

Executive Summary

Official Development Assistance (ODA) has been playing a pivotal role for development for more than 50 years and its importance still remains. However, a landscape for development has been remarkably changed in a recent period. First of all, the amount of ODA in 2015 has been recorded an all-time high at 131.6 billion but the proportion of ODA amongst external financial resources to developing countries is only 16.8 % (OECD, 2014). Moreover, Sustainable Development Goals (SDGs) require huge amount of development finance and global communities need to mobilise 2.5 trillion dollars per year to fill in the financing gap to achieve them (UNCTAD, 2014). Therefore, ODA alone cannot contribute to achieving the sustainable development and its role for development should be taken into account from a different angle. As mentioned earlier, the amount of ODA is not sufficient to achieve the SDGs but it can definitely play a catalytic role to mobilise other development finances such as private institutional investment, remittances and foreign direct investment.

This research aims at understanding the landscape of innovative financing for development and best practices of other donor agencies in the field of innovative development financing. Based on the analysis, it provides the implications of KOICA on its innovative business models and an enabling environment to facilitate them.

The Chapter 1 briefly introduces the background and purpose of research. The Chapter 2 describes the recent landscape of innovative financing for development. It gives four characteristics of innovative financing for development to specify what innovative development financing model is, which are resources mobilisation, development impacts, non-traditional aid approaches and catalytic effects. They will also be used as the analytic framework of this research.

The Chapter 3 to Chapter 5 explains what other donor agencies such as Sida, DFID and USAID are doing to finance development in an innovative way with an example of guarantees, equity investments and development impact bonds (DIB). ODA can catalyse private finance to invest in developing countries by providing guarantees or first-loss capital to share their risks and ensure expected profits for private investors. Moreover, the definitions of 'catalytic' does not only mean bringing the huge quantity of private money for development but also create any positive changes such as knowledge transfer.

The chapter 6 summarises the research from chapter 3 to chapter 5 and suggests the direction of KOICA on innovative development financing. Firstly, KOICA can work with other donor agencies such as USAID to implement guarantee mechanisms which have a great impact on resource mobilisation. Secondly, KOICA can contribute to the funds such as Global Innovative Fund with grants or participate in the blended finance structure as a first-loss capital provider to crowd-in other private and impact investors. Thirdly, for DIBs, it is premature to implement this model at this stage since its system is complicated and there are no cases which are already completed and can show a positive result.

In addition, it also suggests enabling environments will be critical. The four suggestions are establishing a new team ensuring relevant experts within the agency are gathered; preparing proper policy and regulations; reviewing budget system to make it more flexible; and improving an organisational culture being tolerant to challenges and failures for innovation.