development initiatives

April 2019

what do emerging trends in development finance mean for crisis actors?

webinar background information

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Introduction

Crises are becoming increasingly protracted and complex in nature, with humanitarian assistance often going to the same crisis year-on-year. There is now increasing consensus among policy-makers on the need for longer-term development responses in crisis contexts, and more joined-up approaches to strengthen effectiveness. Greater coherence between development, crisis and peace agendas is needed to enable progress towards the common goal to ‘leave no one behind’. While commitments to strengthen joined-up approaches have been made at the international level, the real challenge remains delivery.

To move the discussion forward and to strengthen joined-up approaches to financing across development and crisis sectors, this series of webinars will bring together both sets of actors into the same forum and identify more concrete ways to overcome barriers and strengthen coherence in financing approaches. The first webinar, ‘What do development finance trends mean for crisis financing actors?’, will provide actors working in fragile and crisis contexts with the opportunity to hear from development and crisis finance experts and explore the possibilities for joint working towards financing for collective outcomes.

This background information document to accompany the webinar aims to provide participants without a background in development finance information on the past and current state of development finance, including insights on some key policies, such as Agenda 2030, The Global Partnership for Effective Development Cooperation and the Stockholm Declaration. The document also outlines key policy processes, prominent development finance stakeholders and relevant definitions.

Development finance: key policy processes

DAC ODA reform: Historically, apparent levels of ODA, in part, depended on the rules that govern which spending was eligible to be counted as ODA. In 2018, the Organisation for Economic Co-operation & Development (OECD) underwent an 'ODA modernisation' process in which what counted as ODA changed. This process has seen significant changes in the reported volume of ODA that don't necessarily line up with actual changes in donor spending. This also had implications for how donors perform against the target of committing 0.7% of their gross national income. The main changes are listed below:

Loans: In the past, the full value of any new loan was counted as ODA, but capital repayments by the borrower to the donor were subtracted from ODA to give a 'net ODA' figure. Under the process of 'ODA modernisation', only a percentage of the loan, known as the 'grant element', is counted as ODA. This change affects donors differently, for example, Japan has seen a 41% rise in its ODA, whereas France reported a 3% ODA reduce. More information on this can be found in our factsheet here.

Peace & Security: Some additional activities in the area of peace and security are now eligible to be classed as ODA, for example; educational activities in an ODA-eligible country designed to prevent violent extremism. Changes to the rules for eligibility of peace and security expenditure have been made to "better recognise the marginal, but actual development role that military actors sometimes play, notably in conflict situations".

Private Sector Instruments (PSI): Before the recent ODA modernisation, rules did not allow for the reporting of some activities that arguably had a development impact, for example, equity investments. Whilst the DAC has not been able to agree exact rules, an institutional approach has been agreed. Under the institutional approach, contributions to Development Finance Institutions (DFIs) and other PSI vehicles may now be counted at the face value that is the amount of a debt obligation that is stated as payable in a debt document. In addition, loans and equities made directly to private sector entities are eligible to be counted on a cash-flow basis.

Reverse graduation and aid to high income countries in crisis: Once countries had 'graduated' from the list of ODA-eligible nations through an improvement in their economic status, there was no mechanism for them to be readmitted if their economic situation worsened. Changes to the DAC rules now allow countries to be added to this list in such circumstances – so-called 'reverse graduation'. This means any assistance being provided to these countries by donors would be counted as ODA.

Financing for Development (FfD)/The Addis Ababa Action Agenda

The Third International Conference on Financing for Development, which is one in a series of conferences on the subject, took place in July 2015 in Addis Ababa, Ethiopia. The tangible result of this meeting was the Addis Ababa Action Agenda, a global framework which seeks to align financing flows and policies for development outcomes, the framework encompasses 7 ‘Action Areas’, these include:

- Domestic public resources
- Domestic and international private business and finance
- International development cooperation
- International trade as an engine for development
- Debt and debt sustainability
- Addressing systemic issues
- Science, technology, innovation, and capacity building

Whilst each ‘action area’ does not necessarily have a formalised follow up process, there is considerable work being done in various spheres to monitor their progress, for example; the United Nations Conference on Trade & Development (UNCTAD) is carrying out a lot of work on debt sustainability.

To monitor progress on the Financing for Development (FfD) agenda, the UN Economic & Social Council (ECOSOC) annually hosts the Forum on Financing for Development Follow-Up (FfD Forum). The FfD Forum also produces the annual Inter-agency Task Force on Financing for Development Report.

The fourth FfD Forum took place from 15th to18th April 2019.

The 2030 Agenda for Sustainable Development

The 2030 Agenda for Sustainable Development was finally agreed and adopted during the United Nations Sustainable Development Summit on 25th September 2015. The 2030 Agenda and the 17 Sustainable Development Goals it put forward go beyond simply building on the Millennium Development Goals (MDGs) and represent a significant shift from output targets to outcomes. The 2030 Agenda, which lays out a plan of action for people, planet and prosperity, seeks to integrate the three dimensions of sustainable development; the economic, social and environmental.

