Trends in the Reality of Aid, 2018:

Growing diversions of ODA
and a diminished resource for the SDGs

A chapter contribution for The Reality of Aid Global Report, 2018, Changing Faces of Aid

Brian Tomlinson

AidWatch Canada
Promoting Social Justice

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A. An Introductory Summary

In 2015, the international community adopted Agenda 2030, accompanied by an ambitious set of seventeen Sustainable Development Goals (SDGs). Together they point the way towards a better future for all. The promise was to "leave no one behind." The challenges are substantial, not least in maximizing development resources towards these ends.

Yet, some three years later, the trends elaborated in this chapter suggest that a positive momentum, particularly for the poorest and most vulnerable, is diminishing. The development landscape is rapidly shifting. These trends are undermining development efforts that give priority to reducing poverty and inequalities, addressing conflict and increasing displacement, and supporting democratic space for people to secure their rights.

Aid as a unique resource

Official Development Assistance (ODA) is a unique and crucial public resource for the SDGs. In comparison with other types of financial flows for developing countries, these resources can be deliberately programmed for purposes that reduce poverty and inequalities. Where appropriate, they can be combined with government and other resources for these purposes. What are some of the unique qualities that give meaning to ODA for the SDGs?[1]

- **ODA is a core resource for catalyzing sustainable development.** The central purpose of ODA is to achieve sustainable development goals. Other resource flows may be important for achieving the SDGs, but they are often linked to other purposes. Addressing the SDGs may be one of them, but would rarely be the primary driver that sustains and directs this resource flow.
- **ODA's purposes and activities are set by public policy.** ODA's priorities and modalities are exclusively a public policy choice. Governments can choose to fully devote ODA to activities related to the reduction of poverty and inequalities, reaching marginalized communities, focusing on gender equality and women's empowerment, and leaving no one behind.
- **Resource flows are concessional by definition**. ODA, as either a grant or concessional loan, can be intentionally directed to specific countries or marginalized communities within countries. Many of the poorest countries are not able to raise other resources to finance their development (whether public or private, international or domestic). It is an essential support for non-profit oriented sectors such as health and education.
- **ODA is a flexible resource.** ODA can be fully applied, with strong predictability, to support for developing country-level national SDGs strategies. Consistent with the Busan principles of development effectiveness,[2] it can act as a catalyst to country-led and country owned development initiatives. Where relevant, it can also be devoted to global public goods, such as the coordination of humanitarian responses or monitoring global health trends, which are directly related to human rights and poverty reduction.

- **ODA is a key resource for sustaining multilateral institutions and partnering with CSOs**. ODA is a primary resource for financing multilateral institutions, particularly core contributions to UN organizations, which play leading roles in promoting and implementing Agenda 2030. Similarly, ODA is a crucial contributor to CSOs, matching substantial private efforts, which are fully devoted to achieving the SDGs.
- **ODA is an accountable resource**. As a public resource, with robust levels of transparency, ODA is currently the only development flow whose impact may be traceable. Citizens and parliaments can hold governments to account for their policies, practices and allocations choices, based on agreed upon principles for development effectiveness and human rights norms.

The importance of ODA is not determined by its ability to combine with other resources for development, however important they may be. Rather, its legitimacy is derived from its maximum coherence with efforts to transform the living conditions and enhance opportunities for people affected by poverty, marginalization and discrimination.

An unfavourable geo-political environment for poverty-focused aid

Unfortunately, the trends documented in this chapter suggest that ODA is becoming a diminished resource for poverty eradication. Instead, it is increasingly instrumentalized for donors' narrow economic and political purposes. In the short term the political landscape in several major donor countries, is not propitious for reversing these trends.

What are some of the conditions that are determining aid decisions?

a) Neo-liberal policies within donor countries calling for significant reductions in public sector expenditures are in resurgence, either through governments or major oppositional pressures on these governments. Reducing taxes and public sector programs, sometimes linked to a growing distrust of government among vocal citizens groups, is a common refrain from the United States, France, the Netherlands and Australia.

The impact of these policies on ODA levels differs, depending on the political circumstances of individual donor countries. By and large, however, **the result has been an overall stagnation in the growth of ODA as a development resource** (See sections 1 and 3). Real ODA (discounting in-donor costs for refugee support and students) has grown by only 2% annually since 2010, from $109 billion to $126 billion in 2017.[3] With an overall ODA/GNI performance of 0.27% for Real ODA in 2017, the international community is a long way from honouring the UN target of 0.7%, which should have amounted to $325 billion in aid in 2017. ODA at $325 billion could have driven a rigorous effort to eradicate extreme forms of poverty and reduce inequalities in developing countries.

ODA is concentrated and influenced by five donors. The United States, the United Kingdom, Japan, Germany and France together accounted for 70% of ODA in 2017, slightly up from 68% in 2010. (See section 2) Germany, France and Japan have been responsible for a significant part of the increases in Real ODA since 2014, but with much worse quality issues (see below). The future for ODA in US foreign policy and a post-Brexit UK creates deep uncertainty for future directions for global aid.

There is some evidence that increased aid on the part of several large donors have been the result of the inclusion of climate finance within ODA reported to the DAC. It is estimated that climate finance has accounted for between $15 billion and $20 billion in reported ODA disbursements for all DAC donors each year since 2012. (See section 7)

b) Stagnation in the growth of ODA as a development resource is accompanied by an all-pervasive donor discourse that relies on the market as the main driver of development and poverty reduction. In this narrative, the mobilization of trillions of dollars from investments by the private corporate sector has been identified as the solution for financing the SDGs. ODA is no longer a development resource in its own right, as donors and multilateral organizations seek to use ODA as a means for attracting many billions of dollars from the corporate sector. A counter-narrative, one that significantly increases ODA achieving the UN 0.7% target, might be more effective and crucial to realizing the SDGs in ways that "leave no one behind". But this is not even a consideration.

At the United Nations, the emphasis is on "multi-stakeholder partnerships" involving large global corporations in all fields of development.[4] The World Bank's recent policy, 'Maximizing Finance for Development', prioritizes private finance as the default modality in project finance. According to this view, the Bank should only promote a public sector solution after all other possibilities are exhausted. Similarly, DAC donors are ramping up and diverting ODA towards Development Finance Institutions (DFIs) for "Blended Finance" initiatives that combine ODA with various means of supporting (subsidizing) private sector investments. (See section 16).

All of this focus on engaging the corporate private sector is taking place in the absence of meaningful safeguards that establish clear alignment to specific SDGs, human rights norms and development effectiveness principles (country ownership, inclusive partnerships, a focus on results for eradicating poverty, transparency and accountability). Progress on ODA transparency and accountability is experiencing a setback as many financial intermediaries make it difficult to trace DFI projects. The rights of affected communities are often invisible with little recourse to respond to negative impacts. Donor engagement with domestic corporations through blended finance is likely to further expand formal and informal levels of tied aid. (See section 18)

After considerable debate rules at the DAC for expanding the reporting of such finance have not yet been finalized. Nevertheless, the DAC agreed to give donors wider discretionary scope for reporting ODA as blended finance. This will affect the quality of aid reporting starting in 2018. (See section 16)

c) ODA priorities for poverty reduction are being eroded by increased allocations to the short-term security and foreign policy preoccupations of major donor countries. Several European donors, including the EU, are considering aid conditionality with African countries that is linked to migration control. The EU-Ethiopian Partnership, for example, is conditional on making progress in the area of migrant returns and re-admission. Given domestic policy pressures, these initiatives, supported by billions of euros, may devolve into "quick-fix projects with the aim to stem migratory flows to Europe."[5] (See section 5)

The most recent US National Security Strategy (2017) suggests that "US development assistance must support America's national interests," which very much include security interests. The strategy is quite explicit: "We will give priority to strengthening states where state weaknesses or failure would magnify threats to the American homeland."[6] Along similar lines, a UK Conflict, Stability and Security Fund (CSSF), created in 2015, was recently criticized for using aid money to fund military and counter-terrorism projects as well as security forces in several countries involved in human rights abuses.[7]

Focusing ODA on reducing poverty

Diversions of aid resources to donor economic, security and foreign policy concerns are happening at the same time as levels of poverty in developing countries is becoming increasingly invisible in donor discourse. The fact that approximately 800 million people continue to live in extreme destitution in developing countries is a moral outrage that must be addressed. The commitment to end extreme poverty by 2030 is the acid test for the SDGs. Meeting donor commitments to Least Developed Countries (LDCs) is essential for this goal.

