



**SHIFTING FINANCIAL FLOWS TO  
LOW-INCOME COUNTRIES:  
FROM OFFICIAL AID TO PRIVATE FINANCE?**

Lotte Thomsen

*DIIS Working Paper no 2008/22*

© Copenhagen 2008

Danish Institute for International Studies, DIIS

Strandgade 56, DK-1401 Copenhagen, Denmark

Ph: +45 32 69 87 87

Fax: +45 32 69 87 00

E-mails: [diis@diis.dk](mailto:diis@diis.dk)

Web: [www.diis.dk](http://www.diis.dk)

Cover Design: Carsten Schiøler

Printed in Denmark by Vesterkopi as

ISBN: 978-87-7605-287-4

Price: DKK 25.00 (VAT included)

DIIS publications can be downloaded  
free of charge from [www.diis.dk](http://www.diis.dk)

*DIIS Working Papers* make available DIIS researchers' and DIIS project partners' work in progress towards proper publishing. They may include important documentation which is not necessarily published elsewhere.

*DIIS Working Papers* are published under the responsibility of the author alone.

*DIIS Working Papers* should not be quoted without the express permission of the author.

**Lotte Thomsen**, Project Researcher, DIIS

# Contents

List of Abbreviations.....	2
Introduction.....	3
Data .....	3
DAC donors .....	4
Non-DAC donors.....	9
NGOs .....	10
Vertical funds.....	11
Philanthropy .....	11
Investment .....	12
Remittances.....	14
Conclusion .....	16
Bibliography.....	18

## Figures

Figure 1: DAC bilateral grants and grant-like flows (USD million) .....	5
Figure 2: major DAC aid uses of total bilateral ODA (%) .....	6
Figure 3: Regional distribution of bilateral net ODA to developing countries by region (million USD).....	7
Figure 5: FDI inflows by region (billions USD).....	13

## Tables

Table 1: flows of international migrant remittances (USD billions).....	15
---	----

## List of Abbreviations

GNI	Gross National Income
DAC	(OECD) Development Assistance Committee
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross National Product
IDA	(World Bank) International Development Association
IMF	International Monetary Fund
MDG	Millennium development goal
NGO	Non-governmental organization
ODA	Official development assistance
OECD	Organisation for Economic Cooperation and Development
TNC	Transnational Corporation
UN	United Nations
UNCTAD	United Nation Conference for Trade and Development

## Acknowledgement

Lars Engberg-Pedersen and Peter Kragelund, both of them from Danish Institute for International Studies, have contributed valuable comments on earlier drafts of this paper.

## Introduction

Within the last decades, the share of government aid in overall external financial flows to developing countries has decreased. It is estimated that between 75 and 85% of all current financial flows to developing countries derive from a variety of private sources, including remittances, investment, commercial loans and charity, compared to some 65% in 1990 (see also Jones, 2007). Similarly, it has been estimated that total private flows reached 647 billion USD in 2006, which is roughly four times their level in the 1980s. This may imply a diminished or different role for official financing from ‘traditional’ donors, at least in relative terms (Dorsey *et al.*, 2008; Steer, 2008). Yet, it has been pointed out (Steer, 2008) that the size, impact and relation of private financial flows to public flows are not fully understood, not least because monitoring systems in many developing countries are rudimentary, and e.g. FDI widely underestimated. Simultaneously with this increase in private finance to developing countries, the number of both private and public *aid* sources, including bilateral donor channels, multilateral organizations, funds and programmes, have been growing so that they now are higher in number than the number of developing countries they are created to assist (IDA, 2007).

Against this background, this paper aims to provide an overview of recent and current changes in financial flows to developing countries. First, it explores the different types of financial flows to developing countries aiming at determining their recent and current importance. Second, to the extent possible, the tendencies described are broken down to particular developing countries or regions, and attention is also paid to whether or not the particular types of flows benefit certain sectors over others. Third, the described tendencies are compared, while their impact on developing countries is briefly discussed and concluded.

## Data

The paper is based on a review of existing statistical data and literature such as reports, articles and papers from organizations and researchers. A number of implications related to using the data exist. First, the data pertaining to some (most) of the issues in focus here is generally weak. Officially recorded remittance data for example are counted (or estimated) differently by various organizations. Also, not all official remittances are captured by the official statistics, since financial flows below predefined thresholds have not been regularly reported in most

countries (Global Development Finance, 2007). Moreover, total remittances include a number of informal channels that are not included in officially recorded data, estimated recently to comprise as much as some 50% of the recorded remittances (Hagen-Zanker & Siegel, 2007). Accordingly, the share of remittance in overall financial flows to developing countries is likely to be much higher than presented below. Second, this means that the comparisons of data on various types of financial flows are hard to make, whereas they are made with caution only in the following analysis. Third, a comparison of official versus private financial flows is blurred by the fact that these do increasingly overlap so that for instance the so-called vertical funds are often based on a combination of both types of input. Finally, data on privately financed aid are seldom broken down geographically.

