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The Role of IDA in the Global Aid Landscape

Francisco Carneiro

Economic Advisor to the Vice President
Development Finance (DFI)
The World Bank

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1.

Present **trends in official financial flows (OFF)** during the last two decades

2.

Highlight four recent **mega trends in the global aid architecture**

3.

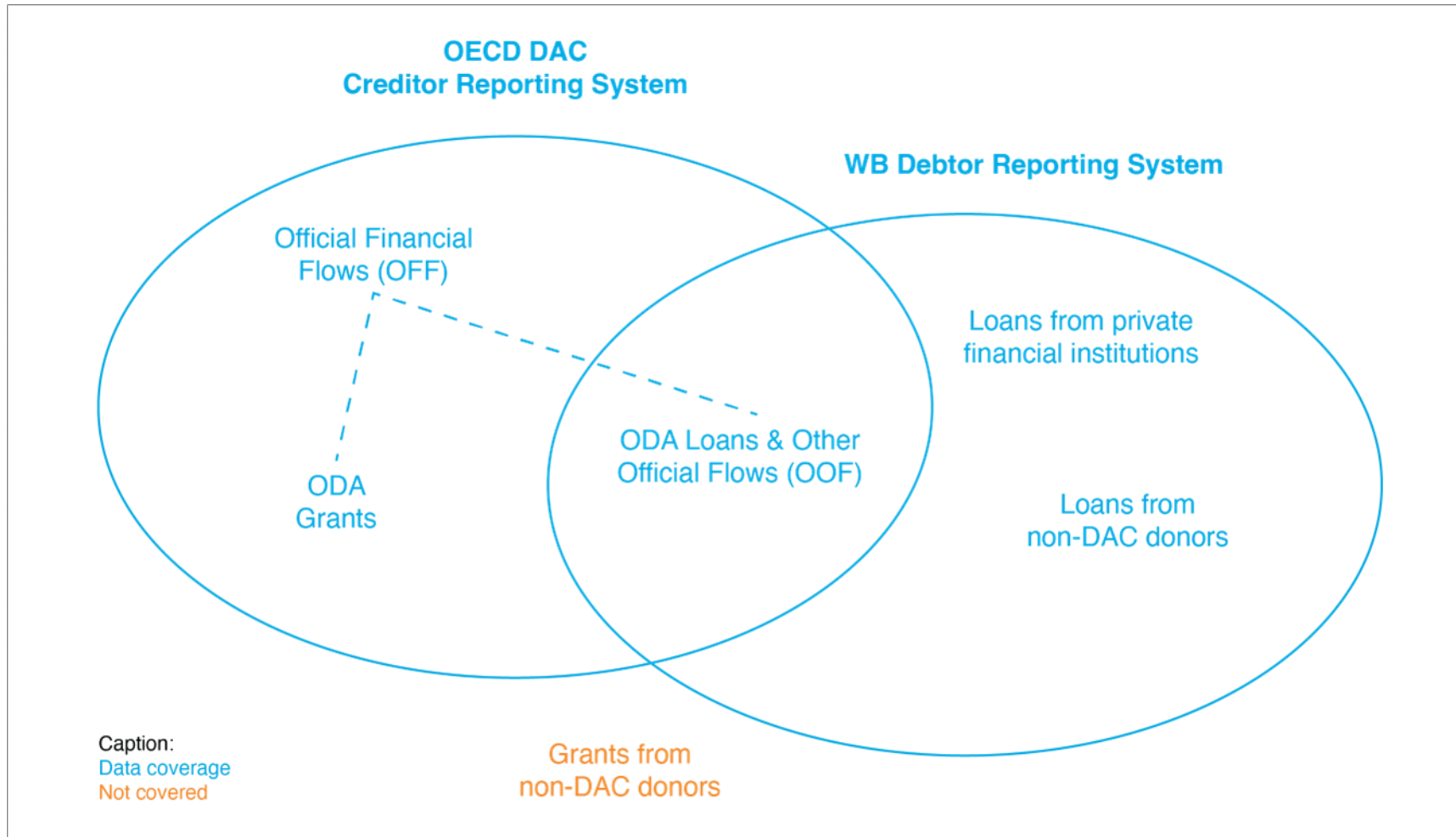
Discuss **how these mega trends matter, what could be done, and IDA's role**



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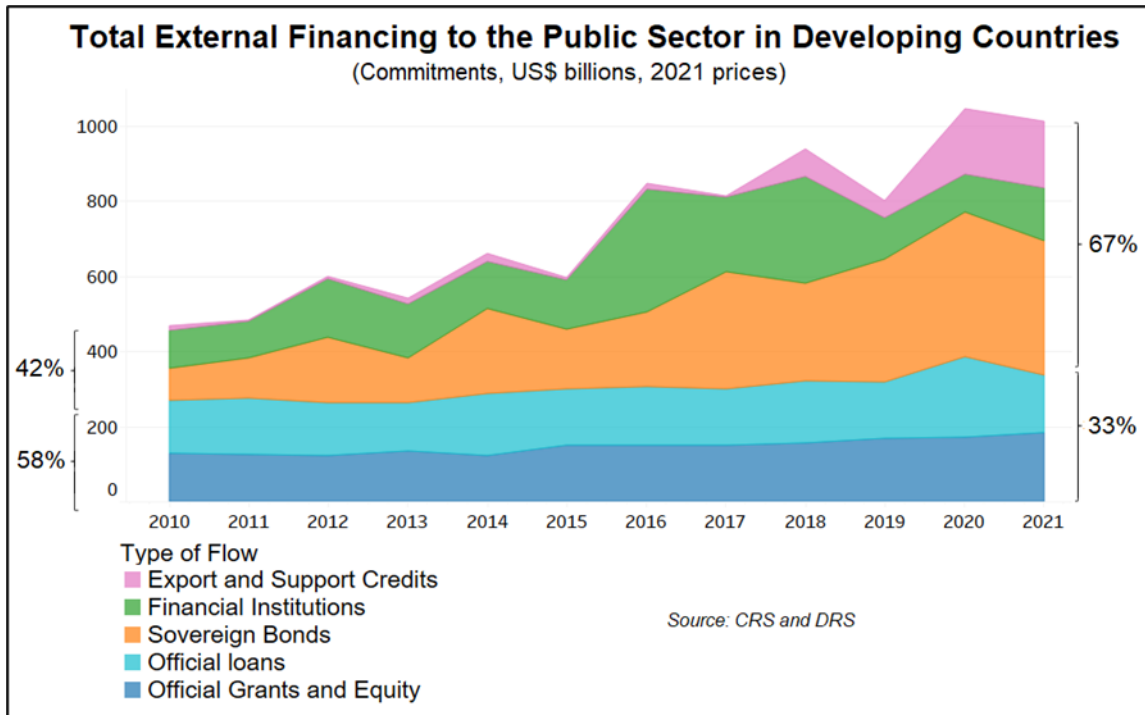
Data Sources and Context

