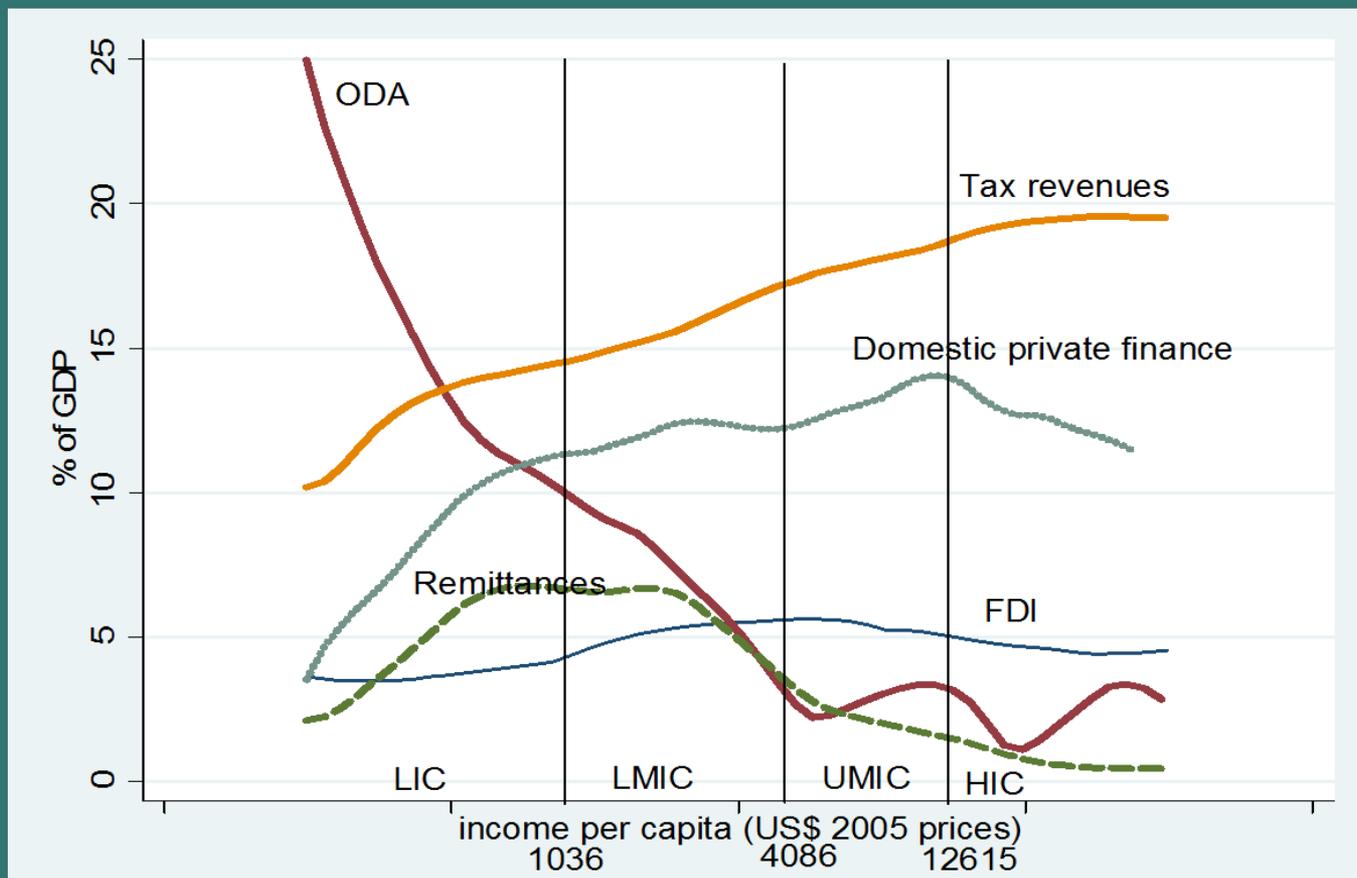
2. Non-ODA finance is expanding ... but the composition of flows varies across income groups



Source: te Velde, in 'The Future of UK Development Cooperation', House of Commons (2013)

