



# 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

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



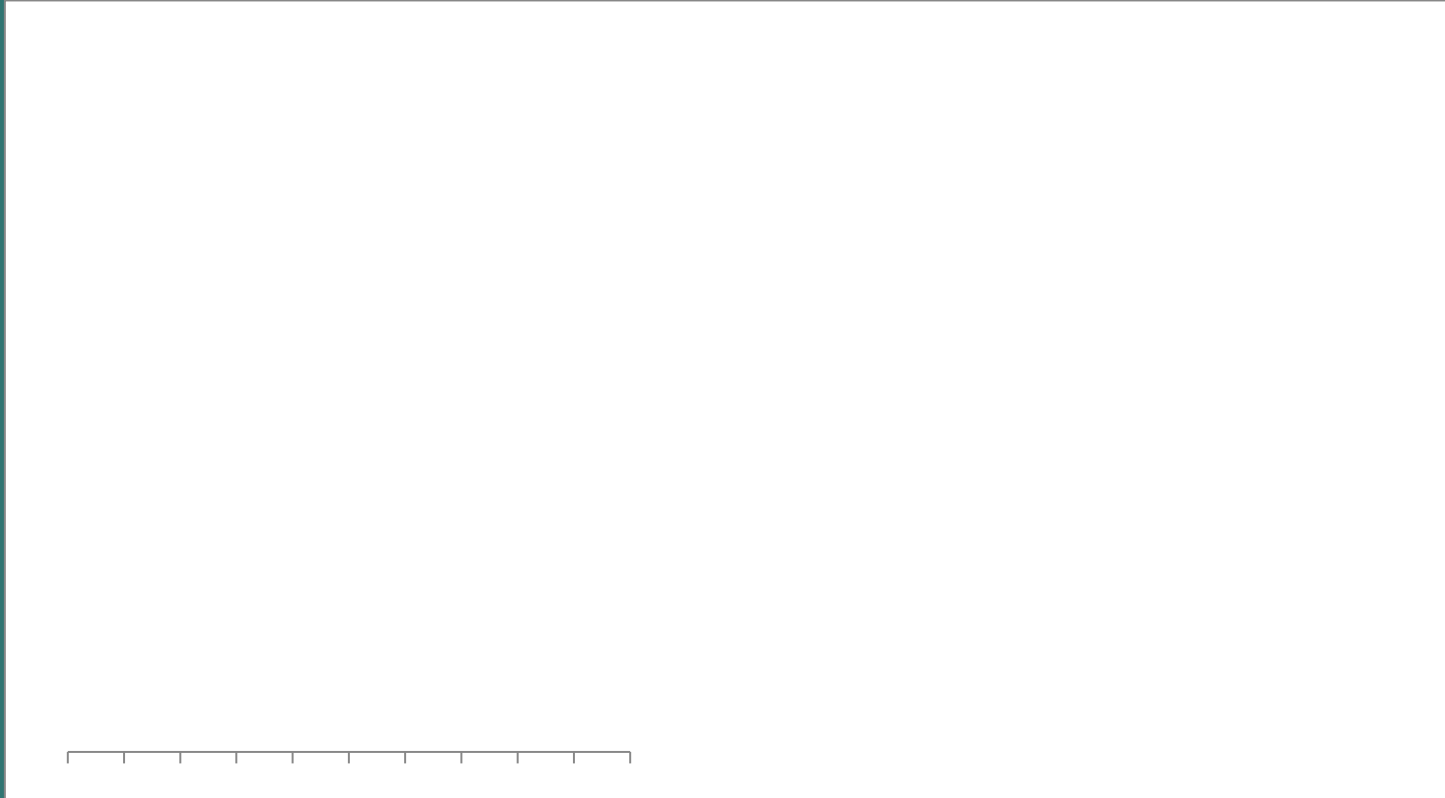


## Theme 1:

How is the development  
landscape changing?

