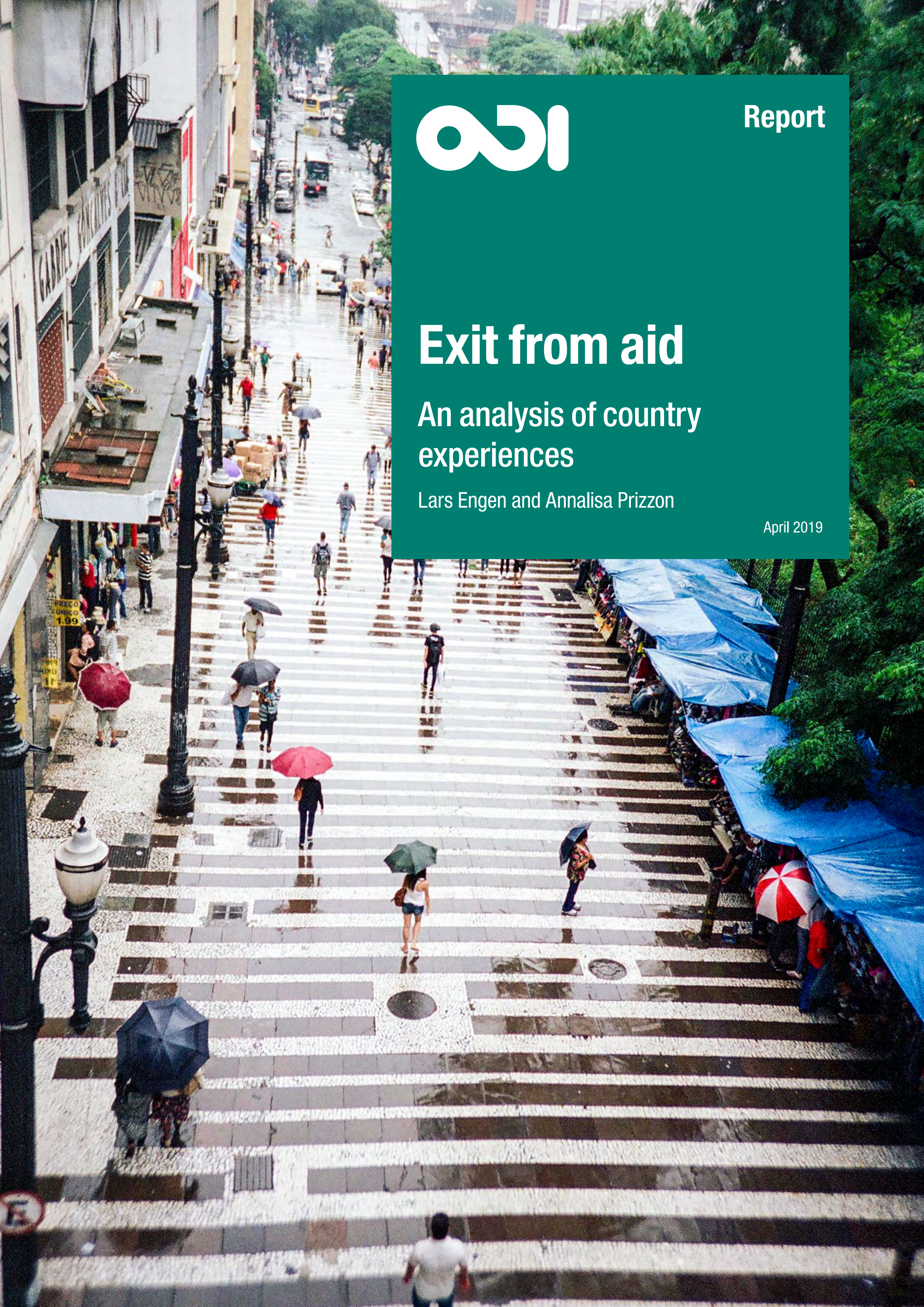

Report

Exit from aid

An analysis of country experiences

Lars Engen and Annalisa Prizzon

April 2019

Cover photo: Sao Paulo, Brazil. © Jared Yeh.

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Data were collected between June 2017 and June 2018. The reclassifications considered are, therefore, up to June 2018. Data analyses are based on data available as of June 2018, unless otherwise specified.

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Acronyms

ADB	Asian Development Bank
AfDB	African Development Bank
COFOG	Classification of the Functions of Government (IMF)
CRS	Creditor Reporting System (OECD)
DAC	Development Assistance Committee (OECD)
DFID	Department for International Development (United Kingdom)
DFAT	Department for Foreign Affairs and Trade (Australia)
DPG	Development Partners Group
EU	European Union
Gavi	Global Alliance for Vaccines and Immunisation
GDP	gross domestic product
GFATM	Global Fund to Fight AIDS, Tuberculosis and Malaria
GNI	gross national income
HDI	Human Development Index (UNDP)
HIC	high-income country
HIPC	heavily indebted poor country
IBRD	International Bank for Reconstruction and Development (World Bank)
IDA	International Development Association (World Bank)
IMF	International Monetary Fund
LDC	least developed country
LIC	low-income country
LMIC	lower-middle-income country
MDB	multilateral development bank
MDBS	Multi-Donor Budget Support
MDG	Millennium Development Goal
MIC	middle-income country
MTDS	Medium-Term Debt Strategy/Medium-Term Debt Management Strategy
NSEDP	National Socio-Economic Development Plan (Lao PDR)
ODA	official development assistance
ODI	Overseas Development Institute
ODF	official development finance
OOF	other official flow
SDC	Swiss Agency for Development Cooperation
SECO	State Secretariat for Economic Affairs (Switzerland)

Sida Swedish International Development Cooperation Agency

UK United Kingdom

UMIC upper-middle-income country

UNDP United Nations Development Programme

US United States

USAID United States Agency for International Development

WDI World Development Indicators (World Bank)

Executive summary

Over the past 15 years, 35 low-income countries (LICs) have transitioned to middle-income country (MIC) status. This progress reflects the strong and sustained economic growth achieved in most parts of the developing world. While income per capita only partly reflects the overall economic and social development of a country, the move to MIC status can significantly affect the mix of financing resources available to it and often triggers donor discussion on whether to reduce or even phase out financial assistance.

This report is the first to look systematically at the impact on development financing of countries' transition from low to middle-income status. We have analysed how development financing changed for countries reclassified between 1995 and 2010 and have carried out in-depth case studies of eight of them: Egypt, Ghana, the Lao People's Democratic Republic (Lao PDR), Nigeria, Pakistan, Papua New Guinea, Sri Lanka and Viet Nam. We have focused on the changes to external or international public finance, which we have termed official development finance (ODF) and which includes both official development assistance (ODA) and other official flows (OOFs). However, our analysis also provides insights into changes in other public development-finance resources, particularly taxation.

Five main findings

1 Transition to LMIC status does not necessarily lead to a loss of international public finance

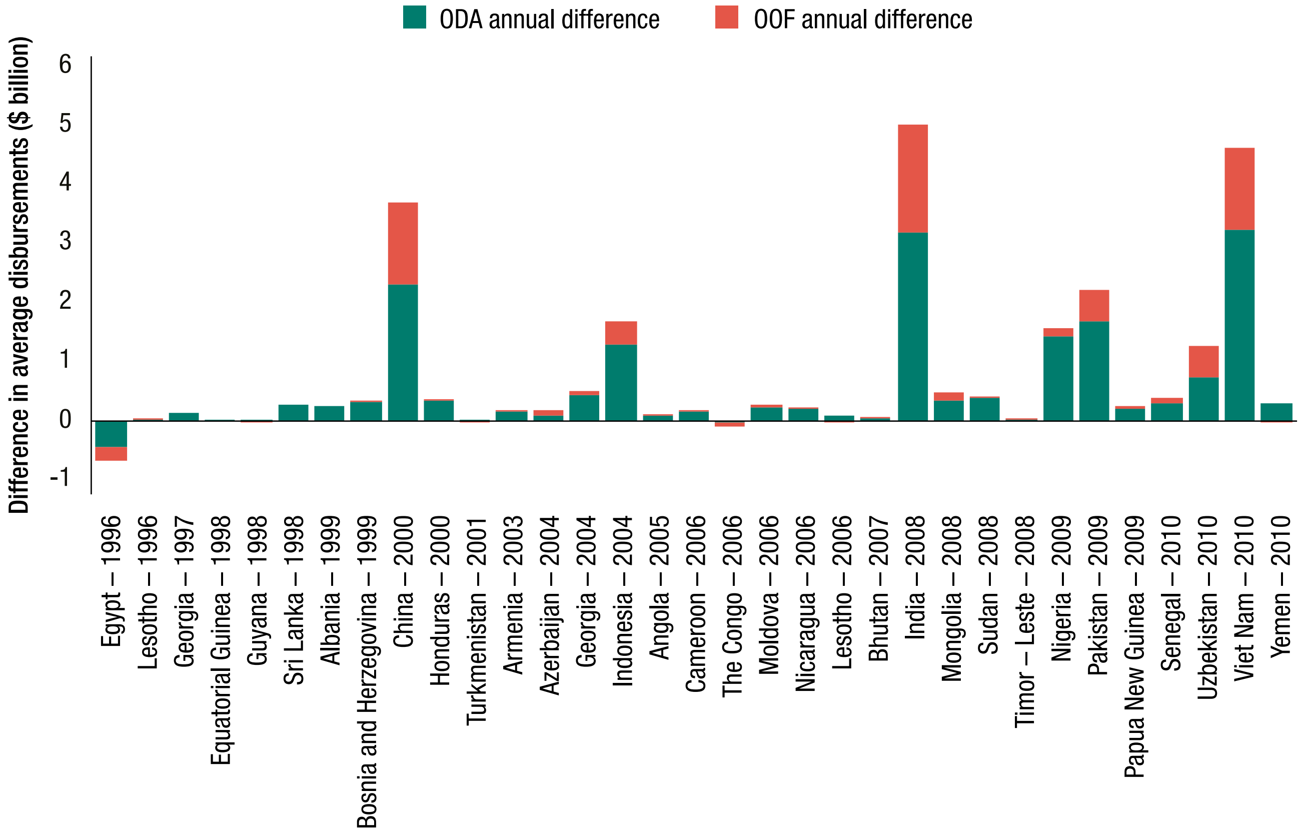
International public finance increased, on average, in absolute terms for countries transitioning during the period studied. Comparing data for five years before and five years after reclassification from low-income to lower-middle-income country (LMIC) status, most countries saw an increase in both ODA flows and OOFs, while a very small number saw a decline in OOFs.

ODA increased after reclassification in most of the countries studied, the exceptions being Ghana and, more recently, Sri Lanka and Viet Nam. Increased flows following transition were often associated with geostrategic motivation: geographic location (for example, in the case of Western military action in the Middle East after 9/11, or Egypt in the turbulent Middle East and North Africa region), proximity (for instance, in the case of Papua New Guinea and its main development partner, Australia), natural disasters (as in Pakistan and Sri Lanka), or institutional strengthening.

In other words, development assistance was driven by motives well beyond the income per capita of the recipient country. ODF from development partners such as China and the Republic of Korea (whose allocations are not usually driven by the income per capita) increased, in particular. The rise of China as a donor has had large effects on development finance for many of the case-study countries, especially those geographically close to it. Lao PDR, Pakistan and Sri Lanka all lie along the designated route of China's new Belt and Road Initiative. Chinese development assistance and investment have also been expanding in Ghana, Nigeria and Papua New Guinea. ODF from the Republic of Korea – especially from the Export-Import Bank of Korea (Korea Eximbank) – also increased in Lao PDR, Nigeria and Viet Nam.

The volume of OOFs did not increase in several case-study countries, though. There are various reasons for this. The type of financing provided by the largest bilateral donors may favour ODA (donors may be restricted to grant financing, for example); countries may not be eligible to borrow from the hard windows of multilateral development banks (MDBs) (a poor record of macroeconomic management might be a barrier to borrowing, for instance, or 'blend' countries might not be able to access International Bank for Reconstruction and

Absolute difference in annual average ODA and OOFs five years before and after reclassification



Note: excludes debt-related aid and humanitarian aid. Each bar represents one transitional episode. The size of a bar denotes the difference between the average annual amounts of ODA and OOFs received over the five years after transition and the average annual amounts received over the five years preceding reclassification. For example, a country that received an annual average $1 billion in ODA before reclassification and $2 billion afterwards would be depicted as having a $1 billion absolute difference in annual ODA.
Source: authors' elaboration based on the Organisation of Economic Cooperation and Development (OECD) Creditor Reporting System (CRS) data (downloaded April 2017).

Development (IBRD) lending (as in the case of Nigeria and Pakistan); or MDBs' eligibility criteria for non-concessional borrowing (as in the case of Ghana) or binding country debt limits (for example, in Viet Nam) might restrict a country's access to finance.

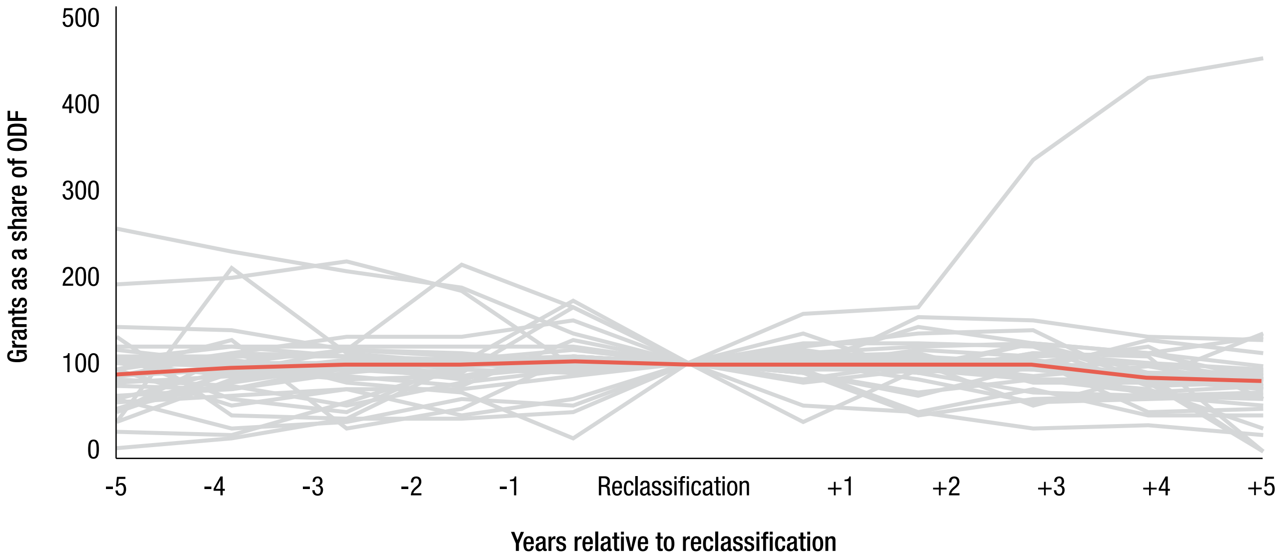
2 For the most part, the terms and conditions of financing get tougher, with a gradual shift to loans

Development partners may want to prioritise the allocation of their scarce grant financing to the recipient countries most in need, namely, those with the least capacity to repay loans. Becoming a MIC usually puts a country in a better position to borrow from capital markets and afford loan repayments, making it a lower priority for grant aid.

The evidence shows that countries that are becoming MICs gradually rely more on loans and less on grants, but this is a slow transition, and there are exceptions. In 2015, LICs received around 80% of their ODF as grants, but for LMICs, the share was less than 40%. However, if we consider those 32 countries that transitioned from LIC to LMIC status between 1995 and 2010, the grants as a median share of total ODF after transition remained similar to the share beforehand, with only a slight decline a few years after transition. While some countries receive a smaller share of their ODF in the form of grants, other countries receive a larger share.

Most country case studies, following transition to LMIC status, saw an increase in their share of loans versus grants. Egypt and Papua New Guinea were two exceptions. They continued

Grants as a share of ODF before and after reclassification and transition to LMIC status (normalised)



Note: data normalised so that grant share at transition = 100. Red line is the median. Excludes debt-related aid and humanitarian aid. The outlier on the right-hand-side of the graph is China.
Source: authors' elaboration based on OECD CRS (downloaded April 2017).

to receive the majority of their assistance in the form of grants, because this was the main modality of their largest development partners (the United States and Australia, respectively).

As well as becoming more reliant on loans, countries transitioning to MIC status should expect the terms and conditions attached to ODF to toughen. The more stringent terms and conditions are a direct consequence of the graduation process for some sources of international finance, for example, from the concessional to non-concessional windows of the MDBs, as non-concessional windows mean shorter maturities and higher interest rates. This shift is also because donors are likely to reduce their subsidies on sovereign loans to countries that are no longer among the least developed.

Our analysis shows that, on average, LICs benefit both from lower interest rates and longer maturities on official loans than LMICs. However, the gaps between the terms and conditions for the two income categories has declined in recent years, especially on the interest-rate front. Our country case-study analysis confirmed that maturities on new external debt commitments became shorter. The picture was more mixed when it came to trends in interest rates, however, with no difference between countries on the basis of IBRD eligibility or macroeconomic performance.

3 Resource allocation in most countries shifts towards infrastructure development

Aid received in the form of grants is more likely to be spent on public consumption, while loans are more likely to be channelled to investment. Economic infrastructure projects tend to attract funding in the form of less concessional loans, because of their potential returns or ability to generate cash flows. Conversely, the social sectors (such as education and health) tend to be supported either by public taxation or by grants/concessional finance. Governments tend to be reluctant to borrow for social-sector projects, as they typically do not generate financial returns, at least not in the short term. With MICs expected to rely more on loans than on grants, their share of official development finance funnelled into the infrastructure sectors, with their potential returns and ability to generate cash flows, is likely to increase.

Between 2013 and 2015, LICs received more ODF for their social sectors than for infrastructure (about 60% for the social sectors and 20% for the infrastructure sectors), while in LMICs, the social and infrastructure sectors received similar amounts (approximately 40% of total ODF each). However, much of the infrastructure financing to LMICs is in the form of OOFs rather than ODA.

In nearly all of the country case studies, the sectoral allocation of resources – external ODF, as well as public finance as a share of GDP – has shifted towards infrastructure development. Except in Lao PDR, both ODF and public finance have increasingly targeted infrastructure development rather than the social sectors. In Viet Nam, this was the case for ODF, but not for public finance, which has increasingly been allocated to the social sector (in part to address some of the gaps left by development assistance). In the case of Papua New Guinea, this shift was a concern for both government officials and development partners because of its association with worsening health indicators. In Pakistan, the health sector accounted for around 6% of aid disbursements in 2000 and only 1% of in 2015. However, the rising shares of ODF allocated to infrastructure were largely down to government preference (for energy in Pakistan, for example).

4 Tax revenues as a share of GDP rise slowly (and in some cases, decline)

As they grow, MICs can find themselves stuck in what has been called the 'missing middle' of development finance – when the total public resources available to a country fall as a share of GDP after it transitions from LIC status and recover only when it is well into MIC status.

While ODF grew during transition in the countries we studied, it did not grow as fast as GDP, meaning ODF as a share of GDP declined. In several cases, tax revenue as a share of GDP increased, but in all countries except Pakistan, this was not enough to compensate for the relative dip in ODF as a share of GDP. In some countries, the 'missing middle' of development finance was particularly pronounced: not only did ODF as a share of GDP fall, but so too did tax revenue, as in the cases of Sri Lanka, Nigeria and Papua New Guinea.

5 Countries often lack a plan for transitioning from aid

Governments are expected to plan for the structural shift in the composition of their external financing (especially as part of their debt-management strategy). However, they do not necessarily publish a formal transition strategy. Many countries have been reclassified from LIC to LMIC in recent decades, but we did not identify any literature directly related to recipient country strategies, let alone any systematic overviews of responses.

Among the country case studies, Viet Nam was the only one to have a strategy for transition away from aid. However, this primarily considered the types of project each source of financing could be used to fund. Other countries are planning to implement a strategy (Ghana, with its 'Ghana Beyond Aid' strategy, and Nigeria, to a certain extent) or indirectly reflect some principles of the transition from LIC in other documents (Lao PDR). Other governments manage their financing options through a debt-management strategy (even though the objective here is to minimise costs and financial risk, rather than act as a planning tool).

Across the country case studies, we found that the governments did not – or found it difficult to – articulate priorities for the types of assistance they would like to receive from development partners in their transition away from aid. They seldom acknowledged the changing circumstances associated with LMIC status. Whenever a priority was specified, it largely reflected the need for capacity-building and knowledge to fill gaps where government capacity was limited.

Five recommendations for partner-country governments and development partners

Based on the main findings of the literature review, cross-country data analysis and country case studies, we have identified five recommendations for partner-country governments and for development partners, respectively.

Partner-country governments should

- *Articulate and be clear on priorities for external development finance and develop a strategy for managing the transition away from aid.* The terms and conditions of financing are, in most cases, likely to change at the global level (with a rise in interest rates, in particular), while ODF as a share of GDP is expected to fall.

- Within this context, *prioritise tax revenue mobilisation and tax administration* as a key element of national financing strategy.
- *Plan for changes in the composition of development finance to mitigate financial risks and rising costs,* especially when a country has limits to its external borrowing, such as a capped debt-to-GDP ratio, and when favourable borrowing terms and conditions, such as loans from hard windows of MDBs, could be an option.
- *Protect gains achieved in the social sectors by ring-fencing the share of government spending that goes to education and health*. We have seen how the shares of both external assistance and public finance to the social sectors have been falling in some of the countries reviewed.
- *Invest in coordination mechanisms.* Now, more than ever, coordination between government and development partners should be improved. It will be key to the sharing of information about development partners' plans, when they intend to change their programme orientation or decide to withdraw their development projects from the country.

Development partners should

- *Take a whole-of-finance-system approach when supporting countries in transition,* coordinating changes in focus, volume and modalities with other donors or lenders to avoid jeopardising results already achieved.
- *Reconsider criteria and approaches to transition*. Beyond income per capita of the recipient country, resource allocation should consider trajectories in resource mobilisation that are broader than macroeconomic performance. The 'blend' period for MDB lending should also be reviewed, reflecting performance in human development – indicators and spending – among the eligibility criteria, at least more explicitly.
- *Align with national development plans.* With countries' prioritisation of infrastructure development, development partners should continue to reflect recipient countries' priorities for their own national development. This would include building capacity to manage the transition, supporting the country's priorities and strategies.
- *Help boost non-concessional official finance and tax revenues*. To help address the 'missing middle' of development finance, development partners should boost non-concessional sovereign lending (especially the hard windows of the MDBs), which is still cheaper than borrowing from domestic or international capital markets at higher rates and shorter maturities and would lessen the pressure on future debt sustainability. With tax revenue falling as a share of GDP, development partners should also focus on how to support efforts to boost tax revenue.
- *Do not consider transition as a linear process towards graduation from aid and continue to engage with countries in transition.* Countries might have started to move away from aid, but the process may not necessarily be linear and without setbacks. Low interest rates have helped keep costs low, but a rising trend – and reduced market appetite for investment in emerging markets – might change this picture.

1 Introduction

1.1 This report, the questions we aim to address and our hypotheses

Over the past 15 years, 35 LICs have joined the ranks of the world's MICs: a reflection of the strong and sustained economic growth achieved in most parts of the developing world.[1]

Because of this improved income status, several dimensions of the development-finance landscape are likely to evolve in most MICs, notably the volumes, terms and conditions, and sectoral allocation of resources, but also governments' preferences for the types of assistance they would like to receive and the arenas in which resource negotiations are conducted. For example, although eligibility criteria for funding do not change when a country is reclassified as an MIC,[2] cross-country quantitative evidence suggests that bilateral Development Assistance Committee (DAC) donors view a country's crossing of the World Bank's operational cut-off for International Development Association (IDA) eligibility as a signal that it is in less need of aid. As a result, donors reduce their own aid levels, reinforcing the (negative) effects of threshold-crossing on IDA flows (Knack et al., 2013). Box 1 elaborates on the difference between *analytical* and *operational* classification, referring to the case of the World Bank.[3]

Income per capita only partly reflects the overall economic and social development of a country. However, being reclassified as an MIC often triggers a discussion about whether the assistance it receives should be reduced or phased out. Several authors have mapped how development assistance overall has been allocated to MICs (ODI et al., 2015; Alonso et al., 2014; Glennie, 2011) and how it should be delivered in MICs (see Davies, 2015). These studies aim to inform a polarised debate about whether and how development partners should support MICs that might have enough fiscal resources to support their own development strategy.

Against this background, very surprisingly, we have little evidence and very few systematic cross-country comparative reviews of how volumes of development finance and terms and conditions evolve during the transition from LIC status for specific economies. Furthermore, and more importantly for policy decisions, we know little about how developing-country governments have managed the transition away from aid and what lessons we can draw from partner countries that have already been down this path. Beyond looking at trends in development finance after reclassification to MIC status, this report aims to identify what principles and objectives, if any, governments had (and should have) in place to navigate the transition away from aid.

Amounts and patterns of development finance naturally change over time because of the evolving needs and demands of recipient countries. Therefore, a falling volume of finance should not be considered, in itself, the main problem. The

1 Based on available data (2002–2016). Our analysis is based on income classifications as of June 2018.

2 Although the focus of this paper is on the impact of reclassification from LIC to MIC status, we are well aware that the changes in terms and conditions offered by multilateral development banks are based on similar, albeit slightly different, criteria and take into account a creditworthiness assessment. The reason we focus on the income classification is because it often influences bilateral partners' allocation of resources (see Jalles d'Orey and Prizzon, 2019).

3 The principles of analytical and operational classification are very similar across the other multilateral development banks that have both concessional and non-concessional windows, albeit with small differences.

key policy question is how can partner-country governments manage their own budgets when the ODA they receive falls, the sources of finance they can access change and the financial terms they are offered typically become less favourable? (Of course, financing options might become more flexible and/or reliable, available at higher volume and come with fewer conditions attached.)

This paper focuses on the experiences of recipient countries. A companion paper (Jalles d'Orey and Prizzon, 2019) reviews development partners' approaches to transition and exit from bilateral programmes and considers the principles they should adopt in their transition and exit strategies. Several bilateral development partners are, indeed, reflecting on how their portfolios and instruments must be adapted in response to an evolving demand for development cooperation, in order to maximise their impact.

Box 1 Analytical and operational classification: the case of the World Bank

The World Bank's *analytical classification* groups countries into low-income countries (LICs), lower-middle-income countries (LMICs), upper-middle-income countries (UMICs) and high-income countries (HICs) based on their gross national income (GNI) per capita. These groupings are used for analysis, for example, when comparing data and conditions between country groups, but they are not directly linked to lending terms. When a country crosses the income per capita threshold between one category and another, this is referred to as 'reclassification'. The World Bank reclassifies countries in July each year, based on GNI per capita in the previous year. Countries can be reclassified to either a higher or a lower category, and classifications can be volatile, as countries' income-per-capita can fluctuate around the threshold. For fiscal year 2017/18, the GNI per capita (Atlas method) thresholds for the categories were: LMIC, above $1,005; UMIC, above $3,955; and HIC, above $12,235. Annex 1 summarises reclassifications for all LICs and MICs up to June 2018.

In contrast to the analytical classification, the World Bank's *operational classification* has direct consequences for a country's financing options, determining the eligibility of countries to access concessional financing from the World Bank. (Other multilateral development banks (MDBs) with concessional windows apply a similar approach.) Countries are classified as: *IDA* (eligible for International Development Association (IDA) financing, soft or concessional window), *IBRD* (eligible to borrow from the International Bank for Reconstruction and Development (IBRD), hard or non-concessional window) or *blend* countries. Blend status means that a country can access lending from both the IDA and IBRD. Blend terms apply to blend countries and to IDA countries whose GNI per capita has been above the operational cut-off for more than two consecutive years, known as *gap* countries (World Bank, 2018).

Graduation from the IDA means that a country stops being eligible for IDA concessional financing and instead becomes eligible for financing from the IBRD only. Financing terms at the IBRD are less favourable than for IDA concessional funding (shorter maturity and grace periods and higher interest rates). The graduation process is triggered by crossing a GNI-per-capita threshold. The actual 'readiness' to graduate to IBRD status is based on an assessment (or *creditworthiness assessment*) of a country's macroeconomic prospects, risk of debt distress, vulnerability to shocks, external debt and liquidity, political stability, levels of poverty and social indicators. On average, IDA countries remain in blend status for approximately two IDA replenishment cycles (i.e. six years). Graduation is usually set to occur at the end of an IDA replenishment period. Because of their vulnerability and small-scale markets, several small island developing states benefit from an exception and can borrow at IDA terms regardless of their income per capita. For fiscal year 2017/18, the IDA threshold was a GNI per capita of $1,165, slightly higher than the LMIC threshold. (The IDA threshold does not correspond to the LMIC threshold, hence the need to differentiate between analytical and operational classifications, which are often confused.)

The principal focus of this study is public finance. First, we consider external finance from sovereign donors. We label this as official development finance (ODF), which corresponds to the sum of ODA (which we refer to as concessional finance) and other official flows (OOFs) (or non-concessional finance). We then look at domestic revenues raised by national governments.

More precisely, in this paper we aim to test a series of common hypotheses about how the trajectory of development finance changes when countries are reclassified to MIC status (notably the volume, terms and conditions and sectoral allocation of development finance) and about the strategies countries have in place to manage such transition. The seven research questions – and the hypotheses and rationale behind each of them – are elaborated in Table 1.

1.2 Our methodological approach

To address these research questions, test hypotheses and, more importantly, fill the gaps in the policy literature on whether and how countries have managed the changing patterns of development finance caused by their reclassification to MIC status, we followed a two-step methodology.

- **Desk-based review**. First, we reviewed the evidence from the academic and policy literature and analysed how development finance evolved in the transition from LIC to MIC status and the graduation from the soft windows of MDBs across countries.[4] The aims of the literature review and data analysis were to identify the main research gaps to be filled, test the hypotheses we set out in Table 1 and, ultimately, inform the detailed methodology of our case studies.
- **Case-study phase**. To examine the specific dynamics of transition to MIC status and graduation from IDA eligibility (or soft windows of MDBs), we conducted eight country case studies. The small sample size means this synthesis report presents an illustration of country experiences rather than a systematic comparison across countries. A standardised methodology was developed to guide the case studies, which were carried out by teams of external consultants based in the country and familiar with its context. The methodology for the case studies was a combination of (i) quantitative analyses (descriptive statistics) of external and domestic public finance and of economic and human development indicators, and (ii) literature reviews on the economic, political and governance contexts and on the dynamics in relationships with donors. This approach was complemented by in-country semi-structured interviews with senior government officials, development partners and experts, with an average of 15 informants in each country case study. A list of the individuals consulted and who agreed to be mentioned is included as Annex 2.

Literature reviews and data analyses were conducted between July and December 2017 for the core part of this report and between December 2017 and July 2018 for the case studies. While each team was given a standardised research protocol, the coverage of information and analysis varies across the case studies, because of differences in the availability of data and in the information provided by interviewees.