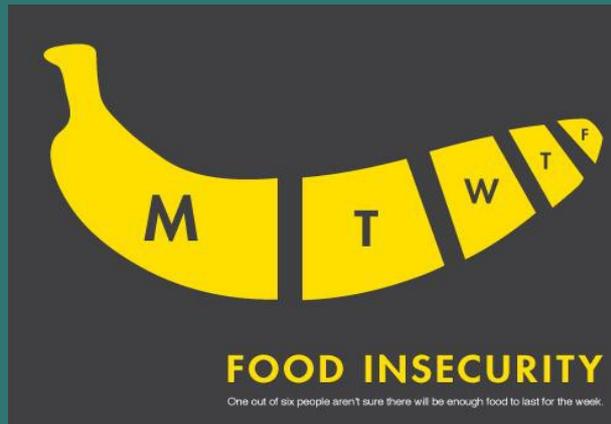
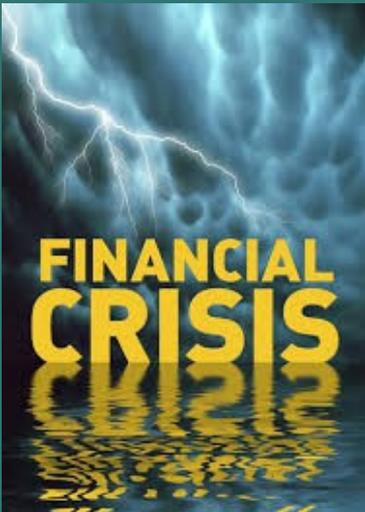
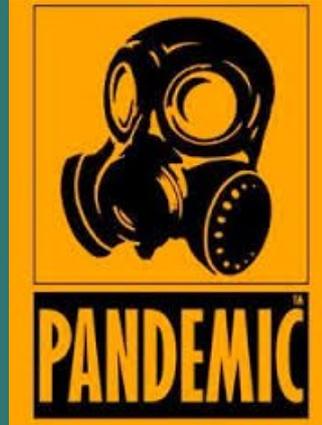


... but the composition of flows varies across income groups



Source: European Report on Development (2015)

3. Development problems are increasingly complex and global ... and the SDGs embody this



... and the SDGs embody this complexity





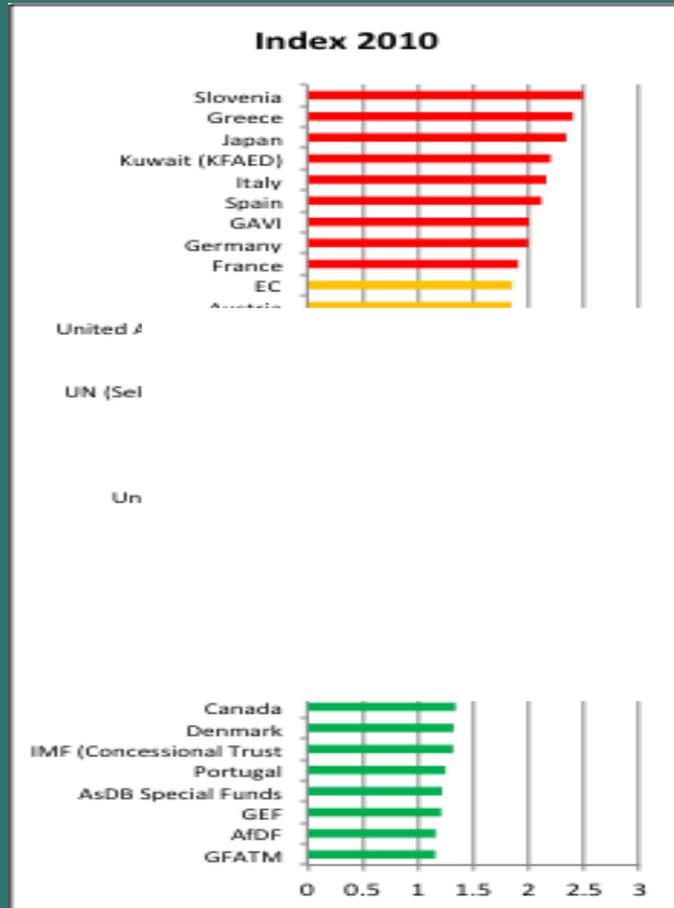
Theme 2:

