IRF2015

SUPPORTING DOCUMENT 2

Facts and Figures on Financing for Sustainable Development:

A brief compilation

Adam Fishman
World Resources Institute

February 2015

IRF2015 is a collaboration of 11 leading research institutes from across the globe that responds to the need for independent, rigorous and timely analysis to inform the evolution of the post-2015 development agenda and the concurrent intergovernmental process on Sustainable Development Goals (SDGs) agreed to at Rio+20. IRF2015 partners envision a post-2015 development agenda that is universal in scope, takes an integrated approach to the economic, social and environmental dimensions of global development challenges, and can lead to more sustainable and equitable development outcomes for all.

The views expressed in this paper are those of the author(s) and do not necessarily reflect the views of IRF2015 partner organizations.

Please send any comments to:
Adam Fishman (afishman@wri.org)

Introduction

Supporting Document 2 provides a brief compilation of basic terms, facts and figures on financing for sustainable development. This does not represent an exhaustive overview of available data, but serves as background material for discussion and the group exercises during the IRF2015 informal retreat, and complements Supporting Document 1.

Primary sources include:

ICESDF (2014). Report of the Intergovernmental Committee of Experts on Sustainable Development Financing – Final Draft. United Nations, 8 August. (Herein referred to as "ICESDF")

Kar, D. and J. Spanjers (2014). Illicit Financial Flows from Developing Countries: 2003-2012. Report. Global Financial Integrity. ("GFI")

Kharas, H., Prizzon, A. and A. Rogerson (2014). Financing the Post-2015 Sustainable Development Goals: A rough roadmap. Report. ODI. ("Kharas, et al")

OECD (2014). Development Cooperation Report: Mobilising Resources for Sustainable Development. ("DCR")

OECD's Glossary of Statistical Terms ("OECD")

Sachs, J. and G. Schmidt-Traub (2014). Financing Sustainable Development: Implementing the SDGs through effective investment strategies and partnerships. Draft, 30 Nov 2014. SDSN. ("SDSN")

Glossary of Key Terms

*Associated financing: T*he combination of ODA, whether grants or loans, with other official or private funds to form finance packages (DCR; OECD).

Concessional assistance: Official public support on terms ranging from 100% grant to marginally better than market loan rates. For loans, the concessionality is achieved through interest rates below those available on the market, by longer grace periods, or by a combination of the two (OECD; Kharas et al).

Country programmable aid (CPA): A subset of gross bilateral ODA. CPA tracks the proportion of ODA over which host countries have significant say in its use. It excludes activities that: 1) are inherently unpredictable (humanitarian aid and debt relief); 2) entail no cross-border flows (administrative costs); 3) do not form part of cooperation agreements between governments (i.e. food aid, assistance from local governments, direct core funding to NGOs) (DCR).

Debt rescheduling: The formal deferment of debt-service payments and the application of new and extended maturities to the deferred amount. Rescheduling debt is one means of providing debt relief through a delay and, in the case of concessional rescheduling, is a reduction in debt-service obligations (Kharas, et al; OECD).

Financial intermediaries: Units which incur liabilities on their own account on financial markets by borrowing funds which they lend on different terms and conditions to other institutional units. Examples of intermediaries include central banks, currency boards and monetary agencies (OECD).

Foreign direct investment (FDI): 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

(OECD). The three main components of FDI are equity investment, inter-company loans and re-invested earnings (DCR).

Grants: Transfers made in cash, goods or services for which no repayment is required (DCR).

Grant element: Reflects the financial terms of a commitment, e.g. interest rate, grace period (time allowed before first repayment of capital). It measures the concessionality of a loan (DCR).

Guarantees: A financial instrument in which a guarantor agrees to pay any or all of the amount due on a loan in the event of non-payment by the borrower (DCR).

Innovative finance for development: Initiatives that either aim to raise new funds for development (innovative sourcing) or optimize the use of traditional funding sources (innovative spending) (DCR).

International Public Finance (IPF): A recently introduced umbrella term, combining (1) all development cooperation, very broadly defined, and (2) official international support for other primary public purposes, such as export promotion and climate change mitigation. Both can be supplied on more or less concessional terms, as above (DCR).