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

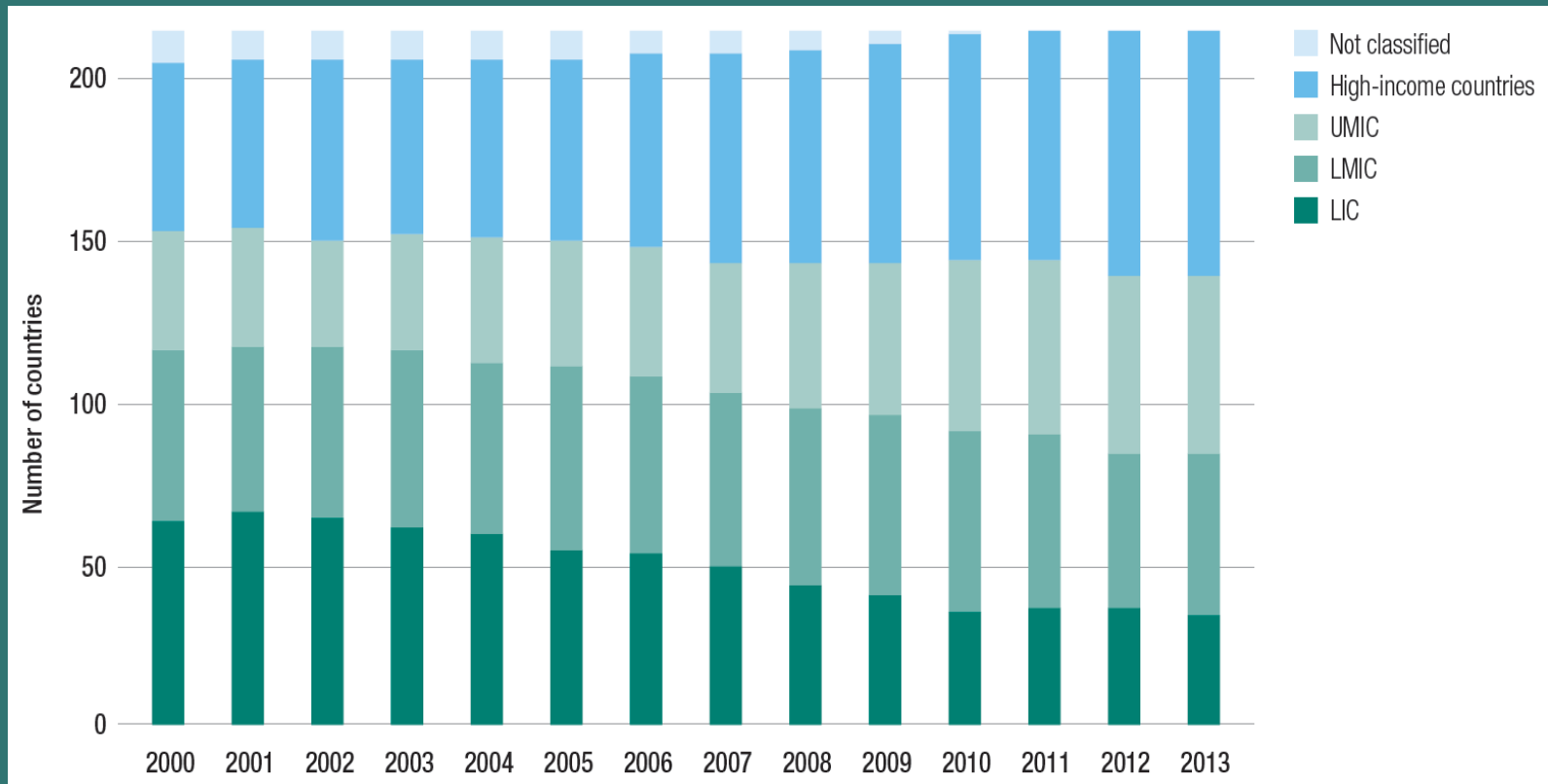
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Source: Dercon, 2014

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

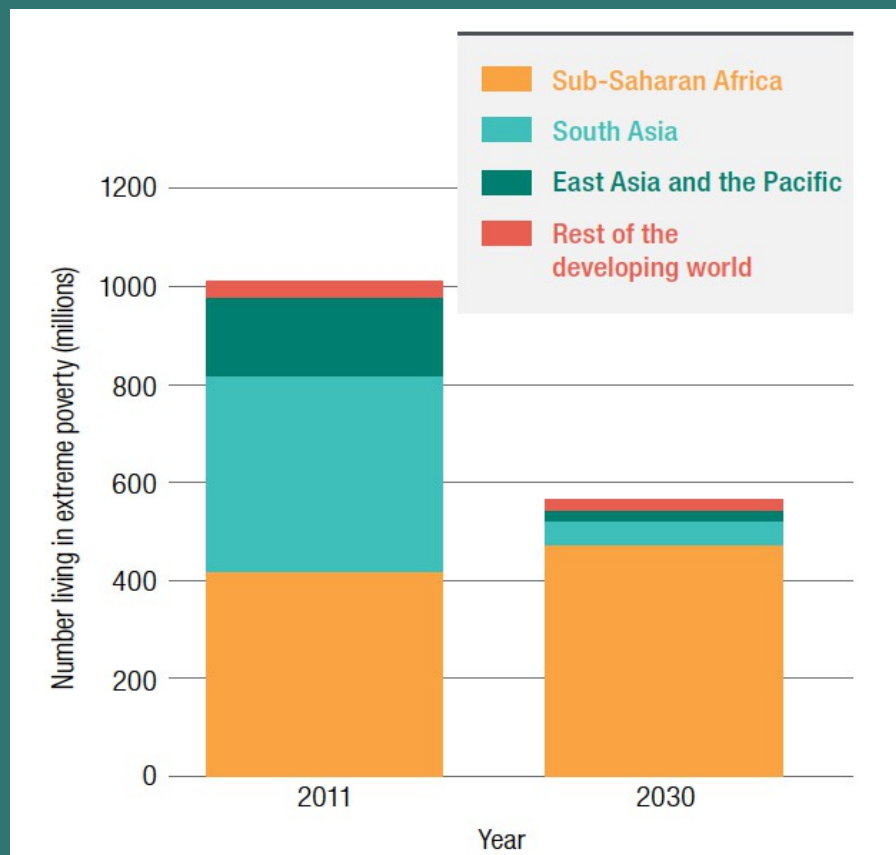
*34 left and counting*



Source: Kharas et al. (2015)