Some implications for
development agencies

Development cooperation of the future will require a fundamental change of approach

There may be less...	And more...
Financial aid (ODA)	'Beyond aid' policies and financial flows
Single humanitarian interventions	Integrated relief and development approaches
Country-specific poverty reduction	Global public goods provision
Single ministries and agencies	Cross-government approaches
Bilateral interventions	Multilateral engagement

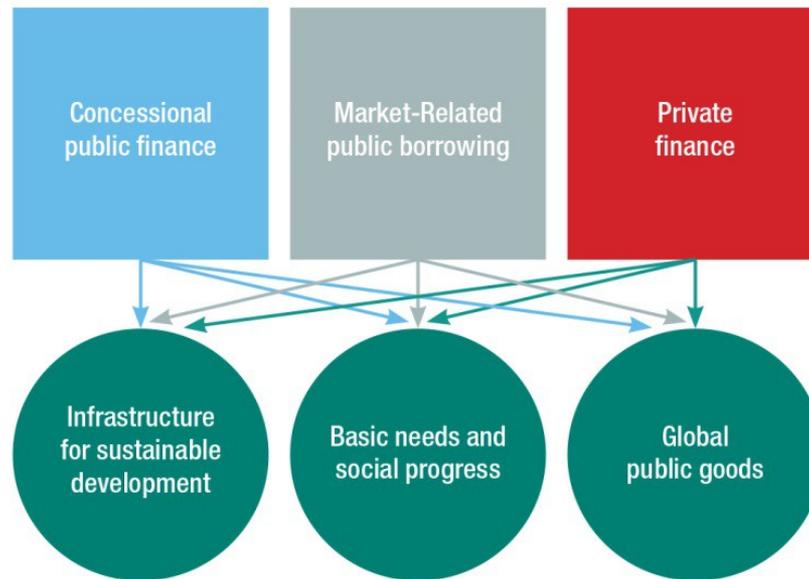
Changes in the development landscape pose strategic risks for development agencies



Sources:
Kharas & Rogerson
(2012); ODI
(2015)



Finance flows and development goals



Source: Kharas et al 2014

SDG funding: Top-line recommendations

concessional assistance

redirect this finite resource towards most vulnerable, least creditworthy countries, lowest tax capacity

market-related public borrowing

raise far more of it, especially through MDBs and bilateral official credits, for countries doing relatively better.

private finance

Improve the “deal flow”, reduce distortions across uses and unblock regulatory obstacles to wider access

Theme 3: Specific Considerations on Instruments and Blending





Some “new” instrumental approaches...

1. Blended terms within public sector agencies
2. PPPs and other public-private constructs
3. Insurance-based instruments and guarantees
4. Investment preparation and regulatory support.
5. Smart leveraging for MDBs
6. Outcome-based approaches, advance commitments.
7. State-building contracts.
8. Multi-donor trust funds (MDTF) for fragile contexts
9. A kaleidoscope of climate change funds