Methodology and Data

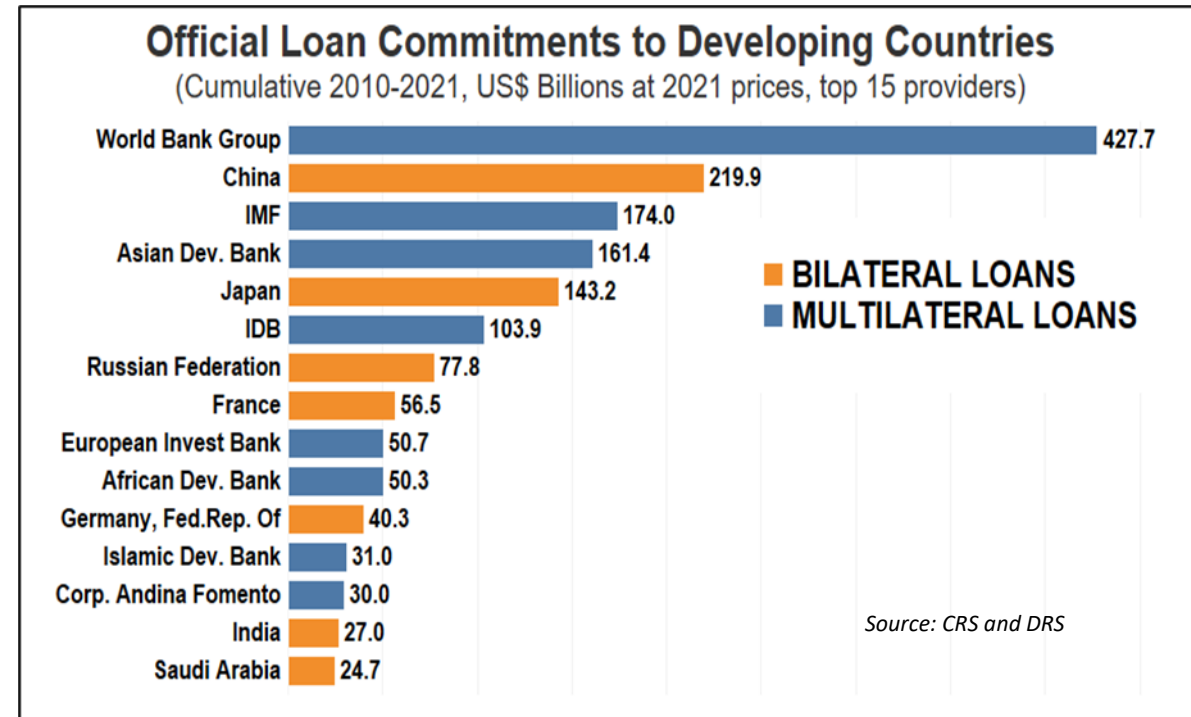


Development finance increased steadily over the last 20 years, partly fueled by donor countries in the Global South