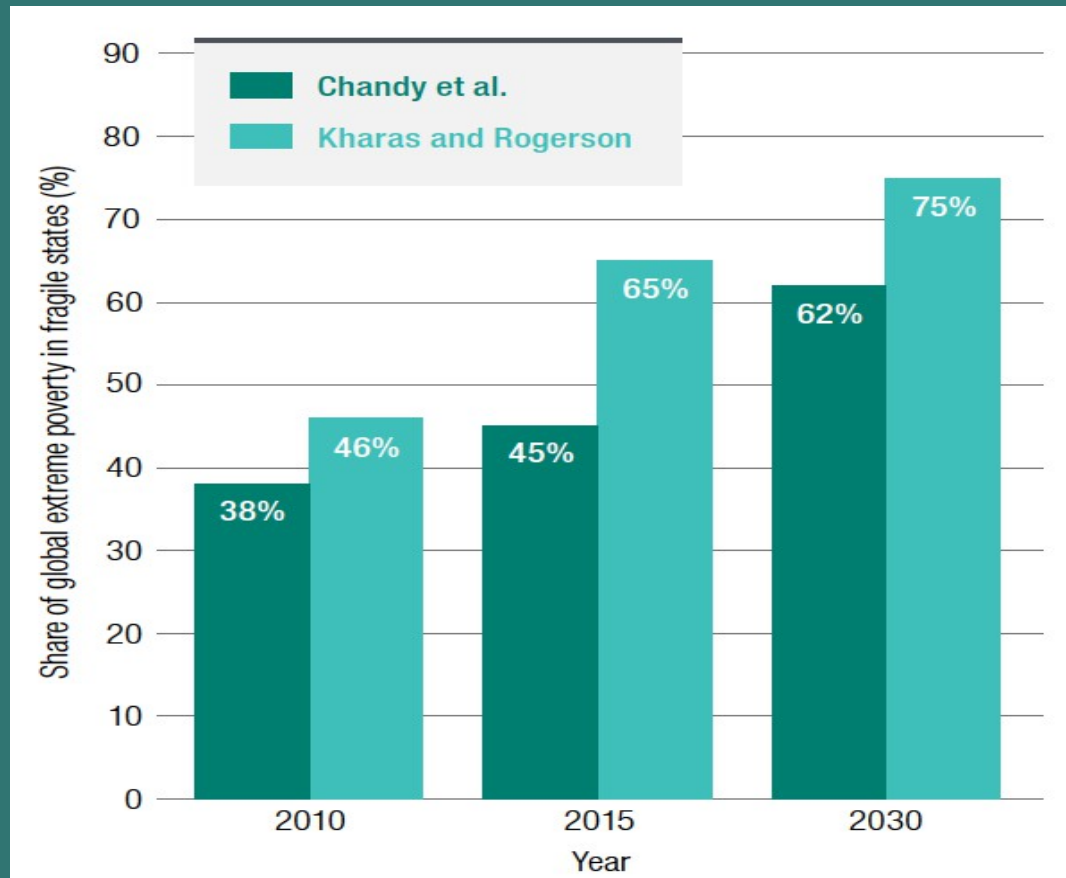
But poverty will increasingly centre on sub-Saharan Africa and may rise there in absolute terms

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Source: Greenhill et al (2015)