Rationalizing the very limited ODA growth since 2015, recent donor policies on poverty and aid propose that ODA should be concentrated on countries and sectors affected by extreme poverty. Inside this recommendation is the implication, whether explicit or not, that using ODA to mobilize private sector growth and investments will address broad issues of poverty.

The eradication of extreme poverty alone will not be sufficient to achieve the SDGs. SDG1 on poverty reduction acknowledges this reality with calls not only to eliminate extreme poverty, but also to half the number of people living below national poverty lines.

Corporate private sector initiatives are usually not designed to directly affect conditions for the millions of people living in poverty. (See section 16) Serious conditions of poverty are highly dynamic, affecting the life opportunity of billions of people in many ways. Generally they are outside the formal economy. The impact of large corporate investments are often at best benign, but increasingly have had serious environmental or socio-economic impacts. Vulnerable and poor people are the ones most in need of targeted and expanded public interventions from governments and donors, not corporate private sector investments. (See section 8)

Using the World Bank's poverty lines, which are differentiated by country income groups, an estimated 2.5 billion people, or 40% of the population of developing countries, are living in poverty. In Low Income Countries, 46% of the population (300 million people) live in extreme poverty. But people living in poverty also include nearly half of the population (47% or 1.4 billion people) of Lower Middle Income Countries (LMICs), of which 16% live in extreme poverty ($1.90 a day). As well, more than 30% of the population (800 million people) of Upper Middle Income

Countries (UMICs) are considered very poor. While progress has been made over the past several decades with respect to extreme poverty, particularly in China, complex poverty continues to be endemic to developing countries. (See section 8)

Almost all LDCs and most LMICs have less than $3,000 in annual per capita revenue available to the government for all government expenditures, including dealing with the consequences of poverty. Many UMICs have per capita revenue of less than $6,000. The comparable figure for DAC countries is more than $15,000, and these countries are still challenged by significant poverty and social inequalities. While attention to domestic resource mobilization is growing and important, most of these efforts have been with Middle-Income Countries. (See section 23)

Clearly, aid is vitally important for Low Income Countries, especially given that they have structurally lower tax bases and very low levels of public resources. But aid as a focused resource for catalyzing action for poverty reduction must not ignore very high levels of poverty in Middle-Income Countries, also with limited domestic resources. Maximizing aid for this purpose in these countries may take different forms, but will be required for many years to come.

The focus and quality of aid as a resource for poverty reduction is deteriorating

In 2017 the level of Real ODA was $126 billion, which is reported ODA less in-donor refugee and student costs, debt cancelation and interest on ODA loans. At $126 billion, Real ODA was 13% less than reported ODA of $144 billion for that year. How effectively has this $126 billion been allocated towards poverty-oriented goals? This chapter reviews some indicators that convey worrying trends.

- Just over a third (36%) of Real ODA is directed to **12 sectors that serve as a proxy for donor attention to conditions affecting poverty**. This level has remained largely unchanged since 2010. (See section 12)
- As an unprecedented number of people are affected by conflict or extreme climate events, **humanitarian assistance is increasing as a share of Real ODA, but at a rate far below what is required**. Real ODA growth has been very modest. As a consequence, aid resources available for long-term development initiatives have been declining as a share of total Real ODA. Even the share of humanitarian investment in reconstruction and disaster preparedness has been declining from 18% of humanitarian assistance in 2010 to 15% in 2016.
- **Aid directed to gender equality and women's empowerment**, central to making progress on all SDGs, shows only modest improvement since 2010. In 2015 (the last year for data), a shocking 65% of Real ODA had no objectives relating to these crucial purposes. (See section 11) Other identity-based inequalities are currently invisible in aid reported to the DAC, which suggests that donors are likely to be giving them little attention. There is a proposal to introduce a marker on disability from 2019 onwards, but its adoption will be voluntary, making it hard to get a full picture for this crucial issue.

- **The value of aid directed to Sub-Saharan Africa** for long-term development (excluding humanitarian assistance) has increased by only 6% since 2010. In 2016, Sub-Saharan Africa received 33% of total Real ODA, a share that has not changed since 2010. This continent has the highest proportion of population (42%) living in extreme poverty. (See section 10)

- **ODA (net of debt cancellation) for Least Developed Countries and Low-Income Countries** was 44% of total ODA in 2016, down from 46% in 2010. Excluding humanitarian assistance, aid to LDCs for long-term development programming was 30% of total ODA in 2016, down from 34% in 2010. On the other hand, regional programming (excluding humanitarian assistance) increased from 31% to 39% in these seven years. Aid to Upper Middle Income Countries for long-term development was constant at 11%. Humanitarian assistance for Syria, Lebanon, Iraq and Turkey accounted for most of the overall increase in aid (from 14% to 17%) to this income group. (See section 9)

On the quality of aid, the following indications point to an overall deterioration since 2010:

- **A proliferation of donor-directed special funds within the UN** seriously affects the capacities of UN organizations to mount coherent and sustained programs to support the SDGs. In 2016 donor support for core budgets remained constant, at about 33% of Real ODA. But including special funds, the multilateral system administered more than 50% of Real ODA, up from 44% in 2010 and 36% in 2005. (See section 13)

- **The commitment to country ownership is declining.** Country Programmable Aid (CPA), which is the DAC's measure of aid that can be programmed by partner countries, has declined from 47% of Gross Bilateral ODA in 2010 to 36% in 2016. Aid delivered as budget support and sector-wide programming has declined from $5.2 billion in 2010 to $4.1 billion in 2016, almost all of which was sector-wide programming in 2016 (support for particular ministries). (See section 14)

- **The use of concessional loans has been increasing since 2010.** The increased use of loans has been almost 45% in dollar value between 2010 and 2016. As a share of Real ODA, loans increased from 26% in 2010 to 29% in 2016, down from 31% in 2015. (See section 15)

- **Increasing numbers of donors have concentrated their ODA in mobilizing the private sector.** A proxy selection of DAC sectors indicates a strong focus on the private sector, with an increase from 21% in 2010 to 26% in 2016. This trend is likely to heighten with concerted donor attention to financing development through blended finance (noted above). (See section 16)

- **Tied aid has fluctuated in recent years, from 21% of bilateral ODA in 2013, to 24% in 2015, and back to 20% in 2016**. For LDCs, a pronounced increase from 11% in 2013 to 17% in 2015 was reversed in 2016 back to 12%. Informal tied aid is much higher. In 2015 (the last year for data) more than 60% of the value of aid contracts was awarded in OECD countries. (See section 18)

While all donors share many of these trends, the chapter points to the particularly poor performance by three of the largest donors – Germany, France and Japan – which together made up more than 30% of Real ODA in 2017. Trends in these donors need to be taken into account when reviewing the projection of average trends for DAC donors as a whole.