Aid flows have grown steadily accompanied by rising private finance levels

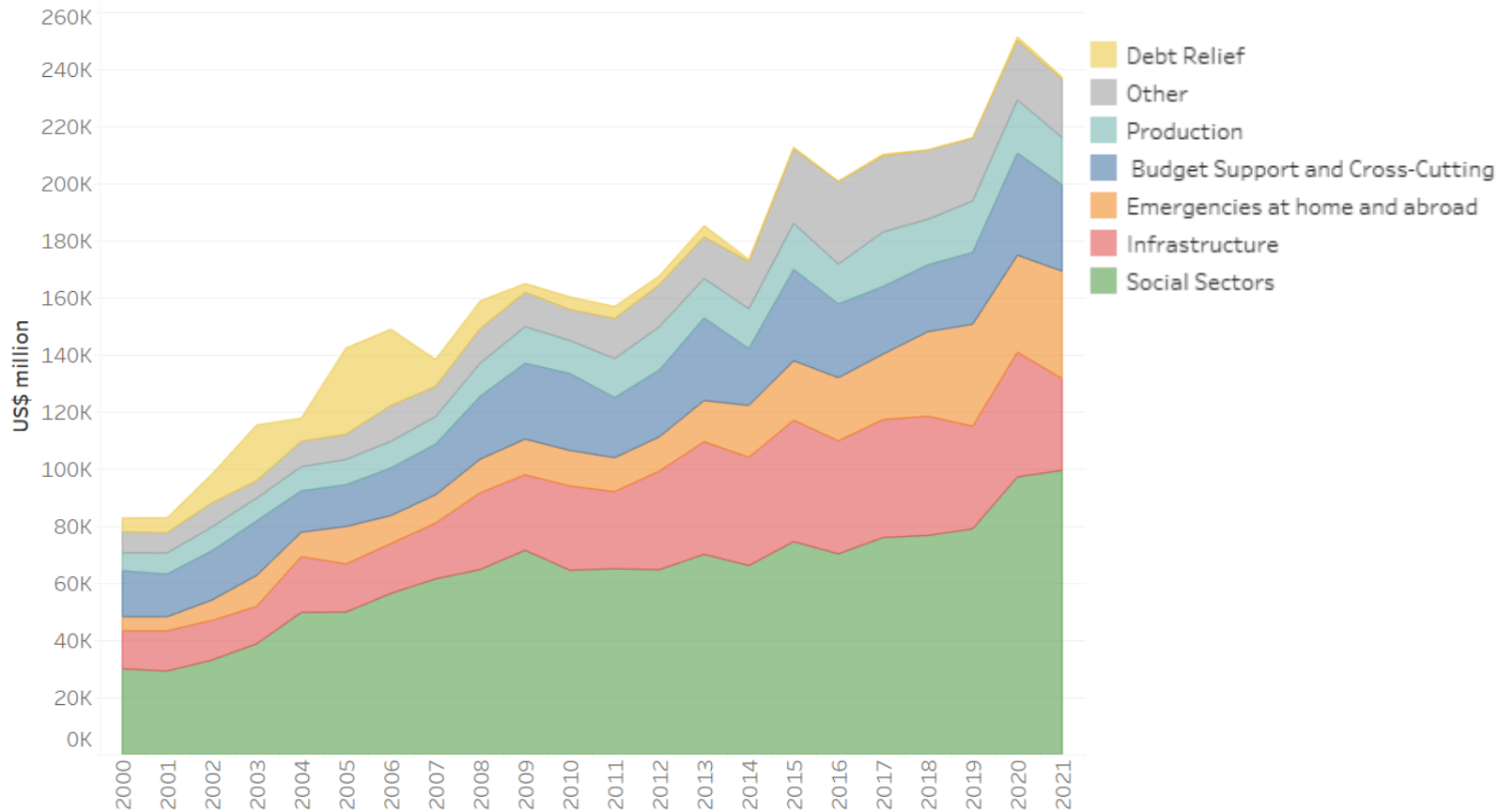


A number of emerging economies became top aid providers in the last 20 years



Nearly 40% of ODA has been consistently allocated to the social sectors

ODA commitments by sector, \$US millions, 2021 prices



Source: OECD CRS

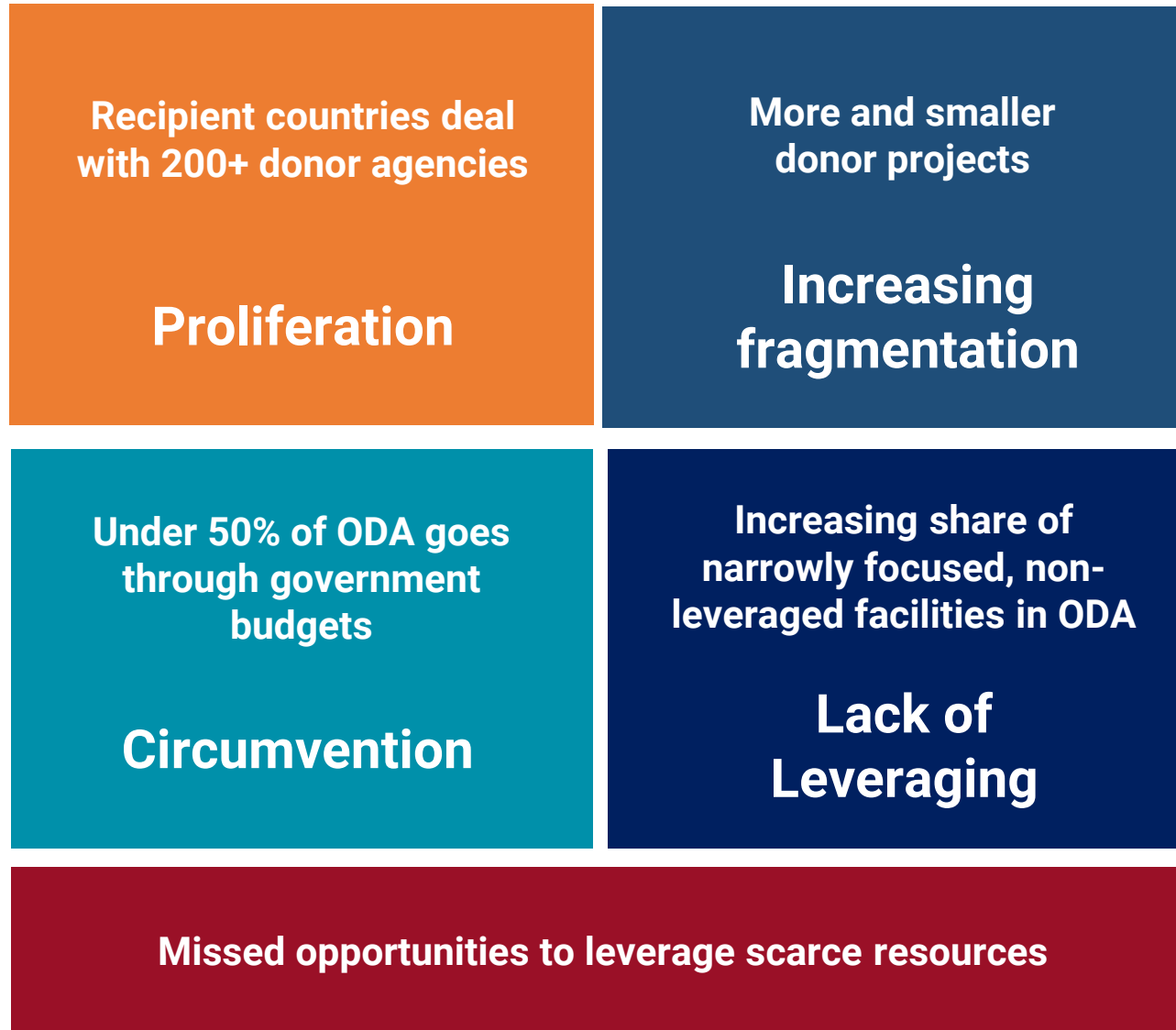
- Social sector commitments account for ~ 44% of ODA commitments; this share has remained largely unchanged from 2000 to 2021
- In contrast, the share of ODA commitments allocated to budget support has declined (from 19 to 11 percent of total ODA)