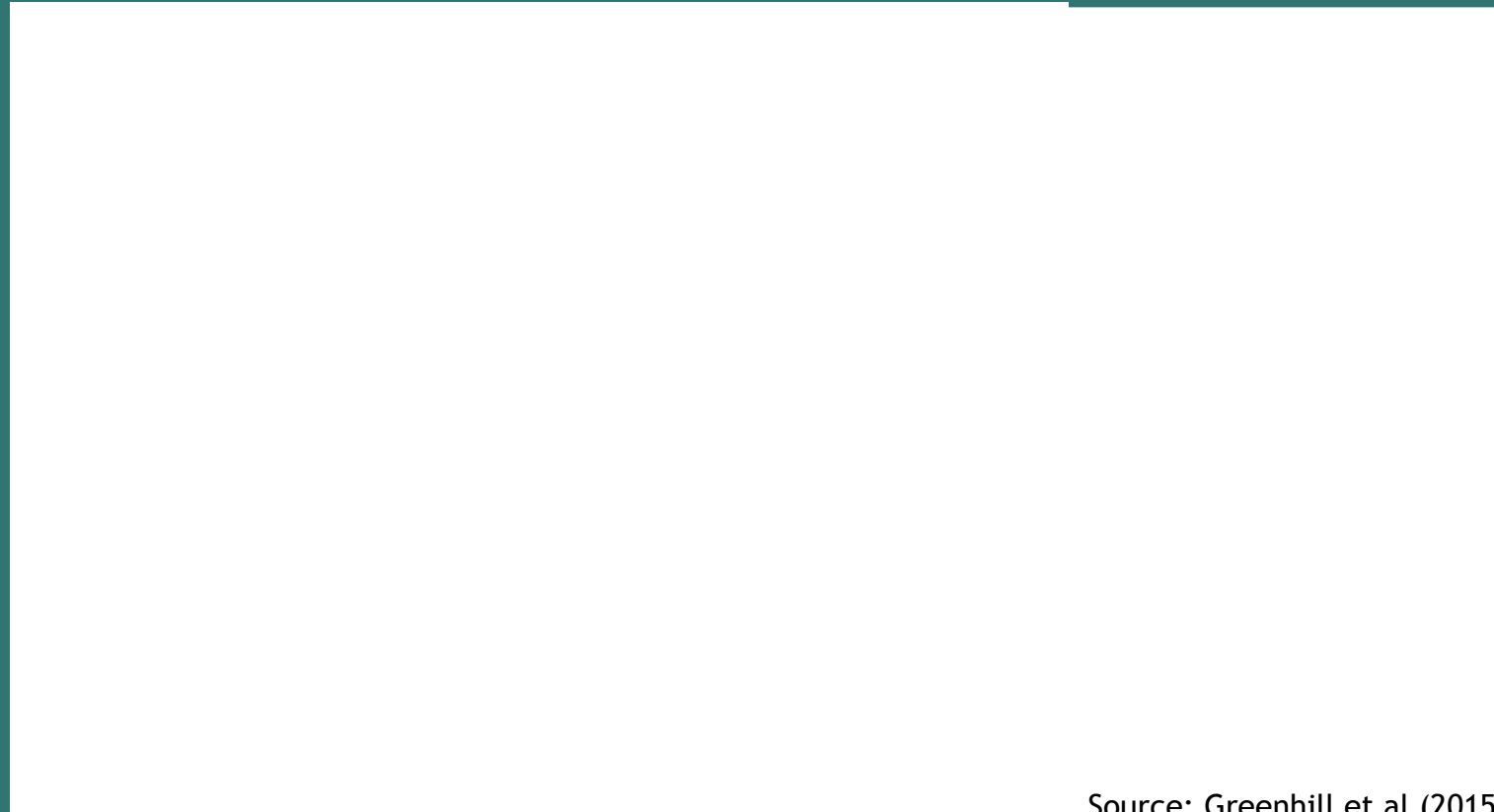
# Extreme poverty is increasingly concentrated in fragile states ... and persists in middle income countries



Source: Greenhill et al (2015)

... but persists in middle income countries

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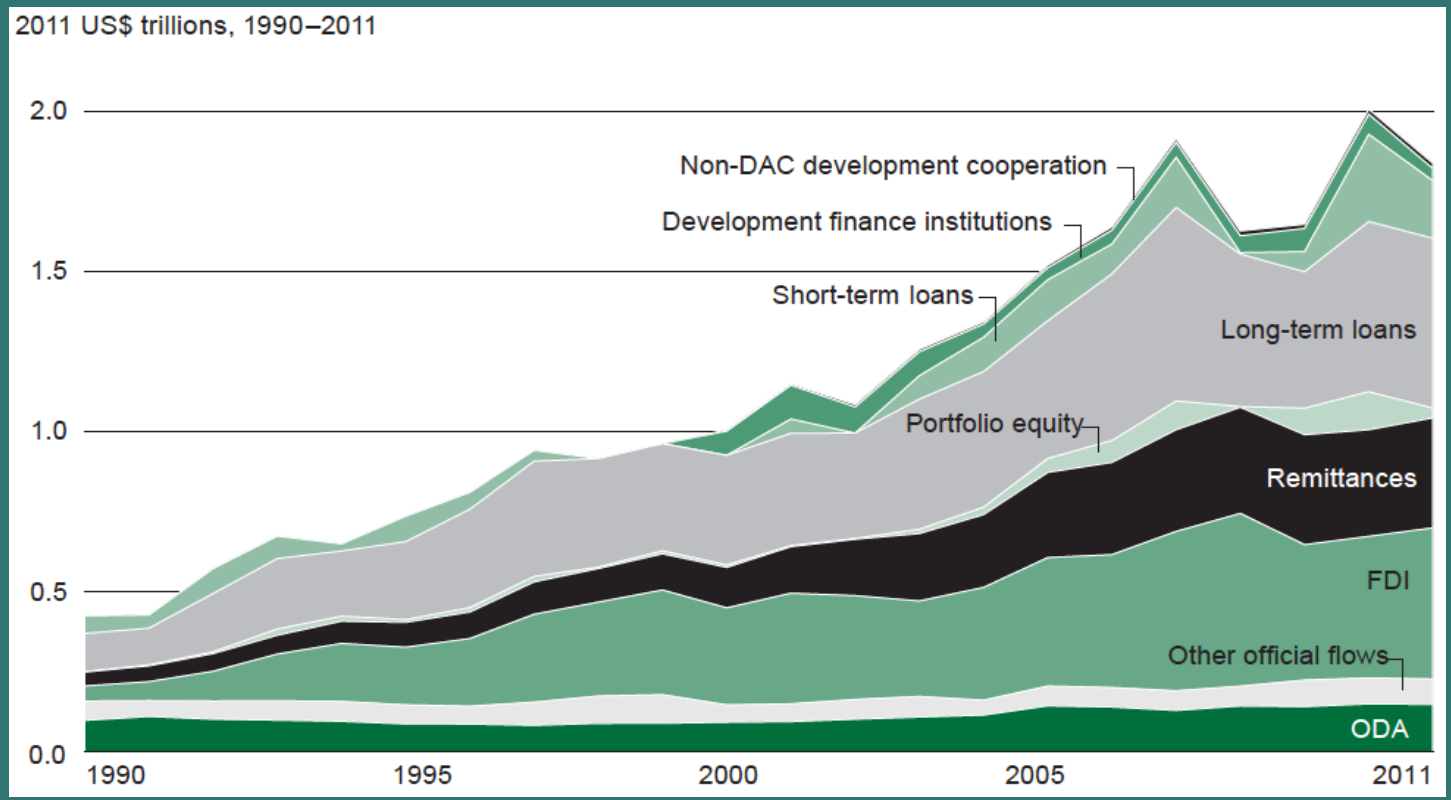
Source: Greenhill et al (2015)