Official Development Assistance (ODA): The OECD Development Assistance Committee (DAC) standards for development 'aid' (also used for voluntary reporting by some other non-OECD countries). Includes a country eligibility list, rules for scoring development-related expenditure within donor countries, and thresholds for the inclusion of concessional loans (must contain a grant element of at least 25 percent using a fixed 10 percent rate of discount). However, all three of these elements are under review and changes are expected (DCR).

Other Official Flows (OOF): The face value of official loans reported to the DAC that do not qualify as ODA, either because they fail the ODA concessionality test (grant element of less than 25%) or because they are not aimed primarily at development (Kharas, et al; OECD).

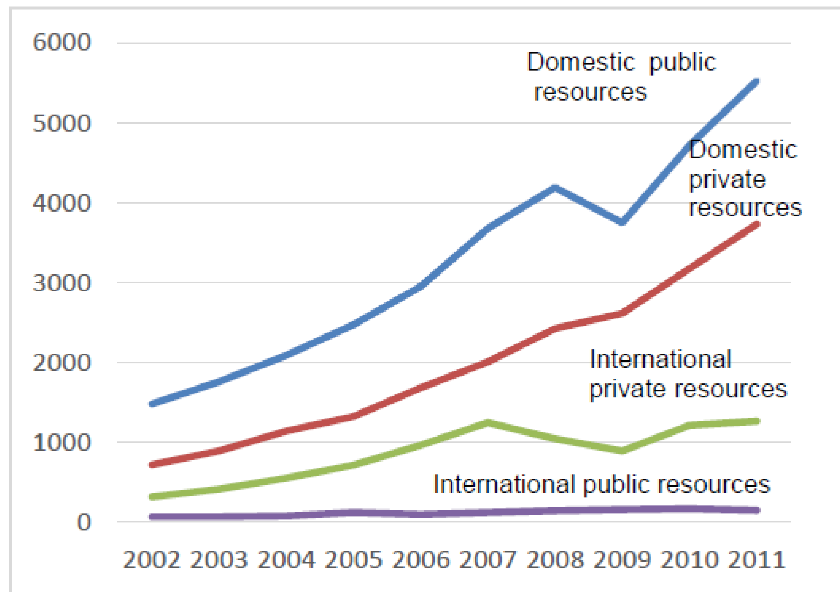
Remittances: Private financial transfers sent by migrants to support recipients (usually their families) from their country or region of origin (DCR; SDSN).

South-South cooperation: Development cooperation between two or more non-OECD DAC countries, including both financial and non-financial activities.

Transfer pricing: The price charged by a company for goods, services, or intangible property to a subsidiary or other related company. Abusive transfer pricing occurs when income and expenses are improperly allocated for the purpose of reducing taxable income (DCR).