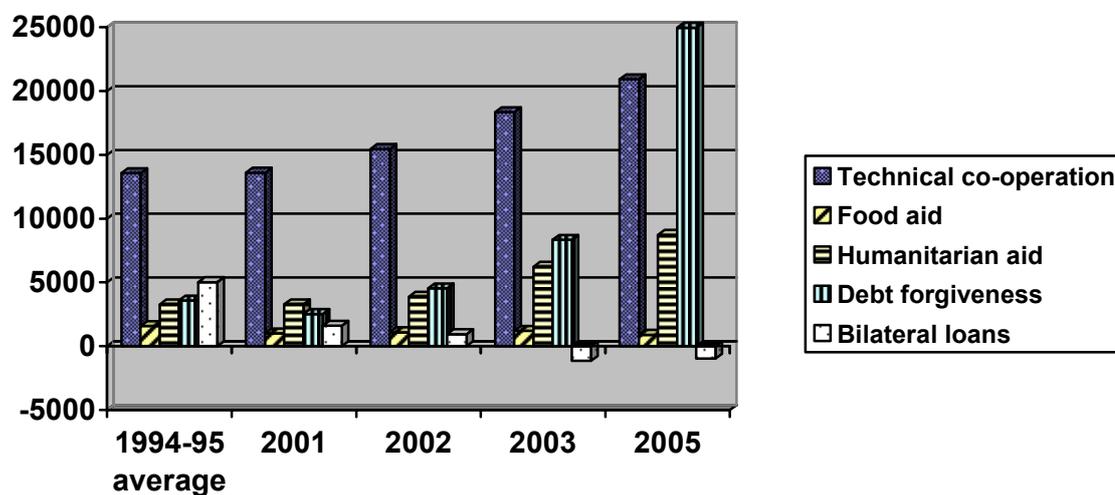
## DAC donors

The Development Assistance Committee (DAC) is the principal body through which the OECD deals with issues related to co-operation with developing countries. The organization aims to generate consensus on policy reform orientations amongst its members and other international organizations. The aid category ‘official development assistance’ (ODA) applies to aid from DAC countries to developing countries. DAC has set a goal of aid to be increasingly concentrated on the poorest countries, whereas only 2-3% of net ODA has gone to countries with per capita incomes above USD 3000 recently. DAC member countries have committed to helping recipient countries meet the Millennium Development Goal (MDG), e.g. aiming at halving global poverty by 2015. A UN World Summit in 2005 reviewed the progress with respect to the Millennium Declaration and reiterated the goal to devote 0.7% of DAC member country GNI to aid.

OECD (2007a; b) statistics does show a rise in net disbursement of total ODA by DAC countries from some 38 billion USD in 1999 to an all time high of around 106 billion USD in 2005 (RoA, 2006). In 2007, however, preliminary data shows that total ODA has decreased to some 103 billion USD – the first drop since 1997 (OECD, 2008a; Finance and Development, 2008). It is also an important point that the percentage of GNI provided in aid by DAC donors in the 1999-2005 period showed only modest growth rates, while the actual increase in total ODA from DAC countries, which is led by a significant increase in aid from the US, has to some extent been due to accelerated aid disbursement after 9/11 (RoA, 2006). Thus, more than 20 billion USD in new resources were disbursed between 2001 and 2004 against the background of the US-led ‘War on Terrorism’. A rise in humanitarian aid at the time is

illustrated by Figure 1, which shows the 1994-2005 changes in bilateral DAC grants and grant-like flows by type of flow.

**Figure 1: DAC bilateral grants and grant-like flows (USD million)**



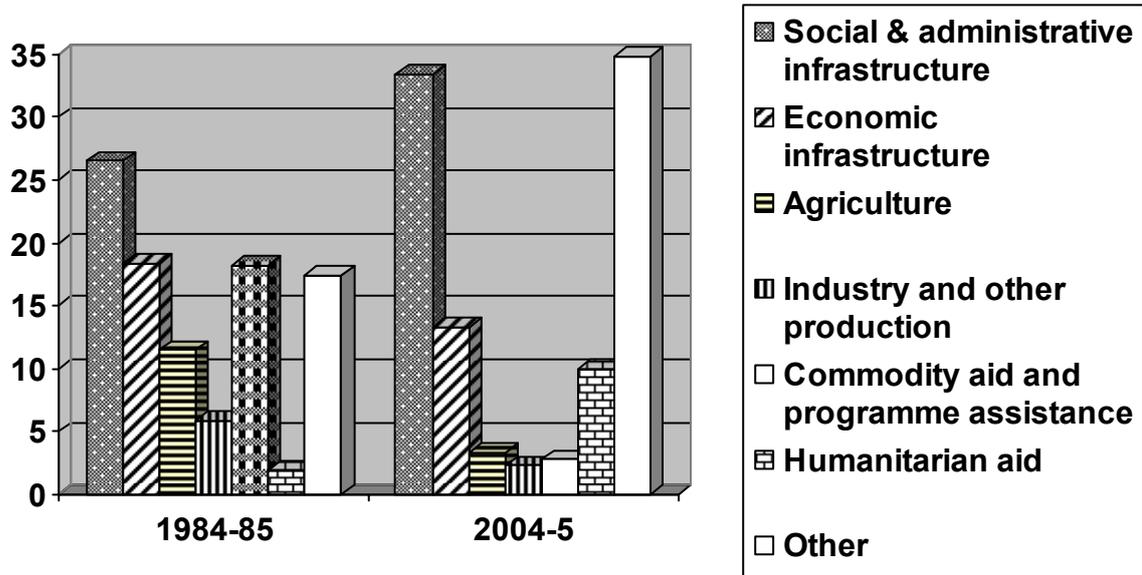
Source: OECD, 2007a

Figure 1 also shows that overall grants to food aid and bilateral loans fell during the same period, while debt relief rose dramatically, not least due to large Paris Club debt forgiveness operations for Nigeria and Iraq. In real terms, debt relief explains almost 70% of the increase in ODA between 2004 and 2005 – one-third of the increase in the case of Sub-Saharan Africa (IDA, 2007; Finance and Development, 2007). Since 2005, however, volumes of debt relief have decreased again – to as little as 8701 million USD, less than 10% of total net ODA, according to preliminary data for 2007 (OECD, 2008a). The end of massive debt relief (and a reduction of ODA to Iraq) also means that the ODA/GNI ratio of for instance the US fell to 0.16% in 2007. The OECD (op. cit.) estimates that some 38 billion in 2007 dollars should be further programmed into donor budgets if the commitments made in 2005 are to be fully met.