Source: DFID staff projections (2014)





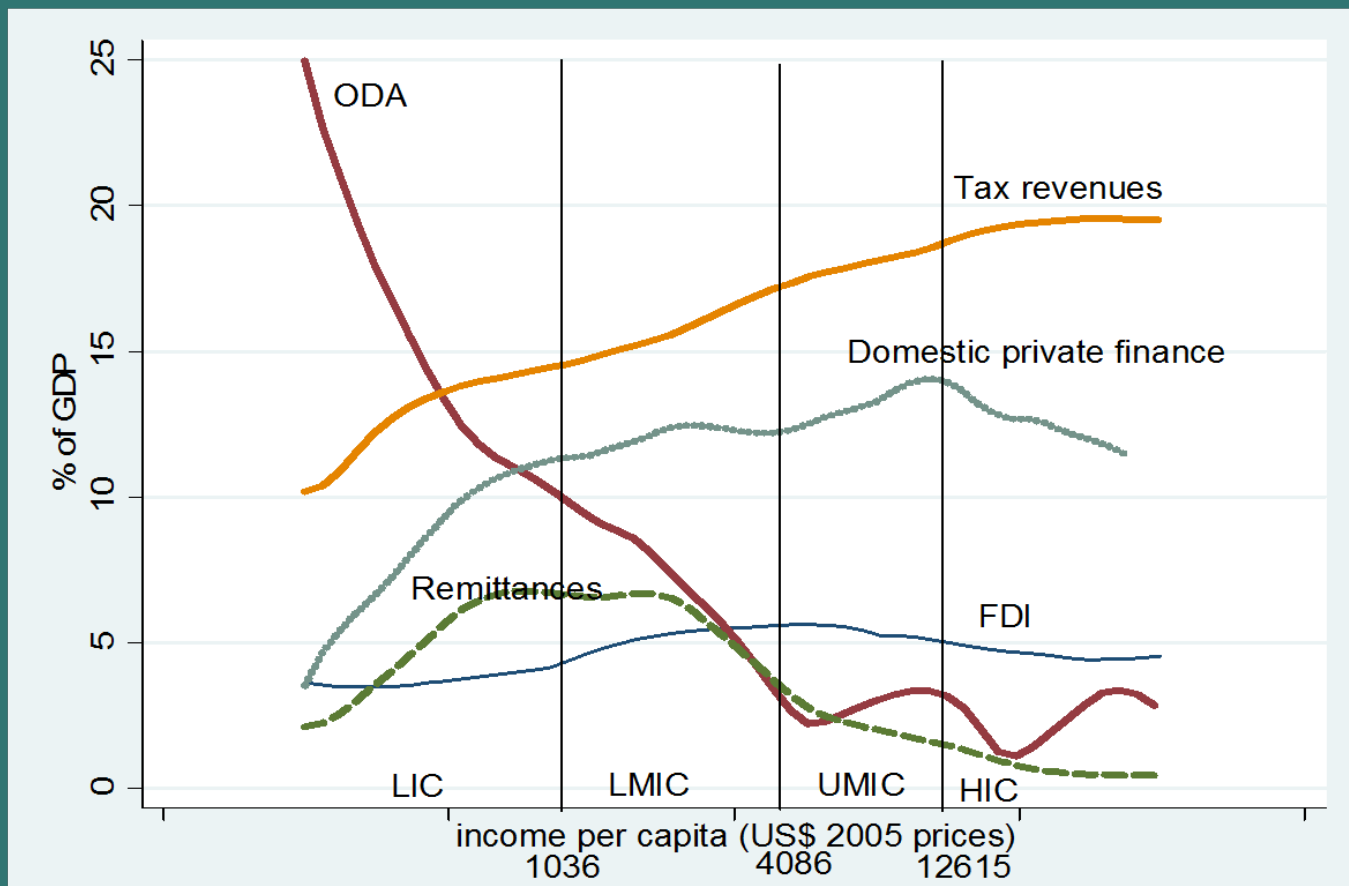
# 2. Non-ODA finance is expanding ... but the composition of flows varies across income groups