Aid Quality Indicators	France	Germany	Japan	All Donors
1. Climate Finance as %age of Gross Real ODA (7-year average between 2010 to 2016) (section 7)	42%	24%	30%	9%
2. Disbursements to proxy poverty-focused sectors, %age of Sector Allocated ODA (2016) (section 12)	15%	21%	13%	36%
3. Disbursements to LDCs/LICs, %age of Gross ODA allocated by income group (2016) (section 9)	19%	18%	25%	36% (DAC Donors only)
4. Disbursements to UMICs, %age of Gross ODA allocated by income group (2016) (section 9)	36%	35%	17%	23% (DAC Donors only)
5. Principal purpose gender equality marker, %age of Real Bilateral ODA (2015) (section 11)	0.3%	1.5%	2.2%	5.9%
6. Bilateral ODA channelled through special multilateral funds, %age of Real Bilateral ODA (2016) (section 13)	2%	17%	15%	26%
7. Loans as a Percentage of Gross Bilateral ODA (2016) (section 15)	54%	35%	59%	18%
8. Private sector proxy indicator, %age of Sector Allocated ODA (2016) (section 16)	35%	35%	55%	22%
9. Technical Cooperation as %age of Real Bilateral ODA (2016) (section 17)	42%	38%	37%	20%
10. Percentage of Bilateral Aid that is Tied (2016) (section 18)	4%	14%	23%	20%

The purpose of this chapter is to explore the performance of ODA in-depth as a strategic resource for Agenda 2030, with a detailed examination of seven areas:

B. Determining ODA as a resource for achieving the SDGs
C. Distorting the levels of ODA
D. The purpose of ODA and poverty reduction
E. Is aid being allocated for poverty reduction?
F. Undermining the quality of ODA
G. Measuring official resource flows for the SDGs
H. Other sources of development cooperation finance

A number of conclusions are drawn for policy directions that are key if ODA is to be an effective and dedicated development resource for poverty eradication.

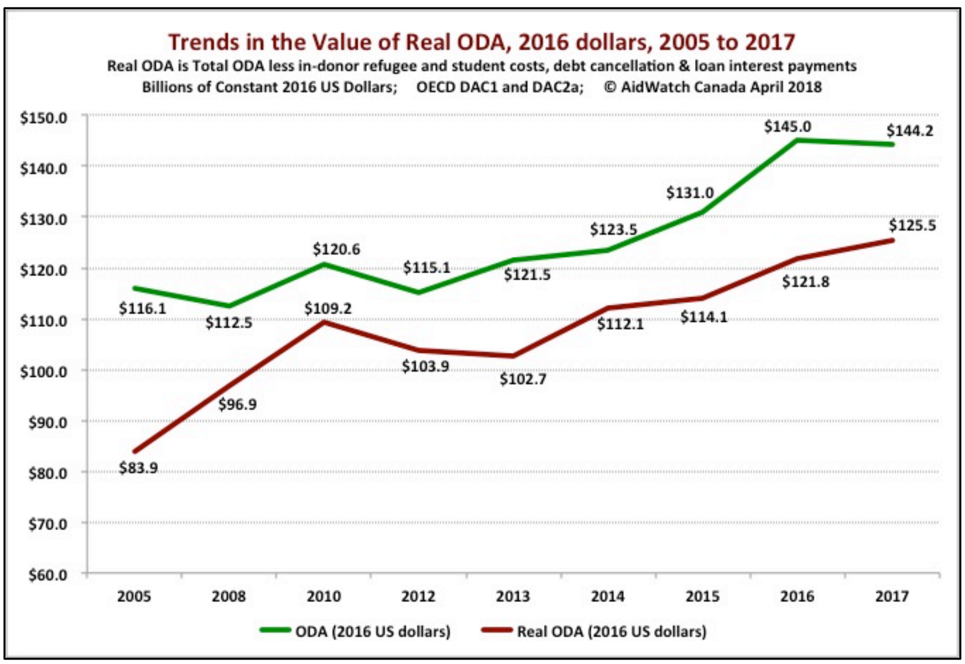
B. Determining ODA as a Resource for Achieving the SDGs

1. DAC aid disbursements are increasing, but at a slow-moving pace

The value of Real Official Development Assistance, i.e. aid that is broadly available for initiatives in poverty reduction, was $125.5 billion in 2017. It has increased modestly since 2010, growing by 3% between 2016 and 2017. This modest growth is far from what is required if ODA is to make an effective contribution to the ambitions of Agenda 2030. If the UN target of 0.7% of GNI for ODA had been achieved in 2017, $325 billion would have been available for development assistance in concessional finance. It will be apparent in the analysis that follows that not even this modest $125.5 billion is truly available as an effective development resource for eradicating poverty and reducing inequality.

At $146.6 billion in net disbursements in 2017 in current dollars, growth in Official Development Assistance (ODA), as reported by the DAC, has effectively stagnated since 2016 ($145.0 billion). ODA in current dollars represents the actual dollar value of donors' ODA, ignoring the effects of dollar inflation and changes in donor exchange rates with the US dollar.

Chart 1.1



Reported aid disbursements are affected by rules agreed upon by donors at the DAC. These rules allow for the inclusion in ODA of in-donor costs of settling refugees for their first year in donor countries, in-donor imputed costs for students from developing countries studying in the donor country, and the charging of the full value of cancelled debt in the year that it is cancelled.

While these measures are legitimate in their own right, most CSOs have long advocated that they should not be included in the measurement of ODA, which is a resource intended to materially benefit developing countries.

- Support for refugees in donor countries is a human right obligation, but it does not fit the definition of ODA, as its purpose is not to support developing countries.
- Imputed student costs involve no real cash contribution as they represent a share of existing expenditures in donor country education institutions.
- Debt cancellation is charged to ODA in its full value in the year that it is cancelled. But the actual benefit to the finances of developing countries, which are important, are in fact spread over several decades (and for heavily indebted countries may never have been repaid). A considerable amount of debt relief actually relates to export credits, so the debt did not have a purely development purpose in the first place. [8]

Together, these additions significantly distort the annual value of ODA to developing countries. Furthermore, under current DAC rules, donors that provide loans must deduct the annual principal repayments on these loans, but not interest payments, which can also be substantial.

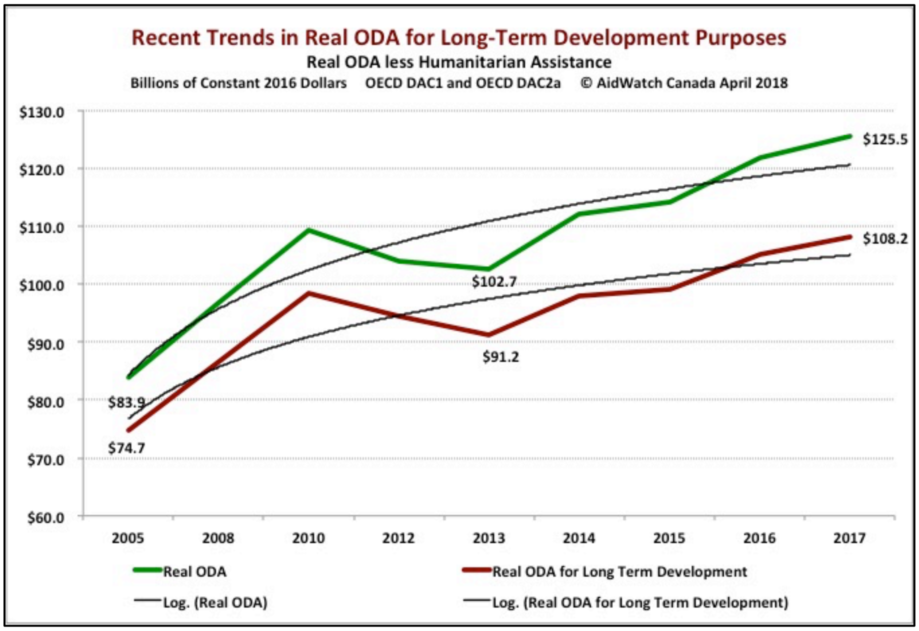
The analysis of ODA in this chapter, except when indicated, removes these charges to ODA, in order to calculate **Real ODA**. The annual level of Real ODA provides a basis for understanding actual trends directly being experienced by developing countries and ODA recipients.