The High-level Political Forum (HLPF) on Sustainable Development is the central UN platform for the review of the 2030 Agenda for Sustainable Development. The HLPF is an annual process and provides countries with an opportunity to report back on action around specific SDGs. Every 4 years, there is also a UN General Assembly HLPF where progress across all SDGs is reviewed. 2019 is the first year in which this will take place.

Voluntary National Reviews (VNRs) provide an opportunity for countries to share the work they are doing to implement the 2030 Agenda. The VNRs represent an important innovation as a UN process for follow up to the implementation of development agendas. Building on a new approach that is ‘country-led’, the VNRs should be transparent, participatory, and provide examples of action taken. This process of reporting is intended to facilitate learning from national experiences and to promote accountability.

The Global Partnership for Effective Development Cooperation (GPEDC)

The Global Partnership for Effective Development Co-operation (GPEDC) is a multi-stakeholder platform to advance the effectiveness of development efforts by all actors, to deliver results that are long-lasting and contribute to the achievement of the Sustainable Development Goals (SDGs). The work of the GPEDC focuses on ensuring effective development cooperation, and includes monitoring progress against **4 key effectiveness principles:**

1. Ownership of development priorities by developing countries
2. Focus on results
3. Inclusive partnerships
4. Transparency and mutual accountability

In addition to monitoring progress, the GPEDC also works on adapting and designing principles and guidelines for new forms of development cooperation, for example, private sector engagement principles.

Stockholm Declaration

In April 2016, the International Dialogue on Peacebuilding and Statebuilding gathered in Stockholm to renew their commitments to the New Deal for Engagement in Fragile States. The New Deal, endorsed in 2011, is essentially an action plan and guide for how to prioritise investment in peacebuilding and statebuilding in fragile environments. 'Implementing the New Deal', as it came to be known, meant investing financially and politically in the 5 peacebuilding and statebuilding goals (PSGs) – inclusive politics, security, justice, jobs and basic social services, but in line with basic aid effectiveness principles and nationally defined priorities.

The Stockholm Declaration outlines what members must do now to revive commitment to the New Deal and take it to the next level if the UN's ambitious 2030 Agenda for sustainable development for all is to be realised, particularly in fragile and conflict affected environments.

Development finance stakeholders

Stakeholder category	Examples
Bilateral donors	DFID, SIDA
Civil society – international and national/local NGOs and CSOs	Oxfam, Conservation International
Development Finance Institutions and Multilateral Development Banks	African Development Bank, CDC, PROPARCO, WB
Foundations	Bill and Melinda Gates Foundation
Multilateral Institutions	IMF, UN
Partner country governments	Burkina Faso
Platforms and networks	Convergence (blended finance knowledge platform), Southern Voice (think tank network)
Private sector – both financial (commercial banks and investors) and non-financial (businesses such as SMEs and MNCs)	Financial: Aviva, Standard Chartered Bank Non-financial: Danone
Standard setting organisations	OECD, UN
Think tanks	Centre for Global Development, ODI

Glossary

Development finance, useful term	Definition
Blended finance	Blended finance refers to the use of international public finance to attract additional investments from private sector actors toward development outcomes (DI). The term is not used consistently across actors – for example, some limit it to the use of concessional public finance to mobilise private investments in developing countries, while others include both public and philanthropic capital.[1]
Budget support	General budget support is a completely unearmarked cash contribution to recipient government budgets, to be spent at the discretion of the recipient governments. Sector budget support is a financial contribution to recipient government budgets where donors specify the sector (such as health or education).
Concessional loans	Concessional loans offer better than market-rate terms, either through longer repayment times, low interest rates, or both. Development finance institutions often use these loans to de-risk or encourage certain investments.[2]
Debt relief	Debt forgiveness and debt rescheduling on both the original debt and any accumulated unpaid interest.[3]
Diaspora bonds	Diaspora bonds are bonds issued by governments to get citizens or members of its diaspora to help support the country's economic growth.[1]
Export credits	Loans for the purpose of trade and which are not represented by a negotiable instrument. They may be extended by the official or the private sector. If extended by the private sector, they may be supported by official guarantees. [4]
Foreign Direct Investment	Foreign direct investment (FDI) is the category of international investment that reflects the objective of a resident entity in one economy to obtain a lasting interest in an enterprise resident in another economy. [5]
Green bonds	As impact investing has gained some traction, investors are looking for ways to support socially or environmentally impactful