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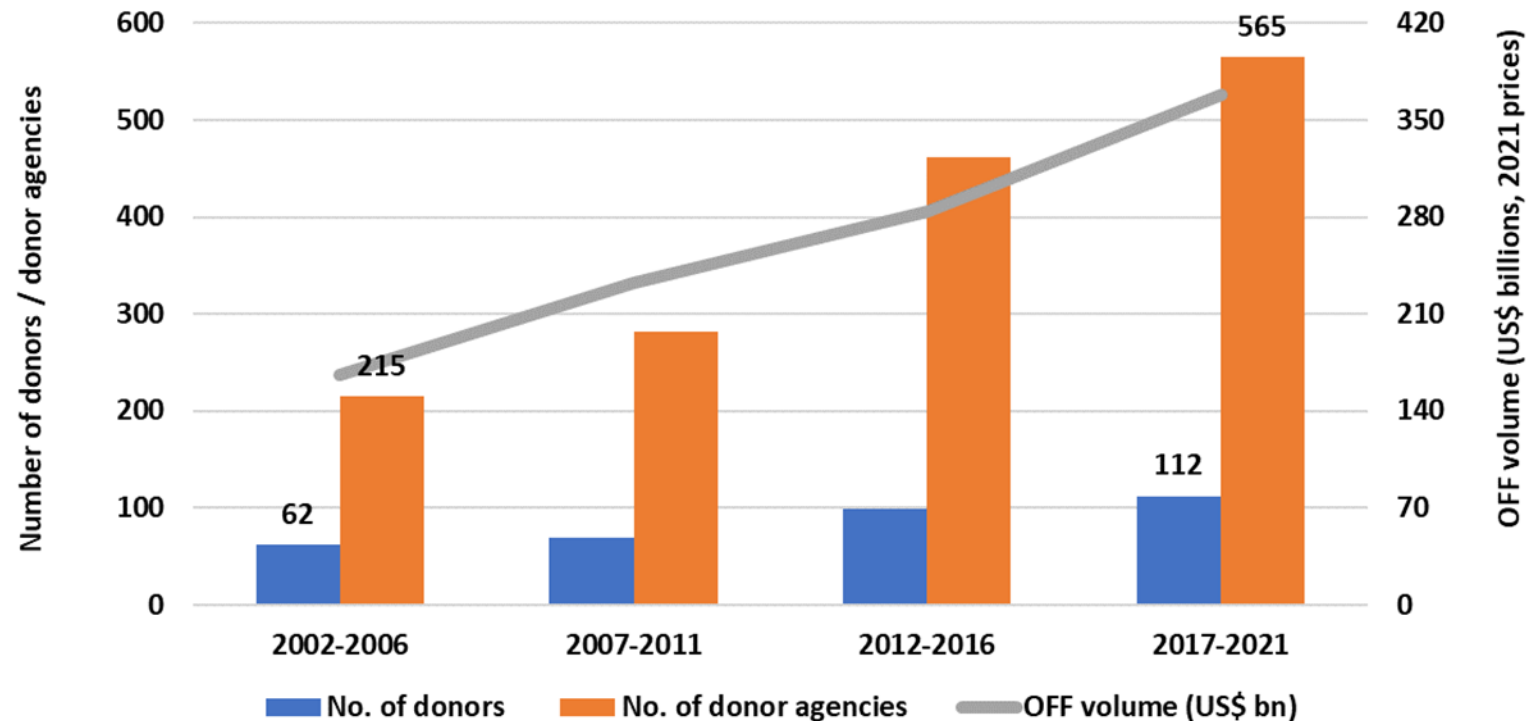
Four Mega Trends in the Global Aid Architecture

The emergence of non-traditional donors in the Global South means more financing for poor countries which itself is good news – but a larger number of donors also contributes to exacerbate worrisome trends in the global aid architecture