The value of ODA for developing countries is also affected by changes in annual price inflations (the changing price of a basket of goods that US dollars can buy each year) as well as by adjustments in donor exchange rates for the US dollar. The OECD DAC provides a conversion that takes account these impacts – ODA in constant 2016 US dollars – that is the value of ODA in a given year converted into 2016 dollars. Because of price inflation, the value of ODA in 2016 dollars for earlier years tends to be higher than its nominal value in current dollars.

The value of Real ODA in 2017 was $125.5 billion (in 2016 dollars). Since 2013, when the level was $102.7 billion, it has been increasing steadily, but it grew by only 3% between 2016 and 2017. Importantly, the value of Real ODA in 2016 dollars has increased modestly by about 2% annually over the seven years between 2010 ($109.2 billion) to 2017 ($125.5 billion). (Chart 1.1) Nevertheless total aid disbursements are far removed from what is required and what has been repeated committed over the past decade (the UN target of 0.7% of Gross National Income).

If all donors had met the UN ODA target of 0.7% of GNI in 2017, ODA would have been $325 billion, compared to $125.5 billion. Such a level would have made a substantial contribution to long-term investment in achieving the SDGs.

Chart 1.2



Humanitarian assistance, an essential component of development cooperation, has been increasing in recent years (see section 3 below). Of course, ODA dedicated to humanitarian emergencies will escalate in active conflicts, natural disasters or dramatic climate events. However, future progress in sustainable development requires an increase in long-term ODA commitments, ones that will contribute to social and economic programming to transform the structural underpinnings of poverty and inequality. The balance between these two imperatives is becoming increasingly complex and challenging.

What has been the trend in ODA available for long-term development initiatives, excluding humanitarian assistance? Up until 2013, such assistance closely followed the trend line for Real ODA**. In 2013, these trend lines began to diverge. Real ODA increased by 19% from 2013 to 2016, but Real ODA for long-term development only increased by 14%**. ODA available for long-term development programming is declining as a share of total ODA. Despite DAC-reported ODA at $145 billion in 2016, developing countries have received only slightly more than $100 billion for long-term development efforts. (Chart 1.2)

2. ODA levels highly dependent on politics in the largest donor countries

Much of the growth in Real ODA since 2014 comes from the five largest donors – France, Germany, Japan, the United Kingdom and the United States. Together they provided 70% of ODA in 2017. With proposals for deep cuts by the US Administration, possible cuts in Germany, and the potential impacts of Brexit on UK aid levels, there is considerable uncertainty whether even these modest levels of aid will be sustained.

Table 2.1: Donor Real ODA and ODA/GNI Performance

Red indicates a decline in Real ODA (2016 dollars) from 2016 to 2017

Green indicates the achievement of 0.7% target in Real ODA in 2017

Real ODA* (Billions 2016 US Dollars)	**2014**	**ODA/GNI Perform-ance**		**2016**	**ODA/GNI Perform-ance**		**2017 (Decline from 2016)**	**ODA/GNI Perform-ance**
Australia	$3.6	0.31%		$3.3	0.27%		$2.8	0.23%
Austria	$0.79	0.21%		$0.92	0.24%		$0.91	0.23%
Belgium	$1.9	0.36%		$1.9	0.41%		$1.8	0.38%
Canada	$3.2	0.22%		$3.4	0.23%		$3.6	0.23%
Denmark	$2.3	0.78%		$2.0	.62		$2.2	0.7%
Finland	$1.4	0.59%		$0.93	0.39%		$0.95	0.38%
France	$7.4	0.30%		$7.9	0.31%		$9.3	0.36%
Germany	$12.2	0.36%		$16.6	0.47%		$17.5	0.48%
Greece	$0.18	0.09%		$0.22	0.11%		$0.24	0.12%
Ireland	$0.73	0.37%		$0.80	0.32%		$0.77	0.29%
Italy	$2.7	0.15%		$3.2	0.18%		$3.6	0.19%
Japan	$7.8	0.16%		$9.0	0.18%		$10.4	0.20%
Korea	$1.7	0.13%		$2.2	0.16%		$2.1	0.14%
Luxembourg	$0.35	1.10%		$0.39	1.00%		$0.41	1.00%
New Zealand	$0.42	0.26%		$0.43	0.24%		$0.40	0.22%
Netherlands	$3.7	0.52%		$4.5	0.58%		$3.9	0.49%
Norway	$3.5	0.94%		$3.5	0.95%		$3.8	0.95%
Portugal	$0.33	0.17%		$0.30	0.15%		$0.32	0.16%
Spain	$1.6	0.13%		$1.8	0.15%		$1.9	0.15%
Sweden	$4.3	0.90%		$4.1	0.78%		$4.6	0.86%
Switzerland	$2.8	0.44%		$2.9	0.43%		$2.8	0.41%
United Kingdom	$16.0	0.69%		$17.5	0.68%		$17.9	0.68%
United States	$32.4	0.18%		$32.7	0.18%		$33.0	0.17%
All Donors	**$112.1**	**0.26%**		**$121.8**	**0.27%**		**$125.5**	**0.27%**

* Real ODA is ODA less in-donor refugee and student costs, debt cancellation and payment of interest on outstanding ODA loans. For 2017 in-donor student costs and interest payments on loans are estimates based on amounts recorded for 2016.

How do donors compare in their performance, between 2014, the year prior to the adoption of Agenda 2030, and 2017, the most recent year in which preliminary figures are available?

The five top donors (United States, the United Kingdom, Germany, Japan and France) provided 70% of Real ODA in 2017, up slightly from 68% in 2014. (Table 2.1)

Among the 10 donors that provided more than $3 billion in aid in 2014, 9 increased their Real ODA between 2014 and 2017, and 8 of these donors increased Real ODA between 2016 and 2017. The five largest donors all increased their Real ODA by a cumulative $4.4 billion between 2016 and 2017. Real ODA increased by $3.7 billion between these years. (Table 2.1)

Of the 23 donors reviewed, it is somewhat encouraging that more than half, i.e. sixteen, increased their Real ODA between 2014 and 2017, with 15 increasing ODA between 2016 and 2017, even though some of these increases were very modest. (Table 2.1)

The fragility of these increases is apparent in the disappointing changes in individual donor ODA/GNI performance ratios (see also Section 3 below), signalling an abandonment of ambitious commitments to aid targets by several of these donors.

The continued engagement and contributions of large donors are essential. Given this, political developments in the United States are worrying, with the US President proposing 33% cuts to US assistance. As well, developments in the United Kingdom, with potential reductions due to the impact of Brexit, are also of concern.

In the United States, counter-measures by Congress have sustained US budgeted aid levels for 2018/19, but USAID and other Departments have been required to plan expenditures based on lower budgets proposed by the Administration. Some commentators speculate that approved aid allocations may be deliberately under-spent by the Trump Administration.[9] A 30% cut to US aid would reduce global ODA by more than $10 billion. Germany has also been sending mixed messages in terms of its future commitments.