Most of the data on ODF refer to flows from members of the DAC, as the data on emerging donors were not consistent across the country case studies. We refer to the latter in connection with specific countries. We did not map or analyse the trajectory of finance from philanthropic organisations because of a lack of detailed data. We reviewed changes in the development-finance landscape and investigated financing strategies, but did not consider changes in outcomes or effectiveness of development programmes and projects.

4 Most of the data were gathered from the OECD's CRS database, International Monetary Fund (IMF) statistics on government finances and the World Bank's World Development Indicators.

Table 1 Research questions, hypotheses and rationale

	Research question	Hypotheses and rationale
Volume	1. How have financing instruments (grants and loans) evolved?	Development partners may want to prioritise the allocation of scarce grant financing to recipient countries that are most in need and which have limited repayment capacity for loans (Kharas et al., 2014). For donors, loans represent a lower burden on their budgets because they are expected to be repaid.* MICs are usually in a better position to borrow from capital markets and to afford loan repayments. Grants are prioritised for countries that do not have a large set of financing options. On average, MICs are expected to rely more on loans than on grants.
	2. How has dependency on aid changed?	The shares of ODA in government expenditure and gross domestic product (GDP) are often used as proxy measures of aid dependency (Glennie and Prizzon, 2012). As an economy grows and moves towards MIC status, we would expect these shares to fall because: governments should be able to borrow from alternative sources – especially the private sector – and expand government revenues; development partners may reprioritise their own resources (see question and hypothesis 1); and economic growth is likely to outpace the rise in ODA.
	3. How has the composition and volume of official development finance (concessional and non-concessional) evolved?	With concessional ODA resources often being capped and constrained by budget allocations (for bilateral donors) and country ceilings (especially for multilateral donors), and with subsidies falling as a country becomes richer, non-concessional official resources (OOFs) may compensate for the fall in concessional ODA.
	4. Have countries experienced the 'missing middle' of development finance?	As they grow, MICs may find themselves stuck in the 'missing middle' of development finance. This occurs when the total resources available to a country, as a share of GDP, fall after it transitions from LIC status and recover only when it is well into MIC status (Kharas et al., 2014). When countries start to emerge from very low incomes, their growth is constrained if domestic revenue mobilisation fails to expand fast enough to compensate for the fall in official development finance.
Terms and conditions and sectoral allocation	5. How have the terms and conditions of official development finance evolved?	Together with an increasing reliance on loans rather than grant financing, newly transitioned MICs face a toughening of the terms and conditions for official finance, as donors' subsidies on loans (sovereign, not private lending) to such countries are expected to fall. The more stringent terms and conditions are also a direct consequence of the graduation process, i.e. from concessional to non-concessional windows of MDBs, with shorter maturities and higher interest rates on borrowing from non-concessional windows.
	6. How has the sectoral composition of both external and domestic sources of finance of the government budget evolved?	Aid in the form of grants is more likely to be spent on public consumption, while loans are more likely to be channelled to investment. Economic infrastructure projects (e.g. toll roads and utilities) tend to attract funding that is less concessional because of their potential returns and/or ability to generate cash flows. Conversely, the social sectors (e.g. education and health) tend to be supported by either public taxation or grants/concessional finance, rather than non-concessional loans from donor governments. Most governments are generally reluctant to borrow for social services because these projects typically do not generate financial returns, at least in the short term (see Prizzon et al., 2016). With MICs expected to rely more on loans than on grants, their share of official development finance to the infrastructure sectors is likely to increase.
Goveernment strategies	7. What were the government strategies in place to address changes in development finance during transition?	Governments are expected to plan for a structural shift in the composition of external financing (especially as part of their debt management strategy). However, they do not necessarily publish a formal transition strategy.

** IDA-only countries with a high risk of debt distress or in debt distress receive a 100% grant allocation. This falls to 50% for countries with a moderate risk of debt distress, and to no grant (loans only) in the case of low risk of debt distress.*

1.3 Report structure

The report is structured as follows:

- Section 2 first reviews the literature mapping the evolution of the development-finance landscape during the transition from LIC to MIC status and the graduation from the soft windows of MDBs, and maps data trends across LICs and MICs. It then analyses the literature summarising countries' financing approaches and strategies for transition to MIC status and graduation from the soft windows of MDBs. The objective is to test the seven research questions and respective hypotheses using the existing literature and cross-data analysis.
- Section 3 analyses the economic, social and political contexts shaping decisions on the volume and allocation of ODF after the reclassification to MIC status and graduation from the soft windows of MDBs.
- Section 4 focuses on how the volume, terms and conditions and the sectoral composition of ODF and public finance evolved in the eight case-study countries, testing the research questions and hypotheses from the perspective of the recipient countries.
- Section 5 turns to the political-economy aspects, reviewing the pillars, if any were in place, of countries' financing strategies and approaches during the transition to less-concessional financing sources.
- Section 6 concludes by outlining the implications of the findings of this report, both for partner-country governments, to help them to identify what they need to prioritise during this transitional phase, and for development partners planning to phase out their development programmes.

2 Literature and cross-country data analysis

There have been several examples in recent years of countries being reclassified from LIC to MIC status or graduating from the soft windows of the MDBs (see Annex 1). However, the academic and policy literature reviewing the implications for development finance is rather thin, whether quantitative or qualitative, across countries or for individual countries.

This section will first review the evidence from the literature to date on transition finance developed against our seven research questions (see Table 1). Most of this literature focuses on the experience of Asian countries, which were the first to experience the transition from aid dependency. We will then complement and test our findings by analysing the trends in development-finance flows and the changing patterns that occur when countries are reclassified as MICs. Our main objectives are: first, to test whether the literature and data analyses corroborate or challenge our hypotheses on the composition and volume of development financing; and second, to identify analytical gaps on governments' financing strategies as countries are reclassified to MIC status or graduated from the soft windows of the MDBs to be considered in the country case studies in Section 4 and 5.

Section 2.3 summarises and assesses the answers provided by the literature review and the cross-country analysis and compares them with the seven research questions we are aiming to answer in this report.

2.1 What do we know from the literature?

2.1.1 Volumes and instruments of official development finance

How have financing instruments (grants and loans) evolved?

Across countries, the review of quantitative evidence shows that LICs tend to receive a higher share of their ODF (the sum of ODA and OOFs) as grants than LMICs do (ODI et al., 2015). Loans gradually become more important than grants as countries graduate from IDA (Moss and Majerowicz, 2012), which is what we would have expected from our hypothesis.

These trends across countries are largely confirmed by looking at individual countries. The relative share of grants compared to loans fell following reclassification to LMIC status in Cambodia (UNDP, n.d.), Lao PDR (MPI and UNDP, 2017), Myanmar (UNDP, 2016) and Viet Nam (EU et al., 2014). In Viet Nam's case, the volume of both grants and loans continued to increase after the country's reclassification to MIC status in 2010, but with loans increasing faster than grants.

An arguable exception is Indonesia. Prizzon and Rogerson (2017) found no evidence that loans became more important within ODF after the country transitioned to MIC status or after it graduated from IDA.[5] Although the value of the grants the country received did decline, the value of its official loans decreased even faster, shifting the balance towards a relatively higher grant share.

5 This was due to a combination of the country having to graduate from IDA for a second time after the Asian financial crisis and the composition of its donors (some of the largest grant providers).

How has dependency on aid changed?
Empirically, in relative terms, studies have found that ODA counts for a larger share of development financing in LICs than in MICs (ODI et al., 2015) and that aid as a share of government revenues declines as economies grow (Cottarelli, 2011; Sy and Rakotondrazaka, 2015). This has been corroborated by case studies in Viet Nam (EU et al., 2014) and Indonesia (Prizzon and Rogerson, 2017).

However, in terms of absolute volume, the evidence is mixed. While ODA volumes decreased in Lao PDR (after reclassification to MIC status; MPI and UNDP, 2017) and Indonesia (after IDA graduation; Prizzon and Rogerson, 2017) ODA volumes remained stable, and even increased, in in Viet Nam (again after reclassification to MIC status; EU et al., 2014).

How has the composition and volume of official development finance (concessional and non-concessional) evolved?
Again, there is little on this question in the literature. However, the evidence suggests that non-concessional finance only partly makes up for the fall in concessional finance, meaning there is a net decline in external ODF.

In countries graduating from IDA, Moss and Majerowicz (2012) found that the increase in non-concessional loans from the IBRD *almost* made up for the fall in concessional IDA lending. Kharas et al. (2014) argue that the reduction in concessional flows (as a share of GDP) is not sufficient to make up for the loss of concessional finance, leading to a net decline in ODF as a share of GDP. A case study on Indonesia showed that the fall in ODA was only *partially* offset by an increase in OOFs (Prizzon and Rogerson, 2017).

Have countries experienced the 'missing middle' of development finance?
Kharas et al. (2014) argue that as countries grow, the increase in domestic revenues is not sufficient to compensate for the decline in external assistance, resulting in a net decline in available ODF for LMICs, as a share of GDP. The 2015 European Report on Development also finds that, as economies grow, the decline in the ratio of aid to GNI is faster than the increase in the ratio of tax revenues to GNI, leading to a net decrease in public financing (ODI et al., 2015).

However, the findings from Kharas et al. (2014) have been challenged, notably by Dercon and Lea (2015). While this condition might be true for some LMICs, it is not generalisable across the group of countries when using a wider dataset. Importantly, these studies are not based on the dynamic experiences of actual countries, but rather on static snapshots of countries in different income groups.

2.1.2 Terms and conditions and sectoral allocation of official development finance

How have the terms and conditions of the different financing options evolved?
The literature provides very little evidence on the dynamic effects on the terms and conditions of ODF as countries transition from LIC to MIC status or graduate from IDA. On graduation from IDA, countries have less access to concessional funding, both from MDBs and (in practice) from bilateral donors. For Indonesia, unsurprisingly, maturities had been steadily decreasing in the years leading up to graduation from IDA (Prizzon and Rogerson, 2017). Contrary to expectations following graduation from IDA lending, interest rates continued to decrease, but this was largely caused by a general drop in interest rates globally during the period, including on IBRD loans.[6]

How has the sectoral composition of both external and domestic sources of finance of the government budget evolved?
The literature investigating this question using quantitative methods across countries is rather

6 IDA-graduated countries can also see the total net present value of their loans rise if they opt for accelerated repayments of outstanding IDA debt, meaning 'double principal repayments (i.e. shorten maturity) or increase the interest rate' (Moss and Majerowicz, 2012: 10).

thin and mainly focuses on just the health sector[7] (see, for example, Yamey and Hecht, 2018) rather than across sectors. Most literature is based on case-study analyses. In Myanmar, the share of ODA that goes to social infrastructure and services dropped from 45% in 2010 to 29% in 2014, when the country was reclassified as an MIC. The share of ODA that goes to economic infrastructure and services increased nearly tenfold, from 2.5% to 24% (UNDP, 2016). A case study on Viet Nam found that the government was more likely to use non-concessional finance for 'investment projects with the potential to generate a revenue stream to cover repayments' (EU et al., 2014). In the case of Indonesia, however, Prizzon and Rogerson (2017) found that the share of ODA going to health and education *increased* after graduation from IDA in 2014.

2.1.3 Strategies for dealing with transitions and graduations

Although many countries have been reclassified from LIC to MIC in recent years, we did not identify any literature directly related to recipient countries' strategies for dealing with reclassification, let alone a systematic overview of responses.

Some studies concentrated on the donor side of the equation (see the companion paper to this project, Jalles d'Orey and Prizzon, 2019). One notable recurring finding from these studies is that the reduction in financial flows is less significant for recipient countries than the withdrawal of the institutional support that accompanied the development assistance (although in many cases the financial flows were already small at the time of donor exit) (Slob and Jerve, 2008; Forsberg, 2010; EU et al., 2014; ICAI, 2016; see also Whitaker et al., 2013). For newly graduated LMICs, strengthening of institutional capacity has not kept up with economic growth, and several of the reviews argue for continued 'soft' support (in other words, technical assistance) based on a review of country studies (Prizzon and Rabinowitz, 2015).

Most of the cross-country literature focuses on the impact of changes in aid flows on governments' fiscal policies, without taking the processes of reclassification or graduation into account. The focus of this literature is whether and how greater aid flows can 'crowd out' government revenues, rather than the other way around, as in this report.[8]

Notwithstanding this debate, reviews of recipient countries have found that the reduction of aid dependency is an explicit target for many developing countries, whether transitioning to MIC or not, as aid dependency is associated with a lack of policy autonomy, which undermines government accountability to citizens and reduces the predictability of government spending (Thomas et al., 2011). Countries such as Afghanistan, Cambodia, Ghana, Liberia, Nepal, Rwanda, Sierra Leone, Uganda and Viet Nam have all explicitly targeted reduced aid dependency in their national development or aid management policies (ibid.). We also see this historically in Botswana, which had a goal of ending aid dependency from a very early date, long before transitioning out of external assistance (Maipose et al., 2007; Bräutigam, 2000).

2.2 What do the data tell us?

To complement our review of the sparse literature on development finance at the time of transition, we first compared trends across LICs and MICs as aggregate groups to discern general differences between them. However, this approach does not reflect the dynamic effects of transition or

7 The health sector can be especially vulnerable to withdrawal of aid in the face of income reclassification and graduation; some countries can rely on aid to support their budgets, and the eligibility criteria applied by large donors to the health sector (e.g. the Global Alliance for Vaccines and Immunisation, Gavi) are largely based on income-based thresholds.

8 For example, Gupta et al. (2003) and later Benedek et al. (2012) have shown empirically that grants, but not loans, have a negative effect on government revenues. But this has been questioned, including by Morrissey (2015), who finds no systematic effect. In another branch of the literature, studies have found that, amid unpredictable aid flows, shortfalls in aid have led to cuts in investment, while windfalls have led to increased government consumption (Pycroft and Martins, 2009). Remmer (2004) finds that increased foreign aid leads to increased government spending and falling revenue generation.

graduation over time. To examine the implications of transition/graduation over time, we then compared trends in development-finance flows before and after transition/graduation. Historical trends in aid flows, such as the prioritisation of social sectors in the Millennium Development Goals (MDGs), will have implications for all recipient countries, regardless of their status.[9]

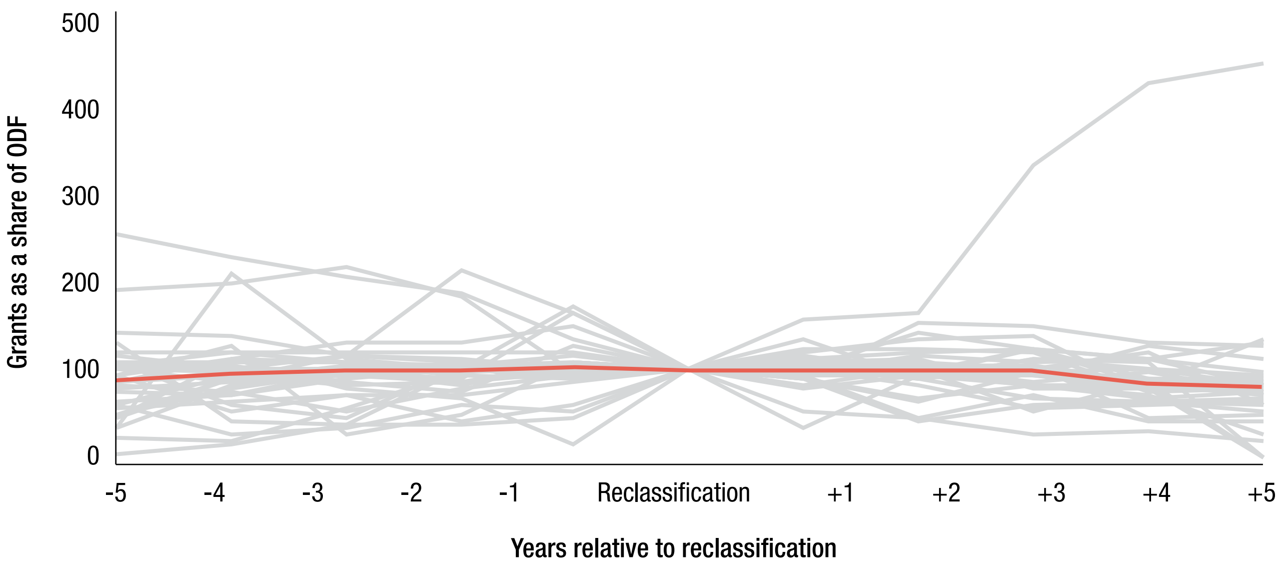
2.2.1 Volumes and instruments of official development finance

How have financing instruments (grants and loans) evolved?

Based on OECD CRS data, the share of ODF received in the form of grants tends, on average, to be higher for LICs than for LMICs. In 2015, LICs received around 80% of ODF as grants, while LMICs received less than 40%.[10] This static picture hides the dynamic effects over time, before and after reclassification, and does not reflect general trends in grant-to-loan ratios over time.

Figure 1 shows the average normalised value of grants as a share of ODF for 32 reclassifications of countries from LIC to LMIC between 1995 and 2010. The data for each reclassification cover five years before and five years after the date of reclassification to LMIC status.[11] In aggregate, there is no clear trend in the grants as a share of ODF – the median share before and after transition remains similar to the share at the time of transition. This means that, while some countries receive a smaller share of ODF in the form of grants, others benefit from a

Figure 1 Grants as a share of ODF before and after reclassification and transition to LMIC status (normalised)



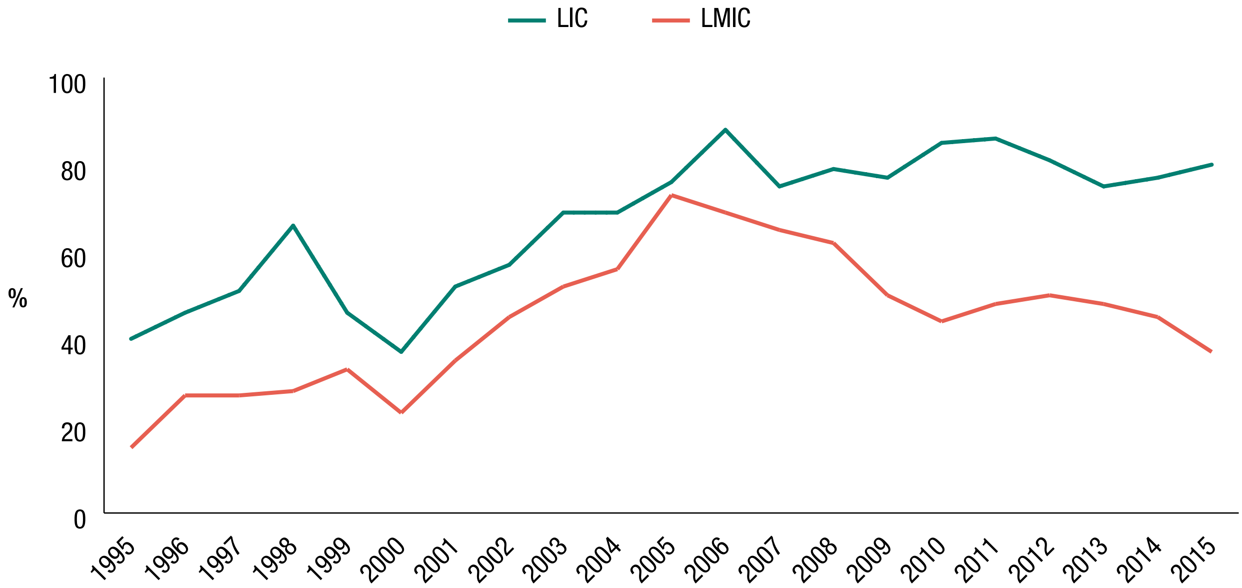
Note: data normalised so that grant share at transition = 100. Red line is the median. Excludes debt-related aid and humanitarian aid. The outlier on the right-hand side of the graph is China.
Source: authors' elaboration based on OECD CRS (downloaded April 2017).

9 This section summarises the main findings. Robustness tests (not shown) were carried out and the results were not significantly different. These tests included splitting the data by donor, using only ODA data instead of ODF, using ODF commitments instead of disbursements, limiting ODF to only sector-allocable aid, including and excluding debt and humanitarian aid, and including and excluding China and India. Tests were also duplicated for IDA graduations in place of LMIC transitions.

10 Robustness tests are available for 2000, 2005 and 2010.

11 Thirty-one countries were reclassified between 1995 and 2010. Some countries were reclassified more than once. We only have sufficient data for 32 separate reclassification episodes. The analysis was limited to 1995–2010 in order to ensure sufficient data coverage for five years before and after reclassification.

Figure 2 Grants as a share of ODF



Source: authors' elaboration based on OECD CRS (downloaded April 2017).

larger share of grants when they are reclassified as LMICs (contrary to our hypothesis).

However, when interpreting such trends on reclassification to LMIC status, larger historical trends must be taken into consideration. In aggregate, the ratio of grants to loans in ODF increased for both LICs and LMICs over the mid-1990s and 2000s (Figure 2).[12] During this period, most countries saw a steady increase in the share of grants, even if they transitioned to a higher income class. This trend continued until the mid-2000s. Since then, the share of grants across LICs has been quite stable, but it has started to fall for LMICs, to less than 40% of total ODF.

Looking at the 32 reclassifications between 1995 and 2010 individually, countries reclassified to LMIC status before 2005–2006 (corresponding to the peak in the grant share among LMICs) were likely to see an increase in grants (relative to loans) after transition, while countries reclassified after 2006 were more likely to see a fall in the share of grants vis-à-vis loans (Figure 3). One would expect countries that were reclassified from LIC to LMIC status to see grants accounting for a smaller share of their ODF. This was not the case if we look at the aggregate figures prior to 2005–2006.

How has dependency on aid changed?

Data suggest that countries do become less dependent on aid as their income grows. Figure 4 shows the correlation between aid dependency[13] and GNI per capita in 2013. The outliers are all small island developing states. The average ODA as a share of central government expenses was 56% for LICs and 20% for LMICs.

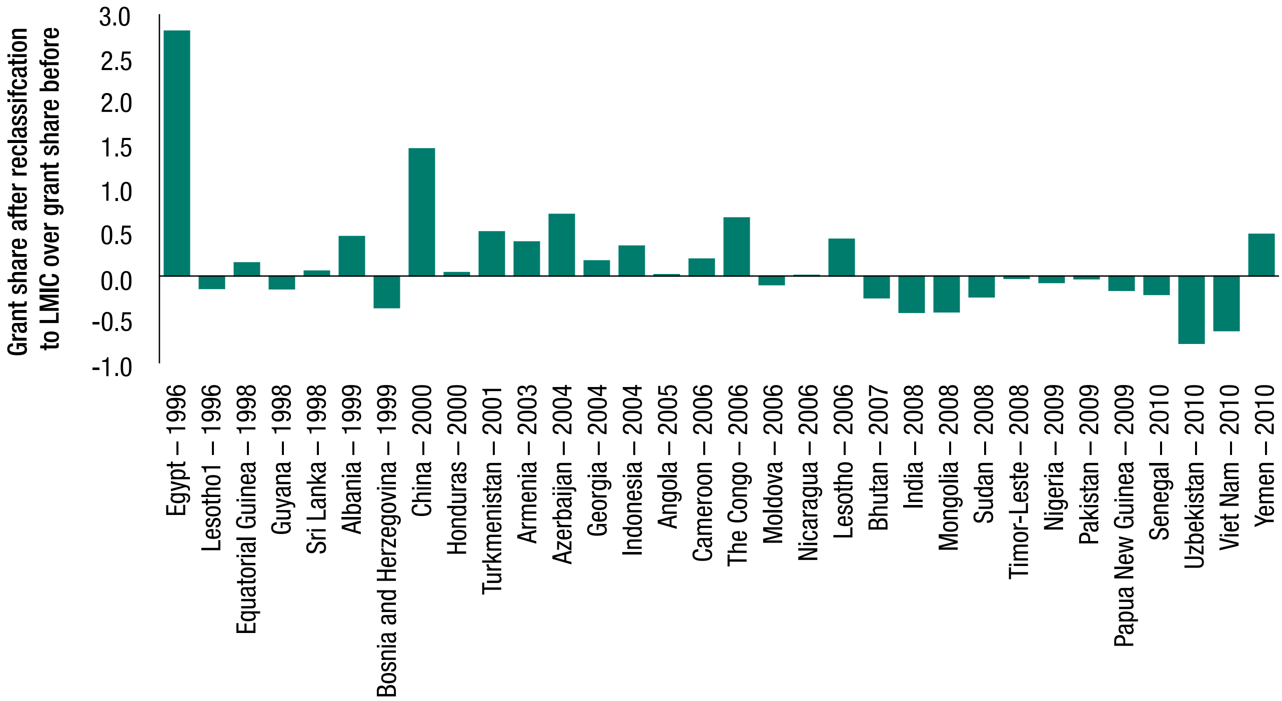
On average, countries saw their aid dependency fall in the years both preceding and following reclassification. Figure 5 shows the trend in aid dependency among 17 countries reclassified to LMIC status between 1993 and 2014 (normalised so that the value at the year of transition is 100).[14] Even considering historical trends in the overall volume of aid (i.e. a significant increase on the 2000s), this picture holds true for a large majority of countries.

12 In this and subsequent similar time-series charts, we use dynamic groups for the income classifications. For example, a country that transitioned from LIC to LMIC in 2006 is counted as an LIC in 2005 and LMIC in 2006.

13 Measured here as net ODA received as a share of central government expenditure. We chose data for 2013 because of greater data availability across countries.

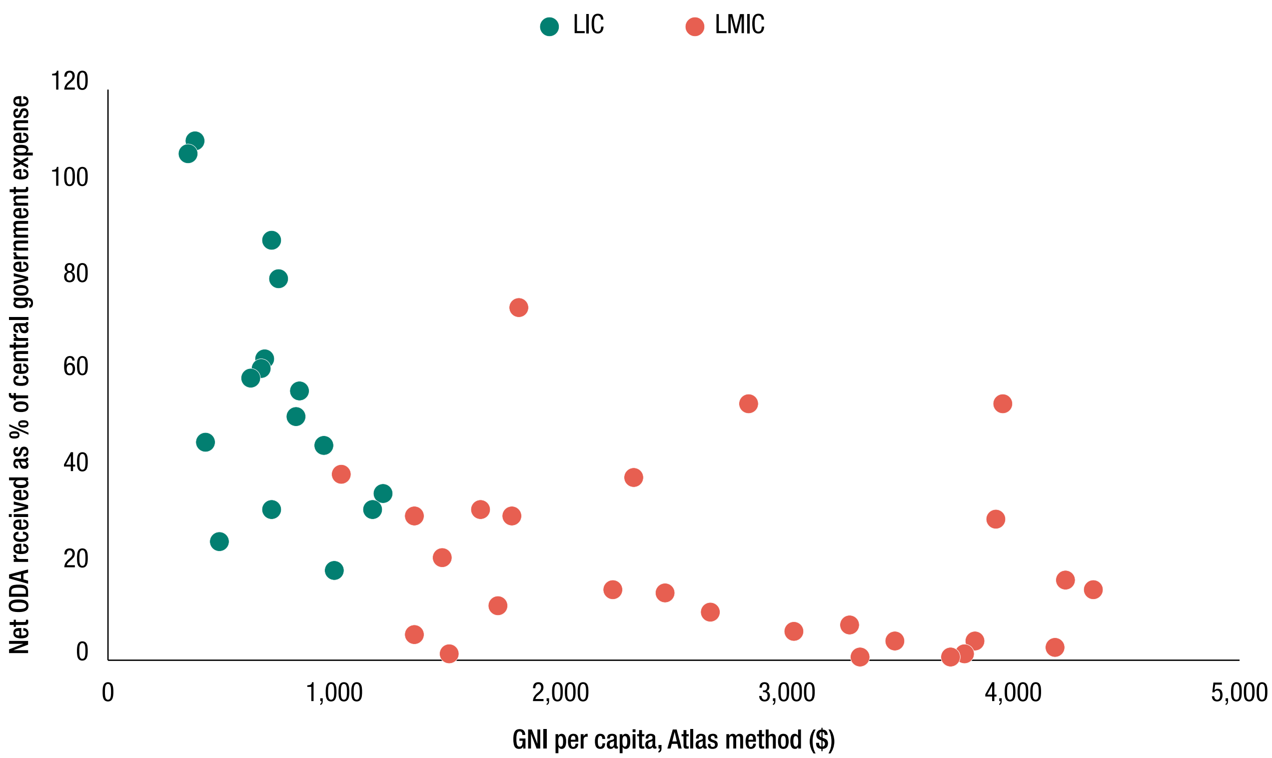
14 Data coverage only allowed analysis of 17 countries.

Figure 3 Change in grant share of ODF five years before and after reclassification



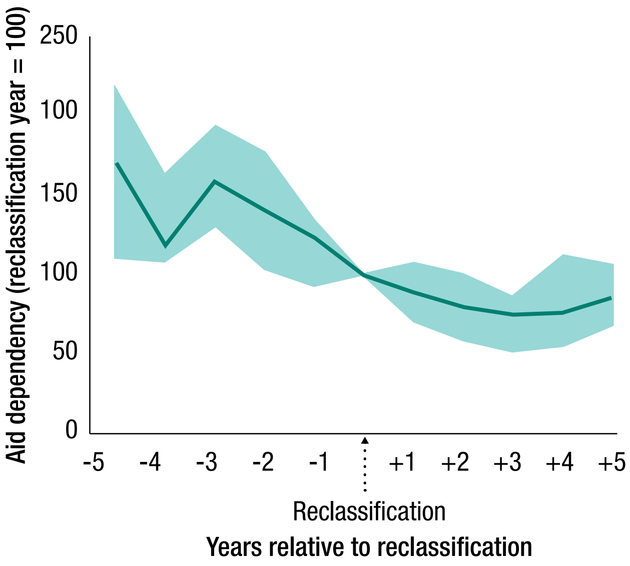
Note: excludes debt-related aid and humanitarian aid. Each bar represents one transitional episode. The size of a bar denotes the average share over the five years after transition divided by the average share over the five years before transition, minus 1. The shares are normalised so that for each individual transition the share in the year of transition = 100. A score of 1 indicates that the average for the five years after transition is twice as large as the average for the five preceding years. A score of 0 indicates no difference in averages.
Source: Authors' elaboration based on OECD CRS (downloaded April 2017).

Figure 4 Aid dependency and GNI per capita, by income classification, 2013



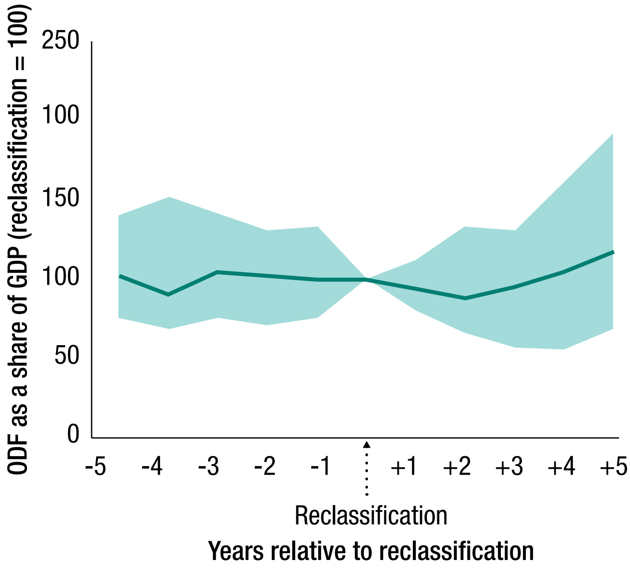
Source: authors' elaboration based on World Bank WDI (DT.ODA.ODAT.XP.ZS, downloaded July 2017).