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



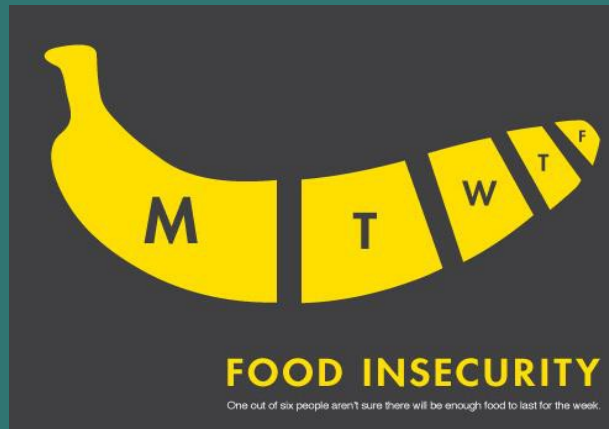
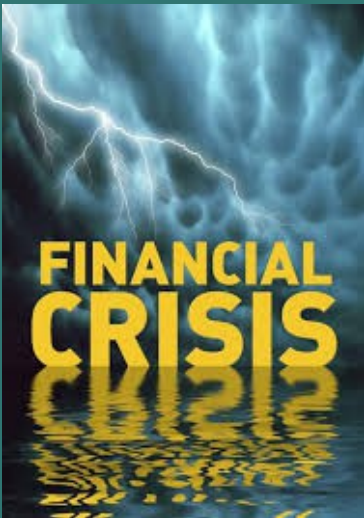
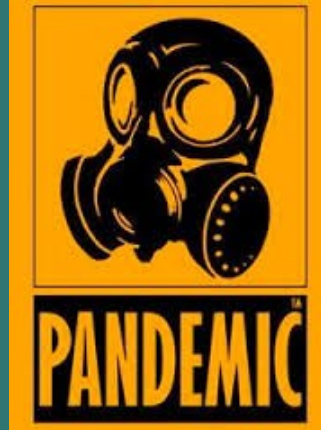
# ... but the composition of flows varies across income groups



Source: European Report on Development (2015)

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

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... and the SDGs embody this complexity





## Theme 2:

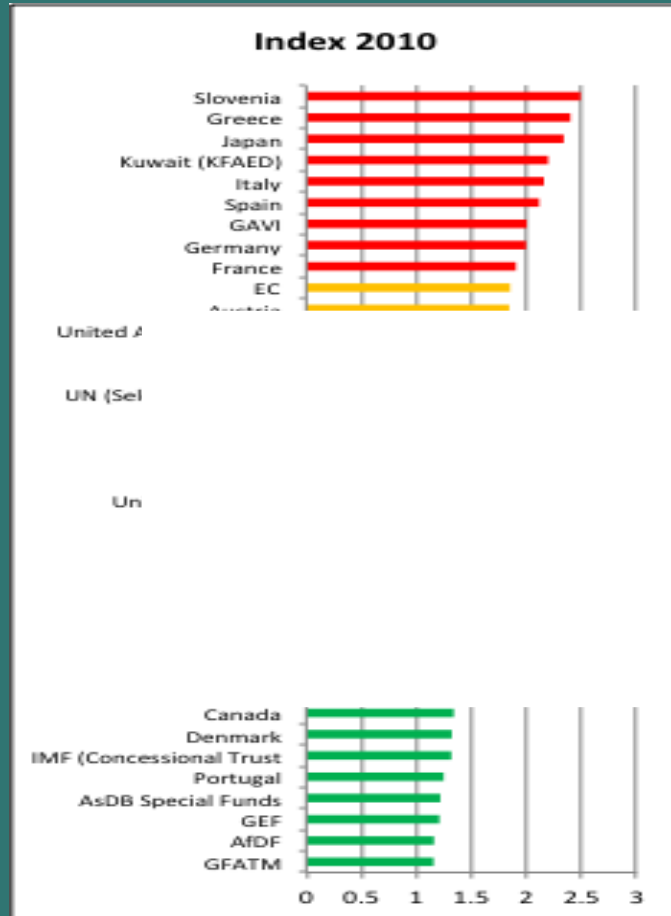
Some implications for  
development agencies

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

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<b>There may be less...</b>	<b>And more...</b>
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