3. Donors' ODA/GNI measure of generosity flat since 2010

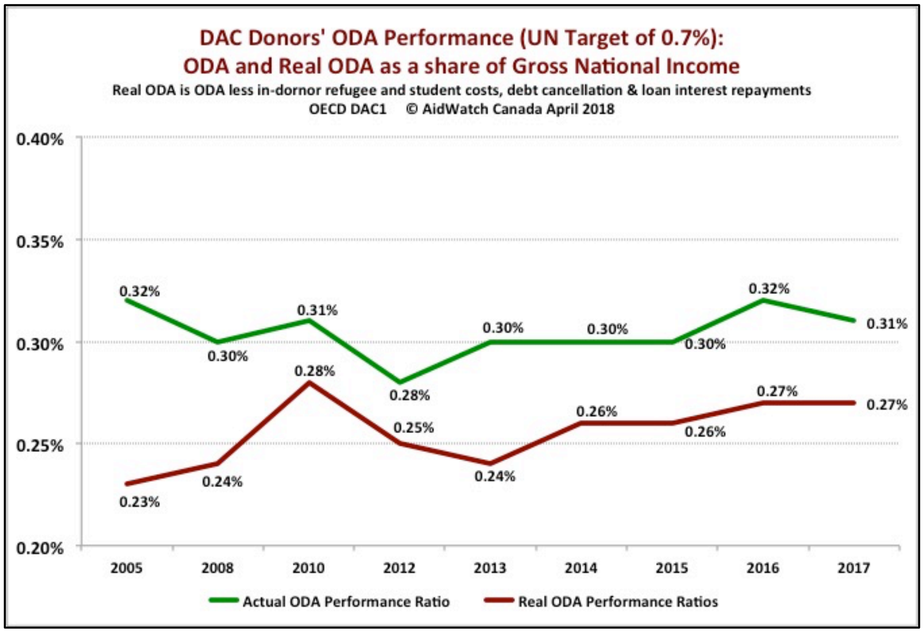
> **A strong rhetorical commitment to Agenda 2030 has not been accompanied by an affirmation of ambitious aid targets towards 0.7% of donor Gross National Income (GNI). The ODA/GNI ratio, the measure of a donors' aid generosity, relative to the size of their economy, indicates that most donor levels have been declining or exceptionally weak since 2015. Five donors achieved the UN 0.7% target. However, in the UK's case, its Real ODA measures only 0.68% of its GNI.**

The ODA/GNI performance measure for nominal ODA was 0.31% in 2017. This represents less than half of the long-standing UN target of 0.7%, and is unchanged from 2010. The measure of performance for Real ODA has declined from 0.28% in 2010 and has hovered around 0.27% in recent years. (Chart 3.1)

In relation to Real ODA, almost half of the 23 donors (i.e. 11) registered their performance at 0.23% of GNI or less in 2017, an increase from 9 donors in 2014. (Table 2.1)

While many donors increased their ODA, these increases were not nearly sufficient to sustain higher performance ratios. **Of 23 donors, 11 had reduced ODA/GNI ratios compared to their performance in 2014 and 2017.** Ten (10) had reduced ratios between 2016 and 2017, with another 5 remaining unchanged. (Table 2.1)

Chart 3.1



Even among high performing donors, weakened commitments are evident. According to the DAC, five donors achieved the UN target ODA performance of 0.7% of GNI – Denmark, Luxembourg, Norway, Sweden, and the United Kingdom**. However, when Real ODA is the measure, only 4 of these donors made the grade, with the United Kingdom at 0.68% of its GNI.** The Netherlands, which was a 0.7% donor for many years, has diminished its ODA as a share of GNI from 0.71% in 2010 to a low of 0.39% in 2017. The new government in the Netherlands may reverse this trend with a recent coalition agreement promising annual aid increases and tying its ODA to annual growth in GNI to achieve 0.7% during its four-year mandate.

4. Increasing humanitarian assistance for enduring conflicts and extreme climate events

Humanitarian crises are affecting unprecedented numbers of people worldwide as a result of armed conflicts and extreme climate events. Approximately 87% of people living in extreme poverty are found in countries that are highly vulnerable. As a share of Real ODA, humanitarian assistance has increased from 9% in 2012 to 14% in 2016. In constant 2016 dollars humanitarian assistance increased from $10.3 billion to $18.3 billion in 2017 (an increase 80%). It remains far below what is required, with the overall shortfall for 2016 UN appeals estimated at 40%, and much of the shortfall located in the poorest countries. The political will to implement commitments made at the World Humanitarian Summit (2016) to reform humanitarian assistance is losing momentum. For example, there is still very little humanitarian aid channelled through local CSOs, despite recommendations to do so at the summit.

Humanitarian crises in Yemen, Iraq, Syria and the DRC continue to escalate with no resolution in sight. In 2017 the number of people newly displaced exceeded 30 million, with natural events affecting 18.8 million people in 135 countries. Armed conflicts displaced another 11.8 million, nearly doubling the 2016 number.[10] The impact of climate change is increasingly a driver of humanitarian crises and displacement.

In the lead-up to the 2016 World Humanitarian Summit, UN Secretary General, Ban Ki-Moon, was very clear. His report, *One Humanity: Shared Responsibility*, notes,

> "More countries are slipping into fragility, marked by extreme poverty and weak institutions and compounded by natural hazards and climate-induced disasters," which are becoming "more frequent and intense," and that "[c]limate change continues to cause increased humanitarian stress as it exacerbates food insecurity, water scarcity, conflict, migration and other trends."[11]

In its 2018 *Global Humanitarian Assistance Report,* Development Initiatives (DI) offers a summary of the humanitarian context in 2017, which has only intensified::

> "In 2017, humanitarian need was driven by continued, large-scale conflict, with crises persisting in Yemen, Syria and South Sudan. 2017 also witnessed violence and persecution forcing the mass displacement of the Rohingya population from Myanmar, while hurricanes across the Caribbean caused large-scale destruction. … An estimated 201.5 million people living in 134 countries were assessed to be in need of international humanitarian assistance. … In 2017, complex crises (involving at least two of conflict, disasters associated with natural hazards and refugee situations) occurred in 29 of the 36 countries with the highest numbers of people in need. Meanwhile six of these 36 countries experienced all three crises types."[12]

DI estimates that 59% of people currently living in extreme poverty are found in countries affected by armed conflict, fragility or environmental vulnerability.[13] How is the global aid system responding to these persistent and growing humanitarian crises?

Total Humanitarian Assistance

Since 2012 humanitarian assistance has been increasing appreciably in both its share of Real ODA and its dollar value (2016 dollars). As a share of Real ODA it has increased from 9% of Real ODA to 14% in 2016, and by close to 80% in 2016 dollar value, from $10.3 billion to $18.3 billion in 2018. However, growth between 2015 and 2016 was only 3.6%, much less than previous increases in this decade. (Chart 4.1 and Chart 4.2)