Figure 5 Aid dependency before and after reclassification to LMIC (normalised)



Note: 50% band includes second and third quartiles. Normalised so that aid dependency at transition = 100. Source: authors' elaboration based on World Bank WDI (DT.ODA.ODAT.XP.ZS).

Figure 6 ODF as a share of GDP before and after reclassification to LMIC



Note: 50% band includes second and third quartiles. Normalised so that value at year of transition = 100. Excludes debt-related aid and humanitarian aid. Source: Authors' elaboration based on OECD CRS (downloaded April 2017).

How has the composition and volume of official development finance (concessional and non-concessional) evolved?
Looking at data for 33 reclassifications between 1995 and 2010,[15] countries received as much ODF as a share of GDP after reclassification as before (Figure 6). This implies that, on average, the increase in OOFs was sufficient to compensate for the loss of ODA.

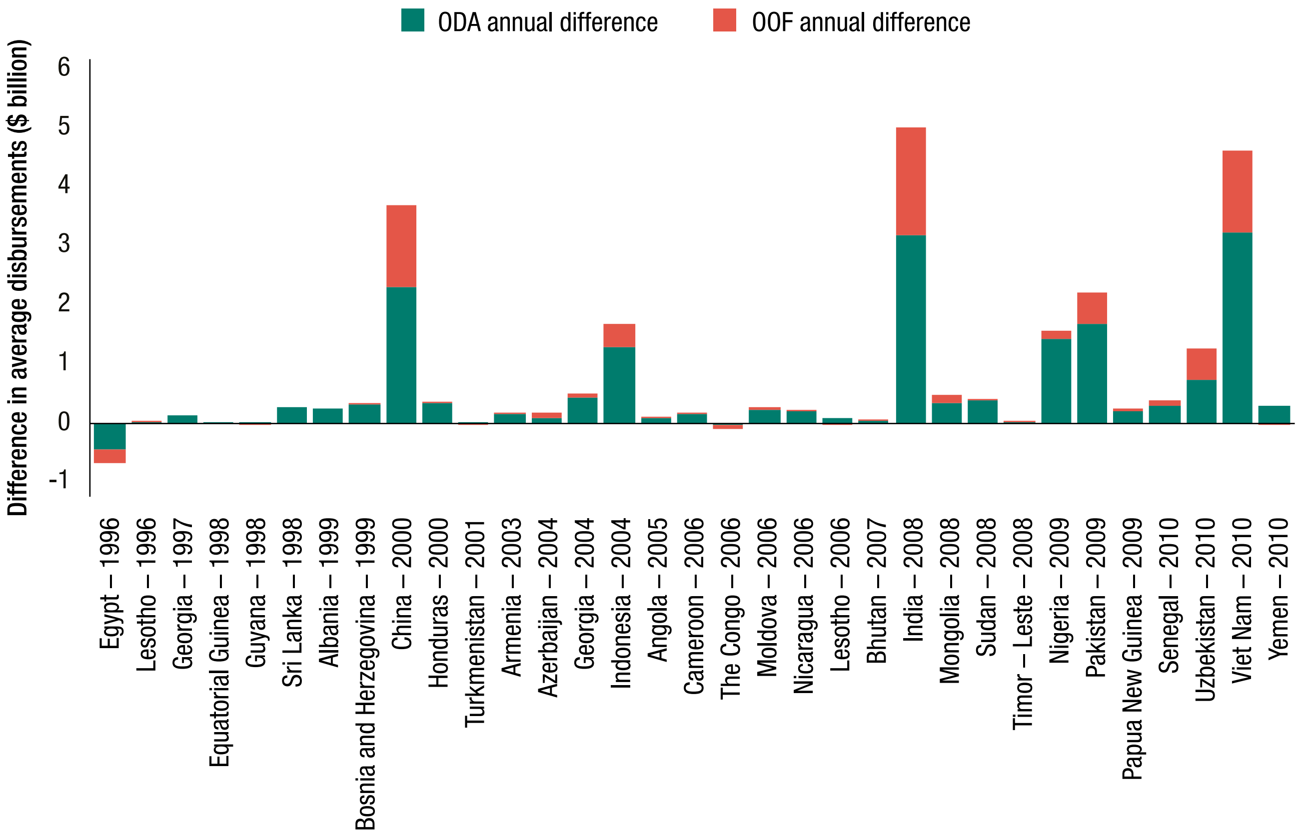
In absolute terms, both ODA and OOFs increased in most countries that were reclassified from LIC to LMIC status from the mid-2000s. Figure 7 shows the change in average ODA and OOFs over the five years before and after reclassification for 33 episodes. Most of countries saw an increase in both ODA flows and OOFs, while a small number saw a decrease in OOFs. While, on average, ODF continues to rise after reclassification, it increases more slowly than GDP.

2.2.2 Terms and conditions and sectoral allocation of official development finance

How have the terms and conditions of the different financing options evolved?
Newly reclassified LMICs face not only a higher share of loans in their ODF, but also tougher terms on those loans, i.e. shorter maturities and higher interest rates. On average, and unsurprisingly, LICs benefit from both lower interest rates and longer maturities on their official loans than LMICs. The differences in terms for the two income categories have been reduced in recent years, especially interest rates, reflecting low interest rates globally. Almost all developing countries saw a decrease in interest rates between 1990 and 2016, regardless of reclassification (Figure 8).

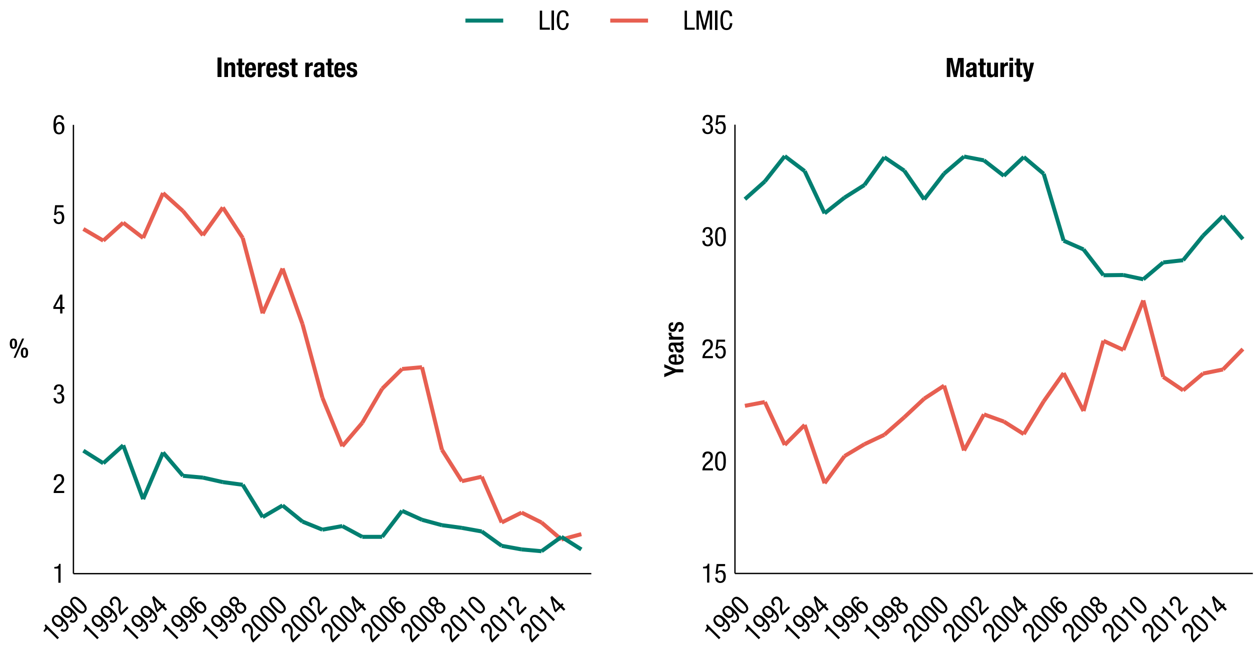
15 For this analysis, data were available for 33 reclassification episodes from LIC to LMIC status since between 1995 and 2010.

Figure 7 Absolute difference in annual average ODA and OOFs five years before and after reclassification



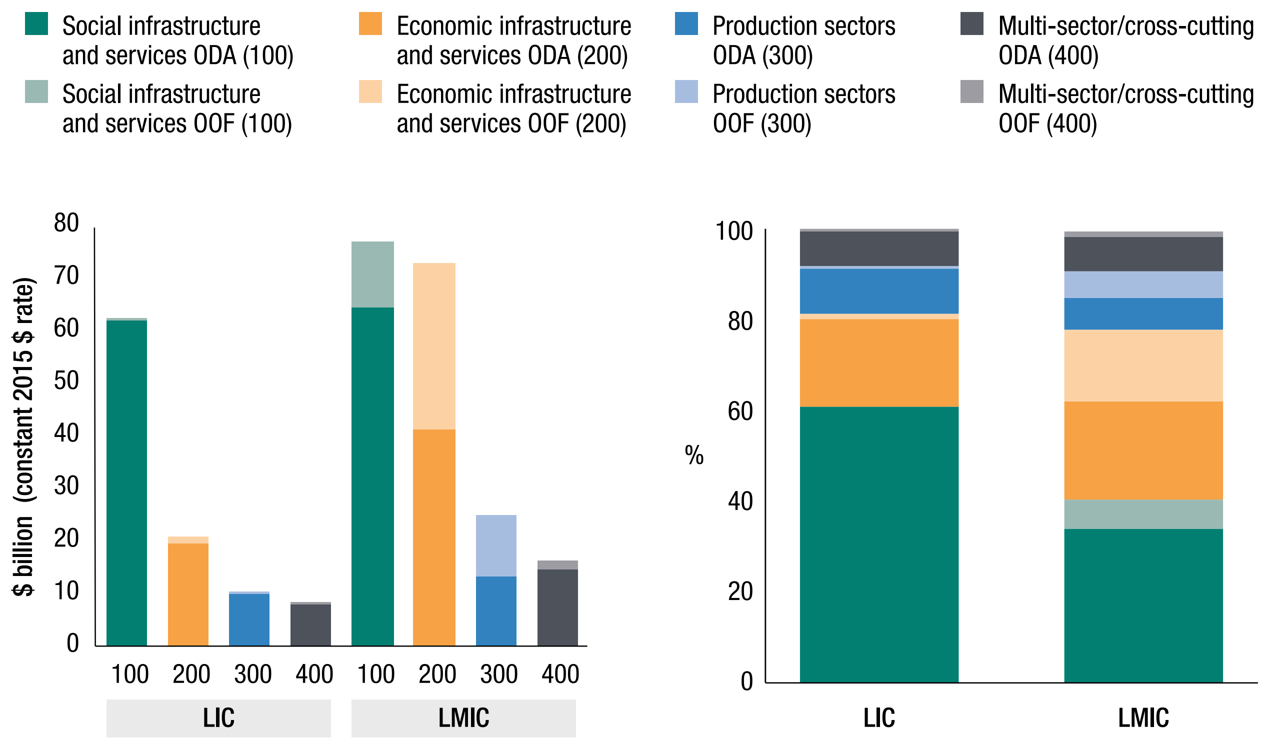
Note: excludes debt-related aid and humanitarian aid. Each bar represents one transitional episode. The size of a bar denotes the difference between the average annual amounts of ODA and OOFs received over the five years after transition and the average annual amounts received over the five years preceding reclassification. For example, a country that received an average of $1 billion in ODA annually before reclassification and $2 billion after reclassification would be shown as having an absolute annual difference in ODA of $1 billion.
Source: authors' elaboration based on OECD CRS (downloaded April 2017).

Figure 8 Average interest rates and maturity of official debt



Source: authors' elaboration based on World Bank WDI (DT.INR.OFFT; DT.MAT.OFFT).

Figure 9 Sector-allocable ODF, 2013–2015



Note: 100 = social infrastructure and services; 200 = economic infrastructure and services; 300 = production sectors; 400 = multi-sector/cross-cutting. Sum of three years 2013–2015.
Source: authors' elaboration based on OECD CRS, accessed April 2017; World Bank.

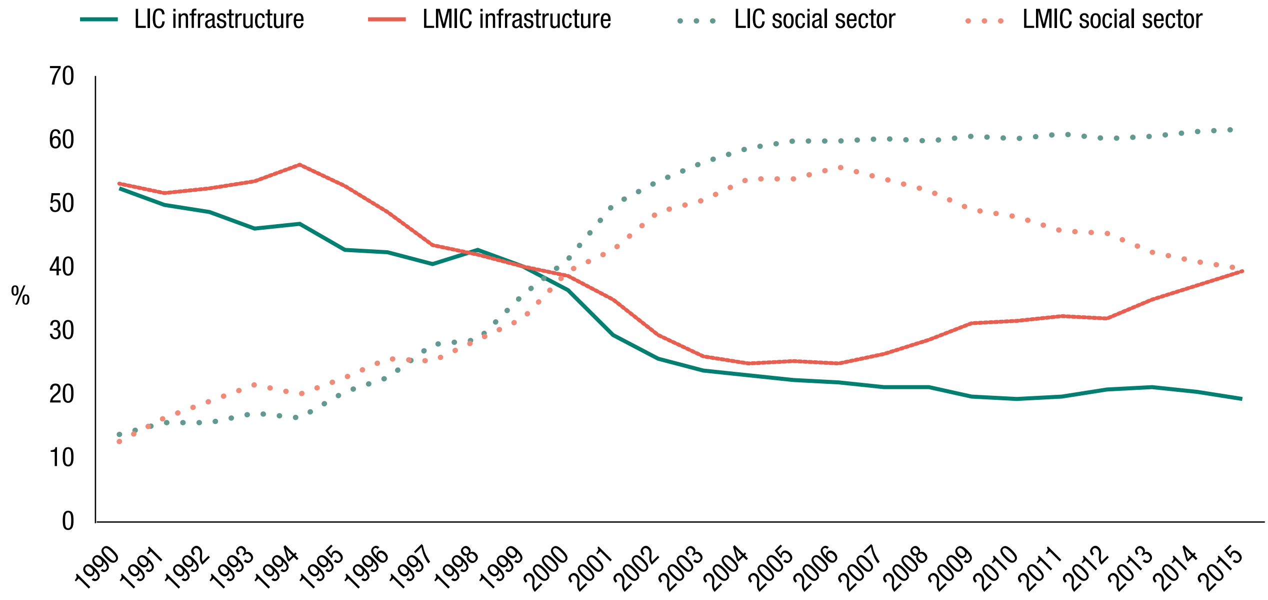
How has the sectoral composition of both external and domestic sources of finance of the government budget evolved?
Aggregate data for 2013–2015 show that LICs received more ODF in the social sectors (about 60% of total ODF), while LMICs received almost similar amounts of ODF in both the infrastructure and social sectors (above 40% each of total ODF) (Figure 9). However, much of the infrastructure financing to LMICs was in the form of OOFs rather than ODA.[16]

The sectoral composition of total ODF has changed since 1990. The share of ODF to the social sectors increased across all income groups throughout the 1990s and early 2000s. This reflected a rise in the share of assistance targeted at the social sectors due to commitments to help achieve the MDGs (Figure 10). For LMICs, this trend peaked in the mid-2000s and the share of ODF to the social sectors has declined steadily ever since to about 40% of total ODF. For LICs, the share has not declined, but plateaued at about 60% of total ODF. The exact opposite trend is seen for ODF to infrastructure.

Looking at individual cases of reclassification to LMIC status, for each of 31 cases, Figure 11 compares the average share of ODF to the social sectors over the five years before with that of the five years after transition. It shows that for transitions that occurred before the mid-2000s, on average, the share of ODF to the social sectors increased. Among the transitions that occurred later, more countries saw the share of ODF to the social sectors fall (and any positive changes in the share to the social sectors were smaller).

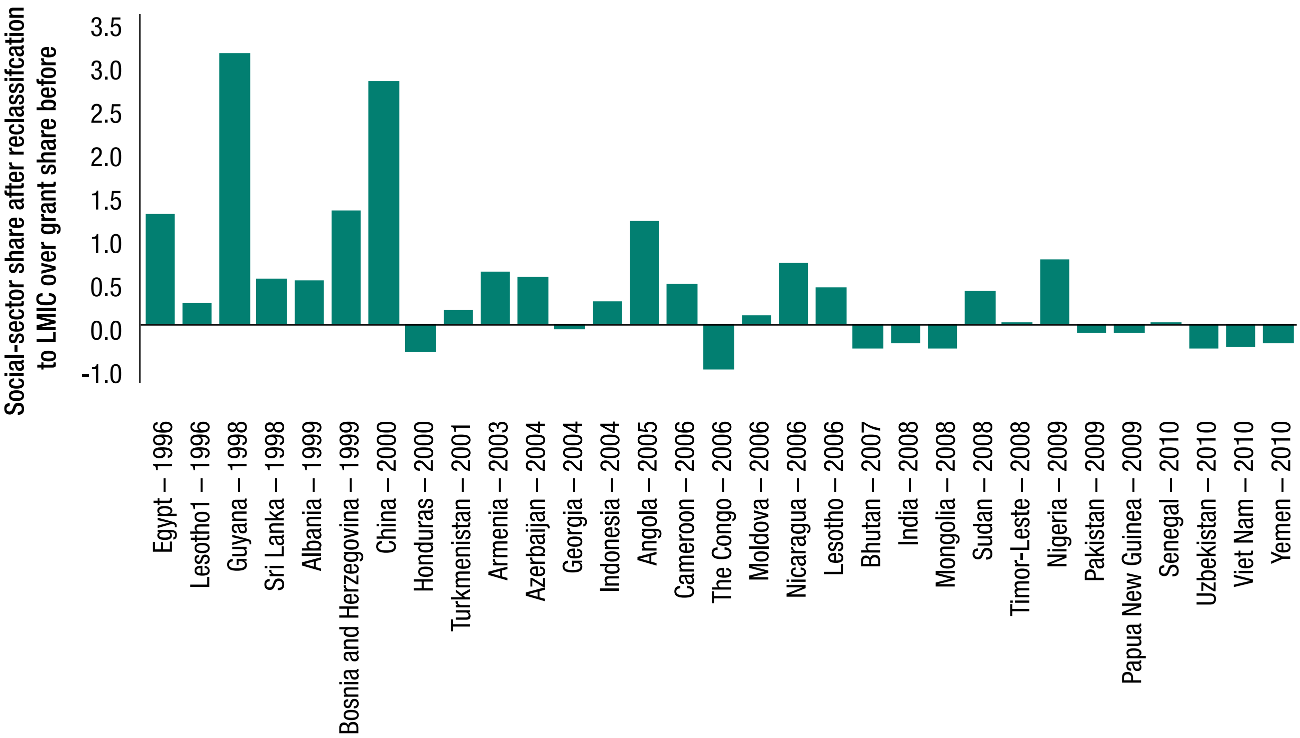
16 The other sectors (production sectors and multi-sector) remained steady, at around 20% for both income groups.

Figure 10 Infrastructure and social-sector shares of sector-allocable ODF, by income classification (three-year moving averages)



Note: sector-allocable ODF includes purpose codes 10000–49999.
Source: authors' elaboration based on OECD CRS (downloaded April 2017).

Figure 11 Change in social-sector share of ODF five years before and after reclassification



Note: social sectors comprise CRS purpose codes 11110–16064. Each bar represents one transition episode. The size of a bar denotes the average share over the five years after transition divided by the average share over the five years before transition, minus 1. The shares are normalised so that for each individual transition the share in the year of transition = 100. A score of 1 indicates that the average for the five years after is twice as large as the average for the five preceding years. A score of 0 indicates no difference in averages.
Source: authors' elaboration based on OECD CRS (downloaded April 2017).

2.3 Conclusions: what evidence or gaps were found in the literature review and cross-country data analysis?

The review of the literature and the data analysis across countries corroborated some of the hypotheses we set. Particularly unsurprising was that aid dependency does fall following transition to LMIC status. However, some of our other hypotheses were challenged, including those relating to the evolution of instruments following reclassification and graduation (i.e. the grant and loan composition), to sectoral allocation of ODF, and to changes in the composition of ODF between ODA and OOFs. Table 2 summarises the analysis presented in this section.

As Table 2 illustrates, there are indeed a few grey areas that require further scrutiny. Trends and policy approaches at the country level need to be unpacked if we are to understand whether and how development finance evolved after reclassification from LIC status and after graduation from IDA.

Table 2 Literature review and cross-country data analysis: summary of findings

Research questions	Evidence from literature review	Evidence from data analysis	Summary
1. How have financing instruments (grants and loans) evolved?	Loans as a share of total assistance rose vis-à-vis grants (albeit with an exception)	LICs tend to receive a larger share of official finance via grants than LMICs, however, loans as a share of LMICs' total official finance has only been rising since the mid-2000s	Mixed evidence
2. How has dependency on aid changed?	Countries became less dependent in relative terms; mixed evidence in absolute/ volume terms	In most cases, in relative terms	In most cases, in relative terms
3. How has the composition and volume of official development finance (concessional and non-concessional) evolved?	Mixed evidence, across countries and based on country examples	In relative terms, non-concessional flows are enough to make up for the fall in concessional flows. Most transitioned countries saw an increase in both ODA flows and OOFs, while a small number saw a decrease in OOFs	Mixed evidence
4. Have countries experienced the 'missing middle' of development finance?	Mixed evidence	Analyses for the eight case studies to review evolution over time at the country level	
5. How have the terms and conditions of official development finance evolved?	Maturities tended to shorten. Interest rates increased, but less than expected because of low rates globally (based on one country example).	In aggregate, yes, but interest rates have dropped for all countries lately, evening out differences between income categories	Interest rates increase, maturities reduce
6. How has the sectoral composition of both external and domestic sources of finance of the government budget evolved?	Mixed evidence about the sectoral allocation, but the literature is thin and primarily relies on case studies	LMICs receive more external finance to infrastructure and much of this comes in the form of OOF	Increasing share to infrastructure development in LMICs
7. What were the government strategies in place to address changes in development finance during transition?	No evidence from the literature of strategies in place to manage the transition towards non-concessional finance	Not available from quantitative analysis	Analyses for the eight case studies to review evolution over time at the country level

The eight case studies presented in Sections 3 to 5 give a more granular assessment, grounding changing patterns in a country's political economy, economic, social and political contexts, which affect and drive decisions on access, volume and terms and conditions of both ODF and public finance.

3 Case-study overview and country contexts

This report is the very first attempt to look systematically at the impact on development financing during this transition from low to middle-income country, and the first to examine the experiences of countries as they go through transition. We took a case-study approach to delve into the trajectories and experiences of eight countries, with the aim of filling the gaps identified in the literature review and data analysis. In this section, we describe the economic, social and political contexts shaping decisions on volumes and allocations of finance across the eight country case studies. Sections 4 and 5 elaborate on the main findings for the eight countries (on development finance and strategic approaches, respectively).

3.1 Overview of the eight country case studies

Eight countries were chosen as subjects for the case studies: Egypt, Ghana, Lao PDR, Nigeria, Pakistan, Papua New Guinea, Sri Lanka and Viet Nam. Box 2 elaborates on the criteria used in the selection of this group of countries.

All these economies are now classified as LMICs and were all reclassified as LMIC or graduated from IDA between 1995 and 2012 (Table 3). We chose 2012 as the cut-off year so there would be sufficient time-series data to allow analysis of trajectories of development finance and financing strategies after reclassification to LMIC status or graduation from IDA (or the soft windows of the MDBs).

Table 3 Overview of analytical and operational classifications

	Egypt	Ghana	Lao PDR	Nigeria	Pakistan	Papua New Guinea**	Sri Lanka	Viet Nam
Year of reclassification from LIC to LMIC*	1996	2011	2011	2009	2009	2009	1998	2010
Operational classification: World Bank	IBRD	IDA	IDA	Blend	Blend	Blend	IBRD	IBRD
Operational classification: regional development bank, as of FY2018 (bank)	Non-concessional (AfDB)	Concessional (AfDB)	Concessional (ADB)	Non-concessional (AfDB)	Blend (ADB)	Blend (ADB)	Blend (ADB)	Blend (ADB)

Years are the calendar year the World Bank classification was changed (i.e. the year after crossing the threshold). Classified as LMIC until 2000. AfDB, African Development Bank; ADB, Asian Development Bank. Source: World Bank OGHIST; AfDB and ADB websites.*

Box 2 Criteria for case-study selection

To be considered for inclusion in this study, countries had to meet the following criteria:[1]

- Were classified as a middle-income country during World Bank FY2017. Low-income and high-income economies were thus excluded.
- Were not small island developing states or countries with a population below 1 million or above 1 billion. Small island developing states are usually IDA eligible, regardless of their income per capita. Countries with a population above 1 billion (China and India) were excluded because of the complexity of their economies.
- Were reclassified to LMIC status and/or graduated to IBRD at least five years ago (or at least five data points are available for the country). Countries such as Kenya, which became a blend country only in the last IDA replenishment, and Kyrgyzstan, which became an LMIC in 2013, were therefore excluded.

We wanted to ensure a balanced representation of countries by operational classification. Three of the countries selected have already graduated from the IDA window: Egypt (1998), Sri Lanka (2017) and Viet Nam (2017). The remaining five countries are all borrowing from IDA on blend terms, with Nigeria, Pakistan and Papua New Guinea also having access to IBRD loans.[2] Note that IDA eligibility is based on more than just income level – Viet Nam, for example, graduated from IDA before countries with much higher GNI per capita, such as Nigeria and Papua New Guinea.

Finally, we wanted a balanced geographical representation across Africa, South Asia and South East Asia within the time horizon chosen (1995–2012).

Country selection was also influenced by pragmatic considerations, i.e. the degree of prior ODI contact and prior experience working in the country (especially in terms of access to local partners).

1 Indonesia was not considered because it had been used as a pilot case study.

2 Ghana and Lao PDR are both IDA countries, but borrow from IDA on blend terms.

3.2 An overview of the economic, social and political contexts shaping volume and allocation of finance

A country's economic context, social challenges and political situation shape its access to development finance. Following a framework elaborated in Prizzon et al. (2016), we would, for example, assume that countries with higher rates of economic growth have greater opportunities to access international capital markets and diversify funding sources. Similarly, we would expect countries of geostrategic importance to be in a stronger negotiating position in relation to their development partners.

In this section we analyse the key dimensions of the economic, social and political contexts of the eight case-study countries to inform the analysis in Sections 4 and 5 (albeit with a certain degree of simplification, given the large number of countries reviewed). Annex 3 presents individual country factsheets, summarising key dimensions of the economic, social and political contexts in the case study countries, as well as trends for financing development during the transition from LMIC status and/or graduation from the soft windows of the MDBs.

3.2.1 Economic context

Macroeconomic performance

Most countries posted a strong economic performance from the early 2000s and weathered the consequences of the 2007–08 international financial and economic crisis. We can cluster the eight case studies into three main groups.

- Lao PDR, Sri Lanka and Viet Nam recorded strong economic growth from the early 2000s, often above 7% annual GDP growth, though this has slowed recently.
- Ghana, Nigeria and Papua New Guinea, all oil and gas-rich economies,[17] share a similar or even stronger economic growth path. However, their high dependence on natural resources meant the slump in oil and gas prices that started in 2014–15 translated into falling GNI per capita in these countries.
- Economic growth in Egypt and Pakistan was volatile or even negative. Egypt's growth rate deteriorated in the early 2000s (not long after reclassification to LMIC and graduation from IDA). In Pakistan, economic performance was affected by economic policies of different governments and natural disasters. The country was the fourth richest among the group in 2000 (in per capita terms) and then had the lowest income per capita within the group until 2015.

The rebasing of Ghana's and Nigeria's national accounts had direct implications for their analytical classifications and even funding eligibility. In November 2010, nearly overnight, Ghana's GNI per capita crossed the IDA operational threshold as the result of the updated figures. In April 2014, the revised GNI per capita figures meant Nigeria became Africa's largest economy, making it eligible, for example, for the accelerated phasing out of Gavi assistance.

Public finance

Low capacity to boost and expand fiscal revenues – at least as a share of GDP – is a common challenge across all the eight countries reviewed in this report. In the case of Egypt, total fiscal revenues as a share of GDP indeed fell from 35% in 1995 to 24.3% in 2002, the period of graduation from the soft windows of the MDBs. Ghana and Nigeria's tax ratios are well below the sub-Saharan African average (the tax-to-GDP ratio was on average 15% in Ghana and, following the decline in oil prices, 5.9% in 2016 in Nigeria). Viet Nam's budget revenue depended significantly on revenue from crude oil until 2012.[18] Between 2004 and 2006, Pakistan's tax-to-GDP ratio was below 10%. The International Monetary Fund (IMF) programme, signed by the Government of Pakistan in 2013, included tax reforms as a condition, which allowed for the reduction of ad hoc exemptions and improvements in tax administration, thereby improving revenue collection. In terms of public revenue as a share of GDP, from 2005 to 2010 in Papua New Guinea the ratio decreased from 26.8% to 17.8% (Prizzon, 2014) and continued to fall afterwards. Section 4.4 will elaborate on this point, comparing trends in public finance vis-à-vis ODF.

In most countries, public expenditure as a share of GDP rose over time, as did fiscal deficits. In Ghana, for example, public expenditure increased from 22.5% in 2011 to 28% in 2017 (also because of a reform of civil-service wages). Nigeria and Papua New Guinea were the exceptions among the eight country case studies. In Nigeria, the fall in government revenues led to dramatic cuts in public expenditure, from 27% of GDP in 2000 to 11% in 2016 (the sub-Saharan African average was 21%). A similar trend, with a fall from 37% in 2011 to 22% in 2015, occurred in Papua New Guinea because of falling commodity prices (and thus falling government revenues).

Debt management and debt sustainability

Ensuring public debt remains sustainable has been a recurring challenge for several of the countries. Egypt and Nigeria both suffered debt crises in the early 1990s. Later, in the mid-2000s, Ghana and Nigeria received debt relief. Ghana benefitted from the World Bank's Heavily Indebted Poor Country (HIPC) Initiative. Nigeria regained IDA status

17 Between 2014 and 2016, Ghana, Nigeria and Papua New Guinea all earned more than 70% of their export revenues from natural resources.