A further break-down of major aid uses by DAC members is illustrated in Figure 2, which confirms the tendency of humanitarian aid to rise. Moreover, there is a clear overall tendency for sector programme support to rise. Figure 2 also shows that within sector allocable ODA, the share of social sectors grows, while especially support for economic infrastructure, commodity aid and agriculture fell in the same period (see also IDA, 2007). ‘Other’ includes administrative costs and action relating to debt and programme assistance. The dramatic rise

of ‘other’ in 2004–5 is thus due to the significant share of debt relief in 2004–5 mentioned above.

**Figure 2: major DAC aid uses of total bilateral ODA (%)**

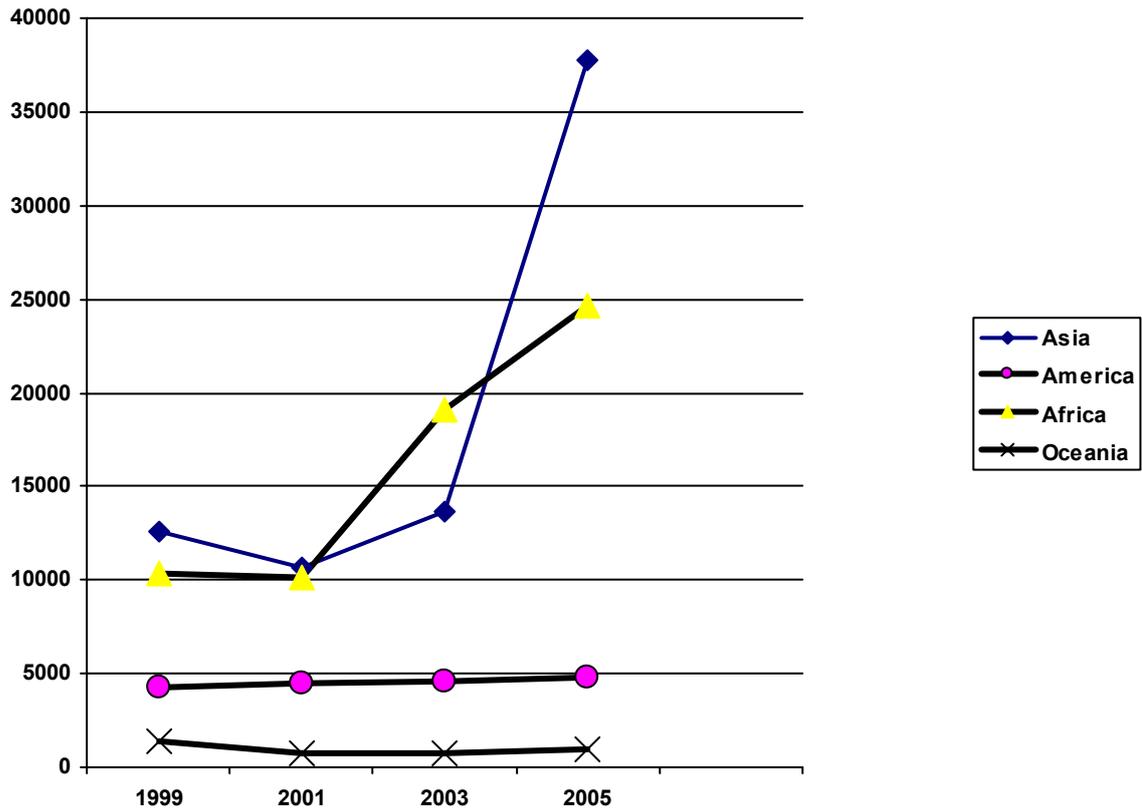


Source: OECD, 2007b.

The regional distribution of the total net disbursement of bilateral aid is shown in Figure 3. Bilateral ODA to Africa south of Sahara has been subject to a rise during the last decades. This is on the face of it in line with the specific goals set at the G8 Summit in Gleneagles, where it was agreed to double ODA to Africa by 2010. According to the OECD (2008a), total aid flows from OECD-DAC member countries to Africa have increased ‘sharply’ in the beginning of the new millennium, namely in terms of debt relief (which is now decreasing again, as mentioned above), emergency assistance and other special purpose grants. This rise should however be seen in the light of falling aid volumes to the continent during the 1990s, when aid budgets were substantially reduced. It is also worth noticing that Africa’s share of total aid disbursed to developing countries from DAC countries rose only marginally in 2004 compared to 1990 – the year against which achievements of the MDGs should be measured (RoA, 2006). In real terms, it is estimated that bilateral ODA to Africa rose some 10% from 2006–07, which leads OECD (2008a) to conclude that a doubling of aid to Africa by 2010, as agreed in Gleneagles, is a ‘challenge’. As also shown in Figure 3, bilateral ODA to Asia rose sharply between 1999 and 2006. This rise is reflected in the OECD (2008a) list of major aid

recipients, which reveals that four Asian new-comers made it to the Top 10 ODA recipient list in 2006: Iraq received as much as 13% of total ODA in 2006, while Afghanistan (2%), China (2.2%) and Vietnam (1.2%) were also heavily contributing to the rise in Asia's share of total ODA.