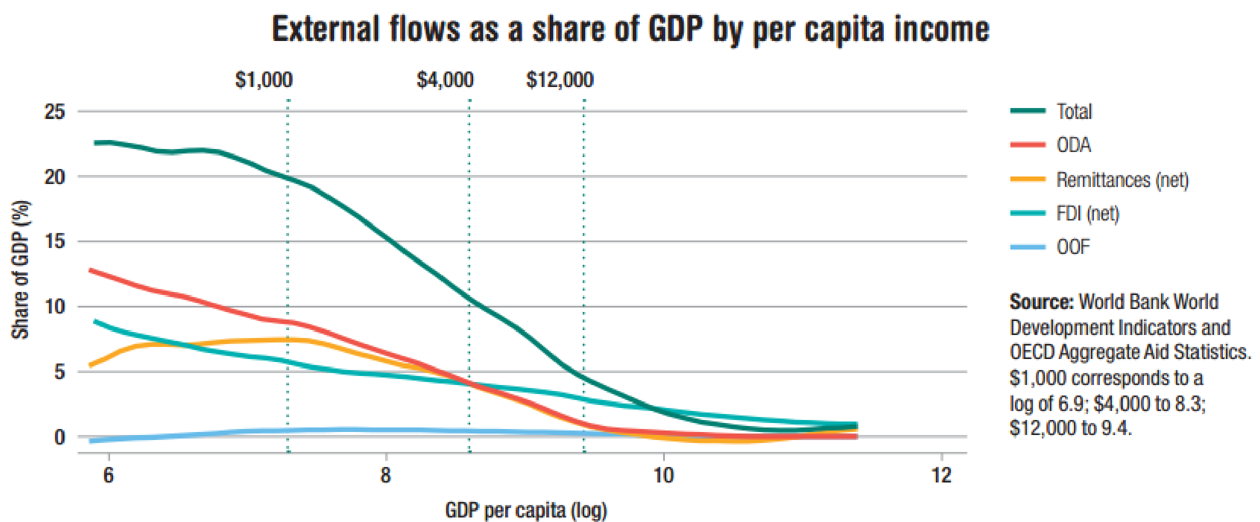
Overview

The figure below from the forthcoming European Report on Development shows recent trends in finance flows to developing countries from 2002 to 2011. While the importance of 'aid' appears to be declining relative to other flows, a closer look at country context will show that it is still critical in LDCs and fragile states. Mobilization of domestic resources—both public and private—for sustainable development will be critical to meeting the Sustainable Development Goals to be agreed in September.



Source: OECD, IMF, WDI, and ERD calculations

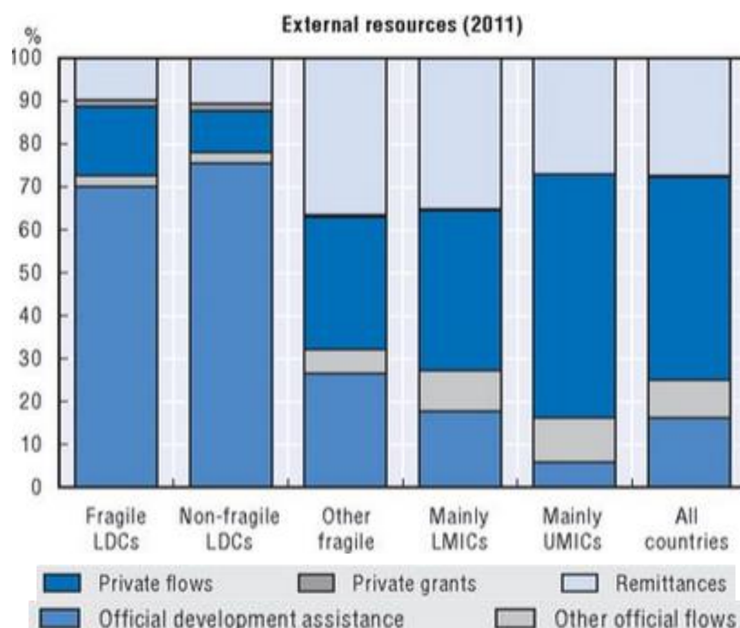
The chart below from Kharas, Prizzon and Rogerson depicts the percentage of GDP by per capita income comprised by external flows. Overall, external flows make up a significantly higher percentage of GDP per capita in low-income countries than in middle- and high-income countries.



International Public Finance

Official Development Assistance

- At roughly $135bn USD per year (2013 data), ODA represents 28% of all official and private flows from the 29 DAC member countries (DCR 23).
- In 2011, ODA represented over 70% of the $70bn of financial flows to LDCs. That same year, ODA accounted for only 18% of total external finance in MICs (DCR 44, see chart below).
- About 40% of ODA currently goes towards LDCs (ICESDF 15), but ODA loans are growing faster than ODA grants, indicating an overall shift away from LDCs (DCR 46).
- Despite record ODA levels in 2013, it remained below internationally agreed targets, averaging 0.3% of GNI overall, and 0.09% of GNI to LDCs (ICESF 31). At current GNI, an increase by 0.1% in international public finance yields an additional $45bn per year (SDSN 102).
- On average, volatility in aid has reduced its benefits to recipients by around 20% (Kharas, et al 22).
- Between 10% and 40% of development assistance portfolios in developing countries are affected by climate risks, depending on country context (DCR 208).