Chart 4.1

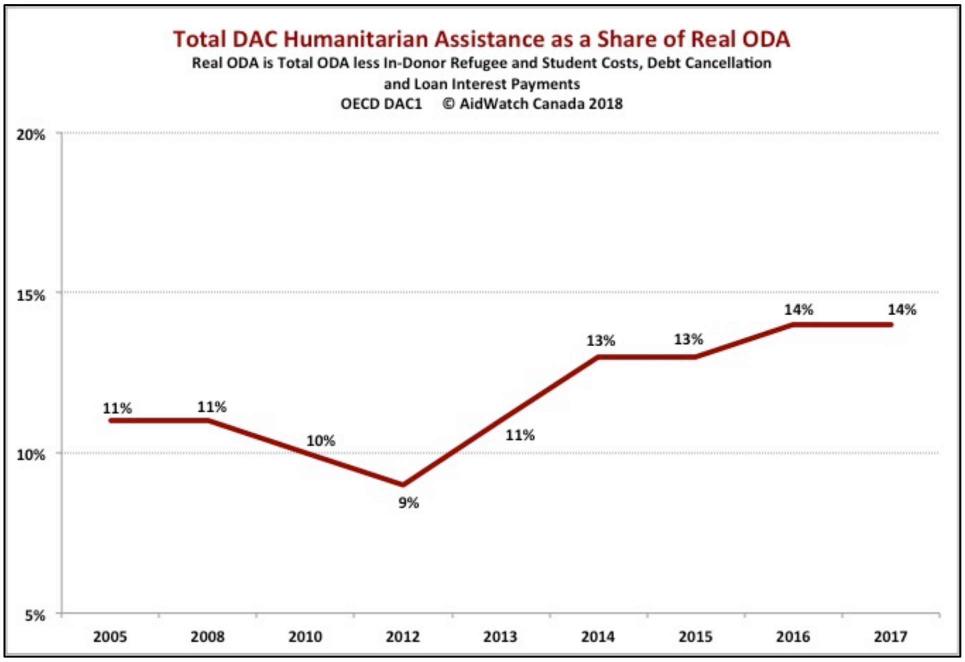
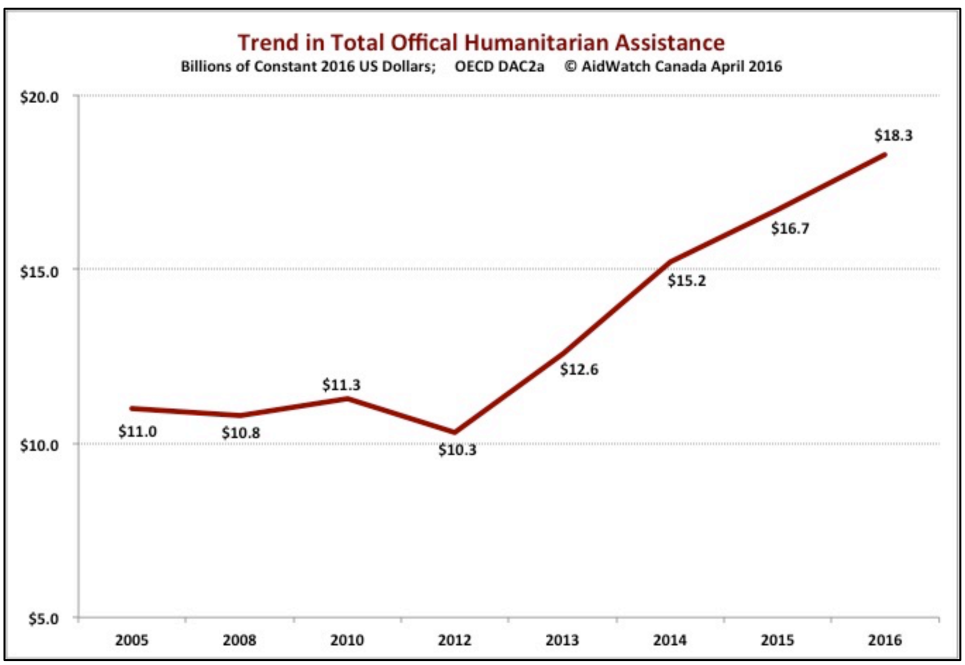
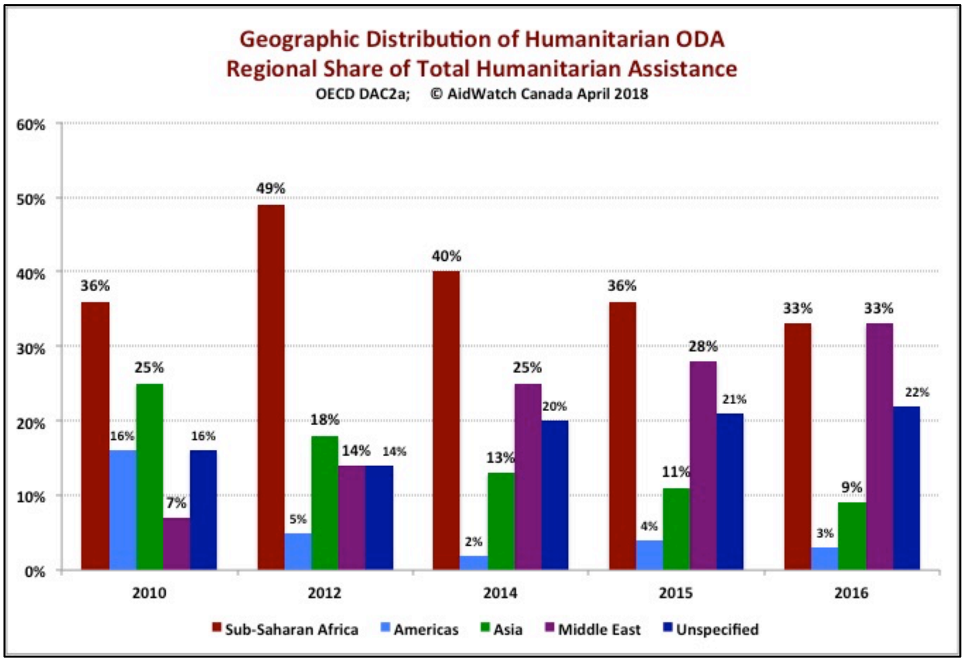


Chart 4.2



The geography of humanitarian assistance has also shifted in recent years. In 2016 **the Middle East received 33% of total humanitarian assistance, compared to 7% in 2010. By contrast, Sub-Saharan Africa's share of humanitarian assistance declined from a high of 49% in 2012 to 33% in 2016**. (Chart 4.3) Since 2014, humanitarian assistance to Sub-Saharan Africa has remained level, at approximately $6 billion.

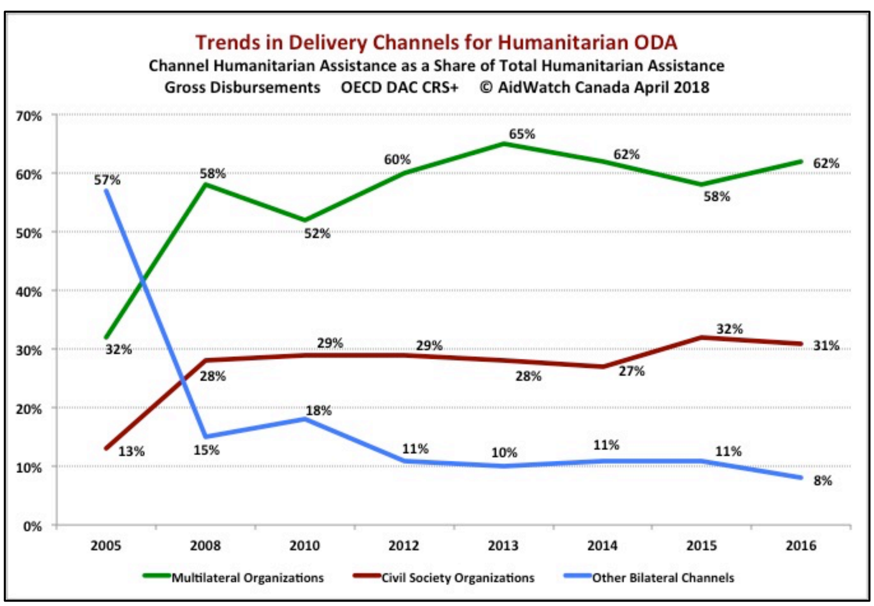
Chart 4.3



Even though humanitarian assistance has been increasing, it lags far behind what is required in response to UN Coordinated Appeals. While the volume of resources for appeals increased by $2.4 billion over 2016, the estimated shortfall in 2017 remained at 40% of the total Appeals, or $10.3 billion, the largest volume ever recorded.[14] These shortfalls urgently need to be addressed if human suffering and vulnerability is to be minimized.