18 This share was 19.1% of total revenues in 2012, but dropped significantly to about 3.6% in 2016 (Source: General Statistics Office of Viet Nam).

in 2005, to qualify for Paris Club debt relief. Sri Lanka refused HIPC status, despite its debt-to-GDP ratio reaching over 100% in the early 2000s out of fear that this would scare away private lenders and investors. While debt relief provided a brief respite in the mid-2000s, several of the countries have started borrowing again, with debt-to-GDP ratios rising to above 70% in Ghana (with an increasing proportion of commercial debt), Lao PDR and Sri Lanka. Pakistan, Papua New Guinea and Viet Nam have set legal limits for their public debt-to-GDP ratios, at 50%, 30% and 65%, respectively).

National strategies and priorities

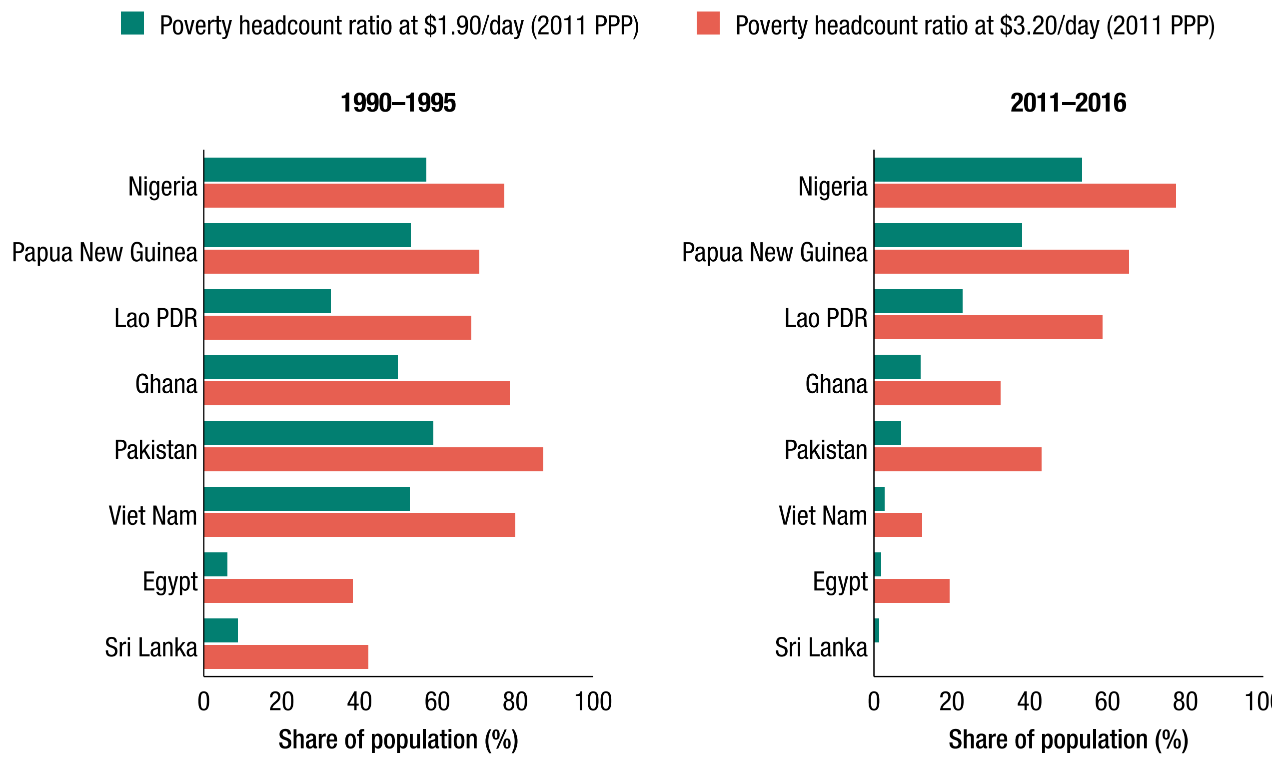
National development strategies tend to be broad and comprehensive, so it can be difficult to identify a small number of priorities (see a review in Prizzon et al., 2016). Nonetheless, the negotiations between governments and development partners usually converge on programmes that support those broader strategic goals. For example, before the change of government in mid-2018, Pakistan clearly prioritised investment in energy and road infrastructure (which did not align with some of the bilateral partners' priorities for education and health). Other strategies are meant to support graduation from least developed country (LDC) status (Lao PDR) and economic transformation, across both infrastructure and human capital (Ghana and Nigeria).

3.2.2 Social context

Poverty

The share of the population living below the extreme poverty line fell in all eight countries, but the picture (and breadth of improvement) differs widely between countries. The shares of the population living below the extreme poverty line in Nigeria and Papua New Guinea, the third- and fourth-richest countries by income per capita in our analysis, are 50% and 40%, respectively, and there has only been a marginal fall, especially in Nigeria (in 2009; Figure 12). Viet Nam is

Figure 12 Poverty rates, 1990–1995 vs 2011–2016



**Most recent data available are from 2009. **Most recent data available are from 2009, 1990–1995 data are from 1996.*
Source: authors' elaboration based on World Bank WDI (SI.POV.DDAY, SI.POV.LMIC). Downloaded April 2018.

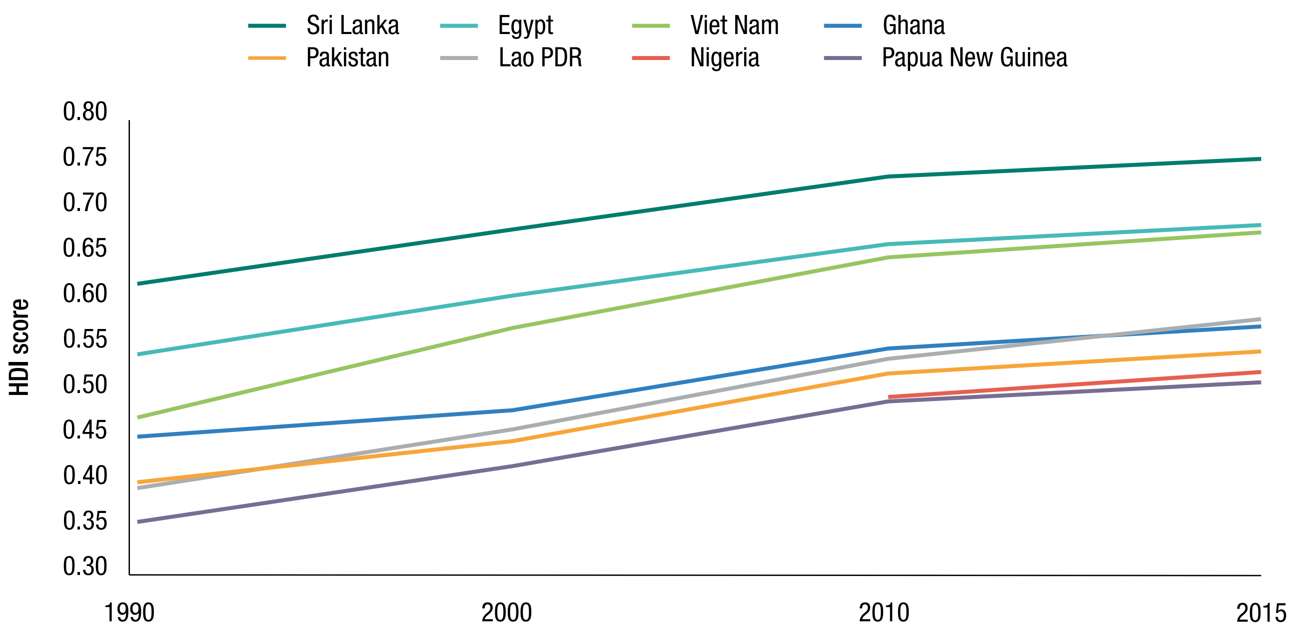
usually cited as an impressive example of poverty reduction, with a poverty rate close to zero, as are Egypt and Sri Lanka (although around a quarter of Sri Lanka's population was under the poverty line when it was reclassified as an LMIC).

However, averages and internationally comparable measures mask some challenges. The share of the poor living below the national poverty line rose in Egypt between 2004 and 2015 (from 19.6% to 27.8%). If the higher poverty threshold ($3.20 a day) is used, most of the population in Lao PDR, Nigeria and Papua New Guinea are classified as still being poor, and the rates have decreased only marginally over the past 20 years. At this threshold, none of the eight countries has a poverty rate lower than 10%. This means a large share of the population lives just above the extreme poverty line, but is vulnerable to falling below it in the case of a shock.

Human development

Mirroring the trajectories of poverty rates, all countries improved their Human Development Index (HDI) scores,[19] but again at very different speeds (Figure 13). HDI scores improved rapidly in Lao PDR and Viet Nam. Lao PDR recorded the third-fastest HDI improvement in Asia between 1990 and 2015, after Cambodia and Myanmar. Sri Lanka scores considerably higher than the other countries and ranks 73rd in the world – the second-highest ranking for any LMIC (behind Georgia). Even though HDI rank is correlated with income (income per capita being one of three components of the index), the three worst performers among our eight countries (Papua New Guinea, Nigeria and Pakistan) all have blend status. Their HDI scores are lower than those of some of the best-performing LICs.[20]

Figure 13 HDI scores, 1990–2015



**1990 and 2000 data not available.*
Source: UNDP HDI, 2017 edition.

19 The HDI is a synthetic measure to assess improvements in living standards, life expectancy at birth and years of education (and inevitably results are also driven by the rise in income per capita). The higher the index score – from 0 to 1 – the better the level of human development.

20 Nepal, the highest-scoring LIC, has a HDI score of 0.558.

Education and health

All in all, education and health indicators improved in all the countries reviewed in this report, again albeit at different speeds. The indicators considered in the case studies include: average years of school and school attendance rates; life expectancy at birth; and infant, child and maternity mortality rates and immunisation rates. (See the factsheets for the case study countries in Annex 3 on two of these indicators, life expectancy at birth and primary education enrolment rates.)

Challenges remain, though. Despite overall progress on the indicators, geographical imbalances in the quality of health care persist in Lao PDR, and in both education and health care in Ghana. In Nigeria, immunisation coverage improved, but fell far short of the increase needed to achieve the relevant MDG in 2015. In Papua New Guinea, immunisation rates against DTP (diphtheria-tetanus-pertussis) and measles for one-year-olds started falling in 2010 and recovered only in 2015.

3.2.3 Political context

Egypt, Nigeria, Pakistan and Sri Lanka have experienced political instability, unrest and even wars. Ghana, Lao PDR, Viet Nam and, to a lesser extent, Papua New Guinea have seen more political stability. Instability can have consequences for development finance flows. For example, in Sri Lanka, development partners' contributions were conditional upon peace talks. When the peace process stalled, traditional donors held back their funding; the Sri Lankan government then turned to other, non-traditional donors to make up the deficit (de Mel and de Silva, 2010).

Decentralisation also affects the ability of local governments to borrow from donors outside of central-government involvement. In Nigeria, state governments have the power to raise domestic loans independently, but external loans can only be contracted through the federal government, which guarantees and on-lends such loans to the state governments. Similarly, in Pakistan provincial governments can raise domestic and foreign loans, albeit below certain limits and with loan guarantees provided by the federal government.

For our case studies, global geopolitical trends are likely to have affected development finance flows. The wars in Afghanistan and Iraq led to an increase in aid to Pakistan from the US between the early 2000s and 2010. Historically, the US has been the largest donor to Egypt, because of the geostrategic position of the country in the Middle East region (recently such support has been cut). Refugee flows have also affected donor–recipient relations in many countries. Papua New Guinea is a notable example; since it started assisting Australia by housing asylum seekers, the balance of power in this relationship has shifted towards Papua New Guinea (Hayward-Jones, 2017).

Relations with bilateral donors and international financial institutions have been tense at times. In Ghana, development partners suspended their budgetary support disbursements in fiscal year 2013/14 because of poor macroeconomic performance (the coordination structures and platforms collapsed as a result). Similarly, the Nigerian government has been associated with fraud in the management of aid. Separate audit reports on grants from the Global Fund and Gavi have found systemic weaknesses in the management of funds by various government entities. While Pakistan was classified as a blend country, giving it the ability to access both concessional and non-concessional loans from the two large MDBs in Pakistan (World Bank and Asian Development Bank (ADB)), the fall in foreign-exchange reserves resulted in Pakistan not being able to draw down its IBRD non-concessional financing. Similar arguments applied to Lao PDR, after the 1997–1998 financial crisis, when the country had limited access to multilateral loans, in part because of its rising public debt. In Sri Lanka, tensions with an increasing number of donors following the 2004 tsunami and loan conditionalities imposed by multilateral and traditional bilateral donors mean the country has been approaching China and commercial lenders since 2005.

Finally, **natural disasters, such as the tsunami in 2004 that affected Sri Lanka and the floods in 2010 in Pakistan**, have led to a rise in humanitarian assistance to these countries.

3.2.4 Changes in donor mix

Across the eight countries, the mix of the development partners has changed. (This will be reviewed as a key component of Section 4.) A few development partners either left a country (because of its reclassification to LMIC status, among other factors) or began to support development cooperation programmes, both on concessional and non-concessional terms (independently from the country's income classification).

In some instances, **the number of donors operating in a country increased, rather than fell, because of transition to LMIC**. This is particularly the case in Egypt, where the number of donors nearly tripled between 1999 and 2015 (from 19 to 59). Despite more donors reporting aid figures to the DAC or joining the DAC since late 1990s, this is still a striking figure.

The rise of China as a donor has had a large impact on development finance in many of the case-study countries, especially countries geographically close to China. Lao PDR, Pakistan and Sri Lanka are all along the designated route for China's Belt and Road Initiative. Chinese development assistance and investments have been expanding in Ghana, Nigeria and Papua New Guinea. In Ghana, China's role as a source of investment capital has grown tremendously. Since 2010, Ghana has borrowed over $3.5 billion for investment projects and is in negotiation with Chinese companies for a barter arrangement to exchange minerals for infrastructure development. Between 2002 and 2013, China's loans to Nigeria reached over 45% of the value of the total loan packages provided by DAC countries and MDBs, while Chinese export credits were equivalent to 74% of the total credit provided by both DAC countries and MDBs. Pakistan has become part of China's Belt and Road Initiative, and the China-Pakistan Economic Corridor (CPEC) project has been launched, through which China is bringing investment into the country.[21] China is expected to become the biggest source of capital for Pakistan. Sri Lanka has received some aid from China since the 1990s, but China has been a significant donor since around 2007.

ODF from the Republic of Korea has also increased. While Japan remained the largest donor to Lao PDR from 2008 to 2016, the Republic of Korea rose from being its fifth-largest donor in 2008–2010 to its second-largest in 2014–2016. The Republic of Korea has also begun to play a more prominent role in Nigeria's development-finance environment. Development finance from the country rose to $91 million in 2015 from just $4.3 million in 2010. Before 2009, the World Bank, Japan, France and Germany were the main donors to Viet Nam and they provided more than 70% of total ODA to the country. After 2009, ADB and the Republic of Korea joined the group of main donors, together with Gavi and the Global Fund. The Republic of Korea replaced France as the main provider of OOFs to Viet Nam, reflecting its growing direct investment in Viet Nam's manufacturing sectors, particularly electronics components.

A few donors have left or are planning to leave. The companion paper to this project (Jalles d'Orey and Prizzon, 2019) reviewed donors' approaches to transition across the eight countries analysed in this report.

- More specifically, the Netherlands, the United Kingdom (UK) and Japan have cut their ODA to Ghana significantly since 2011. According to interviews with development partners, the Netherlands and Denmark are set to phase out development cooperation programmes and projects completely in the near future. The UK is considering the same course of action. These countries have turned their attention to promoting trade, investment and private-sector development.
- Several development partners have phased out their development cooperation programmes in Viet Nam. The Netherlands stopped bilateral support in 2012, then Sweden in 2013, Denmark in 2015, the UK (Department for International Development, or DFID) in 2016, Switzerland (Swiss Agency for Development Cooperation (SDC); the State Secretariat for Economic Affairs (SECO) is still present) in 2016 and Finland in fiscal year 2017/18.

21 The CPEC will focus on energy and road infrastructure projects. China will provide financing to Pakistan in the form of concessionary loans, zero-interest loans and direct investment.

According to the interviews, these partners' decisions were primarily driven by the reclassification of Viet Nam to LMIC status.

- At present, only smaller donors have left Pakistan, so the impact on the overall financing has not been significant (even though, after the case study was completed, the US announced major cuts in its aid programme in early September 2018).
- In Sri Lanka, the Swedish International Development Cooperation Agency (Sida) left the country in March 2010. In 2007, Sweden decided to reduce its number of focus countries and Sri Lanka was one of the countries that from which it decided to withdraw (McGillivray et al., 2012). The primary reason it gave was the lack of progress in achieving peace in Sri Lanka, with the reclassification to LMIC status cited as a secondary reason. Disbursements by Sida on loan projects continued until 2015. The SDC wound up its office in 2015, but assistance to Sri Lanka continues. Based on interviews with development partners, the reason to close the office in Colombo was the completion of post-war work directly implemented by the SDC.

4 Trends in development finance

The evidence generated by our literature review and data analysis – both cross-country and from individual studies – on the implications for development finance of transitioning to MIC status or graduating from IDA (or the soft windows of the MDBs) is often mixed and sometimes inconclusive. This section turns to the eight case studies to fill this gap. It reviews the development-finance trends for each of the countries in detail, based on the research question outlined in Table 1. While the research protocol was identical for all country case studies, the breadth and depth of the analyses vary because of differences in data availability and access to interviewees.

4.1 Volume and instruments of ODF

4.1.1 How have financing instruments (grants and loans) evolved?

Loans as a share of total ODF expanded in most countries after transition to LMIC status, with some exceptions (Figure 14). The common factor for Egypt and Papua New Guinea is that their largest development partners use grants as their main financing instruments (in volume terms).

- In **Egypt**, loans as a share of ODF did not increase right after graduation but only later.[22] According to interviews, Egypt has historically been reluctant to borrow, especially on hard terms. Support received from other countries enabled Egypt to benefit from softer terms or make lending agreements conditional upon receiving grants to match loans. A large share of US and EU funding has been in the form of grants, and between 1995 and 2000, Germany provided more loans than grants.[23] According to interviews with development partners, Germany offered Egypt grants to support programmes in the social sectors and for capacity development, but offered loans for infrastructure projects and innovation.
- In **Papua New Guinea**, while grants as a share of ODF was 90.9% between 1998 and 2007, it fell to less than 20% in 2008–2010 and then rose again to nearly 100% on average between 2014 and 2016. However, this share is still far higher than for any other country reviewed in this report. Papua New Guinea's largest donor, Australia, which provides more than 80% of its bilateral development finance, primarily gives grant financing.

In the other six countries, the hypotheses initially set were largely confirmed, albeit with caveats. [24]

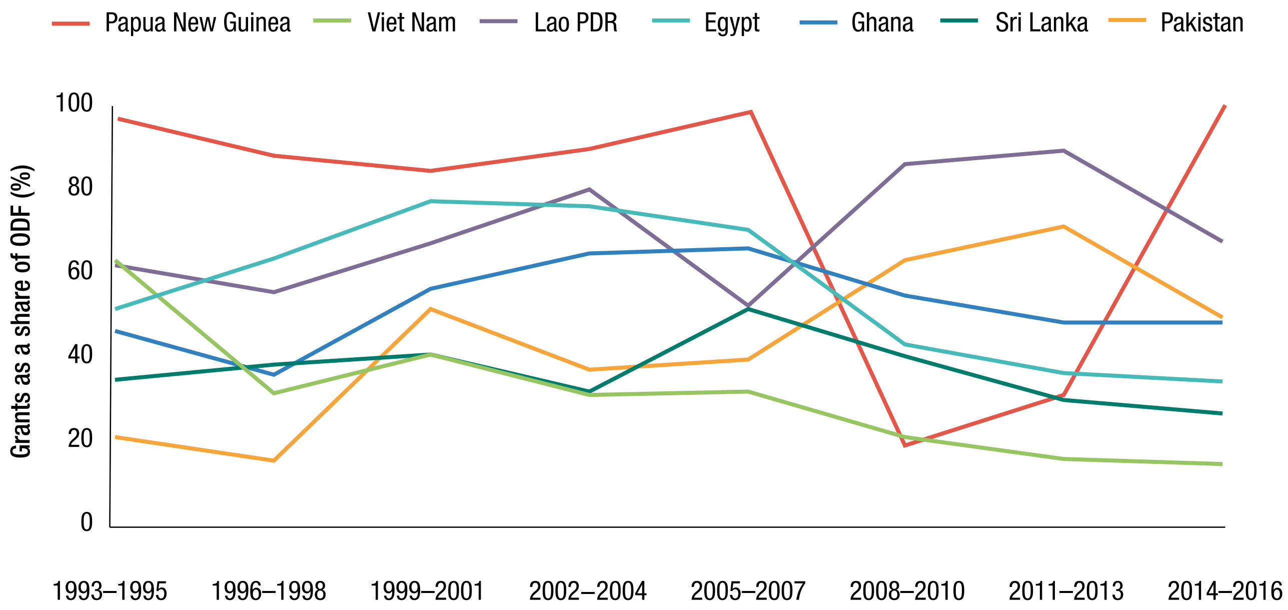
- In **Ghana**, the most concessional component of ODA (grants) declined faster and earlier than in the other countries reviewed. Grant volumes plummeted in 2008–2010. Annual average ODA loan disbursements in the post-reclassification period were 35% larger than in the in the period before reclassification.

22 Loans as a share of ODF did peak in 2001, however.

23 However, since 2001, Germany has provided significantly more grants than loans.

24 Viet Nam is not included in this analysis.

Figure 14 Grant composition of ODF, three-year averages, 1993–2016



Note: Nigeria is excluded because it received a large debt-relief package in the mid-2000s, which affected the calculations.
Source: OECD CRS and authors' calculations based on individual case studies.

- In **Lao PDR**, the share of loans (both ODA and OOFs) has increased over time. Loans as a share of ODF were 5% in 2010. This share started to rise, peaking at 57% in 2015, then declining to 44% in 2016. An upward trend in loans from DAC donors as a share of ODF has also been matched by an increase in OOFs and ODA-equivalent loans from China. Chinese official finance to Lao PDR has been largely dominated by loans.[25]
- In **Pakistan**, trends have shown significant volatility. Between 2013 and 2015, ODF fell by 19%. This period marked the start of a second democratic government after a dictatorship and an improvement in Pakistan's economic indicators. Based on interviews, we understood that donors reduced their grants in response to this improved economic status. The new government also had clearly defined priorities for investment in energy and road infrastructure, which did not fully align with the priorities of some grant-providing donors (primarily USAID). This meant a gradual reduction in ODA grants (a fall of 57% in two years). In 2008, ODA grants were 25% of ODF, rising to 63% in 2010 (primarily due to humanitarian assistance in response to the floods of 2010). However, ODA grants fell back to only 31% of ODF in 2015. Mirroring this trend, in 2008, ODA loans made up only 25% of ODF, but in 2015 they comprised 42% (primarily IDA loans).
- In **Nigeria**, grants as a share of ODF gradually reduced, from an average of 57.2% over the eight-year period before reclassification (2000–2007) to 7% post-reclassification (2008–2015). The decline in grants was mainly the result of debt-relief support in 2006 and 2007. After 2007, grants as a share of total finance flows declined to 55% post-reclassification from 67% previously.
- In the case of **Sri Lanka**, the share of loans increased after reclassification to LMIC status in 1998, except in 2004 and 2005 (due to humanitarian assistance after the December 2004 Tsunami).

25 Figures presented above and in the graph do not include Chinese ODA and OOF-equivalent flows.

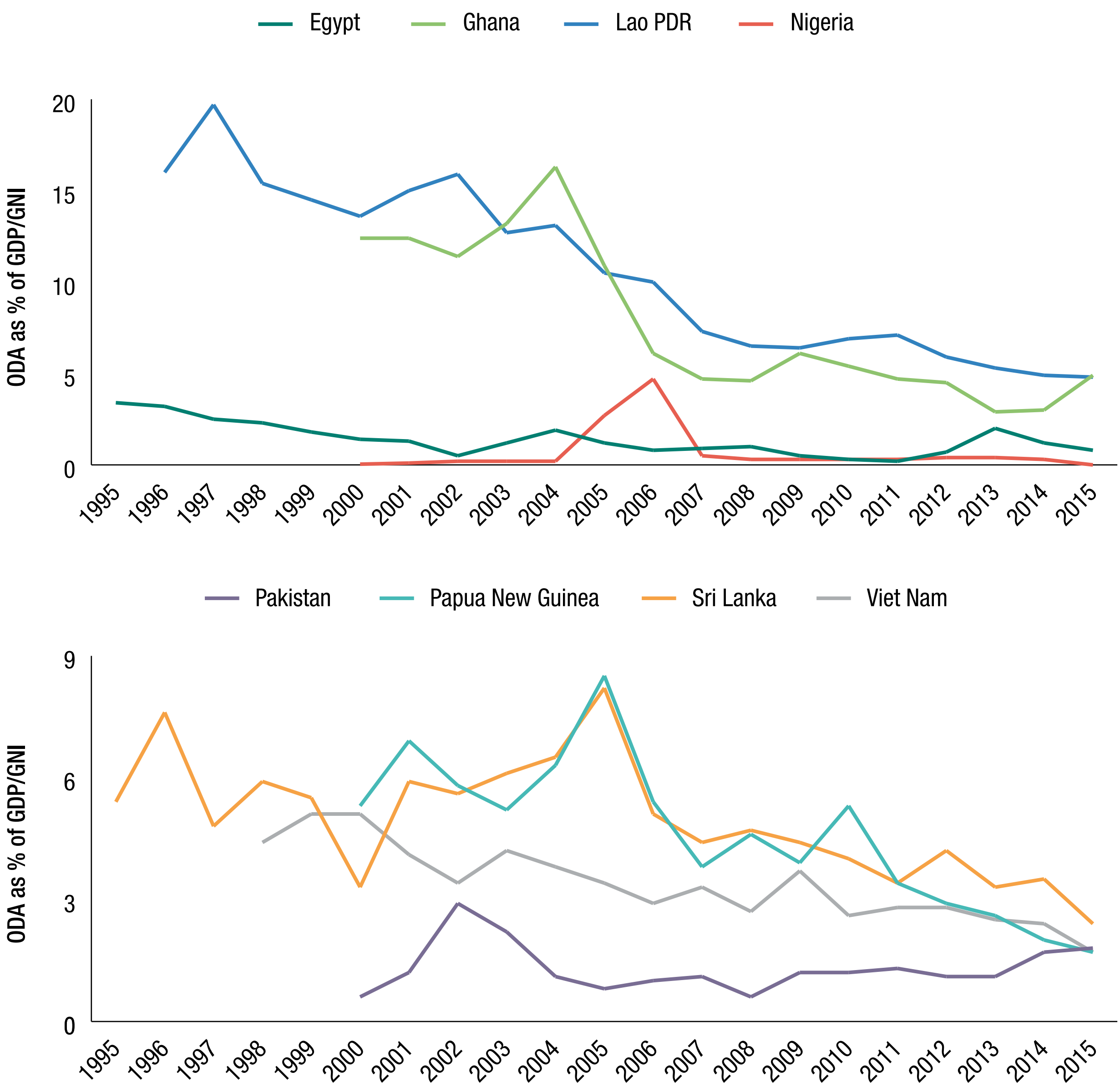
4.1.2 How has dependency on aid changed?

Dependency on aid flows declined sharply in several of the countries reviewed, but not in all of them, especially those that started with the lowest dependency ratios. One of the hypotheses tested in this report (see Table 1) is that, as countries move along the income-per-capita spectrum, ODA as share of GDP (or GNI) will fall due to the combined effects of reduced aid flows (as aid is targeted to the poorest countries) and increased GDP/GNI (Figure 15).

The ODA-to-GDP ratio declined in **Viet Nam** (falling from about 5% in 2000 to 1.7% in 2015), **Lao PDR** (from 19.7% in 1997 to 5.8% in 2008 and 4.8% in 2015) and **Papua New Guinea** (from more than 8% of GDP and 25% of central government expenses in 2005 to 6.5% of government expenses and less than 2% of GDP in 2015).

Measured as a share of GNI, aid dependency declined steeply in **Ghana** after reclassification. By 2010, ODA/GNI had declined to 5.4% and in 2016, it was only 3.2%. The sharp fall in net ODA received as a share of GNI in the period

Figure 15 Aid dependency



Note: data for Lao PDR, Nigeria and Viet Nam refer to share of GDP; data for other countries refer to GNI.
Source: authors' elaboration based on World Bank WDI and OECD data (2018).

2014–2016 – a 24% fall in cumulative receipts equivalent to $240 million – was driven by a reduction in grant financing, an increase in debt servicing on loans from multilateral institutions and GDP growth that increased the denominator significantly, especially following the GDP rebasing exercise.

The other countries had more volatile patterns. In **Egypt**, the ratio first decreased gradually well before graduation from IDA status, but then increased prior to the presidential elections in 2004 and in 2013. **Pakistan**'s dependency on ODA is low. From 2000 to 2015, the share never exceeded 3% of GDP. ODA accounted for 12% on average of total revenue, despite Pakistan's weak revenue performance (but it has increased over time). In **Nigeria**, ODA as a share of GDP has remained relatively flat since 2000 (except during the debt-relief period of 2005–2006) and since 2008, it has been below 0.5% of GDP.