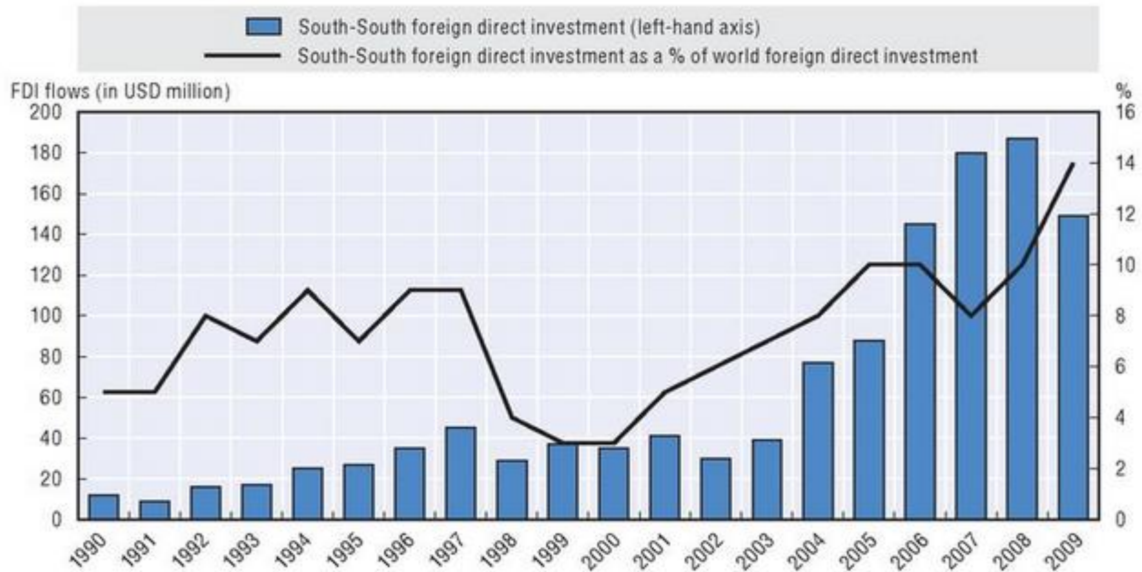


Public non-concessional lending

- Non-concessional financing represented almost two thirds of international financial institutions' total financing in 2012. More than 95% of these two thirds went to MICs, and over three quarters of it were allocated to infrastructure projects in the economic and social sectors (DCR 63).

South-South (S-S) cooperation

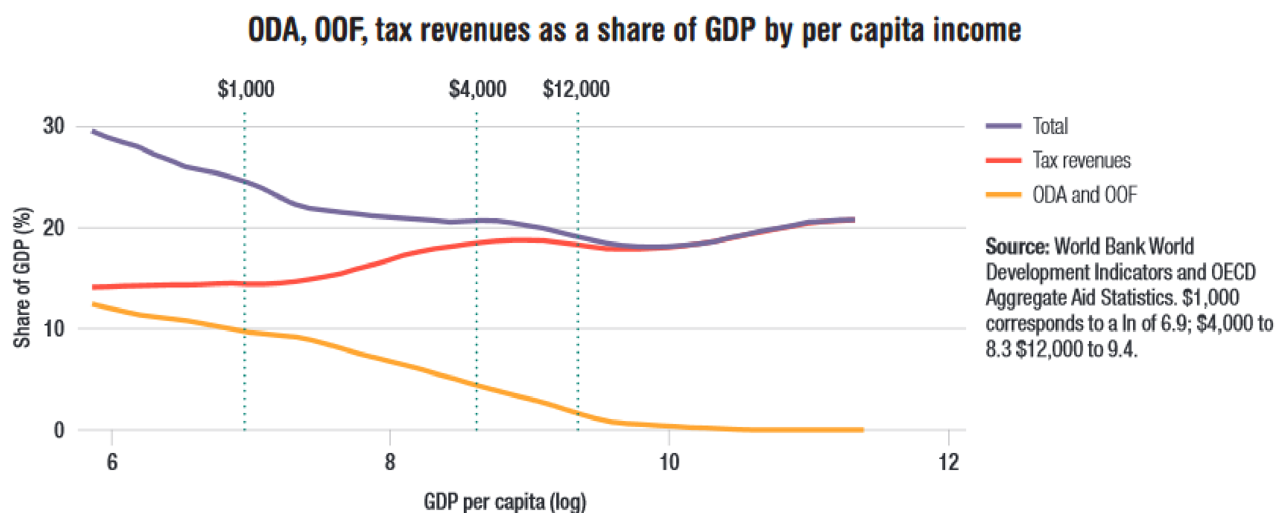
- S-S Cooperation more than doubled between 2006 and 2011 (ICESDF 16), and the recently-launched BRICS Development Bank and the Asian Infrastructure Development Bank will each have an initial capital of $50bn (DCR 53).
- S-S foreign direct investment is growing at an annual average rate of 21% (DCR 54, see chart below).
- S-S trade has grown significantly, from an 8% share of world trade in 1980 to 27% in 2010 (DCR 55).