Delivering Humanitarian Assistance

Chart 4.4



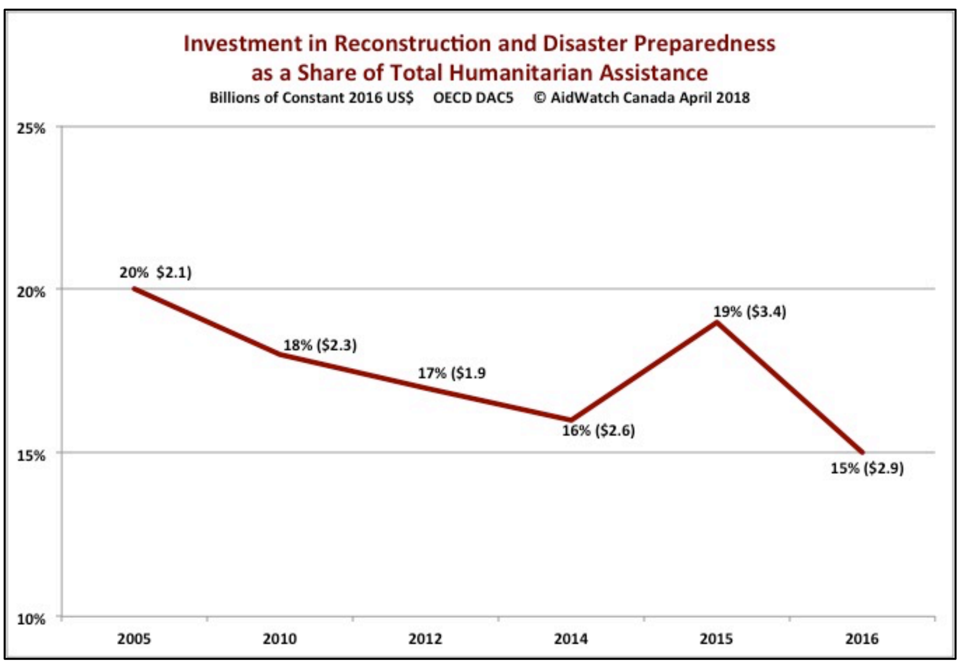
The channel through which humanitarian assistance is delivered has also shifted since 2010. (Chart 4.4) Multilateral channels have increased their share of total humanitarian assistance from 52% to 62%, and bilateral channels have been correspondingly reduced from 18% to only 8%. This reduction in bilateral delivery of humanitarian aid has not affected CSOs. CSOs maintained their share of delivery of official humanitarian assistance at 31% in 2016 (not including additional private humanitarian aid to these CSOs).

DAC official channels are not the exclusive modality for humanitarian responses.[15] In 2016 the DAC recorded humanitarian contributions from non-DAC members amounting to $6.4 billion (up from $3.2 billion in 2015), including $6.0 billion from Turkey alone. In addition, the United Arab Emirates contributed $717 million and Saudi Arabia $395 million. Almost all of this humanitarian assistance was devoted to crises in the Middle East.

Development Initiative's 2018 Report also shows a steady growth of humanitarian assistance from private sources – individuals through CSOs, foundations and the private sector. They estimate a total of $6.5 billion in 2017, up from $6.0 billion in 2016, which is approximately a quarter of all humanitarian resources. About 68% of these private resources came from individual contributions to NGO campaigns.[16]

Investing in Reconstruction and Disaster Preparedness

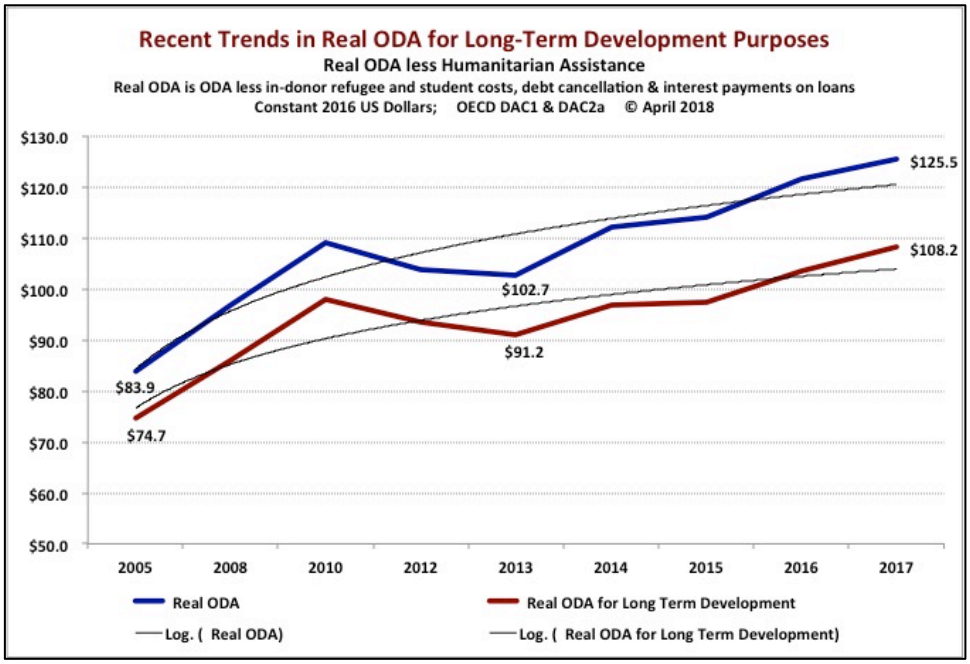
Chart 4.5



Investment in reconstruction and rehabilitation as well as disaster preparedness is an essential component of humanitarian assistance in making the transition to longer-term development sustainability in countries affected by human and natural emergencies. However, this component of humanitarian assistance has taken a back seat to more immediate responses to humanitarian need. **With the exception of a bump up in 2015, these ODA investments have not increased in**

dollar value, and have declined significantly as a share of total humanitarian assistance (from 18% to 15% between 2010 and 2016). (Chart 4.5)

Chart 4.6



The international community has a moral and human rights obligation to maximize its response to humanitarian crises and emergencies. But without substantial increases in Real ODA and increased investments in the long-term foundations for sustainable development, in more peaceful societies and good governance, and in resilience to natural and climatic events, development progress and Agenda 2030 will be severely undermined.

Because increases in Real ODA have not kept pace with the heightened need for humanitarian assistance, less ODA has been available for long-term development efforts (i.e. Real ODA less humanitarian assistance). Between 2012 and 2016 Real ODA increased by 21%, but Real ODA for long-term development increased by only 15%. (Chart 4.6) Moreover humanitarian 'emergencies' are increasingly long term crises. Seventeen (17) of the 20 largest recipients of humanitarian assistance in 2017 had received assistance over the long or medium term.[17]

Meeting the Commitments of the 2016 Humanitarian Summit

The quality of humanitarian assistance has not improved despite promises in the 'Grand Bargain' at the 2016 World Humanitarian Summit. Government and non-governmental humanitarian actors reached an agreement at the Summit, which included 51 commitments in 10 key areas to improve the efficiency and effectiveness of the humanitarian system.[18] A report prepared one year following the Grand Bargain concluded that:

> "on average, [there has been]action on 40 per cent of the commitments that apply to them – an important feat considering the breadth of the initiative. But progress is uneven, and

> the initially high political momentum is fading."[19]

Commitment areas with very little action included reduced overhead and ear-marking of donor contributions, increased engagement of affected communities and the humanitarian-development nexus.