4.1.3 How has the composition and volume of official development finance (concessional and non-concessional) evolved?

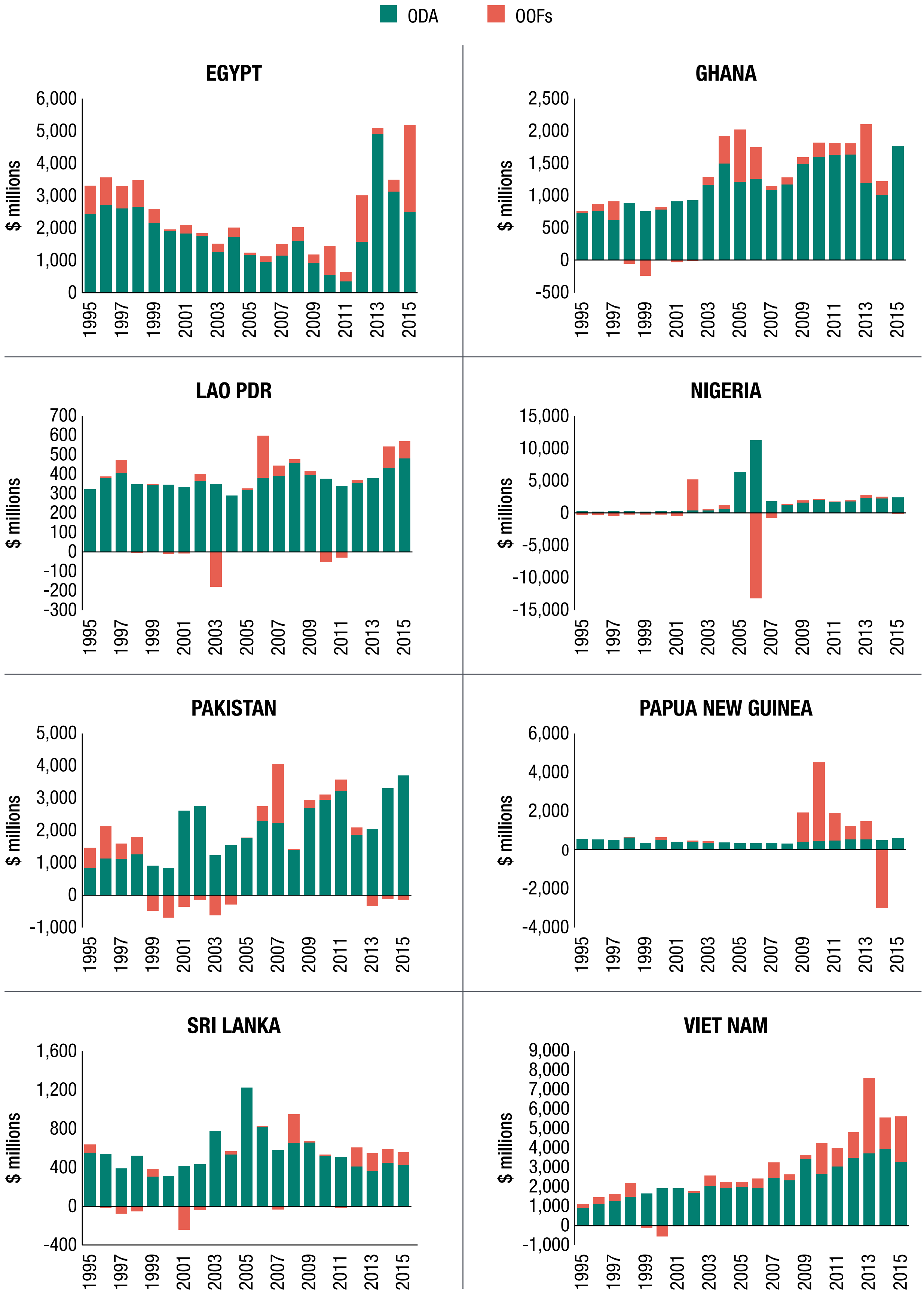
The short answer is that ODA *increased* in nearly all countries after reclassification to LMIC status and graduation from the soft windows of the MDBs, the exceptions being Ghana and, more recently, Sri Lanka and Viet Nam, with the increase in OOFs partly compensating for the fall in ODA in these last two countries (Figure 16).

Why is the case? The economic, social and geostrategic dimensions illustrated in Section 3 can help us understand these trends.

- In the case of **Egypt**, the shift from blend to solely IBRD lending has meant less concessional loan terms, but it also led to a much larger inflow of funds a few years after graduation. Total official finance fell rapidly from the late 1990s and the fall in ODA was not offset by the rise in OOFs. The sharp rise in ODF in 2013–2015 was driven by assistance from the United Arab Emirates.[26]
- In **Lao PDR**, the main donors that have been contributing to rising ODA flows include Japan, the Republic of Korea, the ADB and the World Bank, alongside China (accounted as OOFs). The increase in ODA flows to Lao PDR from DAC members has been complemented by an increase in OOFs from China (not reported here).
- In **Nigeria**, ODF grew 5.3% (from $3.4 billion to $3.6 billion) from 2014 to 2015, although this was slower than the 8.4% recorded over the previous five-year period.
- From 2000 to 2015, **Pakistan** has seen an annual average growth rate of 8% in ODF. In the early 2000s, there was a peak in ODA grants, as Pakistan received large inflows of development assistance in recognition of its support for Western military action in Afghanistan.
- In **Papua New Guinea**, bilateral and multilateral agencies scaled up their assistance to the country after it was reclassified to LMIC status. The increase in multilateral financing was mainly due to the ADB, Global Fund and Gavi. Interviews with stakeholders indicated, however, that most donors' ODA decisions were not influenced by the World Bank's decision to reclassify Papua New Guinea as a LMIC. Rather than reduce their ODA, most donors committed to larger aid flows. Chinese aid to Papua New Guinea has also grown significantly, possibly making China the second-largest donor (although Australia remains 10 times larger; not reported in the graph).
- Assistance to **Sri Lanka** shows a positive trend from 2006, after the country approached China and India for assistance, which came without preconditions (not included in the Figure 16). Thus, no reduction in funding is noted after reclassification to LMIC status; in fact, the opposite is observed, because of humanitarian aid provided after the tsunami in 2004 and support for the peace process and post-conflict reconstruction. This trend was confirmed by interviews with development partners and government agencies.
- In the case of **Viet Nam**, ODA started to fall, but total OOFs increased significantly, mainly because the government borrowed from the World Bank, the ADB and Japan to implement the its fiscal stimulus package. This was

26 The largest investments were directed towards 'general budget support related aid', loans and grants for the Central Bank of Egypt and financial assistance in oil and gas.

Figure 16 Grant composition of ODF, three-year averages, 1993–2016



Note: ODA refers to all donors, OOFs to DAC countries only. 2016 constant prices.
Source: authors' elaboration based on OECD (2018).

also the first time Viet Nam accessed non-concessional loans from the IBRD and ADB. Section 5.2 elaborates on the drivers of the fall in non-concessional loans in more recent years.

- Why has external finance fallen in **Ghana** since reclassification to LMIC? ODA declined gradually from 2008 and then fell sharply from 2013. The initial decline was driven by allocation decisions at development partners' headquarters at the beginning of new aid allocation cycles. Some partners reduced their allocation faster than others; Denmark and the Netherlands cut their ODA sharply. In the second phase, the decline in ODA flows was associated with withdrawal by most development partners from a Multi-Donor Budget Support (MDBS) arrangement in 2013 and 2014, as the result of lack of progress on agreed public-finance management reforms and on corruption and governance-related matters. Borrowing from non-concessional sources after reclassification was limited by three factors: an ongoing IMF programme that set tight limits on non-concessional borrowing; a sharp decline in the fortunes of the oil sector after 2012, which further constrained debt sustainability; and the limited reserves of the Bank of Ghana (averaging 2.5 months of imports), which provided little comfort to lenders.

4.1.4 Have countries experienced the 'missing middle' of development finance?

In the period after reclassification to LMIC status or graduation from IDA, the majority of the case-study countries faced the challenge of the 'missing middle' of development finance, in terms of both public and official development finance as a share of GDP.[27] Figure 17 maps trends in ODF (the sum of gross ODA and OOFs rather than net as in the previous section) and tax revenues/government revenues, both as a share of GDP over time. While ODF might have expanded in nominal terms, its rise lagged growth in GDP. We use national sources for public finance, so analyses are not directly comparable. Official finance data underestimate trends, as the reporting of OOFs to the DAC is not compulsory for DAC members and aid flows from emerging donors have not been factored in.

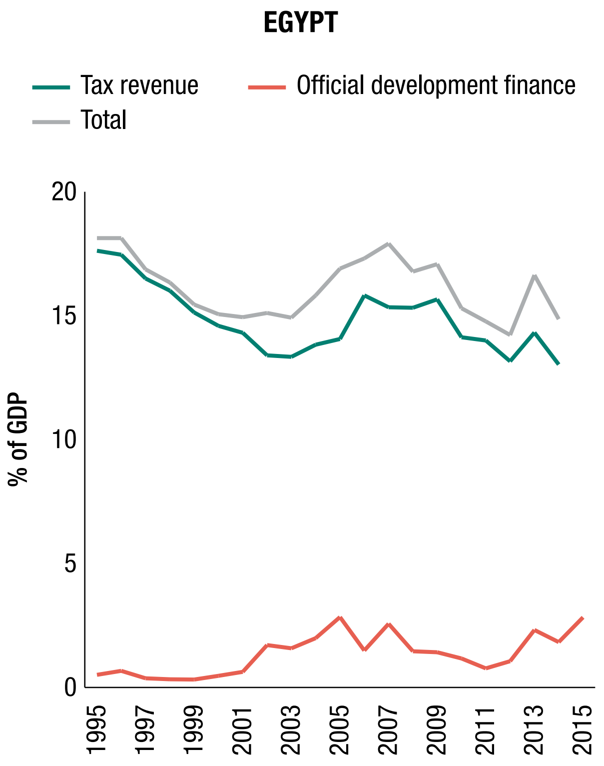
In three countries, ODF fell and tax revenues increased as a share of GDP, but the revenue increases were not sufficient to compensate for the falls in official development finance. For example, in **Lao PDR**, the increase in government revenues partly offset the reduction of ODF as a share of GDP, which fell from 8.7% in 2010 to 5.4% in 2016. Government revenues have gradually improved due to the expansion of the tax base, improvements in the tax collection system and the introduction of value-added tax in 2010. In the case of **Ghana**, the total revenue-to-GDP ratio is low, even in a sub-Saharan Africa context. Revenues have not expanded since its reclassification as an LMIC, in contrast to GDP growth. Rather Ghana has missed its revenue targets every year. OOFs, as recorded by the OECD CRS, have not grown significantly. Rather, OOFs and ODA flows have been on a declining trend since 2007 and 2008, influenced by the large provisions for the HIPC debt-relief initiative in 2004 and 2006. In the case of **Viet Nam**, budget revenues fell between 2011 and 2012 due to many factors, including poor economic performance. They have risen recently, thanks to economic recovery, but not yet enough to offset the rapid reduction in official finance.

The 'missing middle' hypothesis holds true for other countries too, but for different reasons. [28]In **Egypt**, in recent years ODF as a share of GDP rose (in the late 1990s), but tax revenues fell by a greater amount, leading to an overall reduction in total official finance. Government revenues as a share of GDP rose from 15.7% in 2010 to 16.2% in 2016 (not shown in Figure 17). In the case of **Nigeria**, ODF as a share of GDP grew sixfold between 2000 and 2015, from 0.12% to 0.72%. Over the same period, the share of tax revenues contracted by nearly half, from 11% in 2000 to 5% in 2015. The fall in tax revenues has been consistent since 2009,

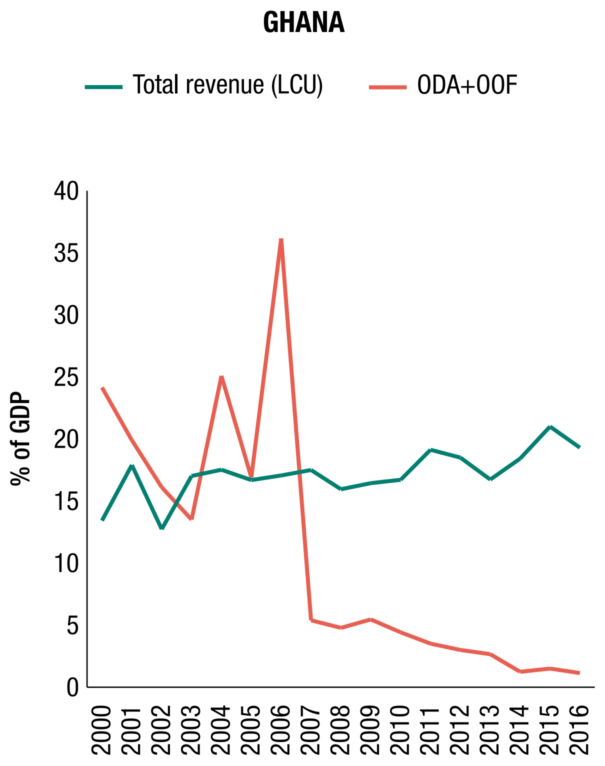
27 We used net disbursements in the previous section because of data availability from OECD (2018) [DAC2a and DAC2b table] as of October 2018. Data in this section are based on CRS microdata downloaded for each country in late 2017.

28 No further analysis is included on Sri Lanka.

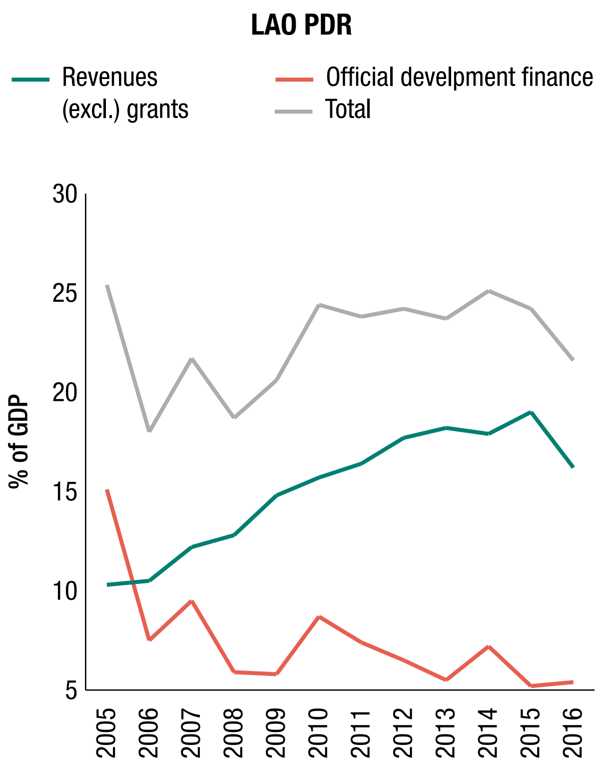
Figure 17 The 'missing middle' of development finance hypothesis across countries



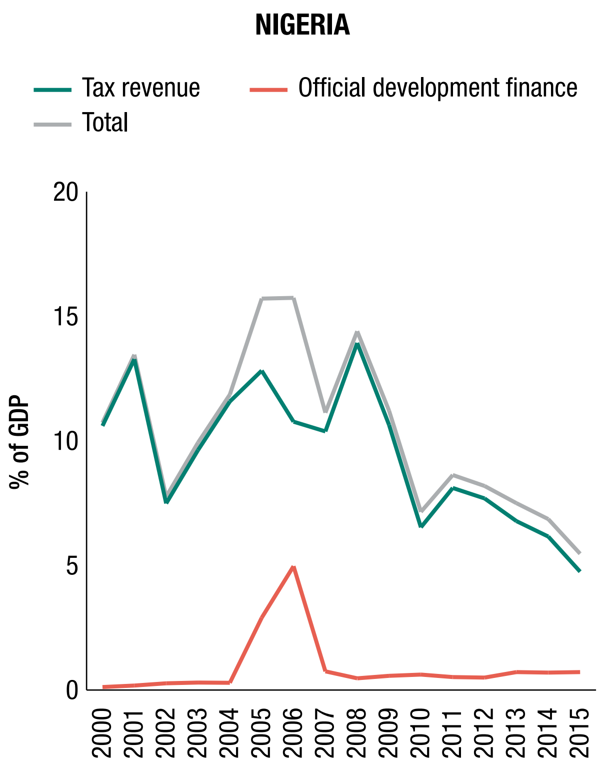
Source: country team's calculations, OECD (2017) data on official development finance and national data sources for tax revenue.



Source: country team's calculations, OECD (2017) data on official development finance and national data sources for tax revenue.

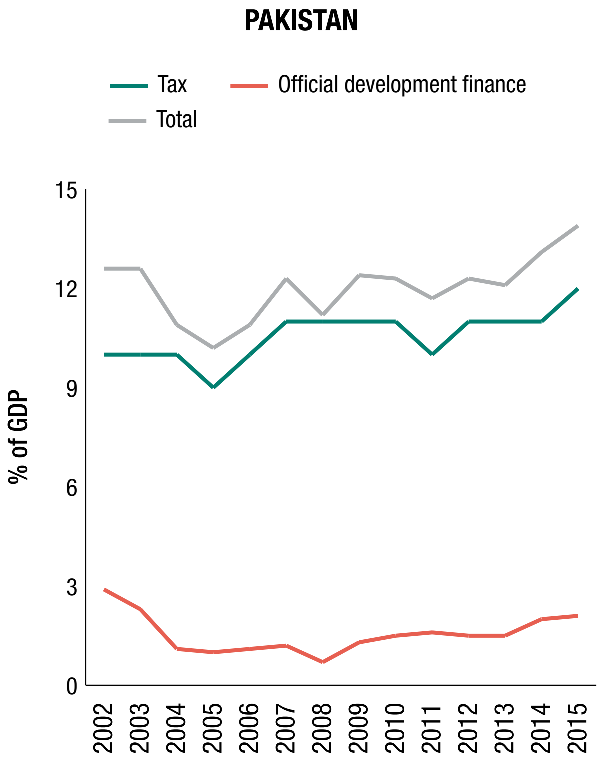


Source: country team's calculations using data for official finance from the OECD (2018) and data for government revenues from IMF Article IV for Lao PDR (various issues).

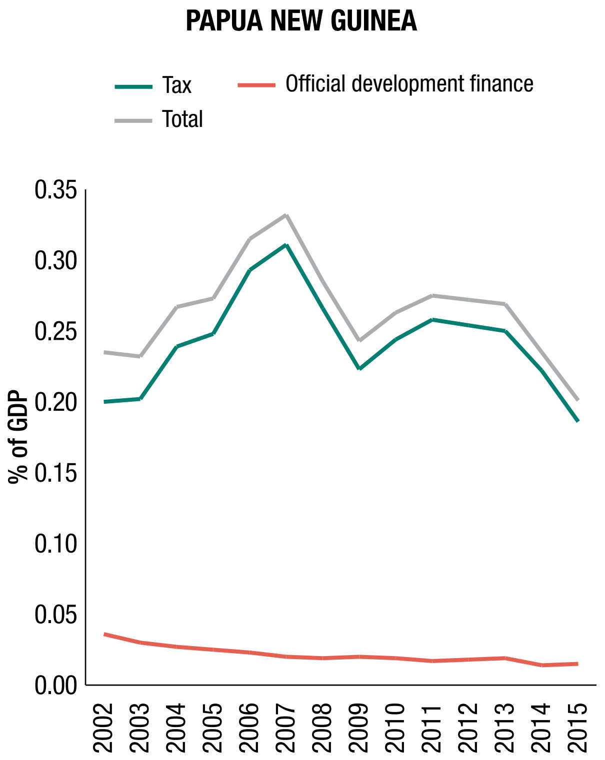


Source: country team's calculations based on underlying data from Nigeria's Federal Inland Revenue Services (2017), the Central Bank of Nigeria (2016) and the World Bank WDI.

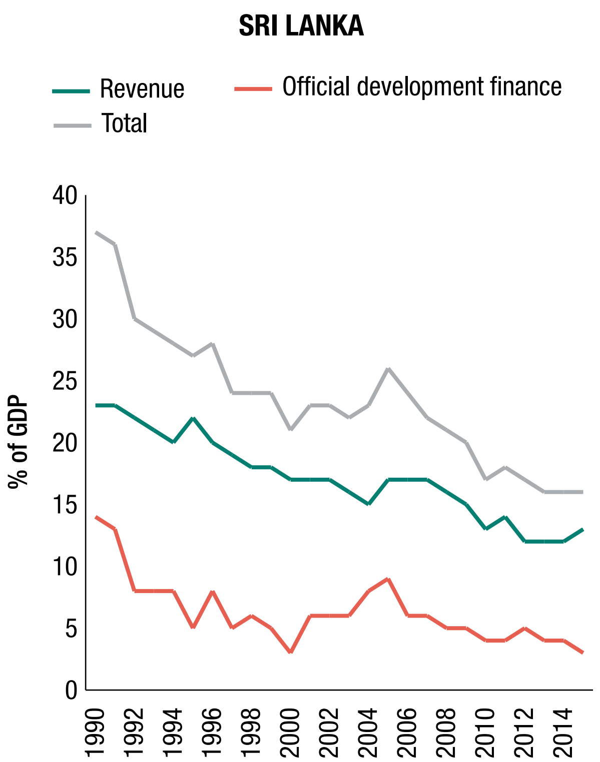
Figure 17 The 'missing middle' of development finance hypothesis across countries cont'd



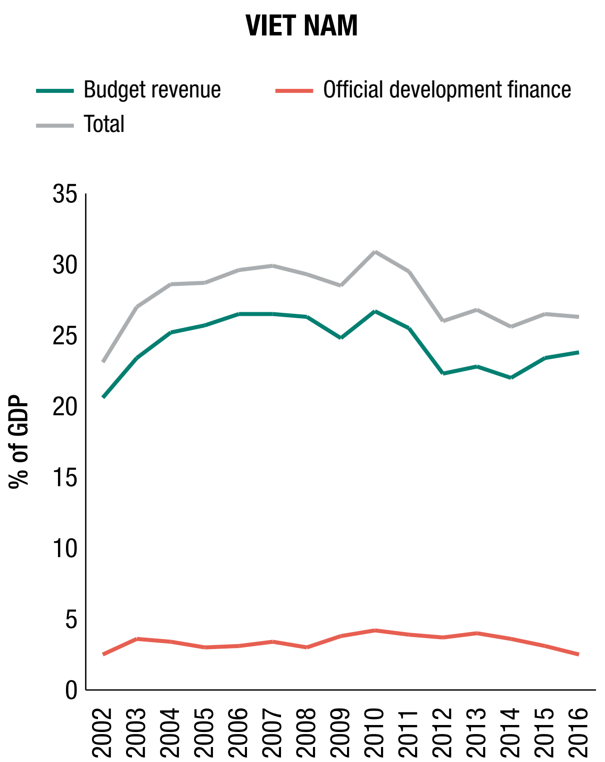
Source: country team's calculations, OECD and national sources.



Source: country team's calculation, OECD and Papua New Guinea budget update.



Source: country team's calculations, OECD database and ODI et al. (2015).



Source: country team's calculations, OECD official devleopment finance data, ADB budget revenue data.

following the global financial crisis; since then, official flows have played an ever-increasing role in closing a widening public investment gap, albeit a relatively small one. This procyclical nature of government spending has led many development partners (including the DFID, World Bank and Bill and Melinda Gates Foundation) to implement new programmes aimed at improving fiscal sustainability in the country as a precursor to sustainable social development. In **Papua New Guinea**, after its reclassification in 2007, tax revenue generally fell in tandem with a (minimal) decline in external assistance as a proportion of the overall economy. Factors included falling commodity prices and the persistent appreciation of the kina against the US dollar (resulting in declining mining and petroleum tax revenues in local-currency terms).

The only exception to the 'missing middle' of development finance hypothesis is Pakistan. Tax revenues have been expanding as a share of GDP, but external official finance has been expanding too (even though grant financing started to decline in 2015).

4.2 Terms and conditions and sectoral allocation

4.2.1 How have the terms and conditions of official development finance evolved? [29]

In nearly all of our case-study countries, average maturity on new external debt commitments has been on a downward trend (the exception being Papua New Guinea, with increasing average maturities in the late 2010s, which then fell again). This trend was expected because of the transition towards less-concessional sources of financing.

We have a mixed picture when it comes to trends on interest rates: there are no real differences between countries on the basis of IBRD eligibility or macroeconomic performance. Interest rates have been rising, per our hypothesis, in Ghana, Lao PDR, Papua New Guinea and Sri Lanka, but have been falling in all the other countries. An example is the case of Egypt, where average interest rates on new commitments have been falling. In the case of Lao PDR, interest rates on new official debt commitments decreased from 2.5% in 2010 to 1.4% in 2015, but then rose to 2.9% in 2016. Again, this is at odds with what we would expect to see, which is an upward trend in average interest rates over 2010–2016.

4.2.2 How has the sectoral composition of external and domestic sources of government budgetary financing evolved?

In this section we analysed whether there has been any shift in funding from the social sectors to economic infrastructure. Economic infrastructure projects (e.g. toll roads and utilities) tend to attract funding that is less concessional thanks to their potential returns and/or ability to generate cash flows. Conversely, the social sectors (e.g. education and health) tend to be supported either by public taxation or by grants or concessional finance, rather than loans from donor governments. With MICs expected to rely more on loans than on grants, their share of official development finance to the infrastructure sectors is likely to increase. The case studies looked at both external public finance.

External finance

Most countries, except for Lao PDR, saw an increase in the share of ODA allocated to infrastructure sectors. As highlighted in Section 3, several national strategies focus on and prioritise hard infrastructure, such as transport and energy. Prioritisation of those sectors is down to government preference, rather than shifts in the composition of external finance. We found this was particularly the case for Egypt and Pakistan (see Figure 18 and Table 4 for a comparison between the three years before transition to LMIC status and the most recent three years for which ODF data were available at the time writing).[30]

29 Graphs on average interest rates and maturities not shown in this report.

30 For cross-country comparability, we considered the transition to LMIC status for all countries.

Shift in external assistance towards infrastructure

Egypt: According to interviews conducted, sectoral intervention is largely determined by the interests of Egyptian officials and the priorities of donors. When it comes to loans, the Egyptian government prefers to borrow for infrastructure sectors where it does not necessarily have local expertise (e.g. energy). These trends are reflected in the different sectors that development partners have been supporting. For the AfDB, water supply and sanitation were a primary focus between 2002 and 2009. Between 2012 and 2015, its key sectors were banking and financial services, energy generation/non-renewable resources and agriculture. US funding was active in a wide range of sectors over the 20 years, including energy, health, education, government, infrastructure, water, sanitation, banking and business. However, primary or key sectors have shifted slightly over time. From 2005, government/civil society overwhelmingly exceeded any other sector, followed by health, education, trade policy and 'business and other services'.

Ghana: ODA flows, especially from multilateral sources, are increasingly directed to economic infrastructure, mainly energy, finance and banking. Agriculture and the social sectors are a low priority for multilaterals. Bilateral donors, on the other hand, have maintained their share of ODA allocation to the social sector, albeit in lower volumes. However, allocations previously provided through MDBS appear to have shifted towards the production sector (mainly agriculture), governance-related activities and public financial management (especially domestic revenue mobilisation). This has affected disbursement channels: more and more bilateral ODA is channelled through civil-society, non-governmental organisations and the private sector, and the share that goes to the public sector tends to be channelled directly to sectors and decentralised structures. In response, development partners have reduced their interventions to support basic services (health and education), but have increased their focus on capacity-building activities in such areas as better management of public finance (e.g. through support for the Ghana Integrated Finance Management System), anti-corruption strategies and domestic resource mobilisation. Some development partners have also shifted their lending methods more towards catalysing OOFs through export-import institutions and other development-finance vehicles, such as CDC Group (UK), Agence Française de Développement (France) and KfW (Germany), or by increasing the use of technical assistance.

Nigeria: The social sector remains the largest recipient, but its relative allocation has declined over time. The fastest-growing sector was the productive sector, recording a compound annual growth rate of 54% between 1998 and 2015, followed by the infrastructure sector (42.5%) and the social sector (30%). The fall in the relative share of assistance to the social sectors masks different trends. First, health financing grew from less than $25 million in 2000 to $272 million in 2010 and around $950 million in 2015 – recording the fastest growth in the social sector. Assistance to education has remained flat over the past few years.

Pakistan: The energy sector, especially the energy-policy subsector, has seen a large increase in donor financing. Energy has been a major priority for the elected governments of Pakistan, as electricity shortfalls have affected the nation quite severely since 2007. Similarly, governance as a sector has seen increases in aid disbursements while, over the same period, support for social sectors has declined. The health sector accounted for around 6% of aid disbursements in 2000 and only 1% of aid disbursements in 2015. The education sector's share of total aid disbursements has fallen, although not to the same degree. In interviews, some donors and government officials claimed 'donor fatigue' to explain the drop in external financing for the education and health sectors. From the interviews, we also understand that funding to the social sectors beyond a certain level did not translate into more effective service delivery. The fall in external financing to the education and health sectors, especially ODA loan financing, can also be attributed to the passage of the 18th Constitutional Amendment, which removed education and health from federal government responsibility and transferred it exclusively to provincial governments. As the federal government negotiates all external financing, some officials and donors stated that such reform reduced the federal government's commitment to external financing in the education and health sectors. The federal government would rather receive external financing, especially ODA and OOF loans, for sectors that are under its purview (e.g. energy).

Papua New Guinea: While the volume of aid allocated for the social sector declined in 2013 and 2014 (before starting to trend upwards again), the infrastructure and multi-sector allocations continued their upward trend – the only difference being that infrastructure allocations appear to have increased faster than multi-sector aid. The share of ODF to the education sector fell dramatically. In interviews, both development partners and the government were concerned about the falling contributions to the health sector. Interviewees also noted that, rather than focusing on funding cuts, some donors were changing their areas of focus.

Sri Lanka: Programmes and projects supporting infrastructure development received the largest increases in relative terms. While this was partly driven by a decline in the unallocated portion of external assistance, the share allocated to programmes and projects in the social sectors has been falling since 2006.

Viet Nam: The largest share of ODA used to be channelled towards social infrastructure and services, water supply, health and education. After 2008, the share of ODA allocated to social services fell (mainly to education) and the shares to multi-sector and cross-cutting areas saw minor increases.

Shift in external assistance towards social sectors

Lao PDR: The focus of ODF has shifted from education and infrastructure to the health sector. Even though absolute volumes of ODA might have risen, the share of ODA flows to the infrastructure sector fell from 34.4% in 2010 to 9.9% in 2016. In contrast, the share of ODA flows to the health sector increased from 7.0% to 19.0% and the share of ODA flows to the education sector rose from 15.8% to 20.7% over the same period. One of the largest bilateral donors (the Republic of Korea) has shifted its allocation of ODA from infrastructure to the health sector (since 2012), while another two of the largest bilateral donors (Japan and Australia) have continued to prioritise education. The reduction in DAC ODA flows to the infrastructure sector is more likely to be offset by Chinese OOFs (not captured in the figures here).

Public finance[31]

The scope of this section is to map whether and how the sectoral allocation of public finance evolved. Sufficient data were available to enable analysis of trends in external assistance across sectors; however, for some countries, the accrual data required for the functional classification of public finance had not been published for a sufficiently long period. Most countries, with the exception of Lao PDR and Viet Nam, were found to have redirected most of their assistance towards infrastructure development (see Figure 19).