Domestic Public Finance

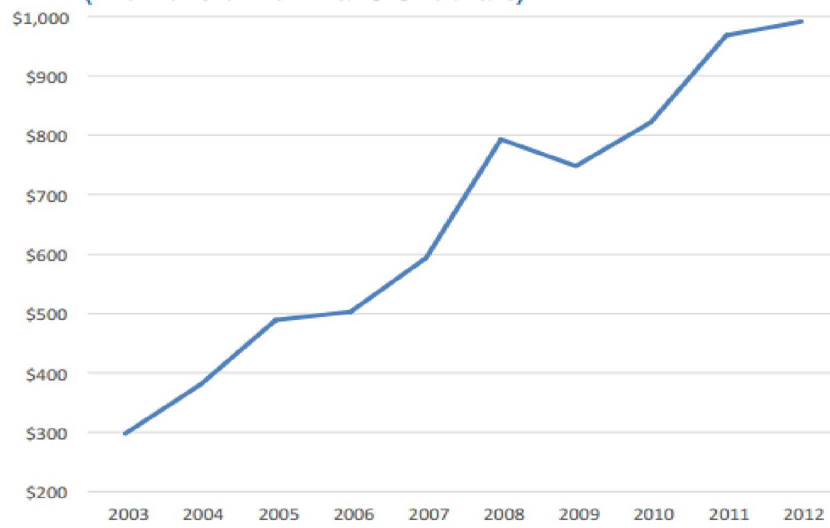
Improving tax collection and growing the tax base

- Public domestic finance in developing countries more than doubled between 2002 and 2011, increasing from $838bn to $1.86tn (ICESDF 12).
- There is a problem of a 'missing middle' where international public support falls faster than the rise of tax and government revenues, leading to a net decrease in total public finance available relative to national income (see chart below). This is prevalent in 'graduating LICs' and LMICs (Kharas, et al 26).
- OECD countries collect 34% of their GDP as tax; developing nations collect half this rate (DCR 91).
- Only 0.1% of ODA goes to support the development of tax systems in developing countries, despite showing high rates of return on investment (DCR 96). For example, a $20,000 tax support program in Kenya yielded $33m in revenue, or $1,650 per dollar spent (DCR 170).
- According to the IEA, fossil-fuel subsides totalled an estimated $544bn worldwide in 2012 (DCR 213). In 2011, pre-tax energy subsidies amounted to $480bn, primarily in developing countries, and post-tax energy subsidies amounted to $1.9tn, mostly in developed countries (ICESDF 13).



Combatting illicit flows

- Total illicit financial flows are steadily increasing, now estimated at nearly $1tn, up from approximately $300bn in 2003 (Global Financial Integrity, see chart on the following page).
- Trade misinvoicing accounts for 77.8% of illicit financial flows. Valuation fraud, the means by which misinvoicing takes place, is an acute problem for administrations in developing countries, though all governments must significantly boost customs training to detect misinvoicing of transactions (GFI).
- Developing countries lost $100bn from 2002-06 due to abusive transfer pricing (SDSN 85).
- Between 2010 and June 2012, roughly $1.4bn of stolen assets had been frozen, and $147m were returned. Of the frozen assets, 86% went back to non-OECD countries (DCR 161).