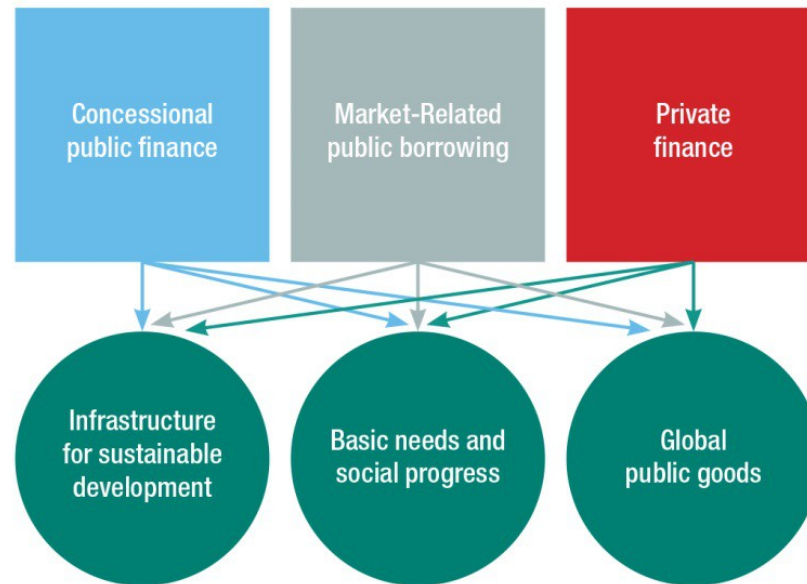


Sources:  
 Kharas & Rogerson  
 (2012); ODI  
 (2015)



# Finance flows and development goals

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Source: Kharas et al 2014

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# SDG funding: Top-line recommendations

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## ***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...

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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

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<sup>10.</sup> Tax systems strengthening and info. exchange

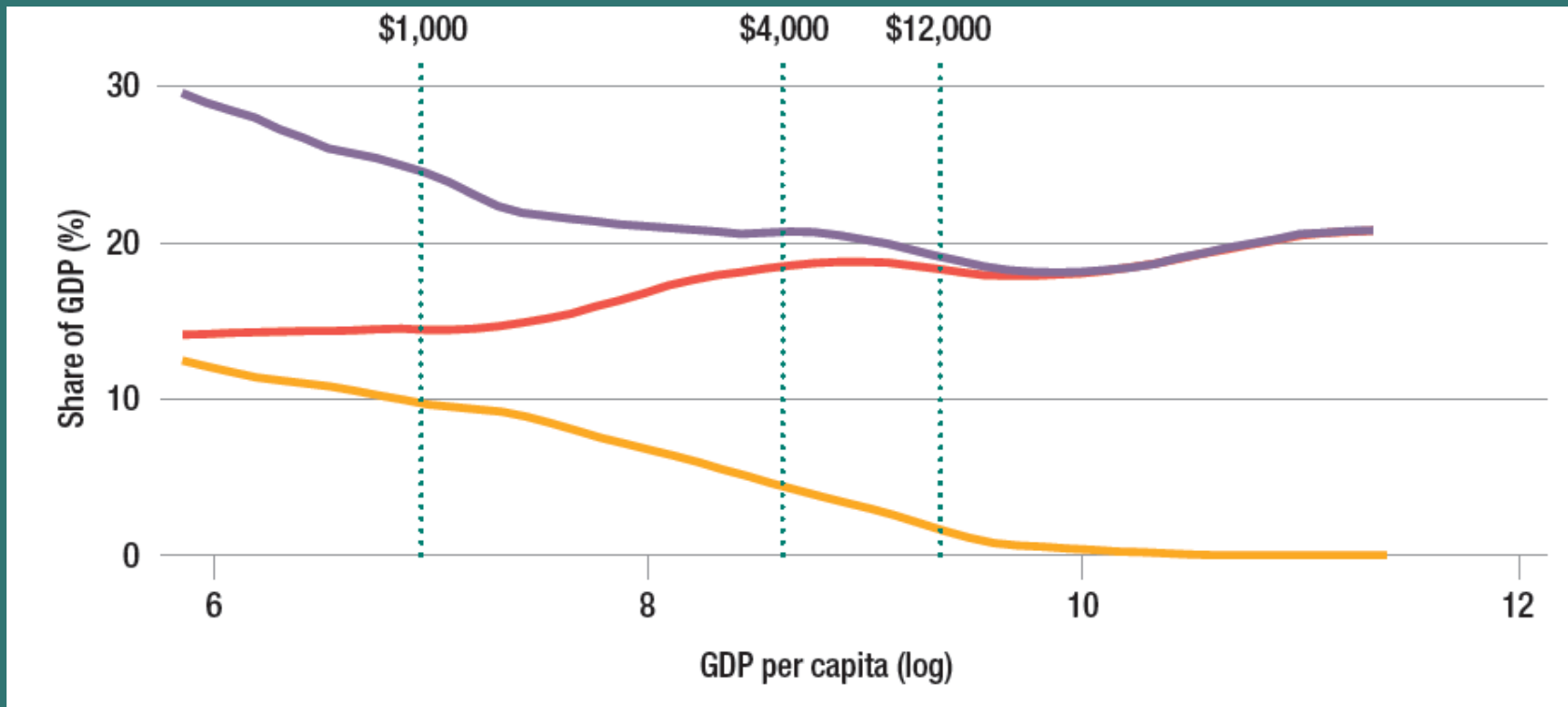


## Why blend (or subsidise)?

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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



