TRANSITION FINANCE

FINANCING THE JOURNEY TOWARDS SUSTAINABLE DEVELOPMENT

Financing sources change as countries transition across development stages.

Planning for upcoming changes in financial flows can help countries avoid development setbacks.

Low income countries

Low income countries tend to rely heavily on development assistance (ODA), but gradually lose access as they transition.

In countries with specific vulnerabilities, ODA substitution by other flows tends to occur at later development stages.

This is most commonly the case in small island, landlocked, and least developed countries.

Lower-middle income countries

Mobilisation of domestic resources increases as countries transition towards higher income levels.

Upper-middle income countries

Private flows such as foreign direct investment (FDI) take an increasingly prominent role in financing the economy.

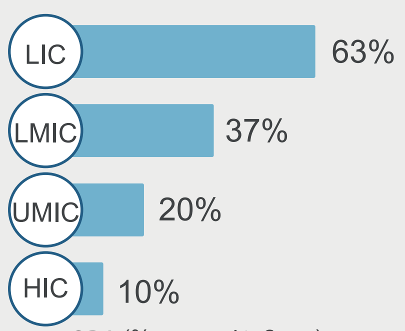
Financing gaps can slow down or reverse progress at any point in development:

Social sectors, such as health and education, are at higher risk of experiencing financing gaps.

High income countries

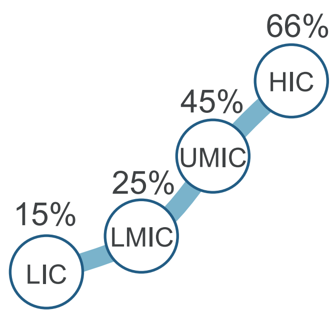
FINANCING CHANGES BY INCOME LEVEL

ODA phases out gradually as it is substituted for other flows.



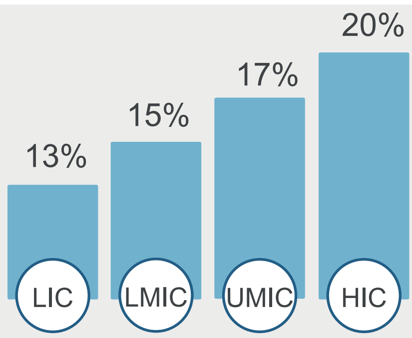
ODA (% external inflows)

Foreign investments finance the economy more prominently.



FDI (% external inflows)

Tax revenues increase as domestic resources are mobilised.



Tax (% GDP)

Transition Finance Toolkit:
https://oe.cd/tf-toolkit

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