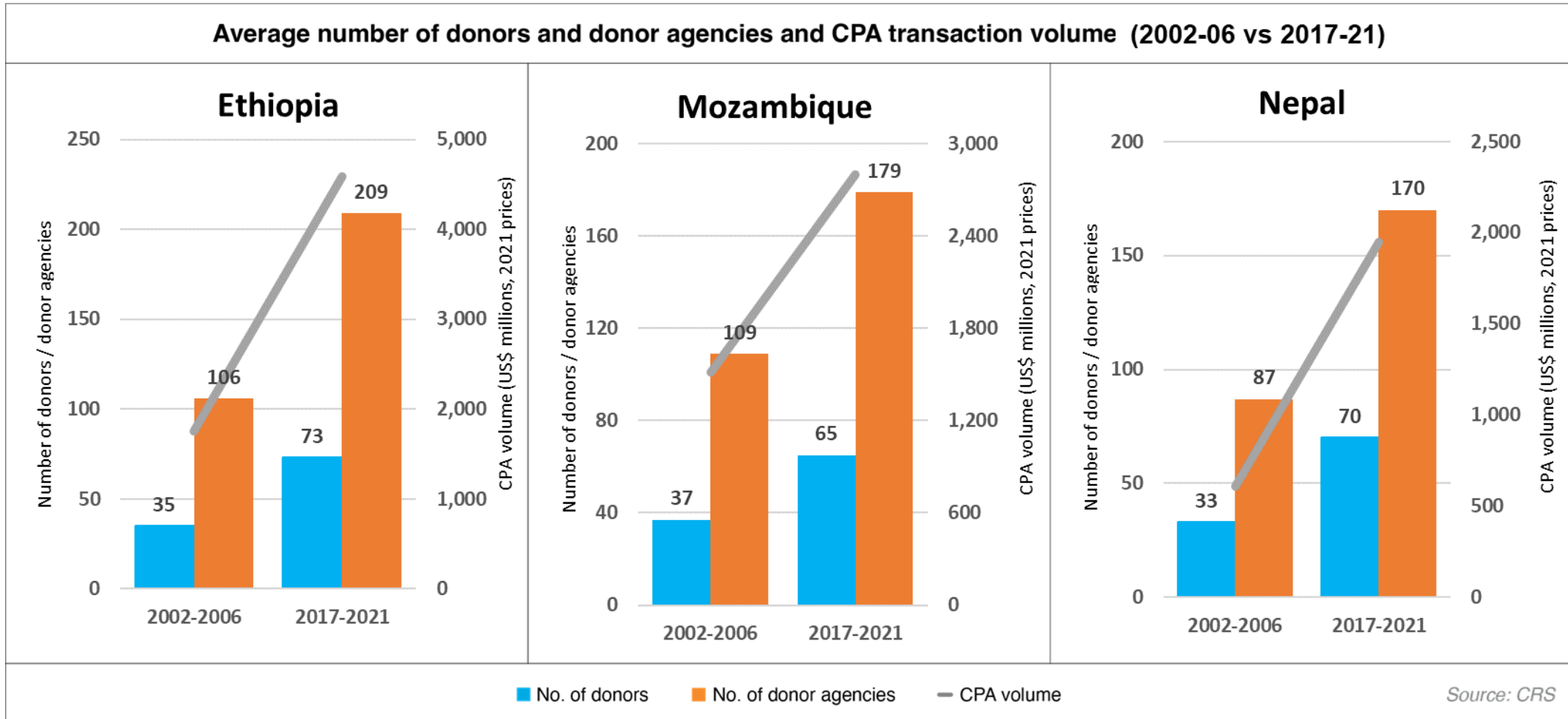


Mega Trend #1: Proliferation – Increasing number of donors and donor agencies

Proliferation – Number of donors and donor agencies increased at a faster pace than OFF

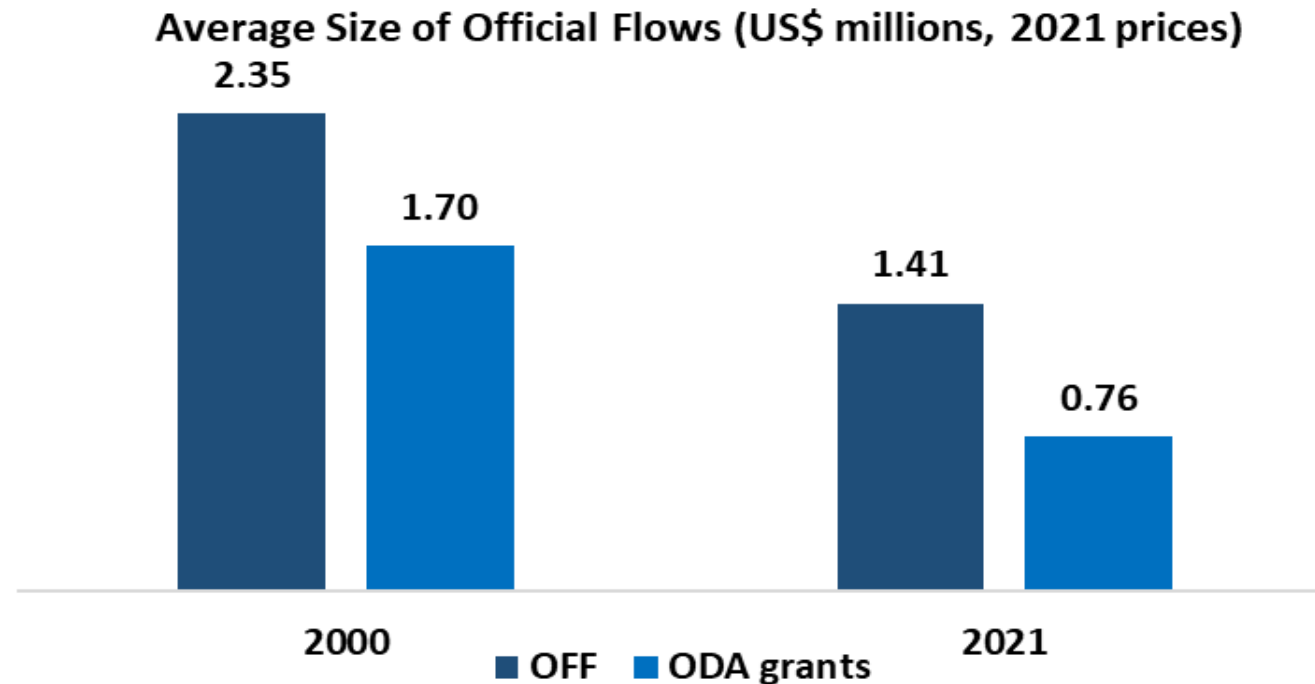


Ethiopia, Mozambique, and Nepal all had to engage with >150 agencies in last 20 years



Mega Trend #2: Fragmentation – Increasing number of donor-funded activities of decreasing financial size

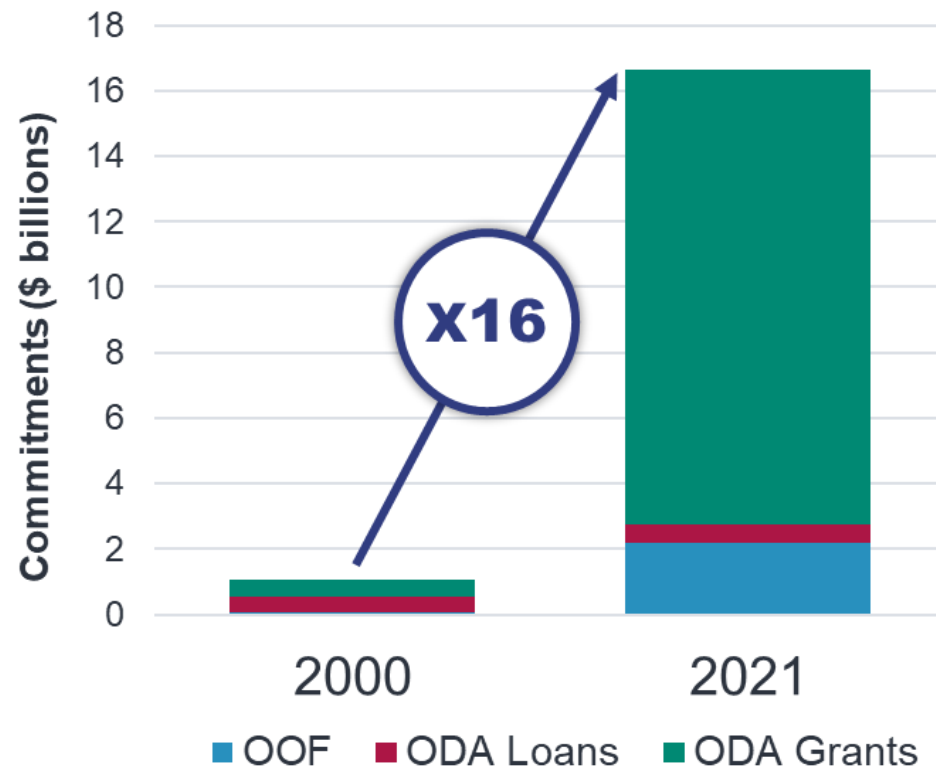
Fragmentation – Average size of grants halved and OFF dropped by nearly 40%