Development finance, useful term	Definition
	programs, which has given rise to a new field of bonds that primarily tackle environmental challenges.[1]
Loan guarantee	A loan guarantee is a promise by the guarantor, often a development finance institution, to pay back a borrower's debt if a borrower defaults on a loan. Guarantees can cover all or part of the debt and are often used to de-risk investments for conventional or commercial investors.[1]
Long-term debt	Long term debt can be public or private. Public (or official) long term debt is debt from official creditors and includes loans from international organisations (multilateral loans) and loans from governments (bilateral loans). Private (or commercial) long term debt is debt from private sources which can include bonds, commercial bank loans, other private credits from manufacturers, exporters, and other suppliers of goods, and bank credits covered by a guarantee of an export credit agency. Long term loans have terms exceeding one year.
Multi-donor trust funds	Trust funds are vehicles used to manage funds contributed by development partners for specific development activities and administered by the World Bank. They are often used to promote global public goods or address global public 'bads' and pilot innovations that may later be brought to scale, including at the country level. [6]
North-South Cooperation	North-South cooperation refers to the transfer of resources, technical assistance and exchange of best practices from developed to developing countries.
ODA	ODA is defined as flows to countries and territories on the DAC List of ODA Recipients and to multilateral institutions which are: provided by official agencies, including state and local governments, or by their executive agencies; administered with the promotion of economic development and welfare of developing countries as main objective; concessional in character. [7]
Other official flows	Transactions by the official sector with countries on the DAC List of ODA Recipients which do not meet the conditions for eligibility as Official Development Assistance, either because they are not primarily aimed at development, or because they don't meet the necessary concessionality thresholds.[8]

Development finance, useful term	Definition
Portfolio equity	Portfolio equity includes cross-border transactions and positions involving equity securities other than those recorded as direct investment and including shares, stocks, depository receipts, and direct purchases of shares in local stock markets by foreign investors.
Private sector development	Activities carried out by governments and development organisations with the objective of promoting an enabling environment for the private sector in partner countries.[9]
Private sector engagement	An activity that aims to engage the private sector for development results, which involve the active participation of the private sector.[9]
Project aid	Aid that is earmarked for specific projects in developing countries (as opposed to aid delivered through budget support or aid that is not transferred out of door countries).
Public Private Partnerships	A long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance. [10]
Remittances	Money earned or acquired by non-nationals that are transferred back to their country of origin.[11]
Short-term debt	Short-term debt refers to loans by commercial actors which have terms of less than one year.
Social impact bond	Social impact bonds are partnerships or contracts between governments, NGOs and investors to fund interventions that address pressing challenges.[1]
South-South Cooperation	South-South cooperation is a common endeavour of peoples and countries of the South, born out of shared experiences and sympathies, based on their common objectives and solidarity, and guided by, inter alia, the principles of respect for national sovereignty and ownership, free from any conditionalities. [12] South-South co-operation refers to the sharing of knowledge and resources between - typically - middle-income countries with the aim of identifying effective practices.[13]
Technical assistance / Technical Cooperation	The direct supply of experts, consultants, teachers, academics, researchers, volunteers and so on by donor agencies.[3]

Development finance, useful term	Definition
Triangular Cooperation	Triangular cooperation involves Southern-driven partnerships between two or more developing countries supported by a developed country(ies)/or multilateral organisation(s) to implement development cooperation programmes and projects.[14]
Vertical funds	A source of global development finance that is earmarked to address ‘vertically’ (i.e., in depth) a single problem, such as fighting HIV-AIDS, malaria or tuberculosis, rather than ‘horizontally’ addressing a broader programme area, such as building better health care systems.[15]

Notes

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[2] Adva Saldinger, 2017. A development finance glossary. Available at: https://www.devex.com/news/a-development-finance-glossary-90953.

[3] Development Initiatives, 2013. Investments to End Poverty. Available at: http://devinit.org/wp-content/uploads/2013/09/Investments-to-End-Poverty-full-report.pdf.

[4] OECD. DAC Glossary of Key Terms and Concepts: Export Credits. Available at: http://www.oecd.org/dac/dac-glossary.htm#Export_Credits.

[5] OECD, 2001. Glossary of Statistical Terms: Foreign Direct Investment. Available at: https://stats.oecd.org/glossary/detail.asp?ID=1028.

[6] World Bank, 2017. Fact Sheet on World Bank Trust Funds. Available at: http://siteresources.worldbank.org/CFPEXT/Resources/TFfactsheetapril2017.pdf.

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[9] OECD, 2016. Private Sector Peer Learning: Peer Inventory 1 – Private Sector Engagement Terminology and Typology. Available at: http://www.oecd.org/dac/peer-reviews/Inventory-1-Private-Sector-Engagement-Terminology-and-Typology.pdf.

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[14] UNDP. Frequently Asked Questions: South-South and Triangular Cooperation. Available at: https://www.undp.org/content/dam/undp/library/Poverty%20Reduction/Development%20Cooperation%20and%20Finance/SSC_FAQ%20v1.pdf.

[15] UN, 2008. Vertical Fund. Available at: https://unterm.un.org/UNTERM/Display/record/UNHQ/NA?OriginalId=79a6a9dd4e29bae7852574030074aaff.

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We work to ensure that decisions about the allocation of finance and resources result in an end to poverty, increase the resilience of the world's most vulnerable people, and ensure no one is left behind.

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