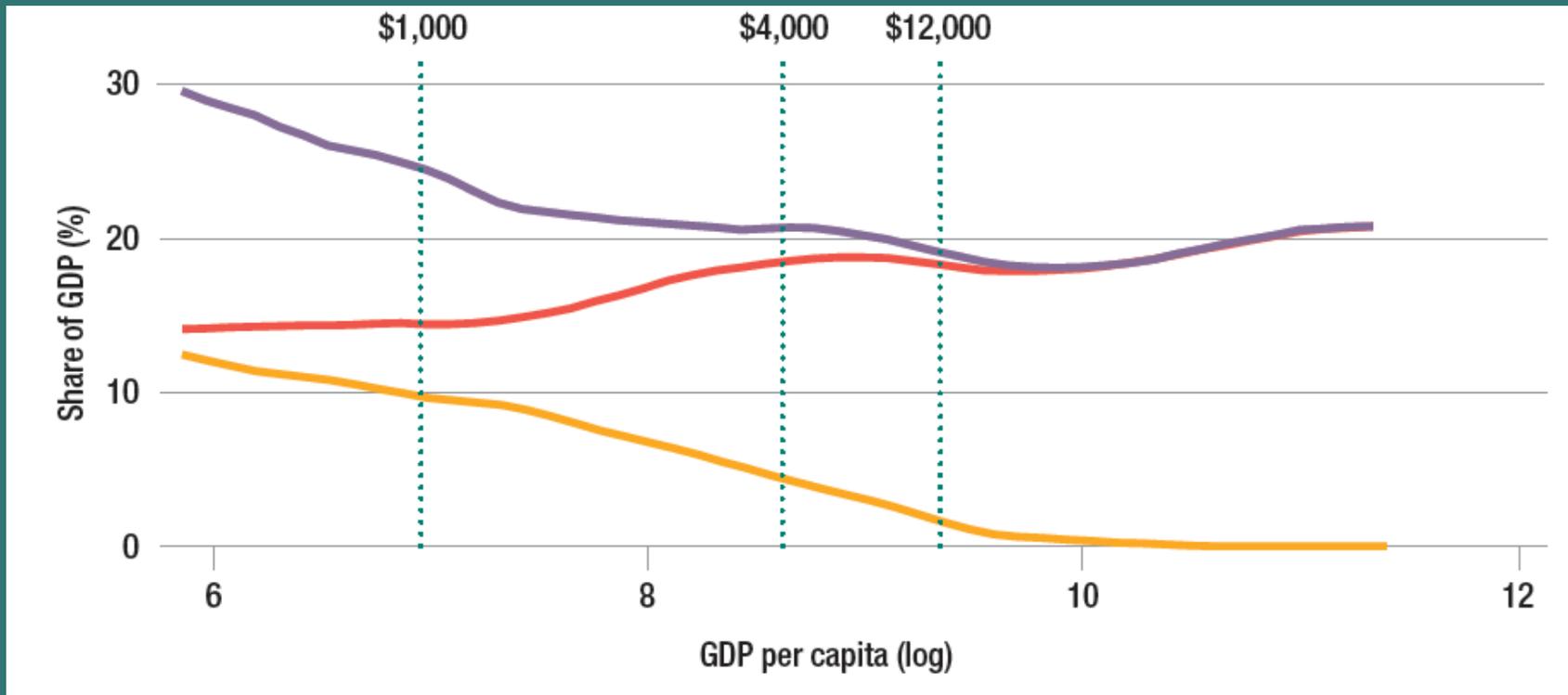
^{10.} Tax systems strengthening and info. exchange



Why blend (or subsidise)?

1. To address “missing middle”, by boosting semi-concessional finance, as grants fall away.
2. To help increase capital intensity at macro level, hence labor productivity and real incomes
3. To make many more almost-viable projects viable
4. To leverage under-utilized MDB/DFI staff and balance sheet capacity.
5. To encourage/reward advanced country exporters and investors engaged in development.