Total Illicit Financial Flows (HMN+GER), 2003-2012
(in billions of nominal U.S. dollars)
$1,000
$900
$800
$700
$600
$500
$400
$300
$200
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012

Private and Blended Finance

Facilitating Foreign Direct Investment (FDI) for sustainable development

- FDI is the largest capital inflow to developing countries, at $600bn in 2012, or 60% of all international capital flows to developing countries; however, it is also the most volatile inflow (DCR 72).

- LDCs receive less than 2% of FDI flows, and FDI's contribution to sustainable development varies: in LICs, extractive industry businesses are the primary providers of FDI (ICESDF 16; Kharas, et al).

- Guarantees extended with a development motive mobilized over $15bn of private sector flows to and within developing countries between 2009 and 2011 (DCR 61, 138).

- The private sector currently provides about one third of all infrastructure finance, but this number is not expected to grow beyond 40-45% (Kharas, et al).

Small and medium enterprises

- The unmet need for credit for SMEs has been estimated to be up to $2.5tn in developing countries and $3.5tn globally; over 200mn SMEs lack access to financial services (ICESDF 10, 28).

Remittances

- Developing countries received more than $351bn in remittances in 2012 (DCR 121), and $404bn in 2013, from $40bn in 1990 (ICESDF 16).

- The cost of remitting funds is high, averaging 8.4% of the amount transferred (ICESDF 37).

Pooled funding mechanisms and innovative sources of finance

- Philanthropic finance from private sources amounted to $60bn in 2013, with a significant amount going towards sectoral (vertical) funds such as the GAVI Alliance (ICESDF 17).

- Goal-based investment partnerships (i.e. GAVI) can increase effectiveness of public funds by making large volumes of commodities widely available, while also reducing aid fragmentation (SDSN 44, 71).

- Resources mobilized by innovative sources of finance total $15bn, but it is estimated that over $600bn can be mobilized annually (see Table 15.1 below) (DCR 181).

Table 15.1. **Proposed innovative financing mechanisms for development**

Initiatives	Potential amount mobilised a year (USD billion)
New special drawing rights issuance (as reserve to free up domestic resources)	160
Special drawing rights used as development finance	100
Carbon taxes – USD 25 per tonne of CO_2 emitted	250
Billionaire's tax	40
Currency transaction tax	40
Financial transaction tax	15
REDD+[1]	30
Total	**635**

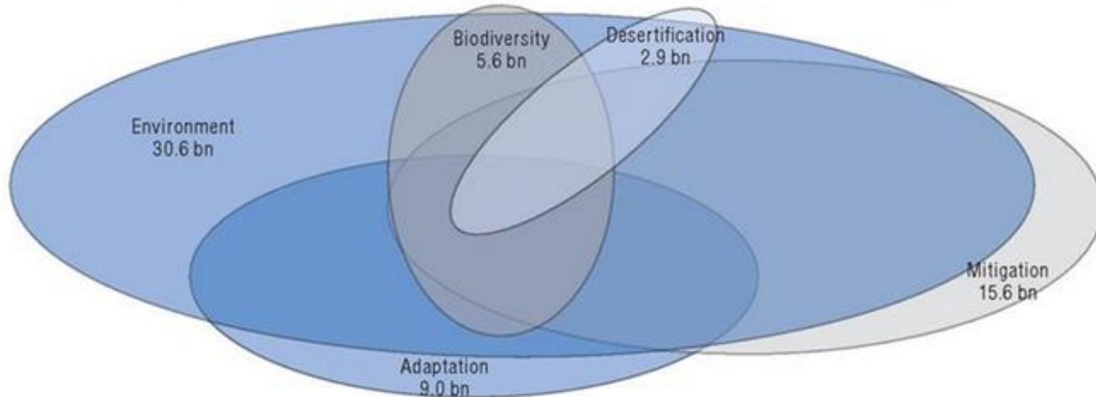
Systemic issues and coherence with other financing flows

Coherence with climate finance and other processes

- The majority of “green” development finance can simultaneously target two or more environmental objectives (see Figure 18.2 below for the OECD’s analysis of recent commitments) (DCR 212).