**Figure 3: Regional distribution of bilateral net ODA to developing countries by region (million USD)**

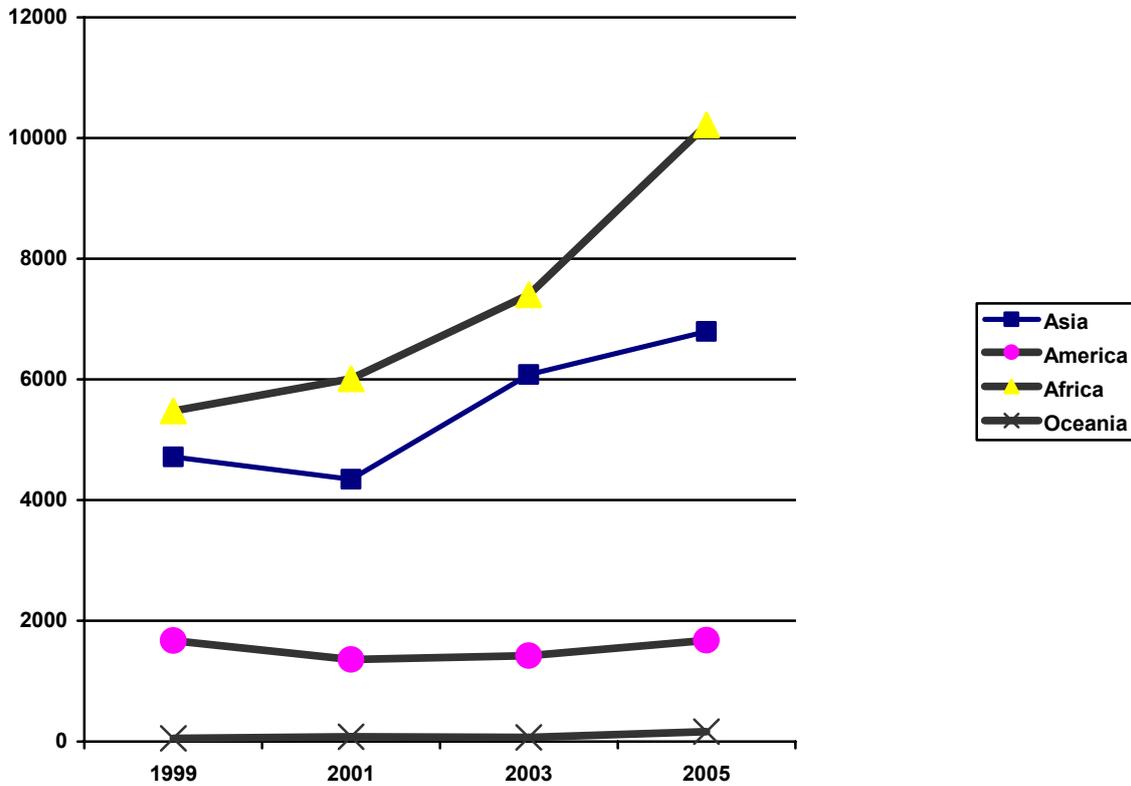


Source: OECD, 2008a

The total net disbursement of concessional assistance from multinational agencies<sup>1</sup> to developing countries in 2005 was 21,837.77 million USD (OECD, 2008a). The regional distribution of the disbursement from multinational agencies between 1999 and 2005 is shown in Figure 4.

<sup>1</sup> These include international financing institutions, UN agencies, the EC, Global Environment Facility, GFATM, Montréal Protocol Fund and Arab Funds.

**Figure 4: Net disbursement of concessional assistance, total multilateral agencies by region (million USD)**



Source: OECD, 2008a

As appears from this figure, Africa received the largest (and most increasing) share of multilateral aid in the 1999–2005 period. By this, multi-lateral aid opposed bilateral aid, of which Asia was the main receiver in nominal terms. Burall & Maxwell (2006) also emphasize that the geographical distribution of aid disbursed by multilateral donors tends to be more ‘balanced’ (at the regional as well as national level) than is the case for bilateral aid agencies. Thus, countries, including in Africa, which would otherwise be donor ‘orphans’ to access development resources, are somewhat enabled.

## Non-DAC donors

In recent years, a number of non-DAC donors<sup>2</sup>, including some ‘better-off developing countries’, have become increasingly important – while others have regained importance – in terms of providing aid to developing countries, all in all contributing to further complexity of the international aid architecture (IDA, 2007). According to IDA (op. cit.), non-DAC donors generally prefer bi-lateral over multi-lateral aid channels, and their (re-)entry on the aid-scene creates further challenges for harmonization and alignment of official aid, not least because few non-DAC countries have signed the Paris Declaration (see Kragelund, 2007 for further discussion of non-DAC donors and harmonization).

Direct comparisons of the importance of DAC versus non-DAC donors are difficult to make due to very limited availability of reliable data regarding non-DAC aid’s volumes and terms, but estimates suggest that it aid comprises about 5% of total official aid. Non-DAC aid was estimated to a total of 4965 million USD in 2005 by the OECD (2007b). It is set to rise since a number of non-DAC countries within as well as outside the OECD currently increase their aid (IDA, 2007). Thus, non-DAC OECD countries alone are likely to double their current ODA levels to more than 2 billion USD by 2010 (Manning, 2006).

Regarding the sectoral distribution of non-DAC aid, these donors are generally thought to be particularly involved in infrastructure projects. Also, Harmer & Cotterrell (2005) suggest that non-DAC donors contributed up to 12% of the total official humanitarian aid disbursed between 1999 and 2004. While non-DAC donors have provided humanitarian assistance to a large number of countries, the geographical distribution of non-DAC humanitarian aid is also often considered to be relatively concentrated in a few countries i.e. Afghanistan, Iraq and North Korea – and generally focused on a few major crises every year (HPG, 2005). For Africa, the most important non-DAC donors in nominal terms are China, India and Brazil (The Donor Committee for Enterprise Development, 2008).