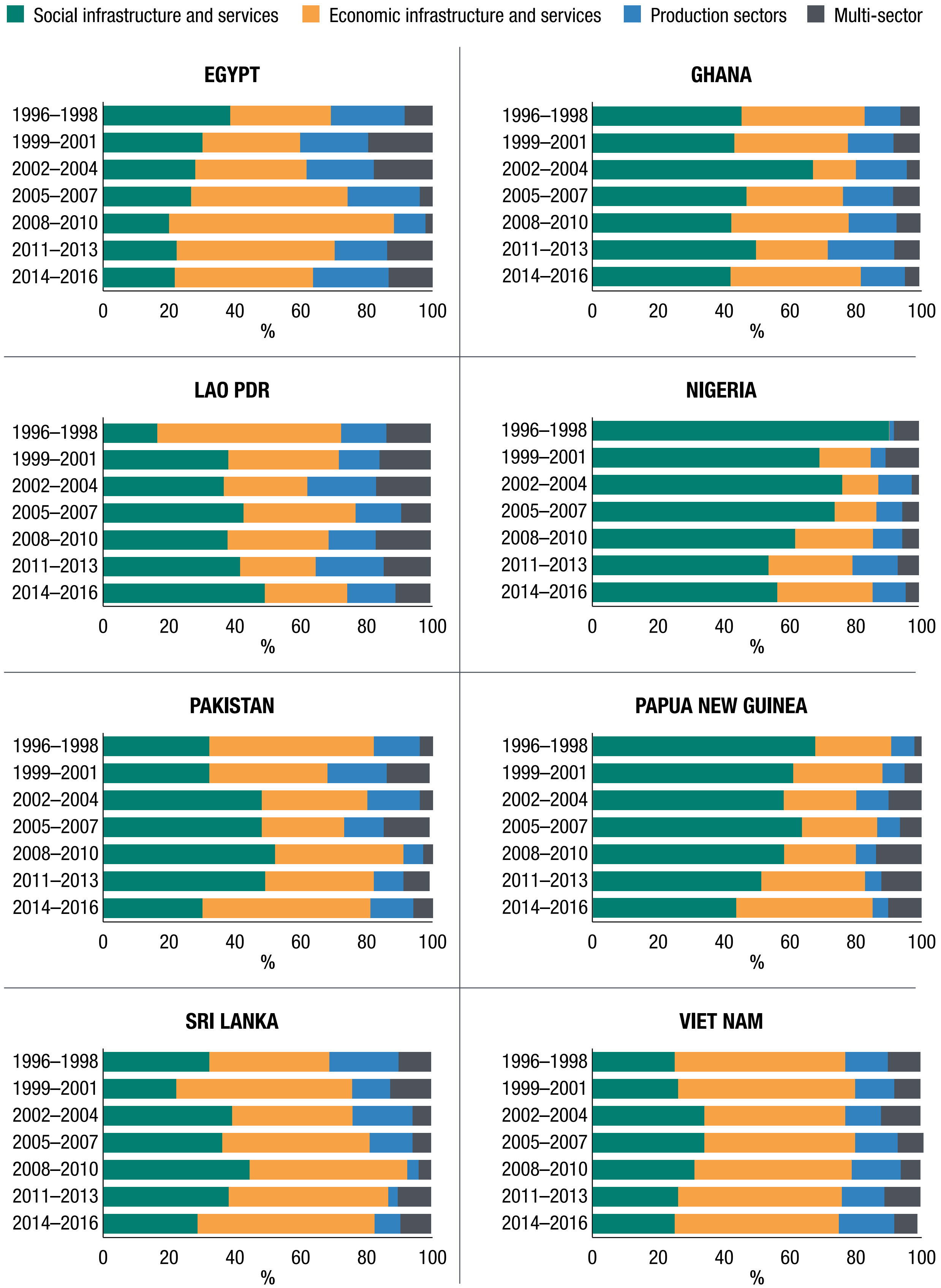
Falling share to the social sectors

Egypt: In 1995, before reclassification, health expenditure did not exceed 3.6% of GDP. By 2002, it had almost doubled, to 6%, but then fell back to 5% in 2005. Between 2005 and 2010, health expenditure as a share of GDP fluctuated, reaching 5.6% in 2014. Before reclassification, education spending had been growing very slowly (almost negligibly), from 4.6% of GDP in 1995 to 4.9% in 2003. From 2003, education spending declined, especially after 2005: spending fell from 4.8% in 2005 to 3.7% in 2007, and then to 3.5% in 2011. Since 2005, education spending has not reached 4% of GDP, except in 2012. It fell to 3% in 2016. Education has not been one of the government's priority spending areas.

Ghana: While the share of total government expenditure on health, education and social protection has been stable, the size of the social-sector budget relative to needs has declined. According to a government respondent, the HIPC completion-point conditions, especially on social spending, had a spiralling effect on the government budget due to the uptake of major

31 Time series for the sectoral allocation of public finance is missing in the case of Papua New Guinea.

Figure 18 Changes in the sectoral allocation of resources: external finance (ODF), three-year average



Source: authors' elaborations based on OECD (2018) (data accessed October 2018).

Table 4 Sectoral allocation of ODF: before and after reclassification or graduation

	Allocation after (%)	Allocation before (%)		Allocation after (%)	Allocation before (%)
Egypt			**Papua New Guinea**		
Education	2.6	5.9	Education	5.4	10.0
Health	0.5	2.4	Health	5.7	9.6
Economic sectors	43.4	24.1	Economic sectors	40.7	24.8
Productive sectors	22.7	11.7	Productive sectors	4.6	4.6
Ghana			**Nigeria**		
Education	10.4	3.5	Education	5.3	10.5
Health	13.0	11.8	Health	18.5	19.4
Economic sectors	34.2	36.3	Economic sectors	28.7	13.6
Productive sectors	13.9	14.5	Productive sectors	9.8	8.6
Lao PDR			**Sri Lanka**		
Education	12.7	10.0	Education	6.1	10.3
Health	12.3	9.4	Health	0.9	2.1
Economic sectors	25.2	23.1	Economic sectors	54.4	44.9
Productive sectors	14.5	20.1	Productive sectors	7.6	18.5
Pakistan			**Viet Nam**		
Education	7.8	9.3	Education	3.9	6.3
Health	4.8	7.1	Health	3.9	5.4
Economic sectors	51.3	36.1	Economic sectors	49.5	49.0
Productive sectors	12.7	7.9	Productive sectors	17.5	12.8

Note: 'Allocation after' refers to the last three years; 'allocation before' means three years before either transition to LMIC status or from IDA (the latter applies to Egypt).
Source: Authors' elaborations based on OECD (2018) (data accessed October 2018).

social programmes, such as national health insurance and free basic education. Education and health combined have made up 70% of all sectoral expenditure since 2006, with very little changes in their relative shares over the years.

Nigeria: In 2001, Nigeria hosted the heads of state of the African Union (AU) member countries. In the Abuja Declaration, leaders pledged to commit at least 15% of their annual budgets to support their health sector. However, Nigeria has yet to meet this commitment. Historically, federal government spending for the health sector has historically been below 6% of total expenditure, settling at just 4.1% in 2016. Budgetary allocations to the health sector (percentage of total expenditure) have also remained irregular, rising from 3.6% in 1999 to 5.6% in 2006, then falling to just over 3% in 2010, rising to 5.8% in 2015 and dipping to around 4% in 2016. The education sector has fared a lot better, with government spending averaging 8.2% of total expenditure between 1999 and 2016. The sector's highest recorded share was 10.4% in 2006, but this had slipped to 10.2% in 2013 and 6.1% by 2016, according to the Federal Ministry of Education. In 2004, the education sector received a major boost, with the signing of the Universal Basic Education Act 2004. The Act requires the federal government to provide 2% of its consolidated revenue fund to interventions in basic education. Following the signing of the Act, the Universal Basic Education Fund became the principal government intervention instrument in basic education, in addition to other extra-budgetary allocations, such as the Tertiary Education Trust Fund, and constituency projects of federal legislators. A study carried out by USAID's Health Finance and Governance Project on the evolution of government spending over the years showed that education-sector expenditure has remained steadily high, health expenditure has declined, while infrastructure spending is on the rise (USAID, 2018).

Pakistan: Government spending on education increased as a percentage of total GDP until 2008, but remained stagnant in the subsequent years. Educational sector spending accounted for, on average, 8% of total public expenditure between 2000 and 2015, with the highest allocation of 10% in fiscal year 2012/13 (driven by provincial education programmes signed with DFID during this period). Education-sector spending has, however, declined, and by fiscal year 2014/15, education accounted for only 6% of total public expenditure. The analysis shows that public health expenditure has increased over the years in nominal terms, but remained stagnant when measured as a percentage of GDP. Spending on the health sector has been broadly maintained at 4% of total public expenditure since 2000, as has spending on transport and communications.

Sri Lanka: There is no pattern related to the reclassification, and changes in government expenditure largely reflect the trends observed in receipts of donor funding, with more priority being given to economic infrastructure development.

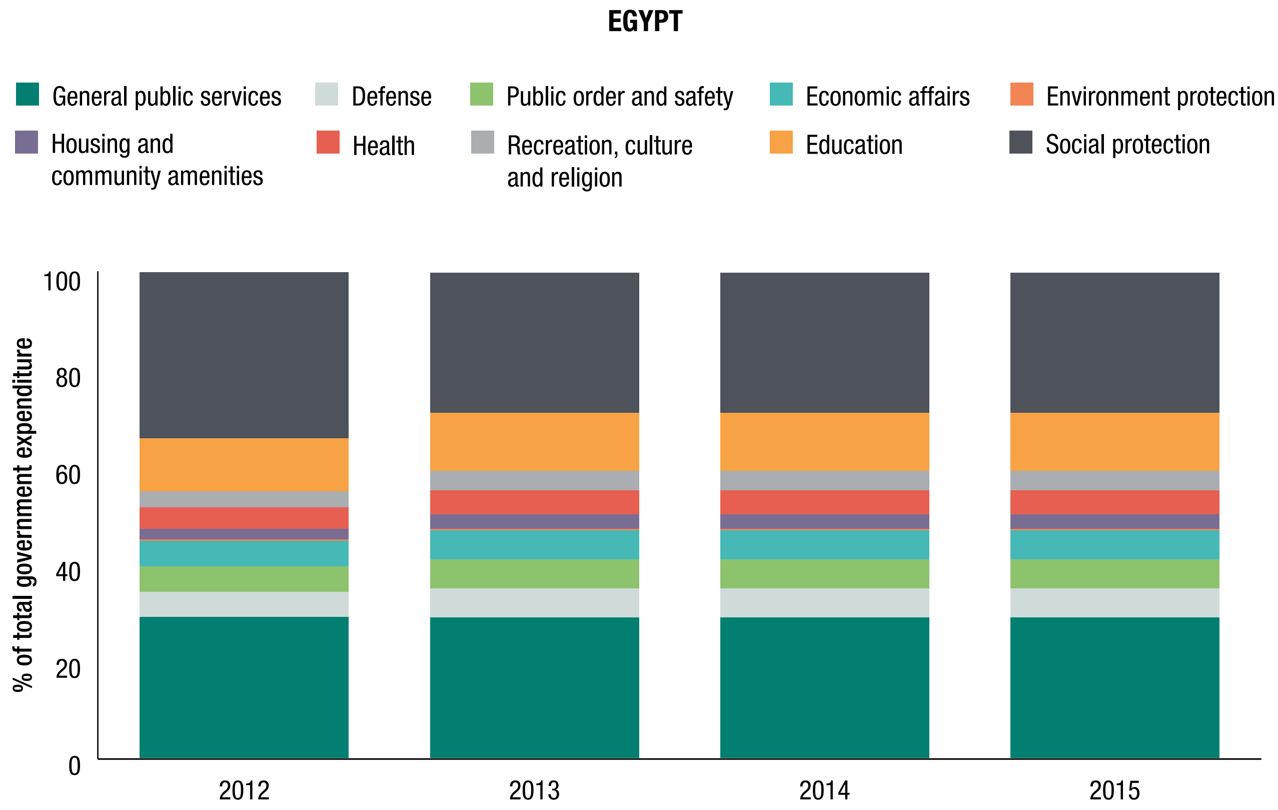
Papua New Guinea: It was not possible to obtain a breakdown of public finance data for all sectors. However, we can report that health expenditure as a share of GDP nearly halved between 2004 and 2014, falling from 8.4% in 2004 to 4.3% in 2014.

Increasing share to the social sectors

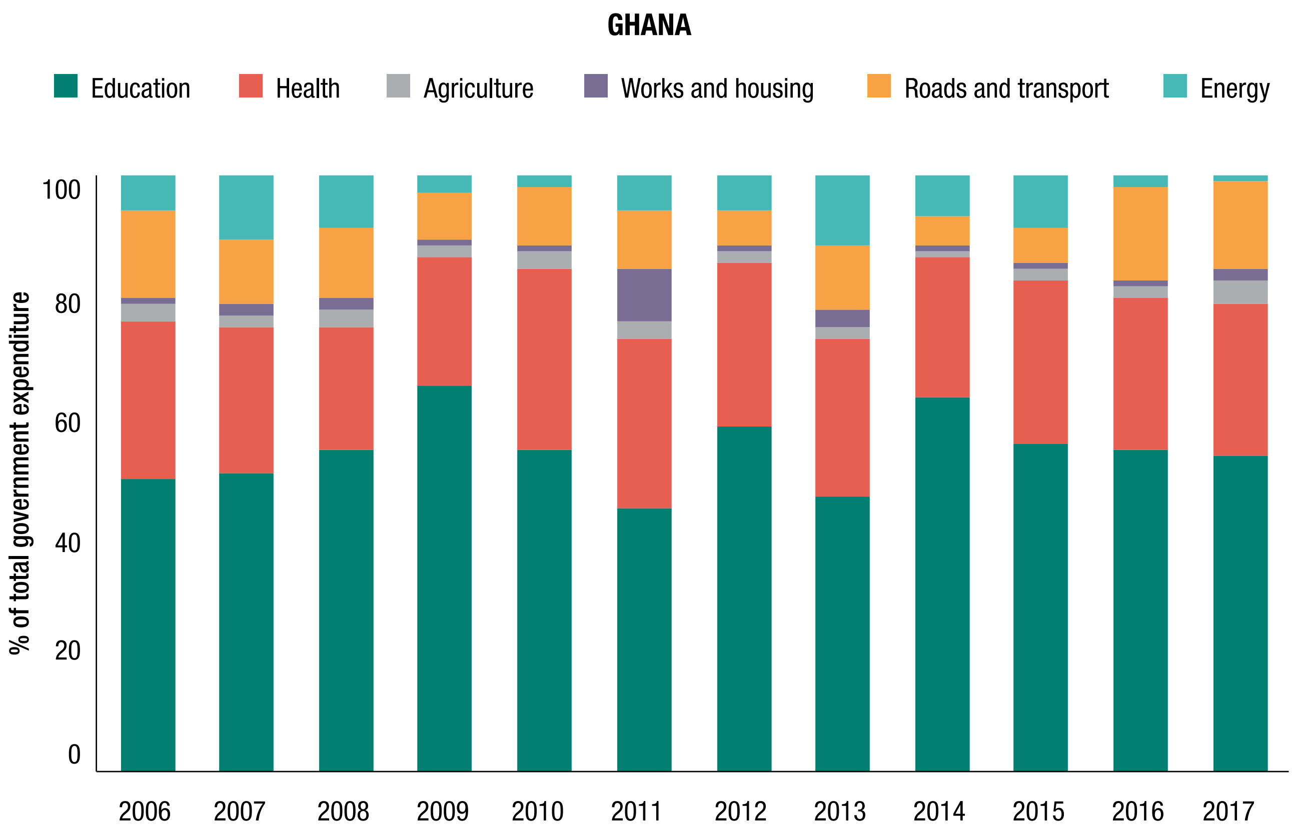
Lao PDR: On the public expenditure side, the government has increased the budget share for the health sector, while maintaining the budget share for the education sector, in line with the rise in external finance. The annual average budget for the health sector as a share of total public expenditure rose from 3.9% during fiscal years 2005/06 to 2009/10 to 4.8% during fiscal years 2011/12 to 2015/16, while the annual average budget for the education sector as a share of total public expenditure was around 12% over the same period. However, actual expenditure in both sectors was much lower than budgeted in the Seventh National Socio-Economic Development Plan (NSEDP) (for the period 2011–2015), which required 17% of the budget to be spent on education (MPI, 2016: 31) and 9% of the budget to go to public health (Ministry of Health, 2011: 30). Spending on infrastructure development dropped from 16.9% of total public expenditure during fiscal years 2005/06 to 2009/10 to 12.7% during fiscal years 2011/12 to 2015/16. One of the explanations for the fall in infrastructure expenditure and the limited increase in social expenditure is that the rise in total debt payments (principals and interest) has reduced the government's fiscal leeway. Total debt payments rose from 14.3% of total public expenditure during fiscal years 2005/06 to 2009/10 to 17% during fiscal years 2011/12 to 2015/16.

Viet Nam: The largest shares of the state budget are allocated to economic services and the environment, and these shares are increasing. The health and education sector shares of the total budget have been on an increasing trend since 2009. For example, expenditure on education and training increased from 10.8% of the budget in 2005 to 14.3% in 2016, while health expenditure increased from 2.9% to 5.6% over the same period. It is notable that expenditure on pensions and social welfare increased from 6.7% in 2005 to 9%–10% after 2009. These adjustments to the state budget have helped to offset the reduction in ODA to these sectors that occurred when Viet Nam was reclassified as an LMIC. This is a sensible change for some areas, such as funding for HIV/AIDS, for which a big drop in future funding was envisaged.

Figure 19 Changes in the sectoral allocation of resources: public finance (excl. Papua New Guinea)

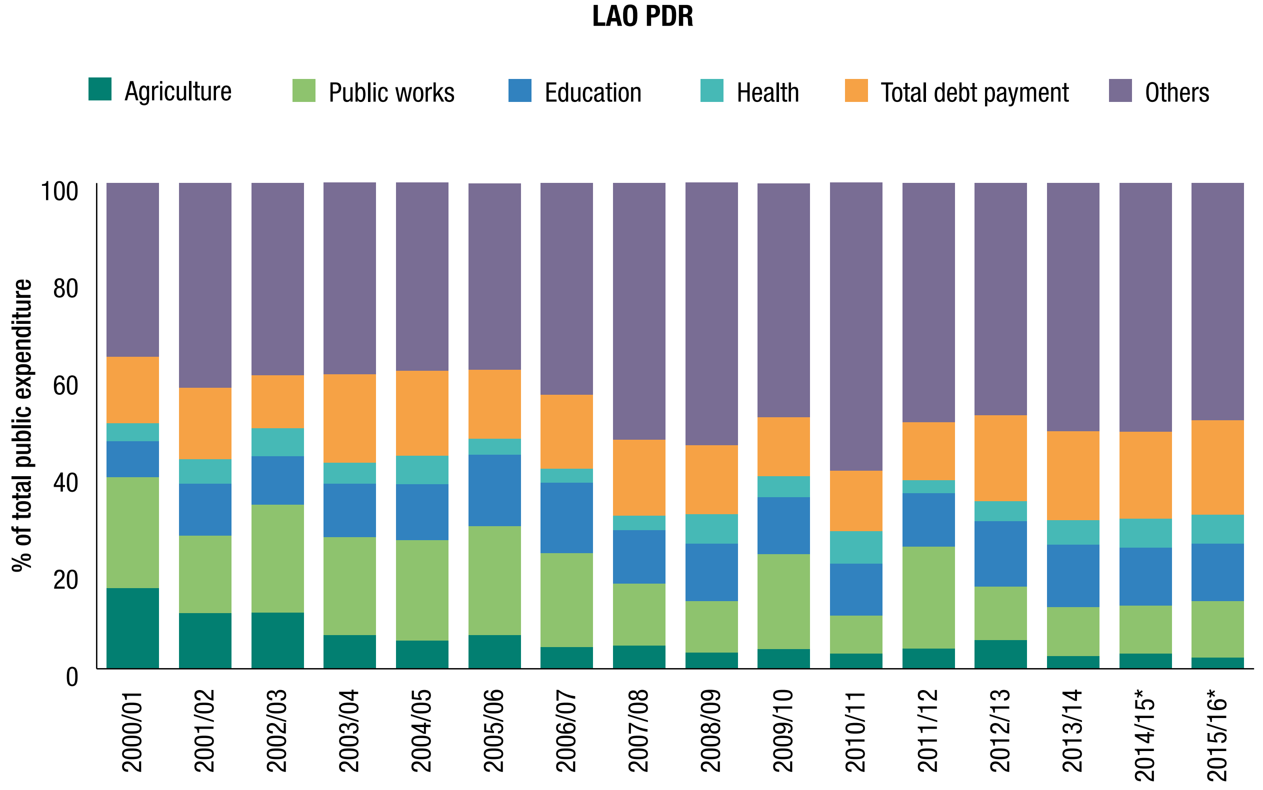


Source: IMF COFOG statistics.

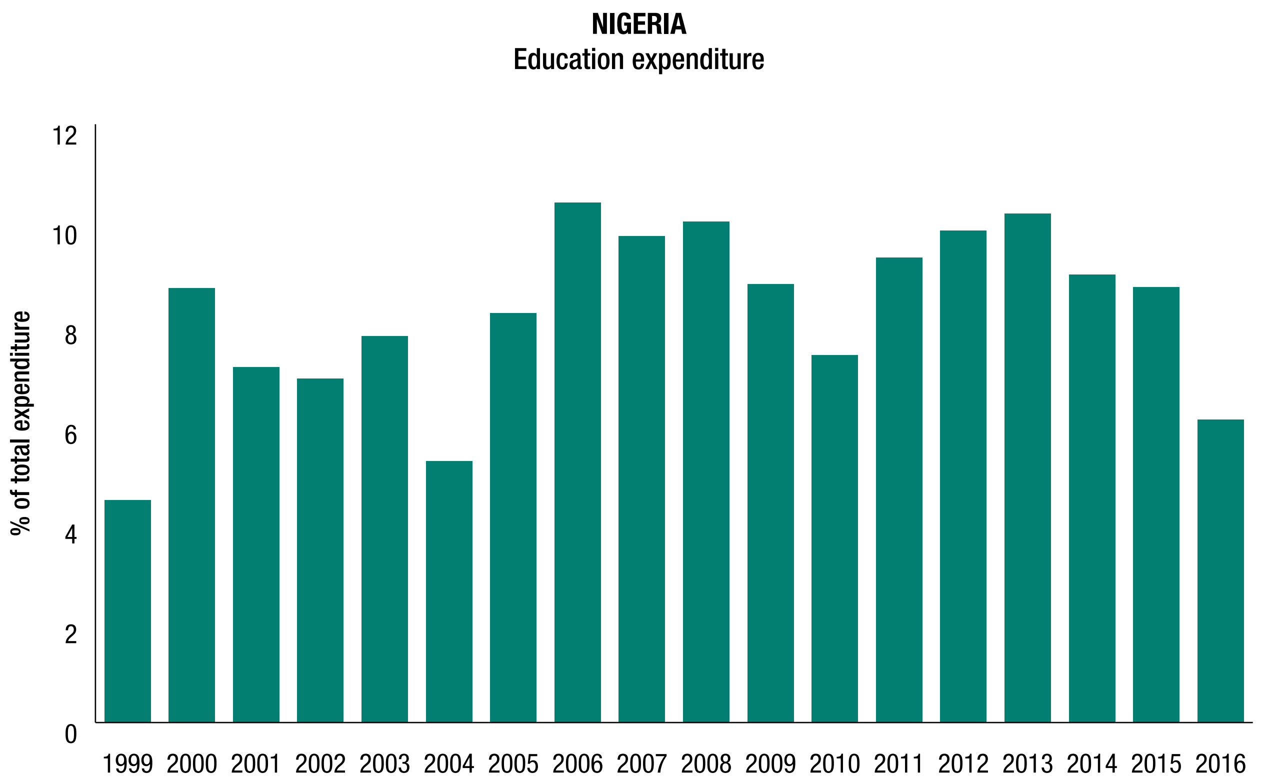


Source: Country team's calculations, OECD (2017) for official development finance data, national data sources for tax revenues.

Figure 19 Changes in the sectoral allocation of resources: public finance (excl. Papua New Guinea) cont'd

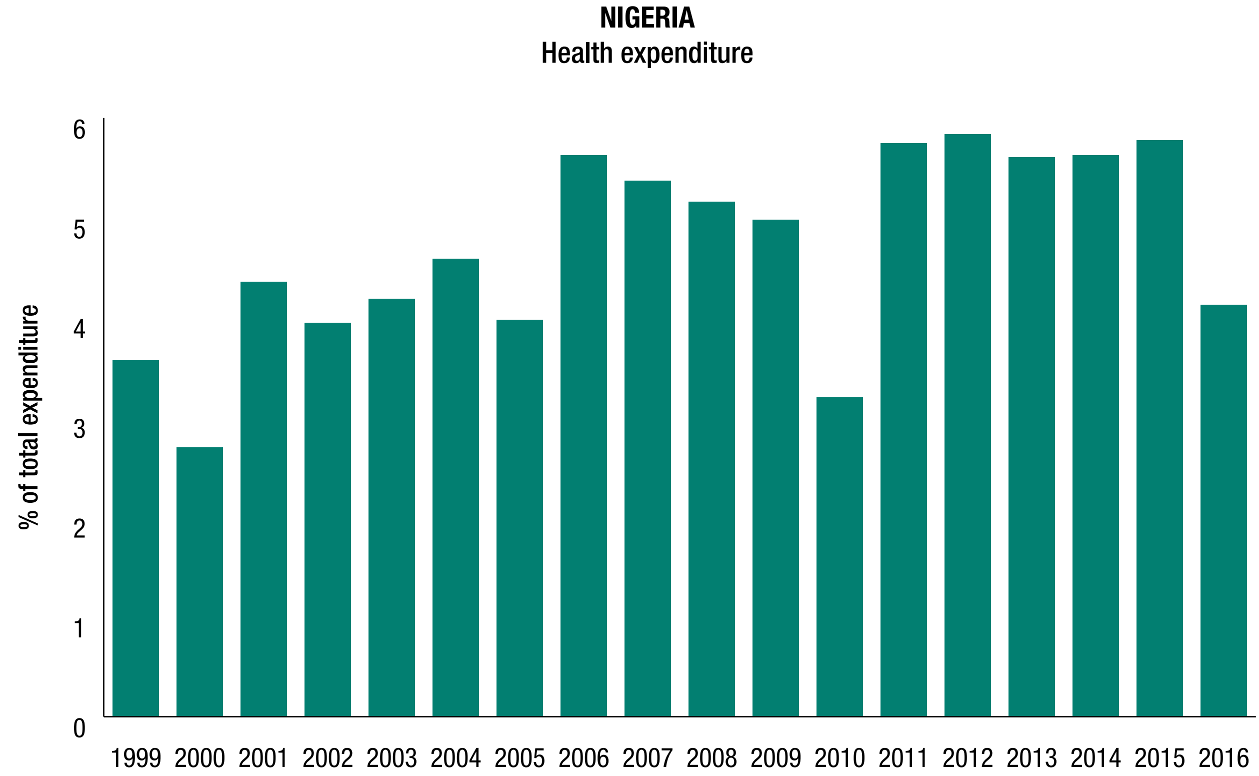


**Planned figures.*
Source: authors' calculations based on World Bank data.

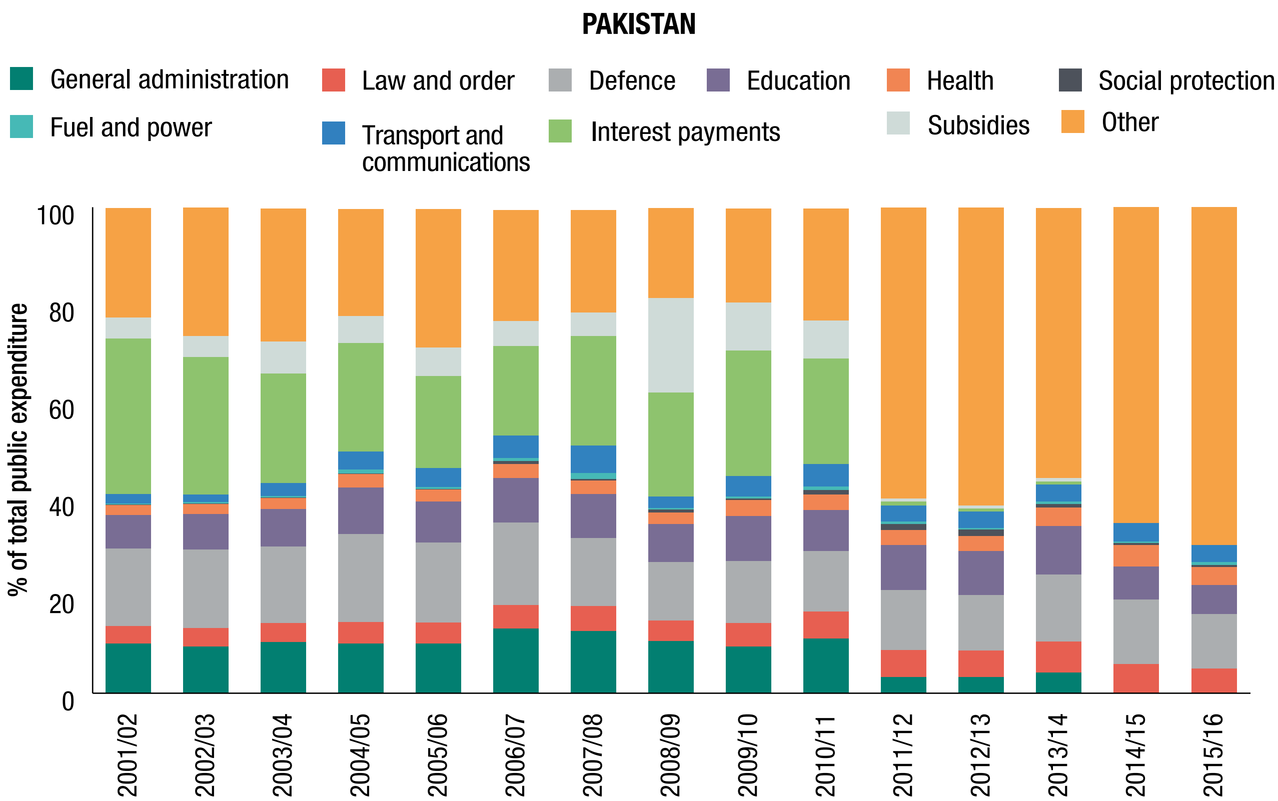


Source: Ministry of Education (2018).

Figure 19 Changes in the sectoral allocation of resources: public finance (excl. Papua New Guinea) cont'd

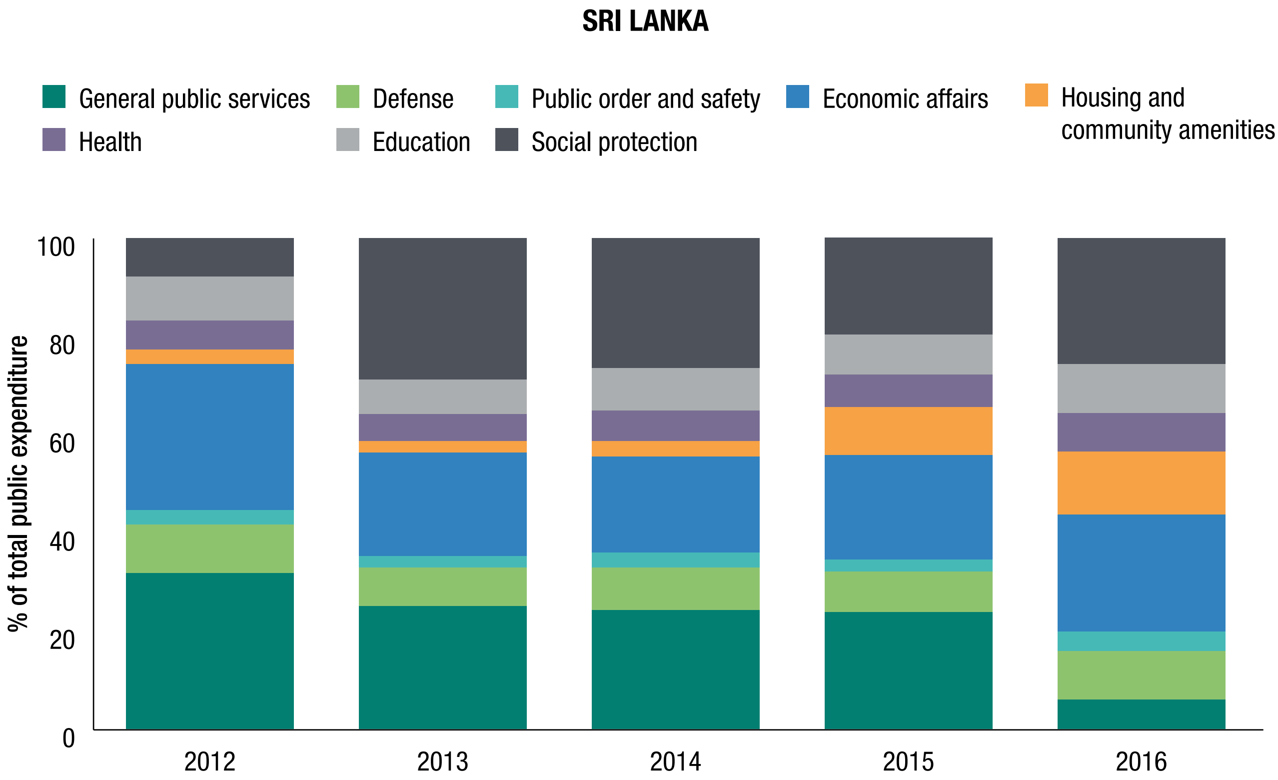


Source: authors' calculations based on underlying data from federal government budgets for the period 1999–2016.