Figure 18.2. **The multiple objectives of environmental development co-operation, 2010-12**

Three-year annual average, bilateral commitments, USD billion, constant 2012 prices



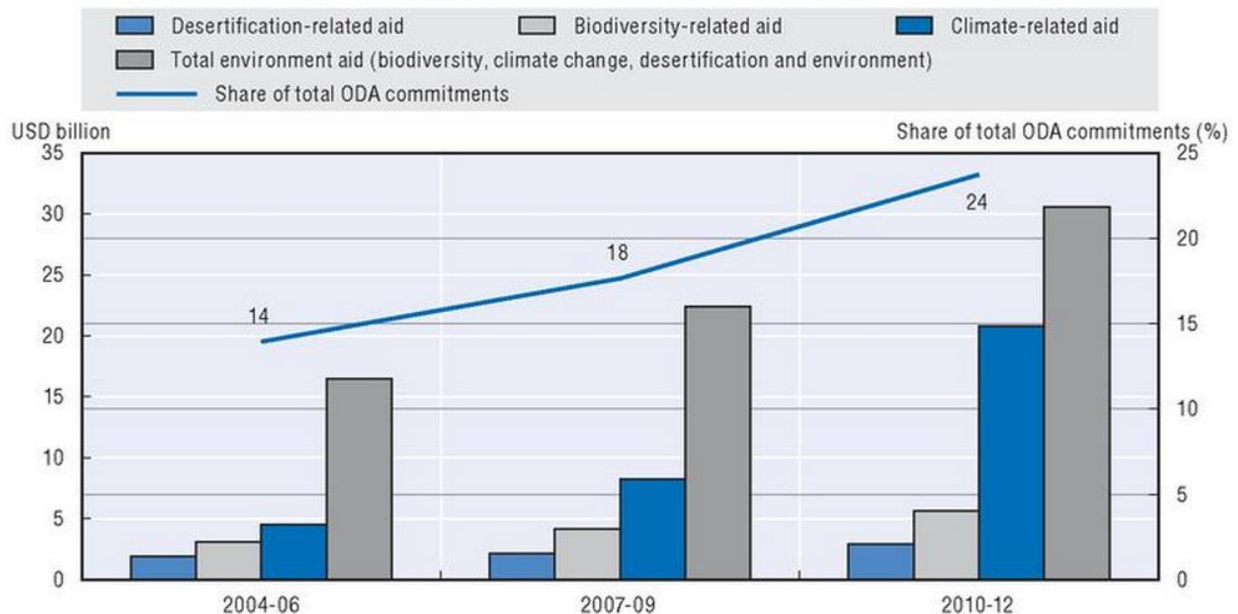
Source: OECD-DAC Creditor Reporting System statistics, July 2014.

- Over 2010-12, total bilateral ODA commitments targeting the global and local environment as either a principal or significant objective reached $31bn per year, representing 24% of total bilateral ODA commitments by OECD-DAC members (see Figure 18.1 below) (DCR 211).

- Climate-related ODA commitments increased by 150% between 2007-09 and 2010-12 (DCR 212).

Figure 18.1. **ODA to the environment, 2004-12**

Three-year annual averages, bilateral commitments, USD billion, constant 2012 prices



Trade and Technology

- Developing country markets absorb 49% of all exports from LDCs (DCR 238).
- Fuel, mining products and clothing comprise 70% of LDC export receipts, leaving them susceptible to price volatility and fluctuations in demand (DCR 239).
- Annual aid-for-trade commitments totaled $54bn in 2012 and have doubled since 2005 (DCR 240).

Reporting and Transparency

- An increasing number of companies are reporting on the environmental, social, and governance impacts of investments (ESG reporting). However, the share of investment subject to ESG considerations remains small relative to global capital markets, at only 7% of investments.