<sup>2</sup> Non-DAC donors comprise a heterogeneous set of countries broadly divided in (i) OECD countries that are not members of DAC; (ii) new EU countries that are non OECD members; (iii) Middle East and OPEC countries; and (iv) non-OECD countries that do not belong to the other groups (e.g. Brazil, India, China) (Manning, 2006).

## NGOs

NGOs may be divided in those that raise resources and implement them themselves, and hence have similarities with other private foundations; and those that implement programmes funded by other donors that may in turn be both public and private. Therefore, NGOs exist in the sphere between (DAC and non-DAC) official aid and private financial flows. According to the OECD (OECD, 2008a), net grants by NGOs based in DAC member countries amounted to almost 15 billion USD annually in 2005 and 2006. The share of total official ODA that was channeled to or through NGOs amounted to 5.2% in the same years for DAC countries on average.

Data on *where* NGO aid is spent is rather scarce and not consistently mapped, as mentioned above. At the same time, most existing studies focus on individual projects or country-specific cases providing no or little overview of the overall geographical distribution of NGO grants. A couple of studies do however provide for some overview. IMF (2006), for example, shows the regional repartition of NGO aid between 1990 and 1999 for 78 recipient countries of NGO aid as reported by the European Commission. Against this background, the paper shows that Africa received a share of NGO aid bigger than their share of world population, and Asia received less aid per capita than the rest of the world, while representing more than 72 percent of the sample's population. While this may present a picture of NGO aid distribution potentially benefitting the poorest, the extent to which NGO grants complement ODA in terms of their geographical distribution (so that they are channeled to other countries/regions than ODA) is subject to discussion. Koch *et al.* (2008) provide a cross-country dataset on the targeting of NGO aid, collected for 61 NGOs based in 13 DAC countries to demonstrate that NGO grants do tend to be concentrated in the neediest countries in terms of the amount of aid provided to specific countries, but less so in terms of country selection in the first stage. It is an interesting finding of this study that (perhaps contrary to common perceptions) NGO channeled aid is to a large extent shaped by the geographical choices of the official donors in their home countries from whom they get parts of their funding. Likewise, NGOs tend to follow other NGOs to specific geographical areas to benefit from various 'clustering' effects, and to follow religious or cultural preferences in their choices of recipients. All in all, NGO grants seem more likely to contribute to widening rather than narrowing the gap between 'donor darlings' and 'donor orphans' – and thus less able to complement official aid through engagement in so-called difficult environments than would perhaps have been expected (Koch *et al.*, 2008).

## Vertical funds

The so-called vertical funds or global programmes have increased noticeably in importance since the 1990s. All in all, the number of new funding mechanisms that has been created in the past decade equals those formed in the prior five decades (Kaul and Conceição, 2006). They contrast ‘horizontal’ approaches to country-based aid by focusing ‘vertically’ on specific issues or themes. They are administered and financed by multiple actors including governments (official aid), private enterprise and civil society organizations, whereas they work in the sphere between private and public funding. DAC contributions to vertical funds comprised 3% of total ODA in 2005 (IDA, 2007; World Bank, 2008). Prominent new vertical funds include the Millennium Challenge Corporation, the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM); and the pilot International Financing Facility for Immunization (see also Burall & Maxwell, 2006). The funds have been praised for inter alia relatively high disbursement speed, but also criticized for, amongst other things, their ways of including developed country private sector actors that on the one hand have made only few commitments so far, while on the other hand get subsidies for investments (Steer, 2008). Thus, the additionality of this type of aid may sometimes be questioned.

Themes or sectors in which vertical funds are specialized typically include health (commonly with a rather narrow focus on specific diseases such as HIV/Aids and tuberculosis) and external environment. It has been pointed out that the growing role of private actors in vertical funds tend to change the distribution of allocated grants to developing countries, since focus (and capital spent) is increasingly on such ‘selected’ diseases, while other public health needs receive less attention. This tendency appears somewhat strengthened by parallel tendencies of verticality or ear-marking of official aid, for example for the benefit of HIV/AIDS. Moreover, there is a tendency for educational sector financing to come from/pass through vertical funds. The vertical funds are intended to cut across more than one region, and therefore contrast the more country-based approach of official aid (IDA, 2007).

## Philanthropy

Private philanthropic flows have grown in recent years, not least in the US, from which private international giving reached 33.5 billion USD in 2005 (Hudson Institute, 2008). It should be noted however, that this number overlaps with both vertical fund- and NGO-disbursements,

which are also partly based on private giving. Moreover, philanthropy includes donations from corporate donations, foundations and various private voluntary organizations. It is not at all clear to what extent these types of flows are directed to developing countries.

A particular type of philanthropy, the so-called on-line giving, is currently booming – the internet has provided new and easily accessible channels for this type of flow. In the US, on-line giving was estimated to increase by 37% between 2005 and 2006, of which an estimated 28% were for international causes (Hudson Institute, 2008). Again, the extent to which these were in developing countries (let alone low-income ones) is not clear.