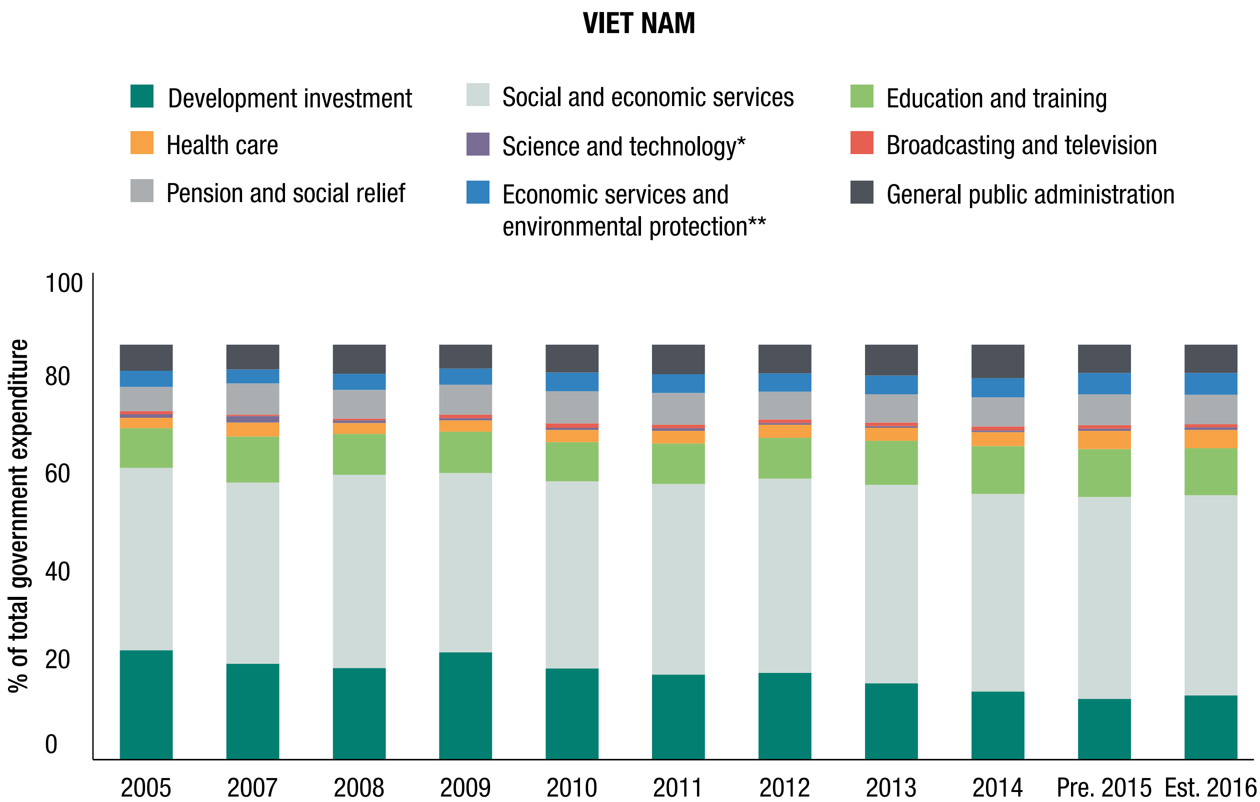


Source: national budget data. Since fiscal year 2010/11, other expenditure includes general administration, subsidies and interest payments.

Figure 19 Changes in the sectoral allocation of resources: public finance (excl. Papua New Guinea) cont'd



Source: IMF COFOG statistics.



**Before 2014, included in expenditure on science, technology and environment. ** Before 2014, included in economic services.*
Source: General Statistics Office of Viet Nam.

5 Government strategies

In the previous section we identified the changes in the development-finance landscape that occurred after the case-study countries transitioned to MIC status or graduated from the soft windows of the MDBs. In this section, we review whether and how government priorities for development changed after transition or graduation, whether governments had a strategy in place (and the main elements of any plans) and whether and how aid coordination mechanisms evolved during transition to MIC status away from aid.

5.1 Government priorities for development finance[32]

Except for Viet Nam, across the country case studies, we did not identify any changes in the government's priorities for external assistance or in its terms and conditions because of moving away from LIC status and concessional finance. This was contrary to the evidence gathered for Indonesia by Prizzon and Rogerson (2017).

In the case of **Viet Nam**, the focus of development finance shifted from poverty reduction to trade, and from financial transfers to a post-aid development partnership, primarily economic cooperation (EU et al., 2014). Donor programmes also tended to move from government–government financial transfers to the promotion of knowledge partnerships between public institutions, academic institutions and companies in Viet Nam and the donor country.[33]

According to interviews, **Egypt** has historically been resistant to borrowing for its social sectors, as mentioned earlier in the report. This was the case both before and after reclassification to LMIC status and graduation from IDA. However, this has started to change, after reductions in support from countries such as the US, which was Egypt's largest cushion for the social sectors. Recently signed agreements to enhance social safety nets and upgrade education are the first of their kind and, according to interviews with donors, are likely to have been driven by the fall in concessional support from historically dominant actors and reduced support for the social sectors in general. Some of the donors interviewed noted that the strategy for managing and negotiating borrowing agreements was based on multiple factors, including: (i) the availability of local capacity (for example, Egypt does not borrow for road infrastructure projects) (ii) the urgency (for example, agreements could be negotiated with multiple players at the same time, with the government settling on the partner with the most flexible procurement policies or lending terms) and (iii) the availability of other options (for example, support from countries such as the US and Gulf countries, which has historically been the case).

In the case of **Lao PDR**, aid for capacity-building is a priority in the Vientiane Partnership Declaration on development effectiveness (but this priority is not driven or motivated

32 No information for Ghana and Papua New Guinea is presented in this section.

33 For example, Denmark shifted from aid to new partnerships strongly focused on business opportunities between the two countries, such as the Danish-Vietnamese Fishery partnership (DANIDA, 2017). In the case of Switzerland, the bilateral cooperation between SDC and Viet Nam on poverty reduction and governance ended in 2016, but Viet Nam remained a partner in global and regional SDC programmes, which address challenges such as water resource management and food security. Bilateral cooperation with SECO has continued. SECO specified three objectives for its designed activities for 2017–2020: effective economic policies and institutions; a competitive and resource-efficient private sector; and sustainable and climate-resilient urban development (SECO, 2017).

by the transition from LIC status).[34] The key capacity-building objectives in the 8th NSEDP are to reform the vocational education system and promote linkages between production and employment generation by the private sector (MPI, 2016: 119). External grants and loans remain an important source of financing for the national development plan. The Vientiane Partnership Declaration states that 'the Government [of Lao PDR] will continue to integrate ODA and other major sources of development financing into mainstream planning and budgeting frameworks alongside that of domestic public investment in core development programs' (Government of Lao PDR, 2015: 3).

In **Nigeria**, according to interviews with government officials, the nature of development financing has changed, with many MDBs transitioning to concessional loans of 'blend' nature, while donor funding has evolved to become a 'gap-filling' instrument. Although provision of basic services has remained key, the transition to LMIC status has emphasised the need to demonstrate the impact of donor funding. According to interviews with development partners, donors are demanding better governance and accountability for aid, and their programmes now focus on improving service delivery through support for governance and institutional systems, rather than direct provision of services. In other words, programmes have evolved from directly providing services to helping government institutions improve their own delivery of services.

In the case of **Pakistan**, external assistance has two purposes: to finance the budget deficit and public expenditure, and to boost foreign-exchange reserves. While Pakistan is able to tap domestic and foreign markets for its financing needs, in the interviews the Ministry of Finance and Ministry of Planning, Development and Reform stressed that external financing decisions must be based on government policy and direction. However, the Economic Affairs Division, which manages external financing for the government, acknowledged that the direction of external financing also had certain inputs from donors and that 'donor fatigue' played an important role in determining which sectors to support. As the government's main priority for external financing has been to boost foreign-exchange reserves, some key informant interviews also indicated that the sector for which a grant is intended is not an important consideration. China is Pakistan's preferred financier, because of the large scale of its foreign direct investment and its lack of strict conditionalities, in addition to trade and geopolitical factors (the strained state of international relations between Pakistan and the US is likely to impact future funding preferences). Another factor that emerged in interviews with development partners was that Pakistan's preference for financing from China could contribute to the 'crowding out' of smaller donors.

5.2 Strategies in place

Viet Nam, Ghana, Lao PDR and Nigeria have, or are about to develop, an explicit strategy to maximise the use of finance after transition from concessional finance. Pakistan, Papua New Guinea and Sri Lanka rely on a debt management strategy. Egypt has a debt management strategy in place, but it is under the remit of the Ministry of Finance and not necessarily closely tied to the Ministry of International Cooperation.

Viet Nam's ODA management guidelines for 2016–2020[35] show that the government has been highly aware of the transition away from aid since 2010. Several donors have reduced their grants or plan to terminate their official aid programmes for Viet Nam, while others have moved gradually from providing concessional to less-concessional loans. In this context, Viet Nam has tried to improve the impact of any loans it

34 The Vientiane Partnership Declaration states that 'the Government is committed to further strengthening capacity building objectives in the NSEDP, translate them into practical strategies and plans, and work with the Partners to develop and implement comprehensive long-term capacity building programs'. (Government of Lao PDR, 2015: 3).

35 Decision 251/QD-TTg, dated 17 February 2016, by the Prime Minister on 'Direction on mobilizing, managing and using ODA and concessional loans of donors during 2016–2020'.

receives, especially because of the pressure on public debt. However, the overall assessment is that management of ODA and concessional loans has not kept pace with changes in the policies of donors after Viet Nam became an MIC.

The directions for use of ODA in Viet Nam's ODA management guidelines for 2016–2020 allocate finance on the basis of the terms and conditions of the instrument:

- *ODA grants* are to be used to implement programmes and projects that support policy formulation; institutional development; strengthening of human capabilities; improvements to the economy, culture, society and the environment, especially in rural regions; scientific research, technology and innovation.
- *Concessional ODA loans* are to be used for the implementation of programmes, especially infrastructure projects of high priority, that have widespread impact in the long term, but do not have the ability to directly recover capital.
- *Less-concessional loans* are to be used for programmes promoting the private sector, including projects in the form of public–private partnerships with the ability to generate cash flows.

The Vietnamese government has also aimed to strengthen public debt management. The Ministry of Finance now plays the main role in coordinating ODA. This is reflected in a new public debt management law issued in 2017. Responsibility for negotiation and implementation of external loans, including ODA, now lies with the Ministry of Finance (responsibility was previously shared by the Ministry of Planning and Investment and the State Bank of Vietnam).

The modest increase in non-concessional finance to Viet Nam has been driven not by the World Bank, the ADB or other international financial institutions, but mainly by Vietnamese government decisions on international borrowing. First, the government has certainly been concerned about the high cost of non-concessional loans. Vietnamese officials (from the Department of Debt Management and External Finance of the Ministry of Finance) mentioned that the Vietnamese government had tried to negotiate loans at a reasonable cost and that Viet Nam had actually refused some loans due to unfavourable terms (eight cases in 2017, with a total value of $1.2 billion). The Vietnamese government compares the costs of different loans with those of domestic loans. Recently, the terms and conditions for domestic bonds have been much improved. The annual interest rate fell from 12% in 2012 to 6% in 2017 and loan maturity increased from 3 to 13.8 years. External loans as a share of total government debt fell from 61% in 2011 to 50% in 2017. Second, even if the government wanted to borrow more from external sources, it could not because of a limit placed on public debt. Public debt cannot exceed 65% of GDP (the ratio was 61.4% in 2017). More importantly, Viet Nam's medium-term investment plan for 2016–2020 sets the amount of external loans for the whole period at 300,000 billion dong, equivalent to $13.3 billion. The government has already allocated all of this quota.

In **Ghana**, an inter-ministerial committee was set up by the President to develop a charter on 'Ghana Beyond Aid', which presented its recommendations to Parliament for approval in autumn 2018. Ghana had long anticipated its potential transition from LIC to LMIC status, especially since the announcement of the discovery of oil in commercial quantities in 2007. The rebasing exercise merely confirmed this. Consequently, in 2012, Ghana and her development partners signed the Government of Ghana/Development Partners Compact: Leveraging Partnership for Shared Growth and Development, 2012–2022. The Compact's preamble states that it 'should not be read as an ODA exit strategy, but should provide guidance for the strategic choices that will have to be made by the [Government of Ghana] and [development partners] alike in the period 2012–2022, as well as for the fostering of new alliances with emerging new players in development cooperation, with the ultimate goal of transforming Ghana into an established middle-income and aid independent country'.

Lao PDR's development effectiveness and debt management strategies have recognised the implications of changing status from LIC to LMIC. This has meant a stronger focus on delivering official finance to Lao PDR through budget support approved by the national assembly, to ensure that both domestic and external financing have been adequately mobilised to support the national socio-economic development plan. Interviewees from the Ministry of Planning and Investment indicated that the Government of Lao PDR is drafting two strategies – an ODA strategy and a public–private partnerships strategy – to deal with changes in development finance during the transition away from aid.

In view of the challenges in ODA coordination, the **Nigerian** government is developing an ODA policy framework and a system for capturing ODA data that will address current challenges associated with the deployment, management and tracking of aid in the country (Ministry of Budget and National Planning, 2015). The framework is being developed in partnership with donors to maximise the effectiveness and complementary value of aid entering the country, and it will aim to ensure ownership, accountability, effectiveness and the efficiency of ODA resource mobilisation and utilisation.

The other countries reviewed have debt management strategies in place. These mainly aim to reduce debt service and manage risks and exposure, rather than link financing with investment plans and budget allocation.

In the case of **Pakistan**, the main strategic priority has been to maintain fiscal stability. Foreign aid and inflows are primarily seen as a means for the country to keep or expand foreign reserves, rather than as a measure for addressing expenditure shortfalls. The government also leverages donor programmes (especially from the IMF) to push reforms that may have political costs and to build international relationships. The Medium-Term Debt Strategy (MTDS) 2015/16–2019/20 sets out the national approach to external debt. It states that while the country will aim to keep foreign debt to between 25% and 35% of the total debt stock, it will favour concessional loans over more expensive domestic loans. It also states that it will aim to maintain the current level of external inflows from multilateral and bilateral partners in an attempt to attract concessional loans and grants. Prior to the MTDS, in 2005 the government passed the Fiscal Responsibility and Debt Limitation Act, which aimed to reduce the size of Pakistan's overall debt, including external debt.

Interviews with stakeholders in **Papua New Guinea** suggested there was no evidence of any strategy for managing the transition from concessional to less-concessional financing. One of the reasons for this is that MDBs (and concessional loans) are not the largest source of ODA to Papua New Guinea. The fact that the largest and most dominant donor, Australia, was not planning to cut back its grant-based support to Papua New Guinea gave reasonable assurance that the impact of any decrease in ODA following the country's graduation to LMIC was going to be minimal, if anything. Interviewees reiterated the importance of all donors, big or small, to Papua New Guinea, noting that the country's prospects of becoming self-sufficient were not strong enough.[36]

In the case of **Sri Lanka**, the Department of External Resources, which is responsible for aid management, has an explicit borrowing strategy (Department of External Resources, n.d.). The strategy of the Department of External Resources and the Central Bank of Sri Lanka is to meet the government's borrowing needs at the lowest possible cost and risk. The strategy recognises that concessional financing is falling as a result of Sri Lanka becoming an LMIC. It has led to a broadening of the resource base, as new financing sources have been approached, and consideration of the proper mix of less- or non-concessional financing with the concessional financing available. The new financing sources include export credits from Pakistan, Malaysia, Hungary and Iran, and private banks, including Deutsche Bank and HSBC. The strategy focuses on sectors that generate cash flow, such as economic infrastructure facilities and productive sectors; loans that have the longest repayment periods, maximum grace periods and most

36 Papua New Guinea's public debt strategy aims to keep the debt-to-GDP ratio below 30% (Papua New Guinea Department of Treasury, 2017).

favourable grant elements; and the use of capital markets, through alternative methods such as issuing sovereign bonds.

In the case of **Egypt**, there was no strategy in place to manage the transition away from aid. One of the most significant shortfalls in aid management and coordination is the fact that there is minimal coordination between the Ministries of Planning and Finance and the Ministry of Investment and International Cooperation. A debt management strategy is in place (Ministry of Finance, 2015), but it is under the remit of the Ministry of Finance, and is not necessarily managed closely with the Ministry of Investment and International Cooperation.

5.3 Coordination mechanisms

Most of the case-study countries do not have an aid coordination mechanism. In the countries that do have one, the mechanisms are progressively losing relevance and traction, which in some cases has been caused by the reclassification to MIC (reflecting a trend identified across many other countries, see Prizzon et al., 2016).

In the case of **Ghana**, the optimism created by oil production affected the relationship between development partners and the Government of Ghana almost instantaneously. Projected oil revenues and the expanded economy improved debt sustainability, creating the fiscal space for borrowing, so the government borrowed ambitiously to boost infrastructure development. Having an alternative revenue source reshaped the power balance between the government and the development partners, which eventually harmed ODA disbursements, especially those in the form preferred by the government: MDBS and the entire development coordination and dialogue erected around it. So what changed in the period following Ghana's reclassification? Both development partners and government officials interviewed recognised that the current situation in terms of platforms for strategic dialogue was one of inertia and was not optimal. The former coordination mechanism was never really replaced and the substitution of the framework agreement with Sector Working Groups did not materialise. One interviewee stated that 'the suspension of the budget support modality has affected the trust between the government and the development partners a lot'.

In **Pakistan**, the larger donor coordination mechanisms have become more infrequent over time, as the country's dependence on external financing has reduced.

In the case of **Nigeria**, the government has failed to develop a central coordinating strategy for development finance. The country lacks an ODA policy and national operating guidelines for development assistance. The management of development assistance is, in reality, fragmented among several ministries, departments and agencies (Ministry of Budget and National Planning, 2015). Development support departments interact only loosely, with the Ministry of Finance managing and coordinating loans and the Ministry of Budget and National Planning responsible for grants. However, according to interviews with government officials and development partners, factors such as poor planning and institutional weaknesses have hampered the institution of strong sustainability mechanisms for exit strategies.

In **Sri Lanka**, the decreased influence of existing donors and the emergence of non-traditional donors, such as China and India, meant formal donor coordination mechanisms were phased out, with the government engaging with traditional and non-traditional donors bilaterally (Amarasinghe and Rebert, 2013: 22).

Arrangements on aid coordination and management have changed significantly since **Viet Nam** became an LMIC. Before the transition, donors and the Vietnamese government coordinated their interventions at an annual donor consultative group meeting, at which all donors gathered to discuss Viet Nam's economy, opportunities and challenges, and to announce donor commitments. However, since 2013, this coordination mechanism has been replaced by the Viet Nam Development Partnership Forum. Donors do not announce commitments, but discuss development issues and priorities for Viet Nam. Donors are involved in sectoral donor coordination groups to ensure there is coordination and harmonisation among them.

In contrast, more active government engagement is foreseen for **Egypt**. There are currently aid management units within the Ministry of Investment and International Cooperation. In parallel, a Development Partners Group, which includes the most significant donors and lenders, is in place and led by the United Nations Development Programme (UNDP); the government's participation in this group is minimal. According to one of the interviewees, the Ministry of Investment and International Cooperation has expressed an interest in taking a more active role in Development Partners Group meetings. This is largely because of the Minister of Investment and International Cooperation, who is generally more proactive and open to external financiers.

6 Conclusions and recommendations

Many countries have been reclassified as MICs (34 economies are now classified as LICs) and have progressively moved away from traditional forms of aid. Against this backdrop, we were initially surprised that we did not identify a critical mass of contributions to the literature (either cross-country or individual country studies) mapping what all this meant for development finance and, more importantly, what could be learnt from the approaches taken by countries that had already undergone such a transition (and how donors should manage it). So far, the literature has focused on the opposite question: what are the (dis)incentives for tax-revenue mobilisation and the administration of greater aid inflows, and what is the rationale for filling financing gaps in countries that cannot afford service delivery even if they mobilise tax revenues at their maximum capacity?[37]

As discussed in Section 2, the literature often argues that crossing the LMIC threshold and graduating from the soft windows of the MDBs will change a country's access to external ODF and the volume and type of ODF available. This is, indeed, the case for lending from the soft windows of the MDBs and for assistance offered by most vertical funds (by definition, because the eligibility criteria are triggered by income per capita). Bilateral development partners might reconsider the scale and scope of their development programmes and projects and change gear to provide the type of engagement required when a recipient country achieves MIC status and moves up the income-per-capita ladder, as we found in our companion paper (Jalles d'Orey and Prizzon, 2019).

With this report we wanted to 'separate the hype from the reality' and test a few hypotheses on the trajectories that development financing follows after transition to LMIC status and from concessional assistance, beyond aggregate measures or country-cross analyses. We wanted to ground our analyses, to the extent possible for this qualitative approach, in each country's circumstances, i.e. in the economic, social and political contexts affecting decisions on allocation and prioritisation of development finance.

With this qualitative, rather than quantitative, analysis, we aimed to fill, at least partially, the gap in our knowledge by examining the experiences of eight countries that had either been reclassified as an MIC or had graduated from the soft windows of the MDBs over the past 5 to 10 years. We reviewed both the trends in development finance seen in these countries and the countries' approaches to dealing with their change of status. At least for the sample that we reviewed, we both corroborated and challenged common assumptions on aid flows to MICs. Such mapping is not just a purely abstract or academic exercise; it can help us to understand the picture of international public finance in MICs, to determine how recipient countries and donors should plan for transition and how the various actors should coordinate their activities.

We took a macro perspective on 'transition finance' – a country approach does not allow for a granular analysis of the implications of transition to MIC status at the project/programme micro level (and that was not the purpose of our analysis). However, we identified

37 On this last point, see Manuel et al. (2018).

quite a few elements in the evolution of the development finance landscape following transition to MIC status (or graduation from soft windows of MDBs).

- *Crossing the MIC threshold does not mean there will be less ODF* (at least in absolute volume terms). Considering constant prices, we have seen that ODA has grown in all countries that we have reviewed, albeit at different rates. Rising flows are often associated with geostrategic considerations: geographical location for Pakistan (military action in the post 9/11 period) and Egypt (in the turbulent Middle East and North Africa region); proximity with a development partner, as for Papua New Guinea (and its main partner, Australia) or with natural disasters, as in the case of Pakistan and Sri Lanka; or institutional strengthening. In other words, development assistance was driven by motives well beyond the income per capita of the recipient country.
- *Falling ODA flows are not necessarily matched by growing OOFs.* While in most cases the volume of ODF rose, in several cases the volume of non-concessional official finance mobilised did not compensate for the fall in ODA flows. There are several factors behind this: (1) the type of financing provided by the largest bilateral donors (which might be restricted to grant financing); (2) access to the hard windows of the MDBs (being a vulnerable economy might prevent a country from borrowing from the hard window of an MDB, e.g. blend countries from accessing IBRD lending, as in the case of Nigeria and Pakistan); and (3) eligibility for non-concessional borrowing (as in the case of the AfDB) and binding country debt limits (as in Viet Nam).
- *Unsurprisingly, loans as a share of ODA rose in most countries, but not all.* We would have expected grants to be prioritised and channelled to low-income countries. However, in two of the countries reviewed only very limited changes occurred, notably, in Egypt and Papua New Guinea. Their largest development partners – the US and Australia, respectively – both provided their programmes (or used to) in the form of grants. Therefore, the patterns of development finance in transition countries will be affected by their donors' landscapes and their financing instruments and modalities.
- *Most countries have seen their total official resources – ODF plus domestic public finance as a share of GDP – fall over time – with tax-to-GDP ratios rising, but not enough to compensate for the fall, or even declining over time.* Except for Pakistan, all the countries reviewed in this report have seen their total official resources as a share of GDP fall over time. In some of these countries – Ghana, Lao PDR and Viet Nam – ODF as a share of GDP fell (ODF grew in volume terms but not as much as GDP). Tax revenues as a share of GDP increased, but not enough to compensate for the fall in ODA. In some of the cases examined, the 'missing middle' was even more pronounced. Not only did ODF as a share of GDP fall, but so too did tax revenues, as in the cases of Sri Lanka, Nigeria and Papua New Guinea. Because of concerns about future debt sustainability, the Vietnamese government has introduced a binding debt-to-GDP ratio ceiling for its public borrowing. This ceiling has been limiting its ability to borrow from the IBRD (this meant that the government of Viet Nam had not borrowed from IBRD at the time the case study was conducted, even though it was eligible).
- *There has been a rise in ODF from development partners such as China and the Republic of Korea, whose allocation is not driven by the income per capita of the recipient country.* The rise of China as a donor has had a large impact on development finance for many of our case-study countries, especially countries geographically close to China. Lao PDR, Pakistan and Sri Lanka all lie on the the designated route for China's new Belt and Road Initiative. Chinese development assistance and investments have been expanding in Ghana, Nigeria and Papua New Guinea. ODF from the Republic of Korea – especially from Korea Eximbank – also expanded, in Lao PDR, Nigeria and Viet Nam.
- *In nearly all the countries reviewed for this report, the sectoral allocation of resources – external ODF as well as public finance – has changed towards infrastructure development.*

Except for Lao PDR, both external ODF and public finance have increasingly targeted infrastructure development rather than the social sectors. In Viet Nam, this was the case for external ODF but not for public finance – which has increasingly been allocated towards the social sectors (partly addressing some of the gaps left by falling development assistance). In the case of Papua New Guinea, this shift was of concern for both government officials and development partners (and was also associated with worsening health indicators). In Pakistan, the health sector accounted for around 6% of aid disbursements in 2000, and only 1% of aid disbursements in 2015. However, a rise in the share of ODF allocated to the infrastructure sector was the result of government preference (e.g. for energy in Pakistan).

- *The three blend countries reviewed in this report are towards the bottom of the HDI rankings.* Even though HDI rank is correlated with income (income per capita is one of the components of the index), the three worst HDI performers in our selected group (Papua New Guinea, Nigeria and Pakistan) are the blend countries. Their HDI rankings are lower than some of the 'best performing' LICs. Though opaque, the creditworthiness assessment does consider these factors, hence the lengthy – nearly a decade – period as a blend country (Viet Nam was reclassified as an LMIC more or less at the same time and became an IBRD country under IDA-18 in 2017). The blend countries reviewed for this report, especially Papua New Guinea, saw their public expenditure on education and health fall – at times sharply – and some human-development (especially health-related) indicators worsen.
- *Despite facing changes in the volume, composition and terms and conditions of development finance in their transition away from aid, countries do not usually have a strategy in place to address the potential challenges or to plan ahead.* The only exception is Viet Nam – but its strategy primarily looks at the types of projects each source can fund. Other countries are planning their transition away from aid (Ghana, with its 'Ghana Beyond Aid' strategy, and Nigeria) and have incorporated some principles of transition from LIC in other documents (Lao PDR). Other governments manage their financing options through a debt management strategy (even though this aims to minimise costs and financial risk, rather than serve as a planning tool).
- *Across the case studies, we found that governments did not – or found it difficult to – articulate their priorities for the types of assistance they would like to receive from development partners in their transition away from aid,* not often acknowledging the changing circumstances associated with LMIC status. Whenever priorities were specified, they largely reflected the need for capacity building and knowledge, and to fill gaps where government capacity was limited.
- *Coordination mechanisms have generally been phased out.* High-level coordination mechanisms have either become less frequent or have lost traction, often because of the waning importance of external assistance. There are some counter-examples, though, such as the Egyptian government's increasing engagement with a group of donor partners.

So, what should governments and development partners change to improve the management of the transition away from aid, based on the reviews in this report and in the companion paper to this project (Jalles d'Orey and Prizzon, 2019)?

For governments

- *Articulate and be clear on priorities for external development finance and develop a strategy for managing the transition away from aid.* The terms and conditions are, in most cases, likely to change at the global level (especially rises in interest rates), and ODF as a share of GDP is likely to fall.
- Within this context, *prioritise tax mobilisation and tax administration* as a key element of the financing strategy.
- *Plan for changes in the composition of development finance to mitigate financial risks and rising costs,* especially when a country has limits to its external borrowing, such as debt-to-GDP cap, and when favourable borrowing terms and conditions, such as loans from the hard windows of the MDBs, could be an option.
- *Protect gains achieved in the social sectors by ring-fencing the share of government*

spending that goes to the education and health sectors. We have seen how the share of both external assistance and public finance to the social sectors have been falling in some of the countries reviewed.
- *Invest in coordination mechanisms*. Now more than ever, coordination between government and development partners should be improved. It will be key to the sharing of information about development partners' plans; when they intend to change their programme orientation or decide to withdraw their development projects from the country.

For development partners

- *Supporting countries in the transition from aid should take a whole-of-finance-system approach,* coordinating changes in focus, volumes and financing methods with other donors or lenders, to avoid jeopardising results already achieved.
- *Reconsider criteria and approaches to transition.* Beyond income per capita of the recipient country, resource allocation should consider trajectories in resource mobilisation broader than macroeconomic performance. The 'blend' period for MDB lending should also be reviewed, reflecting performance in human development – indicators and spending – among the eligibility criteria, at least more explicitly.
- *Align with national development plans*. With countries' prioritisation towards infrastructure development, development partners should continue reflecting recipient countries' priorities for their own national development. This would include building capacity to manage such transition, supporting the country's priorities and strategies.
- *Help boost non-concessional official finance and tax revenues* To help address the 'missing middle' of development finance, development partners should either boost non-concessional sovereign lending (especially the hard windows of the MDBs) which are still cheaper than borrowing from domestic and international capital markets at higher rates and shorter maturities and would put less pressure on future debt sustainability. With tax revenues falling as a share of GDP, development partners should also focus on how to support efforts to boost tax revenue.
- *Do not consider transition as a linear process towards graduation from aid, and continue to engage with countries in transition*. Countries may have started moving away from aid, but the process may not necessarily be linear and without setbacks. Low interest rates have helped keep costs low, but a rising trend – and reduced market appetite for investment in emerging markets – could change this picture.