“Missing middle”- To provide more finance to LMICs at near-market terms

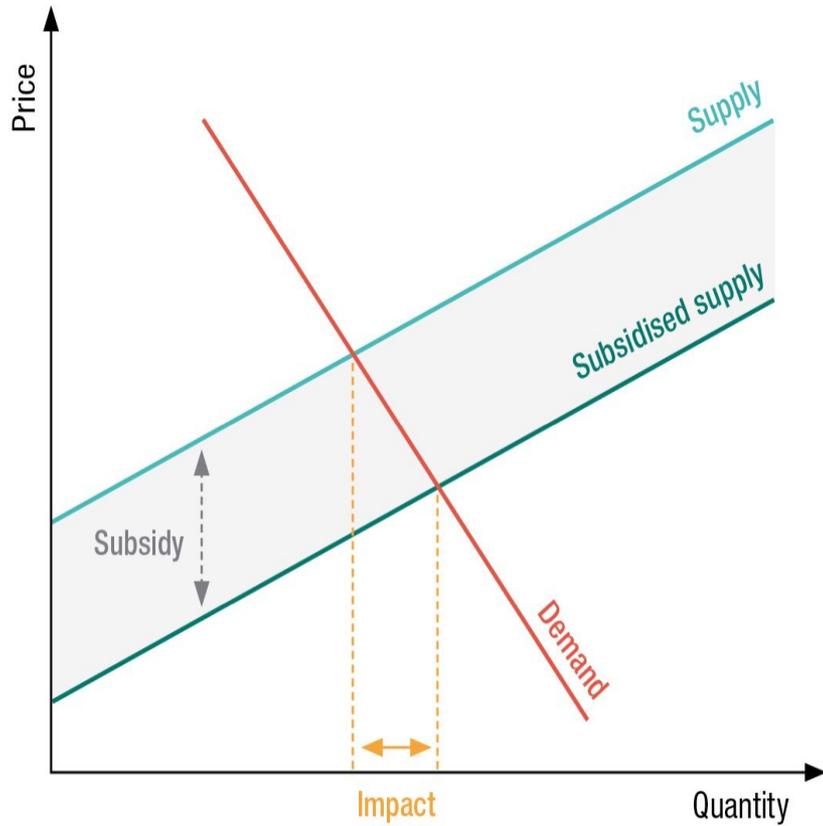


Source: Kharas et al (2015)

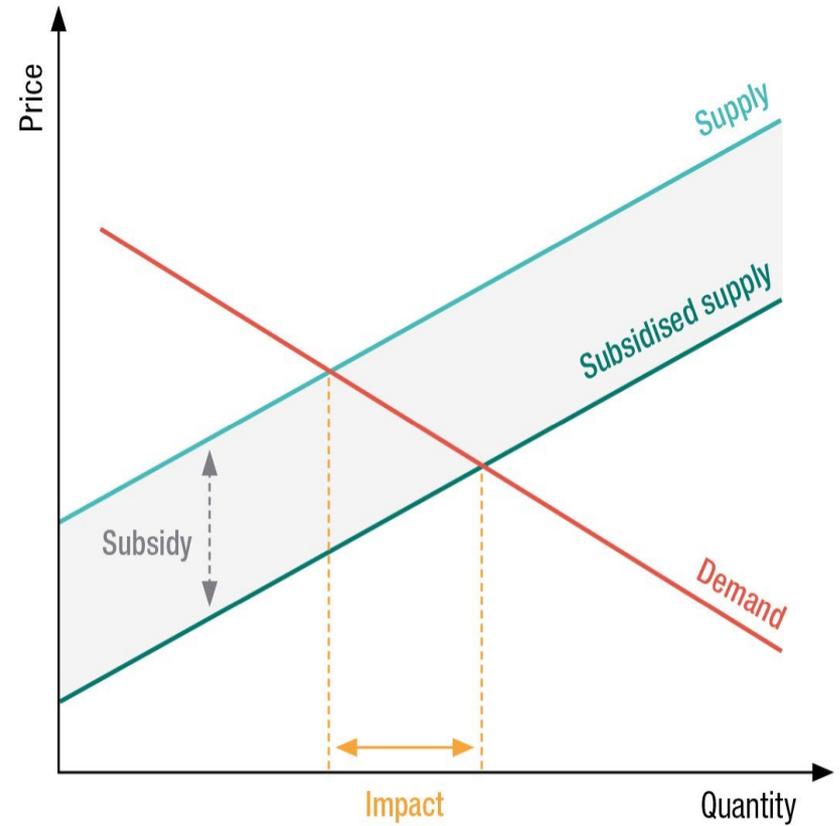


Some potential challenges to blending

1. Notoriously hard to demonstrate additionality rigorously.
2. “Leverage” measures flawed. Is a private: public ratio of 100:1 better than 10:1? Or worse?
3. Are many projects standing ready just below the commercial viability threshold? What if not?
4. Debt sustainability and PPPs-are national actors well enough equipped to weigh the contingent risks?
5. Small grant elements of many large loan packages may add to significant opportunity costs for public sector.

A

Price in this context is the risk-adjusted rate of return on investment
Quantity is the quantity of investment projects
Supply is money looking for projects

B

Demand is projects looking for money
Subsidy is anything that raises the risk-adjusted return to investors

Market Aid Index