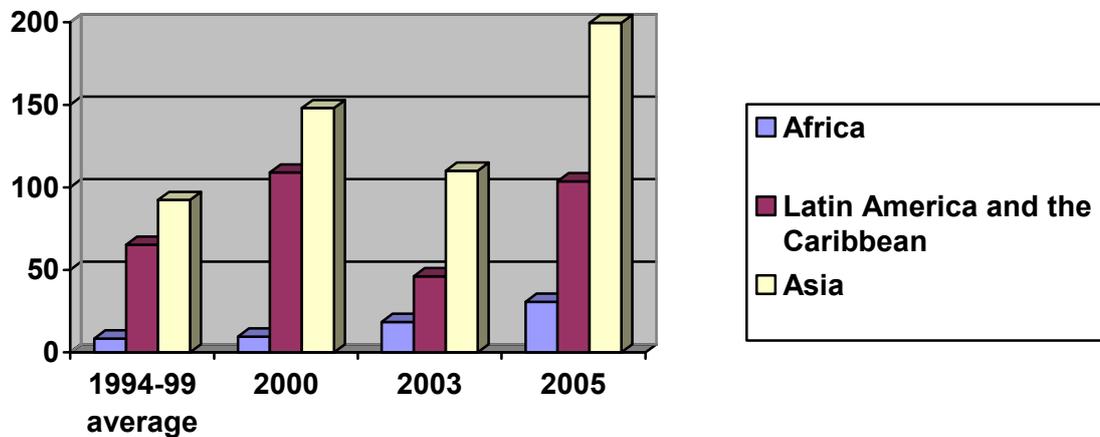
Moreover, the lines between philanthropy and investment continue to blur. Amongst other things, there is a rising trend internationally for businesses to implement ‘cause-related marketing’, where a percentage of profits are donated to charity. A well-known example is the (Product) RED campaign, which raises money for the Global Fund to Fight Aids, Tuberculosis and Malaria through sales from e.g. the Gap, Motorola and Apple. According to Ponte, Richey and Baab (2008), this campaign considers ‘hard commerce’ an appropriate vector for raising funds for good causes, and can be seen as broadly aligned with activities that use business to ‘do good’. In general, such cause-related marketing campaigns are estimated to raise 1.5 billion USD yearly (Hudson Institute, 2008). Likewise, companies increasingly implement corporate social responsibility (CSR) strategies aiming at improving e.g. the working conditions within their factories, while at the same time justifying their activities, in developing countries. It is worth noticing that official aid is sometimes also allocated to western corporations through the private sector/business-to-business programmes of official donors to be spent on CSR-related activities. Thus, the blurring is not only between investment and charity, but also tends to include official aid.

## Investment

Net private financial flows to developing countries, including FDI, bank lending, portfolio equity and bond issuance, fell in the late 1990s and early 2000s, due to inter alia a number of regional and local economic crises (see e.g. Jones, 2007). Subsequently, however, FDI inflows from transnational corporations (TNCs) to developing countries rose to the highest level ever recorded (334 billion USD) in 2005, whereby some 36% of all FDI worldwide were to developing countries. It should be noted, however, that this number includes FDI to Newly Industrialized Countries/emerging economies, so that China (Hong Kong), Singapore, Brazil and Mexico were the largest recipients (UNCTAD, 2006).

It is also worth noticing that as with some of the official aid provided by non-DAC donors described above, FDI is a form of flow where developing countries emerge as important capital *sources*, so that flows are not only from north to south but increasingly also from south to south. Thus, the total share of outward FDI by developing and emerging economies (mainly in Asia) rose to an estimated 133 billion USD in 2005, representing about 17% of world outward flows. While most TNCs based in developed countries that undertake FDI are privately-owned, a number of developing countries' state-owned TNCs are increasingly expanding abroad, not least in primary (natural resource) sectors (UNCTAD, 2006; Steer, 2008).

**Figure 5: FDI inflows by region (billions USD)**



Source: UNCTAD, 2006

Concerning the geographical distribution of inward FDI to developing countries, Asia (for which about two-thirds of FDI went to Hong Kong/China) by far receives most, followed by Latin America and the Caribbean (see table 5). FDI to Africa went up to an exceptional total of 31 billion USD in 2005, as also shown the figure. Thus, it surpassed ODA to Africa for the first time. When FDI is counted as a share of GDP, FDI placed Africa at the same level as Southeast Asia (Africa Partnership Forum Support Unit, 2007). Still, it is quite clear from the figure that FDI inflows to Africa are still very limited in real terms compared to Latin America and Asia. Of individual African countries, South Africa, Egypt and Nigeria were the largest recipients (UNCTAD, 2006).

Data on the sectoral distribution of FDI are rather limited, but it is clear that 2005 FDI inflows into Africa (and to some extent to Latin America) went mainly into natural resources (e.g. oil) in which mainly developed country-based TNCs, but also for instance Petronas, Malaysia, invested. African inward FDI were to a lesser extent in services (e.g. banking), while African manufacturing sectors received least FDI. For Asia, the share of FDI that went into manufacturing is relatively large (UNCTAD, 2006).

It is also worth noticing that the geographical inequalities of flows that apply to FDI also apply to equity, bond and commercial lending from private banks. Low-income countries, not least in Africa, have only benefitted marginally from such flows in relative terms (Jones, 2007). Still, Jones (op. cit.) also points out that there may be a heightened role for such non-FDI flows in Africa in the near future due to changed economic conditions of – and increased competition over access to – Sub-Saharan African markets.

## Remittances

Remittances deriving from overseas resident and non-resident workers are increasingly thought of as valuable financial resources that are less volatile to for instance governance problems than official aid and FDI to developing countries. After FDI, remittances are currently anticipated to represent the largest source of external financing for developing countries, amongst other things because of decreasing remittance costs, expansion of remittance networks, and the depreciation of the USD, which has raised the value of remittances from e.g. Europe and Japan (Global Development Finance, 2007). Some degree of substitutability between FDI and remittances clearly exists, and drawing a clear line between the two forms of flows is difficult, and reminds us that direct comparison of inward financial flows between countries should be made with caution only. This is not least visible from a comparison of China's and India's inflows from diasporas showing that their modes of channeling finance to their home countries vary: FDI inflows to China from the Chinese Overseas are relatively high, while remittance flows are relatively low compared to the same inflows to India from migrants (Rajan, 2005). It is also an important point that in the case of sub-Saharan Africa, remittance flows are estimated to exceed levels of ODA as well as FDI (IRIN, 2008).