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Annex 1 Country analytical and operational classifications

Table A1 Year of reclassification (analytical reclassification) and graduation from IDA (operational classification)

Country	LIC → LMIC	LMIC → UMIC	UMIC → HIC	IDA (and blend) → IBRD
Albania	1997, 1999	2010, 2013		2008
Algeria		2009		
Angola	2005	2012		2014
Antigua and Barbuda			2003, 2006, 2013	
Argentina		1992	2015	
Armenia	2003			2014
Aruba			1995	
Azerbaijan	2004	2010		2011
Bahrain			2002	
Bangladesh	2015			
Barbados			1990, 2001, 2003, 2007	
Belarus		2008		
Belize		2003, 2013		
Bhutan	2007			
Bosnia and Herzegovina		1999	2009	2014
Botswana		1992, 1998		1974*
Brazil		1990, 2007		
Bulgaria		2007		
Cambodia		2016		
Cameroon	2006			1981*
Chile		1994	2013	1961*
China	1998, 2000	2011		1999*
Colombia		2009		1962*
Congo, Rep.		2006		1982*
Costa Rica		2001		1962*
Côte d'Ivoire	2009			1973*
Croatia		1996	2009	

Country	LIC → LMIC	LMIC → UMIC	UMIC → HIC	IDA (and blend) → IBRD
Cuba		2008		
Cyprus			1989	
Czech Republic		1995	2007	
Dominica		2000		
Dominican Republic		2009		1973*
Ecuador		2011		1974*
Egypt, Arab Rep.	1996			1981*, 1999
El Salvador				1977*
Equatorial Guinea	1998	2005*	2008	1999
Estonia		1998	2007	
Fiji		2008, 2013		
Georgia	1997, 2004	2016		2014
Ghana	2011			
Gibraltar		2010*		
Greece			1997	
Grenada		1998		
Guam			1996	
Guyana	1998	2016		
Honduras	2000			1980*
Hungary			2008	
India		2008		2014*
Indonesia	1994, 2004			1980*, 2008
Iran, Islamic Rep.		2010		
Iraq		2013		
Isle of Man			2003	
Jamaica		2008		
Japan				
Jordan		2011		1978*
Kazakhstan		2007		
Kenya	2015			
Korea, Rep.			1996, 2002	1973*
Kyrgyz Republic	2014			
Lao PDR	2011			
Latvia		2002	2010, 2013	
Lebanon		1998		
Lesotho	1996, 2006			
Lithuania		2002	2013	
Macao SAR, China			1995	

Country	LIC → LMIC	LMIC → UMIC	UMIC → HIC	IDA (and blend) → IBRD
Macedonia, FYR		2009		2002
Malaysia		1993		
Maldives	1994	2011		
Malta			1990, 1999, 2001, 2003	
Marshall Islands		2013		
Mauritania	2011, 2013			
Mauritius		1993		1975*
Mexico		1991		
Moldova	2006			
Mongolia	2008	2015		
Montenegro				2008
Morocco				1975*
Myanmar	2015			
Namibia		2009		
New Caledonia			1996	
Nicaragua	2006			1981*
Niger				
Nigeria	2009			1965*
Northern Mariana Islands			1996*, 2008	
Oman			2008	
Pakistan	2009			
Panama		1999		
Papua New Guinea	2009			1983*
Paraguay		2015		1977*
Peru		2009		
Philippines				1979*, 1993*
Poland		1997	2010	
Portugal			1995	
Puerto Rico			1988, 2003	
Romania		2006		
Russian Federation		2005	2013	
São Tomé and Principe		2009		
Saudi Arabia			2005	
Senegal	2010			
Serbia				2008
Seychelles			2015	
Slovak Republic		1997	2008	

Country	LIC → LMIC	LMIC → UMIC	UMIC → HIC	IDA (and blend) → IBRD
Slovenia			1998	
Solomon Islands	1989, 1993, 2009, 2011			
Somalia				
South Africa		1989, 2000, 2005		
South Sudan	2014			
Spain				
Sri Lanka	1998			
St. Kitts and Nevis			2012	1994
St. Lucia		1993		
St. Vincent and the Grenadines		2004		
Sudan	2008			
Suriname		2008		
Swaziland				1975*
Syrian Arab Republic				1974*
Tajikistan	2015			
Thailand		2011		1979*
Timor-Leste	2008			
Tonga		2013		
Trinidad and Tobago			2007	
Tunisia		2011		1979*
Turkey		1998, 2001, 2005		1973*
Turkmenistan	2001	2012		
Tuvalu		2012		
Ukraine	2003			
Uruguay			2013	
Uzbekistan	2010			
Venezuela, RB		1998	2015	
Viet Nam	2010			
Yemen, Rep.	2010			
Zambia	2011			
Zimbabwe				1983*

**Denotes last year of IDA credit.*
Source: OGHIST table and IDA website, authors' elaboration from World Bank documents.

Annex 2 List of interviewees

	Organisation	Name	Job title
Egypt			
1	USAID	Nevine Lotfi	Senior Economist
2	USAID	Soad Saada	Development Program Specialist, Gender Advisor, Mission Environmental Officer
3	German Embassy	Sebastian Lesch	First Counsellor, Head of German Development Cooperation
4	AfDB	Parajesh Bhakta	Chief Country Programme Officer
5	British Embassy	Arvind Mungur	Head of Programmes
6	World Bank	Tatiana Weber	Senior Operations Officer
7	n/a	Dr Medhat Hassanein	Former Minister of Finance
Ghana			
1	USAID	Sharon Cramer	Head of Mission
2	USAID	Kevin Brown	Supervisory Program Officer
3	World Bank	Errol George Graham	Program Leader and Lead Economist, Ghana, Liberia and Sierra Leone
4	High Commission of Canada	Stuart Lane	Deputy Director, Counsellor (Development)
5	High Commission of Canada	Djifa Ahado	First Secretary (Development)
6	Ministry of Finance	Nana Yaw Yankah	Economic Officer
7	Parliament of Ghana	Hon Ato Forson	Ranking Member, Public Accounts Committee, Former Deputy Minister, Finance
8	Ministry of Finance	Samuel Arkhurst	Director, Debt Management Division
9	European Union	Benoist Bazin	Cooperation Advisor and Team Leader, Infrastructure and Sustainable Development
10	AfDB	Yero Baldeh	Country Manager
Lao PDR			
1	ADB	Shunsuke Bando	Country Economist
2	World Bank	Evgenij Najdov	Country Economist
3	World Bank	Konesawang Nghardsaysone	Economist
4	Embassy of Japan	Asada Yoshinori	Economist

	Organisation	Name	Job title
5	JICA	Yoshiharu Yoneyama	Country Representative
6	KOICA	Youngjoo Song	Not available
7	DFAT	Andreas Zurbrugg	Deputy Head of Mission
8	DFAT	Lisa Mortimer	Second Secretary (Economic and Trade)
9	Ministry of Finance	Bounleau Sinsayvoravong	Director General, Department of Fiscal Policy
10	Ministry of Finance	Thedthoun Soukaloun	Technical Staff, Department of External Finance
11	Ministry of Planning and Investment	Arounyadeth Rasphone	Deputy Director, Department of International Cooperation
12	Ministry of Planning and Investment	Sisavanh Didaravong	Deputy Director, Department of International Cooperation

Nigeria

1	Federal Ministry of Budget and National Planning	Samuel Eloho	Director, International Cooperation
2	Federal Ministry of Budget and National Planning	Henry Asor	United Nations Database Systems (UNDS) Manager
3	Federal Ministry of Budget and National Planning	Faniran Sanjo	Deputy Director, United Nations Development System
4	n/a	Akin Oyemakinde	Former Director, Planning Research and Statistics, Federal Ministry of Health
5	USAID	Charles Abani	Chief of Party, USAID's Strengthening Advocacy and Civic Engagement (SACE) program
6	USAID	Gafar Alawode	Chief of Party, USAID's Health Financing and Governance (HFG)
7	IMF	Anime Mati	Senior Resident Representative and Mission Chief for Nigeria Africa Development
8	Global Fund	Ibrahim Tajudeen	Acting Executive Secretary, Country Coordinating Mechanism Nigeria (CCMN
9	DFID	Chris Okereke	Governance Adviser
10	DFID	Oliver Blake	Team Leader, Governance and Social Development
11	Centre for the Study of the Economies of Africa (CSEA)	Onyekwena Chukwuka	Executive Director
12	DFID	Ana Vinambres	Team Leader, DFID's MAFITA programme
13	United Nations Population Fund (UNFPA)	Eugene Kongnyuy	Deputy Representative
14	United Nations Development Programme (UNDP) Regional Bureau for Africa	Ayodele Odusola	Chief Economist and Head of the Strategy and Analysis Team
15	Technoserve	Larry Umunna	Country Director

	Organisation	Name	Job title
16	AfDB	Anthony Simpasa	Lead Economist
17	World Bank	Gloria Aitalohi Joseph-Raji	Senior Economist

Pakistan

1	Ministry of Finance	Ehtisham Rashid	Director, Debt Policy and Coordination Office
2	Ministry of Finance	Mr Shahid	Section Officer, External Finance Wing
3	Ministry of Finance	Nohman Ishtiaq	Consultant, Budget Wing
4	Ministry of Finance	Talib Baloch	Coordinator, Budget, Budget Wing
5	Ministry of Planning, Development and Reforms	Nadeem Javaid	Chief Economist
6	Economic Affairs Division	Hammad Shamimi	Joint Secretary
7	World Bank	Muhammad Waheed	Senior Economist
8	ADB	Farzana Noshab	Economist
9	IMF	Tasneem Alam	Country Economist
10	n/a	Habib ur Rehman	Former USAID Financial Advisor
11	Swiss Cooperation Office	Hamid Raza Afridi	Policy Advisor
12	JICA	Haroon ur Rashid Rana	Senior Programme Officer
13	DFID	Kemi Williams	Deputy Head
14	GIZ	Fouzieh Melanie Alamir	Cluster Coordinator
15	Sustainable Development Policy Institute (SDPI)	Vaqar Ahmed	Joint Executive Director
16	Government of Sindh	Rajanesh Kumar	Head of Debt Management Unit, Finance Department
17	Government of Sindh	Kashif Mumtaz Sheikh	Financial Analyst at Debt Management Unit, Finance Department
18	Government of Sindh	Ehtesham Asghar	Section Officer (Resources), Finance Department
19	Government of Sindh	Zulfiqar Mirza	PFM Consultant, Finance Department
20	Government of Sindh	Asghar Memon	Chief Foreign Aid, Planning and Development Department
21	Institute of Business Administration	Qazi Masood	Professor of Economics
22	Institute of Business Administration	Ishrat Hussain	Professor Emeritus and Former Governor of State Bank of Pakistan
23	Government of Punjab	Abdul Rehman Warraich	Head of Debt Management Unit, Finance Department
24	Government of Punjab	Saifullah Dogar	Special Secretary Budget and Resources, Finance Department
25	Government of Punjab	Amjad Duraiz	Chief Foreign Aid at Planning and Development Department
26	Government of Khyber Pakhtunkhwa	Hammad Raza	Budget Officer (Funds and Loans), Finance Department

	Organisation	Name	Job title
27	Government of Khyber Pakhtunkhwa	Safeer Ahmed	Additional Secretary, Finance Department
28	Government of Khyber Pakhtunkhwa	Faisal Shehzad	PFM Consultant, Planning and Development Department

Papua New Guinea

1	Australian High Commission	Chakryiya Bowman	Economics Counsellor
2	UNAIDS/Global Fund	David Bridger	Country Director
3	Embassy of the People's Republic of China	Yumeng Chu	Assistant Economic Counsellor
4	ADB	Edward Faber	Country Economist
5	Australian High Commission	John Francis	Second Secretary, Program Strategy and Gender
6	USAID	Julie Hulama	Development Assistance Specialist, Regional Office for the Pacific Islands
7	National Department of Health	Pascoe Kase	Secretary
8	Delegation of the European Union	Gregory Malagui	Trade Affairs Officer
9	Delegation of the European Union	Brian Nakrakundi	Manager, Social Sector
10	Delegation of the European Union	Carlos Perez-Padilla	Policy Coordinator
11	Embassy of Japan	Ovaro Sehuri	Economic Cooperation, ODA
12	USAID, US Embassy	Jorge Velesco	Health Advisor, Regional Office for the Pacific Islands
13	Embassy of Japan	Mitsugu Yachidate	First Secretary
14	National Department of Planning and Monitoring	Robert Yori	Aid Coordinator

Sri Lanka*

	Central Bank	(1)	
	External Resources Department, Ministry of Finance	(1)	
	National Planning Department, Ministry of Finance	(4)	
	Development Partners' Network	(2)	
	International Monetary Funds	(2)	
	European Union	(1)	
	ADB	(1)	
	Embassy of Japan	(1)	
	Korea International Cooperation Agency	(1)	
	Australian High Commission	(2)	
	USAID	(3)	

	Organisation	Name	Job title
	Women and Media Collective	(1)	
	Sarvodaya	(1)	
	Senior Lecturer, Economics Department, University of Colombo	(1)	
	Former Head of Finance Commission	(1)	
	Total	(23)	

Viet Nam

1	Ministry of Planning and Investment	Unnamed	
2	Ministry of Finance	Nguyen Trong Nghia	Director, Planning and risk management Devision, Department of Debt Management and External Finance
3	n/a	Chu Thi Vinh	Former Deputy Director, Department of Debt Management and External Finance, Ministry of Finance
4	Ministry of Education	Unnamed	
5	Ministry of Transportation	Unnamed	
6	World Bank	Unnamed	
7	Japanese Embassy	Akihiko Nakano	Senior Officer
8	AsDB	Aaron Batten	Country Economist
9	Embassy of the Republic of Korea	Unnamed	
10	British Embassy	Anna Pearson	Head of Prosperity, Economic and Political Section
11	SECO	Marcel Reymond	Head of Cooperation
12	Embassy of the Federal Republic of Germany	Luisa Bergfeld	First Secretary, Deputy Head of German Development Cooperation
13	Danish Embassy	Chu Thi Trung Hau	Senior Political and Economic Officer

* *For the case study on Sri Lanka, interviewees asked not to publish their names.*

Annex 3 Country factsheets

Egypt

Year of reclassification to LMIC status	1996
Income per capita (2017) GNI per capita, Atlas Method ($)	3,010
Operational classification (World Bank) (year of latest change)	IBRD (1998)
Eligibility for Gavi funding	No
Eligibility to GFATM* funding	Yes
LDC status	No

** Global Fund to Fight AIDS, Tuberculosis and Malaria*

	Average past 3 years	Average 3 years before graduation/ reclassification (1995–1997)
Economic context		
GDP growth rate (%)	4.3	5.0
Tax revenues (% of GDP) (average past 3 years available)	12.7	17.0
Revenue (excluding grants) (% of GDP) (average past 3 years available)	20.8	29.8
Concessional debt (% of total external debt)	49.3	70.8
General government final consumption expenditure (% of GDP)	11.1	10.7
External debt stock (% of GNI)	16.1	46.5
Social context		
Poverty headcount ratio at $1.90 a day (2011 PPP) (% of population) (average past 5 years)	1.8	4.6
Poverty headcount ratio at national poverty lines (% of population)	27.1	n/a
Human Development Index	0.696	0.546
Health (life expectancy at birth, years)	71.3	67.2
School enrolment, primary (% gross)	102.4	90.5

	Average past 3 years	Average 3 years before graduation/ reclassification (1995–1997)
Development finance composition		
Grant and loan composition		
Grants as a share of total official development finance (%)	34.5	61.8
Terms and conditions		
Average interest rate on new commitments (%)	1.5	3.5
Average maturity on new commitments (years)	15.1	23.5
Aid dependency		
Net ODA as a share of GNI (%)	0.9	3.0
ODA and OOF composition		
Total official development finance (in 2016 prices), gross ($ millions)	10,626	4,109
ODA as a share of official development finance (%)	65.8	77.5
Sectoral allocation of resources (%)		
Share of official development finance to education sector	2.6	5.9
Share of official development finance to health sector	0.5	2.4
Share of official development finance to economic sectors	43.4	24.1
Share of official development finance to productive sectors	22.7	11.7
Government expenditure on education, total (% of government expenditure)	n/a	n/a
Domestic general government health expenditure (% of general government expenditure)	4.1	n/a

Ghana

Year of reclassification to LMIC status	2011
Income per capita (2017) GNI per capita, Atlas Method ($)	1,490
Operational classification (World Bank) (year of latest change)	IDA
Eligibility for Gavi funding	Preparatory transition
Eligibility for GFATM funding	Yes
LDC status	No

	Average past 3 years	Average 3 years before graduation/ reclassification (2008–2010)
Economic context		
GDP growth rate (%)	5.4	7.3
Tax revenues (% of GDP) (average past 3 years available)	n/a	13.7
Revenue (excluding grants) (% of GDP) (average past 3 years available)	n/a	17.5
Concessional debt (% of total external debt)	42.2	43.8
General government final consumption expenditure (% of GDP)	9.6	7.8
External debt stock (% of GNI)	52.7	25.5
Social context		
Poverty headcount ratio at $1.90 a day (2011 PPP) (% of population) (average past 5 years)	12.0	n/a
Poverty headcount ratio at national poverty line (% of population)	24.2	n/a
Human Development Index	0.592	0.554
Health (life expectancy at birth, years)	62.4	60.5
School enrolment, primary (% gross)	106.8	102.2
Development finance composition		
Grant and loan composition		
Grants as a share of total official development finance (%)	48.4	58.1
Terms and conditions		
Average interest rate on new commitments (%)	6.1	1.8
Average maturity on new commitments (years)	14.1	23.4
Aid dependency		
Net ODA as a share of GNI (%)	3.7	5.4
ODA and OOF composition		

	Average past 3 years	Average 3 years before graduation/ reclassification (2008–2010)
Total official development finance (in 2016 prices), gross ($ millions)	1,807	1,826
ODA as a share of official development finance (%)	89.0	91.0
Sectoral allocation of resources (%)		
Share of official development finance to education sector	10.4	3.5
Share of official development finance to health sector	13.0	11.8
Share of official development finance to economic sectors	34.2	36.3
Share of official development finance to productive sectors	13.9	14.5
Government expenditure on education, total (% of government expenditure)	21.1	22.4
Domestic general government health expenditure (% of general government expenditure)	7.7	10.2

Lao PDR

Year of reclassification to LMIC status	2011
Income per capita (2017) GNI per capita, Atlas Method ($)	2,270
Operational classification (World Bank) (year of latest change)	IDA
Eligibility for Gavi funding	Accelerated transition
Eligibility for GFATM funding	Yes
LDC status	No

	Average past 3 years	Average 3 years before graduation/ reclassification (2007–2009)
Economic context		
GDP growth rate (%)	7.1	7.6
Tax revenues (% of GDP) (average past 3 years available)	13.7	12.4
Revenue (excluding grants) (% of GDP) (average past 3 years available)	15.8	9.2
Concessional debt (% of total external debt)	43.4	55.7
General government final consumption expenditure (% of GDP)	14.0	9.7
External debt stock (% of GNI)	92.5	114.7
Social context		
Poverty headcount ratio at $1.90 a day (2011 PPP) (% of population) (average past 5 years)	22.7	27.0
Poverty headcount ratio at national poverty line (% of population)	23.4	27.6
Human Development Index	0.601	0.546
Health (life expectancy at birth, years)	66.3	63.4
School enrolment, primary (% gross)	114.7	118.9
Development finance composition		
Grant and loan composition		
Grants as a share of total official development finance (%)	67.5	63.0
Terms and conditions		
Average interest rate on new commitments (%)	2.6	1.6
Average maturity on new commitments (years)	18.8	23.7
Aid dependency		
Net ODA as a share of GNI (%)	3.3	8.9
ODA and OOF composition		
Total official development finance (in 2016 prices), gross ($ millions)	616	504

	Average past 3 years	Average 3 years before graduation/ reclassification (2007–2009)
ODA as a share of official development finance (%)	87.1	93.2
Sectoral allocation of resources (%)		
Share of official development finance to education sector	12.7	10.0
Share of official development finance to health sector	12.3	9.4
Share of official development finance to economic sectors	25.2	23.1
Share of official development finance to productive sectors	14.5	20.1
Government expenditure on education, total (% of government expenditure)	12.5	13.2
Domestic general government health expenditure (% of general government expenditure)	3.1	4.6

Nigeria

Year of reclassification to LMIC status	2009
Income per capita (2017) GNI per capita, Atlas Method ($)	2,080
Operational classification (World Bank) (year of latest change)	Blend
Eligibility for Gavi funding	Accelerated transition
Eligibility for GFATM funding	Yes
LDC status	No

	Average past 3 years	Average 3 years before graduation/ reclassification (2006–2008)
Economic context		
GDP growth rate (%)	0.6	7.1
Tax revenues (% of GDP) (average past 3 years available)	1.5	3.9
Revenue (excluding grants) (% of GDP) (average past 3 years available)	5.0	11.5
Concessional debt (% of total external debt)	31.3	21.6
General government final consumption expenditure (% of GDP)	5.7	9.6
External debt stock (% of GNI)	6.2	7.2
Social context		
Poverty headcount ratio at $1.90 a day (2011 PPP) (% of population) (average past 5 years)	n/a	n/a
Poverty headcount ratio at national poverty line (% of population)	n/a	n/a
Human Development Index	0.532	0.484
Health (life expectancy at birth, years)	53.0	49.3
School enrolment, primary (% gross)	n/a	93.1
Development finance composition		
Grant and loan composition		
Grants as a share of total official development finance (%)	62.2	-248.8
Terms and conditions		
Average interest rate on new commitments (%)	1.3	1.1
Average maturity on new commitments (years)	22.6	36.6
Aid dependency		
Net ODA as a share of GNI (%)	0.5	3.4
ODA and OOF composition		
Total official development finance (in 2016 prices), gross ($ millions)	3058.7	6109.4

	Average past 3 years	Average 3 years before graduation/ reclassification (2006–2008)
ODA as a share of official development finance (%)	100.7	-237.7
Sectoral allocation of resources (%)		
Share of official development finance to education sector	5.3	10.5
Share of official development finance to health sector	18.5	19.4
Share of official development finance to economic sectors	28.7	13.6
Share of official development finance to productive sectors	9.8	8.6
Government expenditure on education, total (% of government expenditure)	0.5	3.4
Domestic general government health expenditure (% of general government expenditure)	4.1	5.4

Pakistan

Year of reclassification to LMIC status	2009
Income per capita (2017) GNI per capita, Atlas Method ($)	1,580
Operational classification (World Bank) (year of latest change)	Blend
Eligibility for Gavi funding	Preparatory transition
Eligibility for GFATM funding	Yes
LDC status	No

	Average past 3 years	Average 3 years before graduation/ reclassification (2006–2008)
Economic context		
GDP growth rate (%)	5.3	4.2
Tax revenues (% of GDP) (average past 3 years available)	n/a	9.7
Revenue (excluding grants) (% of GDP) (average past 3 years available)	n/a	13.9
Concessional debt (% of total external debt)	51.5	66.6
General government final consumption expenditure (% of GDP)	11.2	10.0
External debt stock (% of GNI)	23.6	27.4
Social context		
Poverty headcount ratio at $1.90 a day (2011 PPP) (% of population) (average past 5 years)	6.0	13.2
Poverty headcount ratio at national poverty line (% of population)	30.0	44.1
Human Development Index	0.562	0.526
Health (life expectancy at birth, years)	66.3	64.3
School enrolment, primary (% gross)	94.5	89.2
Development finance composition		
Grant and loan composition		
Grants as a share of total official development finance (%)	49.5	41.1
Terms and conditions		
Average interest rate on new commitments (%)	3.2	3.6
Average maturity on new commitments (years)	17.4	22.5
Aid dependency		
Net ODA as a share of GNI (%)	1.2	1.3
ODA and OOF composition		
Total official development finance (in 2016 prices), gross ($ millions)	5,188	4,421

	Average past 3 years	Average 3 years before graduation/ reclassification (2006–2008)
ODA as a share of official development finance (%)	97.2	81.3
Sectoral allocation of resources (%)		
Share of official development finance to education sector	7.8	9.3
Share of official development finance to health sector	4.8	7.1
Share of official development finance to economic sectors	51.3	36.1
Share of official development finance to productive sectors	12.7	7.9
Government expenditure on education, total (% of government expenditure)	12.0	14.9
Domestic general government health expenditure (% of general government expenditure)	3.5	3.0

Papua New Guinea

Year of reclassification to LMIC status	2009
Income per capita (2017) GNI per capita, Atlas Method ($)	2,410
Operational classification (World Bank) (year of latest change)	Blend
Eligibility for Gavi funding	Accelerated transition
Eligibility for GFATM funding	Yes
LDC status	No

	Average past 3 years	Average 3 years before graduation/ reclassification (2004–2006)
Economic context		
GDP growth rate (%)	3.1	3.8
Tax revenues (% of GDP) (average past 3 years available)	17.0	n/a
Revenue (excluding grants) (% of GDP) (average past 3 years available)	18.6	n/a
Concessional debt (% of total external debt)	5.4	45.3
General government final consumption expenditure (% of GDP)	n/a	15.3
External debt stock (% of GNI)	123.6	26.0
Social context		
Poverty headcount ratio at $1.90 a day (2011 PPP) (% of population) (average past 5 years)	n/a	n/a
Poverty headcount ratio at national poverty line (% of population)	n/a	n/a
Human Development Index	0.544	0.520
Health (life expectancy at birth, years)	65.4	63.4
School enrolment, primary (% gross)	n/a	57.6
Development finance composition		
Grant and loan composition		
Grants as a share of total official development finance (%)	100.4	99.2
Terms and conditions		
Average interest rate on new commitments (%)	2.1	2.0
Average maturity on new commitments (years)	24.1	18.6
Aid dependency		
Net ODA as a share of GNI (%)	2.8	5.7
ODA and OOF composition		
Total official development finance (in 2016 prices), gross ($ millions)	-294.4	424.3

	Average past 3 years	Average 3 years before graduation/ reclassification (2004–2006)
ODA as a share of official development finance (%)	122.2	102.6
Sectoral allocation of resources (%)		
Share of official development finance to education sector	5.4	10.0
Share of official development finance to health sector	5.7	9.6
Share of official development finance to economic sectors	40.7	24.8
Share of official development finance to productive sectors	4.6	4.6
Government expenditure on education, total (% of government expenditure)	n/a	n/a
Domestic general government health expenditure (% of general government expenditure)	9.1	8.3

Sri Lanka

Year of reclassification to LMIC status	1998
Income per capita (2017) GNI per capita, Atlas Method ($)	3,840
Operational classification (World Bank) (year of latest change)	IBRD (2017)
Eligibility for Gavi funding	Fully self-financing
Eligibility for GFATM funding	Yes
LDC status	No

	Average past 3 years	Average 3 years before graduation/ reclassification (1996–1997)
Economic context		
GDP growth rate (%)	4.2	5.2
Tax revenues (% of GDP) (average past 3 years available)	11.0	16.9
Revenue (excluding grants) (% of GDP) (average past 3 years available)	12.2	19.3
Concessional debt (% of total external debt)	34.0	75.2
General government final consumption expenditure (% of GDP)	8.7	10.8
External debt stock (% of GNI)	56.3	60.1
Social context		
Poverty headcount ratio at $1.90 a day (2011 PPP) (% of population) (average past 5 years)	1.3	8.8
Poverty headcount ratio at national poverty line (% of population)	5.4	n/a
Human Development Index	0.770	0.685
Health (life expectancy at birth, years)	75.1	69.3
School enrolment, primary (% gross)	101.6	109.0
Development finance composition		
Grant and loan composition		
Grants as a share of total official development finance (%)	26.6	39.9
Terms and conditions		
Average interest rate on new commitments (%)	3.6	3.6
Average maturity on new commitments (years)	16.1	25.2
Aid dependency		
Net ODA as a share of GNI (%)	0.5	3.4
ODA and OOF composition		
Total official development finance (in 2016 prices), gross ($ millions)	1,308	812

	Average past 3 years	Average 3 years before graduation/ reclassification (1996–1997)
ODA as a share of official development finance (%)	92.7	101.7
Sectoral allocation of resources (%)		
Share of official development finance to education sector	6.1	10.3
Share of official development finance to health sector	0.9	2.1
Share of official development finance to economic sectors	54.4	44.9
Share of official development finance to productive sectors	7.6	18.5
Government expenditure on education, total (% of government expenditure)	10.4	12.1
Domestic general government health expenditure (% of general government expenditure)	8.7	n/a

Viet Nam

Year of reclassification to LMIC status	2009
Income per capita (2017) GNI per capita, Atlas Method ($)	2,170
Operational classification (World Bank) (year of latest change)	IBRD (2017)
Eligibility for Gavi funding	Accelerated transition
Eligibility for GFATM funding	Yes
LDC status	No

	Average past 3 years	Average 3 years before graduation/ reclassification (2006–2008)
Economic context		
GDP growth rate (%)	6.6	6.6
Tax revenues (% of GDP) (average past 3 years available)	19.1	22.0
Revenue (excluding grants) (% of GDP) (average past 3 years available)	21.5	23.8
Concessional debt (% of total external debt)	42.1	70.1
General government final consumption expenditure (% of GDP)	6.4	5.6
External debt stock (% of GNI)	42.9	29.0
Social context		
Poverty headcount ratio at $1.90 a day (2011 PPP) (% of population) (average past 5 years)	2.5	17.2
Poverty headcount ratio at national poverty line (% of population)	13.5	n/a
Human Development Index	0.694	0.654
Health (life expectancy at birth, years)	76.1	74.6
School enrolment, primary (% gross)	109.3	99.2
Development finance composition		
Grant and loan composition		
Grants as a share of total official development finance (%)	14.7	31.6
Terms and conditions		
Average interest rate on new commitments (%)	1.4	2.8
Average maturity on new commitments (years)	19.5	25.0
Aid dependency		
Net ODA as a share of GNI (%)	1.9	2.9
ODA and OOF composition		
Total official development finance (in 2016 prices), gross ($ millions)	7,326	3,410

	Average past 3 years	Average 3 years before graduation/ reclassification (2006–2008)
ODA as a share of official development finance (%)	78.9	82.3
Sectoral allocation of resources (%)		
Share of official development finance to education sector	3.9	6.3
Share of official development finance to health sector	3.9	5.4
Share of official development finance to economic sectors	49.5	49.0
Share of official development finance to productive sectors	17.5	12.8
Government expenditure on education, total (% of government expenditure)	18.5	18.1
Domestic general government health expenditure (% of general government expenditure)	8.7	8.3

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