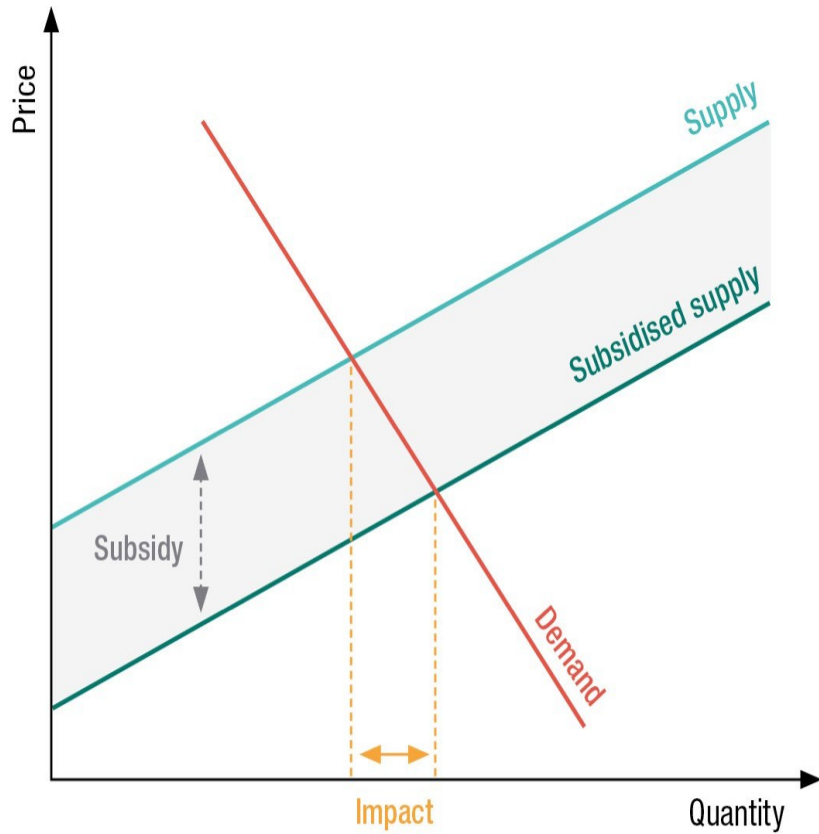
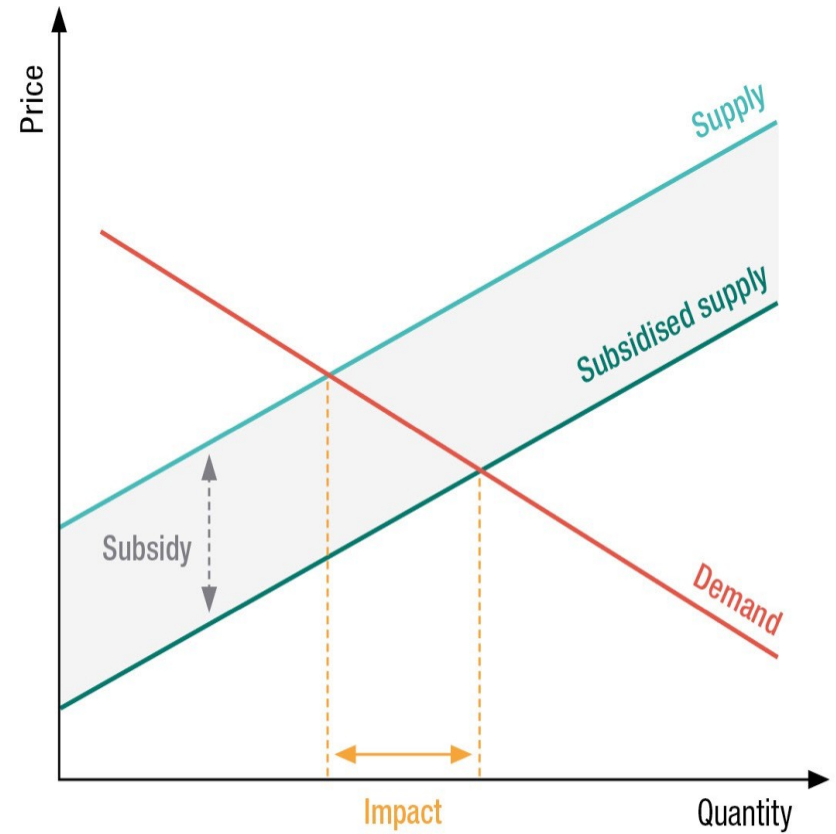
Source: Kharas et al (2015)



## Some potential challenges to blending

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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****B**

**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

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

# Market Aid Index