The total number of remittances to developing countries reached 193 billion USD in 2005, and were estimated to have grown to 206 billion USD in 2006 (Global Development Finance, 2007). It is worth keeping in mind that the real number is likely to be much larger for reasons

already outlined above. As shown in Table 1, officially recorded remittances (and most likely also unofficial ones) to all developing regions have been increasing within the last decades so that they have gone from a total of 31.3 billion USD in 1990 to almost 126 billion in 2004. In low-income countries, remittances went up 18% during this 1990–2004 period, and thus came to account for 3.5% of GDP.

A comparison of different developing regions (see Table 1) shows that the rise in recorded remittances mainly occurred in Southeast Asia and Latin America/the Caribbean. At the national level, China, India, Mexico, Pakistan and the Philippines represent countries to which the escalation in total flows of remittance have been particularly high recently, not least as a consequence of the relatively large size of these countries as well as of their migrant populations. If seen as a share of GDP remittances to smaller countries are also relatively high, for example in the cases of Lesotho and Tonga (Global Development Finance, 2005). According to Thygesen & Hansen (2007), remittances received by African countries are relatively low (some 9 USD per capita), and generally largest for the more well-off African countries, such as Nigeria, South Africa and Kenya. Still, for some low-income countries, remittances actually are the principal external financing source, before both FDI and aid (Gheeraert & Sukadi, 2007; Thygesen & Hansen, 2007). Thygesen & Hansen (op cite) also points to the interesting fact that Africa receives more remittances from Asia than from Europe.

**Table 1: flows of international migrant remittances (USD billions)**

	1990*	1995*	2000*	2005**
East Asia & the Pacific	3,2	9,0	11,2	45
Latin America and the Caribbean	5,8	13,4	20,2	48
South Asia	5,6	10,0	16,0	36,0
Sub-Saharan Africa	1,9	3,2	4,9	9,0

Sources: \* Global Development Finance, 2005; \*\*Global Development Finance, 2007.<sup>3</sup>

<sup>3</sup> Inconsistencies between these two sources appear for most years and regions, and are likely to derive from the fact that they are based on various Worlds Bank staff calculations of the IMF Balance of Payments Statistics yearbook 2004 & 2007. Thus, for example, remittances to East Asia and the Pacific in 2000 amounts to 17 billion USD (rather than the 11.2 in the Table) in the 2007 version of Global Development Finance, whereas some of the increase from 2000 to 2005 is likely to derive from methods of calculations for all regions.

A recent comparative study (Gheeraert & Sukadi, 2007) uses quantitative data on 140 countries over the 1970–2005 period and shows that investment purposes such as start-up capital for enterprise establishment make up only around 10% of total remittances. The study finds this tendency to differ between countries however, and to relate to a number of contextual factors, most notably the type and maturity of recipient country financial sectors: the less developed the financial system, the more beneficial the remittances for private investment. Remittances tend to make up for the scarcity of investment loans gained through the official system in these cases. Where national financial systems are well-functioning, remittances have a less significant impact on the level of investment. The same study mainly points to so-called unproductive purposes for the remaining 90% of remittances, including consumption, debt repayment and the financing of future migration, though investment in education or purchasing of investment goods abroad do also appear (see also Thygesen & Hansen, 2007).

The pros of remittances are often stated to include that their volume tends to rise rather than fall when recipient countries suffer from economic downturn following for example financial crisis or natural disasters; and that the relative importance of remittances rise in contexts (such as the African), where financial systems are immature and inefficient, and where other types of flows are even less pronounced. Remittances are also often thought of as well-targeted person-to-person (network) by nature, and thereby very valuable for those included in migrant networks (see e.g. World Development Finance, 2007). Exactly this latter point may however also be interpreted as the cons of remittances, since their network-based nature also implies exclusion and lack of access to those financial resources channeled through the network for ‘non-members’ of the network. This is worth keeping in mind when considering the importance of flows to developing countries as migrants are unlikely to originate from low-income families in most cases. Thus, poverty-reducing abilities only partially characterize remittance networks.

## Conclusion

This paper has aimed at providing a picture of recent and current financial flows to developing countries. Due to a rather fatal lack of data on a large number of the existing flows, the following conclusions are fairly tentative:

On the sectoral and geographical distribution of financial flows to developing countries, there seems to be a tendency for private and official grants to overlap rather than complement each

other. Thus, certain countries or ‘themes’, such as humanitarian assistance or certain diseases (rather than health sectors more generally) tend to be over-financed or at least relatively well-off, while others receive much less attention from any type of source. Likewise, official aid (with the possible exception of some multi-lateral aid) as well as many private sources do to a larger extent benefit Asian than African countries. Various reasons may be pointed out for this: First, it has been pointed out that because NGOs are increasingly financed by official donors, they increasingly tend to ‘follow’ them. Second, a growing verticality of both private and public development aid means that the development concerns tend to be very specific (e.g. AIDS) and the goal of a relatively large number of private as well as official sources. Third, public and private aid grants sometimes tend to be channeled to those places and sectors where investment already booms, due to an increasing overlap of philanthropy and private business.

It is also clear from the paper that reaching a more comprehensive understanding of not only the size and volume, but also the relative impact in different developing countries of the various flows, is not really possible from the existing material. This would call for a lot more research as well as more comprehensive reporting (which is now rather inconsistent) especially on private flows. Not least are geographical break-downs of data on flows from, for instance, private philanthropy more or less absent, and thus we do not know the extent of its importance in different developing countries – let alone what exactly it does there. What we do know from the existing data is that private financial flows are not distributed evenly across developing countries, and are least pronounced in the poorer ones. Also, and perhaps not surprising, investment from OECD countries are mainly directed to a smaller number of relatively well-off developing countries (see also Steer, 2008). At the same time, with the present volumes of official aid, it is extremely unlikely that the MDGs and goals for increasing ODA to Sub-Saharan Africa are reached. Against this background, it may be concluded that though the share of official aid relative to other types of financial flows to developing countries may be decreasing, it should not necessarily be deemed less important. Rather, this scenario seems to call for an important role to play for official donors in the near future in terms of specifically targeting official aid to less ‘popular’ sectors, themes and countries.