Source: OECD CRS

Mega Trend #3: Lack of Leverage – A rapidly increasing share of finance is provided to unleveraged platforms, focused on narrow themes, often accompanied by earmarking

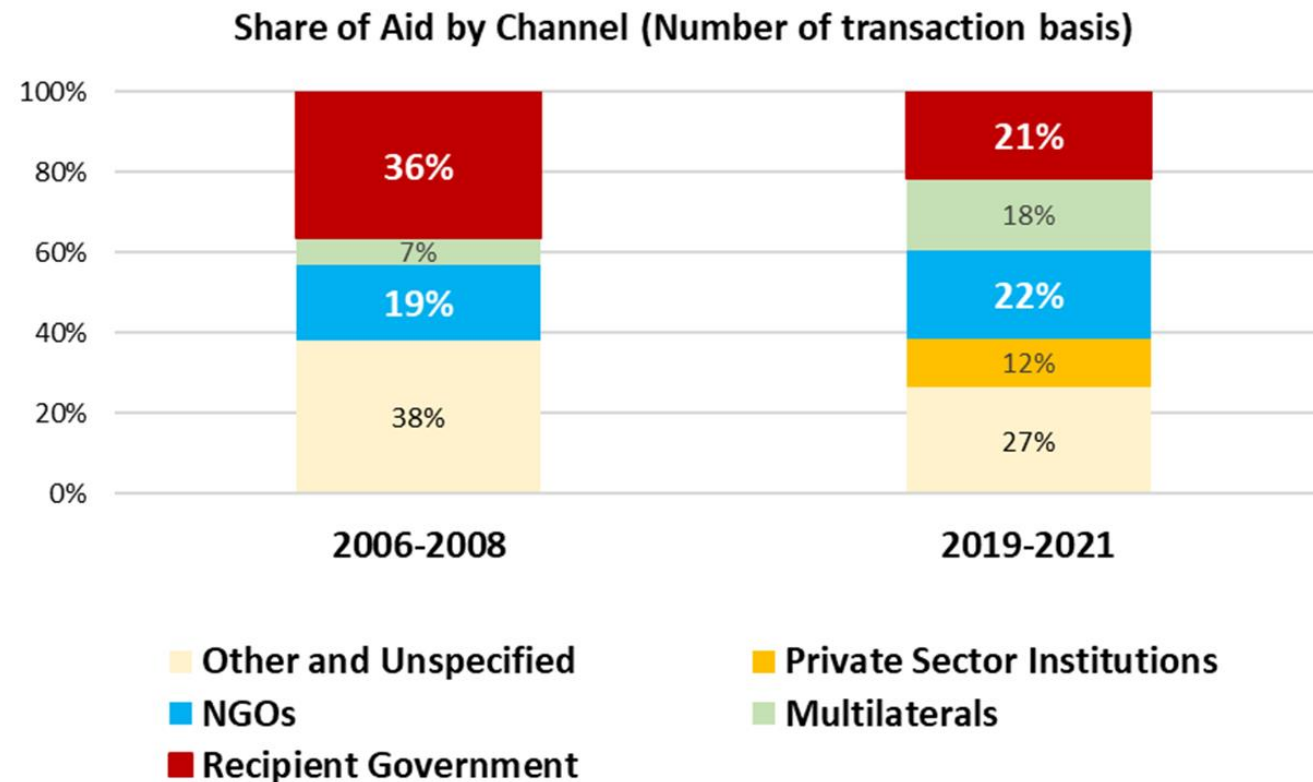
Lack of Leveraging – OFF Commitments from Vertical Platforms
US\$ Billion at 2021 Prices



Unleveraged facilities take \$1 from donors and provide \$1 to recipient countries as opposed to IDA that has a leveraging ratio of 1:4

Mega Trend # 4: Circumvention – Funds increasingly circumvent recipient government budgets

Circumvention – Growing number of OFF transactions bypassing recipient government

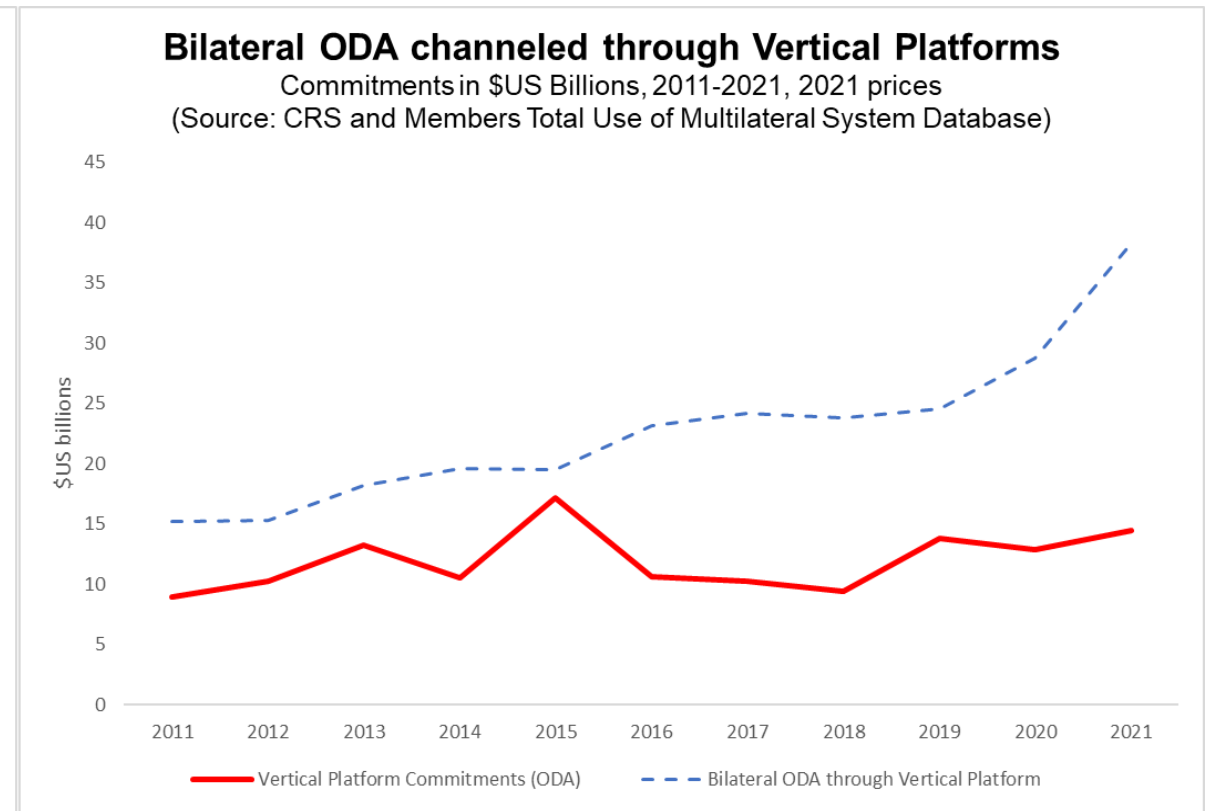
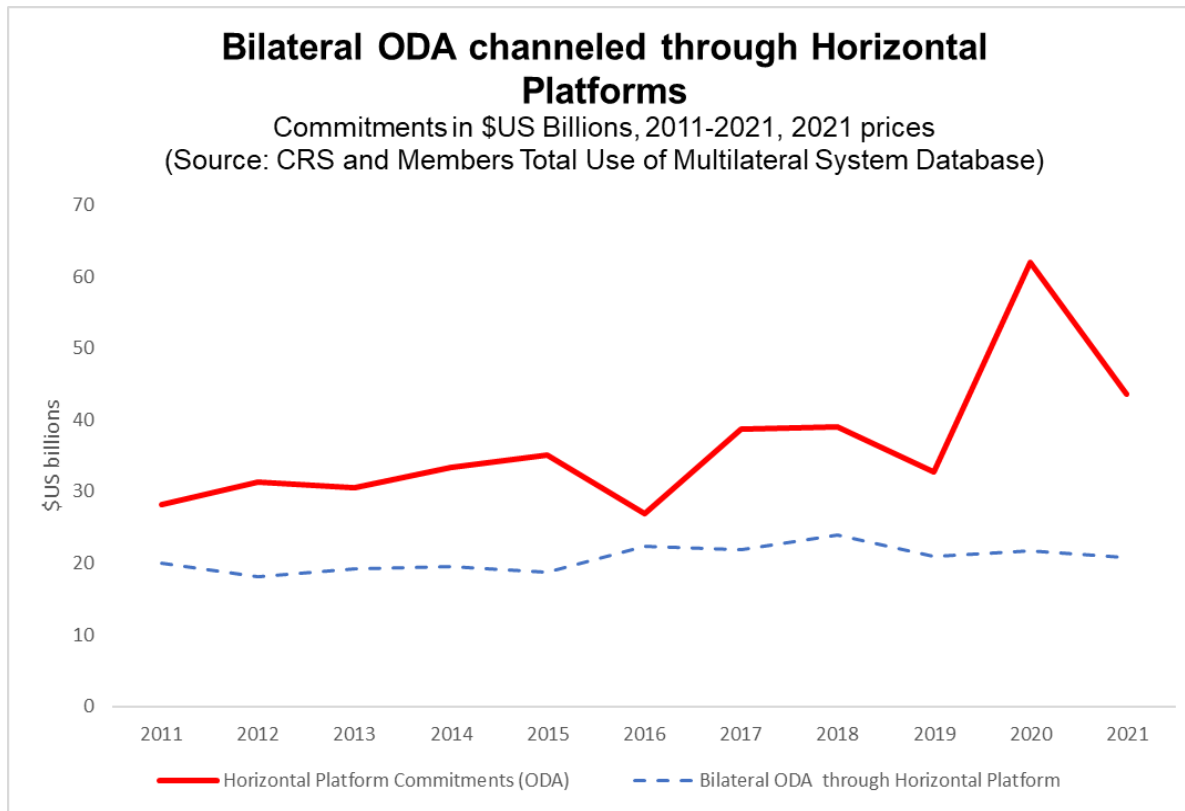