Finally, the paper shows that more research is needed on how the political economic contexts in various developing countries impact (and the extent to which they are able to benefit from) specific types of flows. Do remittances always become less important when financial systems mature, for instance, or do other interacting factors play a role? If the former is the case, will FDI as well as other types of investment more or less automatically take over when systems do mature? And how do these scenarios interact with private as well as official (DAC and

non-DAC) aid flows? In other words, it seems important to understand the extent to which certain political economic contexts provide for better ‘spill-over’ effects of various flows in the future.

## Bibliography

- Africa Partnership Forum Support Unit (2007) *Investment: Unlocking Africa’s potential*. Briefing Paper no 2. AFP Support Unit and NEPAD, Berlin.
- Burall, S. and S. Maxwell with A. R. Menocal (2006) *Reforming the international aid architecture: Options and ways forward*. ODI Working Paper 278. London.
- Donor Committee for Enterprise Development (2008) *Evolving Aid Landscape in Africa and the Role of Private Philanthropy*. Concept Paper - January 17, 2008 <http://www.enterprise-development.org/resources/download.asp?id=556>
- Dorsey *et al.* (2008) *The landscape of capital flows to low-income countries*. IMF Working Paper 08/51.
- Finance & Development (2007) *Changing aid landscape*. IMF, December 2007.
- Gheeraert, L. & R. Sukadi (2007) *How remittances impact national accounts – a macro analysis*. CEB Working Paper No. 07/039. Solvay Business School, Brussels.
- Global development finance (2007) *Financial flows to developing countries: recent trends and prospects*. The World Bank Group, Washington DC.
- Hagen-Zanker, J. & M. Siegel (2007) *the determinants of remittances: a review of the literature*. MGSOG Working Paper No. 003. Maastricht.
- Harmer, A. & L. Cotterell (2005) *Diversity in donorship: the changing landscape of official humanitarian aid*. HPG Research Briefing, ODI, London.
- Hudson Institute (2008) *The index of global philanthropy 2008*. Hudson Institute, Washington DC
- IDA (2007) *Aid Architecture: An overview of the main trends in official development assistance flows*. IDA Resource mobilization.
- IDA (2008) *In focus: vertical funds*. [Web.worldbank.org/WBSITE/EXTERNAL](http://Web.worldbank.org/WBSITE/EXTERNAL)
- IMF (2006) *Does NGO-aid go to the poor? Empirical evidence from Europe*. IMF Working Paper 06/39. Washington DC.
- IRIN (2008) *Global: Remittances make the world go round*. UN Office for the Coordination of Humanitarian Affairs. Geneva.
- Jones, S. (2007) *Sub-Saharan Africa and the global capital markets: Past and present*. DIIS Working Paper 2007/28.
- Kaul, I. and Conceição, P. (2006) *The New Public Finance: Responding to Global Challenges*. New York: Oxford University Press.

- Koch, D-J *et al.* (2008) *keeping a low profile: what determines the allocation of aid by non-governmental organizations?* Kiel Working Papers No 1406, Kiel.
- Kragelund, P. (2007) *Ikke-DAC donorer i Afrika*. DIIS-working paper No. 2007/26. Copenhagen.
- Manning, R. (2006). Will 'Emerging Donors' Change the Face of International Co-operation? *Development Policy Review*, 2006, 24 (4), pp. 371-85.
- Nextbillion.net (2005) *Remittances to Africa overtakes foreign direct investment*.  
[nextbillion.net/newsroom/2005/12/09/](http://nextbillion.net/newsroom/2005/12/09/)
- OECD (2007a) *Geographical Distribution of Financial Flows to aid recipients 2001-2005*. Disbursements, Commitments, Country Indicators. OECD. Paris.
- OECD (2007b) *Statistical Annex. 2006 Development Cooperation Report*. Paris.
- OECD (2008a) Debt relief is down: Other ODA rises slightly.  
[http://www.oecd.org/document/8/0,3343,en\\_2649\\_201185\\_40381960\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/8/0,3343,en_2649_201185_40381960_1_1_1_1,00.html)
- OECD (2008b) <http://stats.oecd.org/wbos/Index.aspx?DatasetCode=ODA>
- Ponte, S., L. A. Richey and M. Baab (2008) *Bono's Product (RED) initiative: Wedding hard commerce and corporate social responsibility*. DIIS Working Paper 2008/13.
- Rajan, S.R. (2005) *Growing clout of workers' remittances*. Business Times, 15 February 2005.
- RoA (2006) *Aid Trends. Shifting trends: ODA, global security and the MDGs*. The reality of aid.  
[www.realityofaid.org](http://www.realityofaid.org).
- Steer, L. (2008) *New actors and new flows – the World Bank Group, the private sector and sustainable growth: An issues paper*. An eye on the future – the World Bank Group in a Changing World Conference Paper.
- Thygesen, T. R. & P. Hansen (2007) *Remitter: Finansiering af udvikling i Afrika?* DIIS Working Paper 2007/6.
- UNCTAD (2006) *World Investment Report 2006. FDI from Developing and transition economies: Implications for development*. United Nations, Geneva.
- World Bank (2007) *Global development finance 2007. The globalization of corporate finance in developing countries*. Washington DC.