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Implications

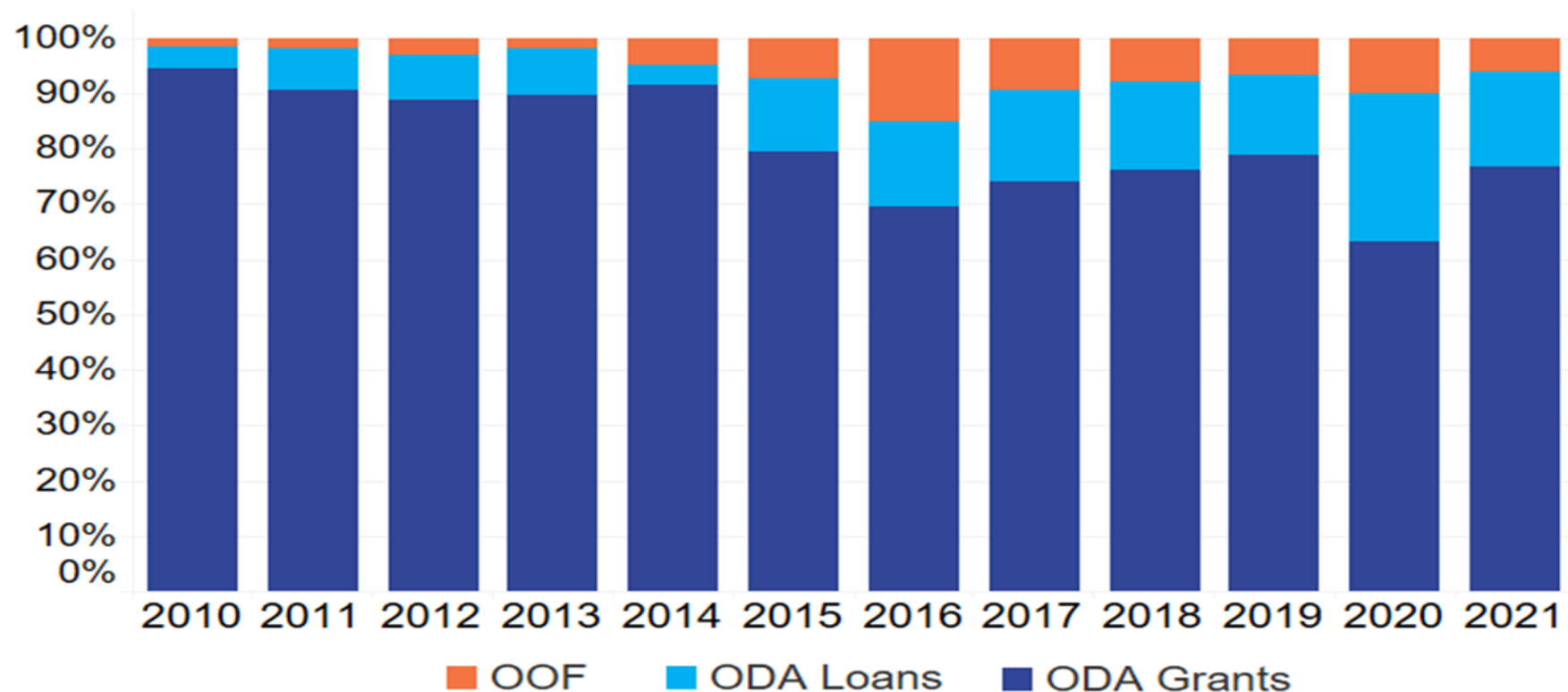
ODA channeled through horizontal platforms leverage far more concessional resources for development than vertical platforms



The composition of OFF to IDA countries at high risk of debt distress has become less concessional in the second half of this decade

Composition of OFF to IDA countries at high risk of external debt distress or in debt distress ("red light")

Source: CRS and LIC DSA Database, Global Macro and Debt, WB MTI





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Why Do These Trends Matter What Could Be Done and IDA's Role

Why do these trends matter?



An increasingly complex aid architecture makes development more challenging for poor countries, which are struggling to deal with overlapping crises.



Increased donor **proliferation** and **fragmentation** have been accompanied by a decline in the volume of concessional resources available to the poorest countries.



Lack of leveraging through growing earmarking of donor funds → less flexibility and inability to generate additional financial resources to address e.g., GPGs.



Fragmented and earmarked aid and proliferating number of aid providers → increase in the overhead cost in the system that taxes the often-weak capacity of recipients, especially in low-income countries.



Circumvention implies that only about 50% of the OFF goes through countries' budgets while 3 out of 4 projects funded by OFF are implemented by non-government agencies.



Seventeen years after the Paris Declaration, it is hard to say that countries are in the driver's seat.

Concrete actions are needed to address the worrisome trends in the global aid architecture and to allow poor countries to benefit from the increasing ODA provided by traditional and non-traditional donors, including through IDA

What Could Be Done



Create international fora, with participation of both traditional and non-traditional donors, to discuss the aid architecture issues and how the burden on poor countries can be reduced. This would facilitate the sharing of information, increased transparency, and allow traditional and non-traditional donors to work together towards the same goals.



Channel aid more through recipient governments so that they can be 'in the driver's seat' (Paris Declaration 2005).



Consolidate aid channels to address the issues of aid fragmentation and proliferation.



Shift ODA more to organizations which can leverage donor contributions and multiply the volume of funding to developing countries – by nearly four times in the case of IDA.

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- IDA is a global community of countries which includes 59 donors (both traditional and non-traditional, including all the BRICS) to form the world's largest fund for the poor.
- The last replenishment ended in 2021 with a record \$93 billion for three years. The 21st replenishment of IDA has just started and is planned to end in December 2024.
- More than 90% of IDA's financing goes through the recipient governments.
- With its global footprint and convening power, IDA can play a central role in integrating and rebalancing horizontal and vertical development approaches, fostering collaboration among traditional and non-traditional donors and maximizing the impact of aid efforts.
- IDA's unique hybrid financial model allows it to leverage additional resources for the poorest countries by combining partner contributions with capital market borrowing at low-interest rates, leveraging IDA's triple-A rating.

Note: The International Development Association (IDA) is the part of the World Bank that helps the world's poorest countries. Established in 1960, IDA aims to reduce poverty by providing zero to low-interest loans (called "credits") and grants for programs that boost economic growth, reduce inequalities, and improve people's living conditions.



Methodological note and acknowledgements

Data sources:

- The broader analysis of the global aid landscape draws on the findings of the World Bank (2021), [A Changing Landscape: Trends in Official Financial Flows and the Aid Architecture](#), and World Bank (2022), [Understanding Trends in Proliferation and Fragmentation for Aid Effectiveness During Crises](#).
- The aggregate trends are analyzed based on data from a mix of sources, including OECD's Creditor Reporting System (CRS) and the World Bank/IMF DRS (Debtor Reporting System). The health and education sector analysis is mainly based on OECD data.
- Analysis within the health sector is based on both WHO's Health Expenditure database and various papers by Institute for Health Metrics and Evaluation (IHME), University of Washington, including the most recent paper: [Financing Global Health 2021: Global Health Priorities in a Time of Change](#), as well as the IHME Financing [Global Health Interactive Visualization Tool](#)



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