Equally contentious has been the commitment to channel 20% of humanitarian resources directly to local and national responders, including NGOs and CSOs. This included greater flexibility in funding in-country partners directly, more equitable partnerships with INGOs, and greater attention to strengthening local capacities. Little progress has been made since 2016 on this commitment. According to Development Initiatives, local and national NGOs received just 0.4% directly of all humanitarian assistance reported to the UN in 2017, a rise of just 0.1% from 2016.[20] Indeed, a coalition of southern CSOs is challenging the actual will of CSO and government donors to address this issue with a real commitment to change current practices. Donors maintain that these changes are very difficult to implement in the current donor political climate, with existing donor management and accountability regulations.[21]

5. The European Union ODA, setting worrying donor trends for Europe

At 12% of total Real ODA in 2017, the European Union is a unique multilateral donor, one that is setting trends with its member states that will affect 53% of Real ODA in 2017.

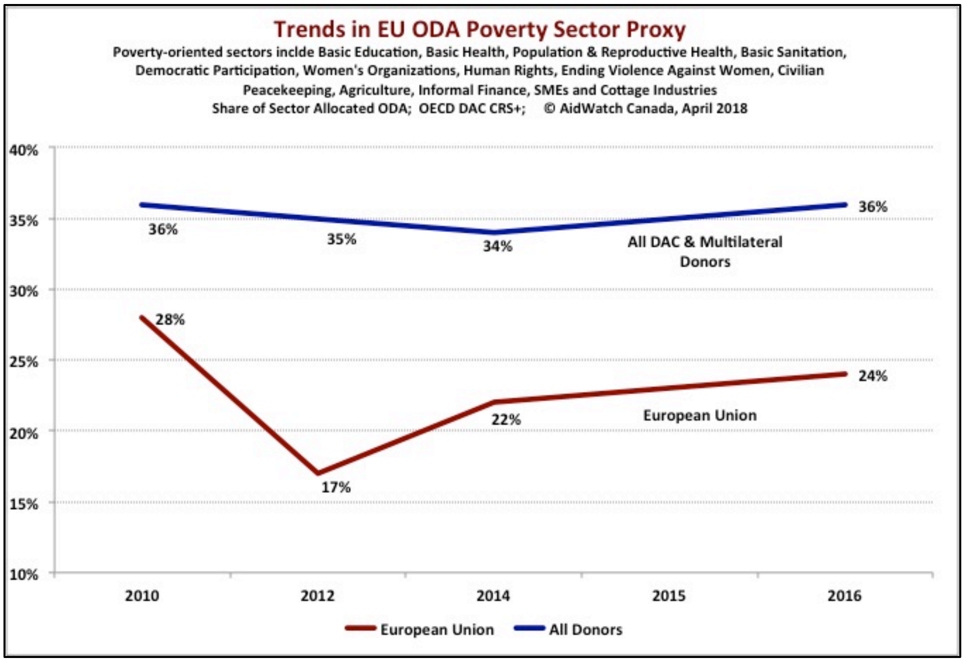
Various indicators point to declining attention to important sectors of poverty reduction. Allocations to private sector-oriented DAC sectors have been increasing, much more so than to other donors. The EU's disbursements to Least Developed and Low-Income Countries have sharply deteriorated since 2010, reflecting the domination of EU foreign policy and the priority of concentrating on countries in its immediate periphery. Aid to African countries may also increase, conditioned on acceptance of European interest in migration control. More aid is being directed to preventing extremism or terrorism and in controlling insurgency.

The European Union (EU) is the third largest donor (after the United States and the United Kingdom). In 2017 the EU provided $15.6 billion in Real ODA, up from $12.7 billion in 2010 (2016 dollars). **The EU's share of total Real ODA has remained relatively constant at 11% in 2010 and 12% in 2017.** As a European multilateral donor, it both reflects and influences donor policies in its 28 member states. **The EU and its member states represented 53% of total Real ODA in 2017**.

Trends in aid provided by the European Union's mechanisms, therefore, will have a major impact on emerging trends in ODA as a resource for development and the SDGs. Since 2010, these trends as well as recent policy changes affecting EU aid, raise significant worries about future directions.

Trends in an Orientation towards Poverty Reduction

Chart 5.1



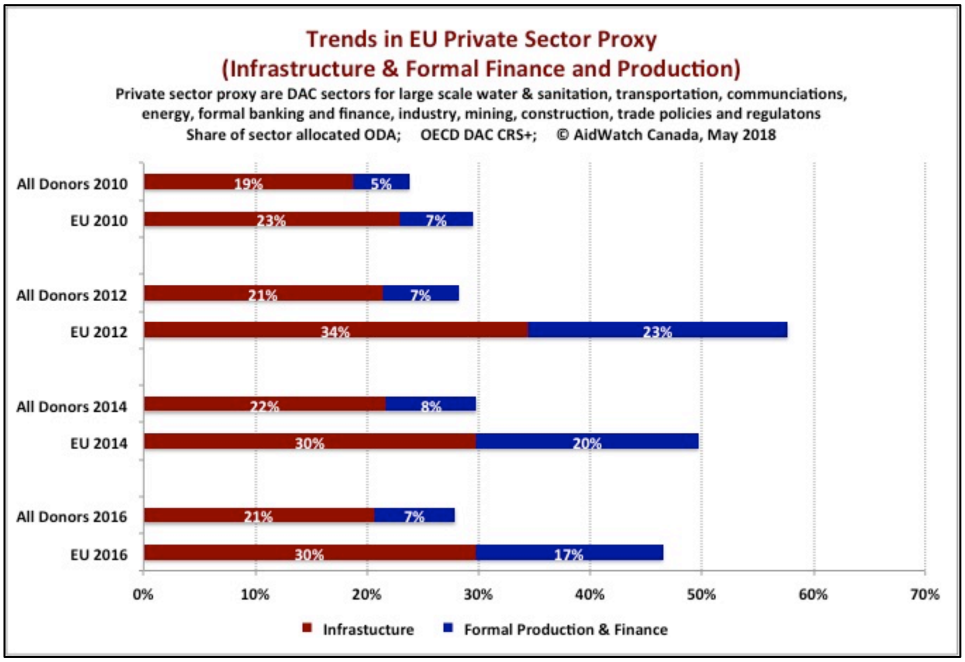
Section 12 below sets out a proxy indicator to assess the degree to which donors are orienting their ODA to poverty reduction, based on selected DAC sectors. **Since 2010 the EU poverty sector indicator has declined from 28% in 2010 to 24% in 2016 of sector allocated aid.** Throughout this period its performance has been appreciably less than for all donors (including multilateral donors), which allocated 36% of their sector-allocated aid to these proxy sectors in 2016. (Chart 5.1)

Trends towards private sector-oriented ODA

On the other hand, **allocations to private sector-oriented DAC sectors** (see section 16 below) have been increasing, much more so than for other donors. These sectors are those that either strengthen the formal private sector (formal production and finance) or engage the formal private sector in implementing ODA programs (infrastructure). As such they may have only an indirect and very mixed impact on poverty and inequality**. In 2016, 47% of EU ODA was disbursed to these sectors, in contrast to 28% for all donors (including multilateral donors).** The EU disbursements to these sectors have increased from 30% in 2010. (Chart 5.2)

The EU's *Multiannual Financial Framework for 2021-2027* places a strong emphasis on private sector instruments in the EU's future development cooperation plans. Using various investment mechanisms there is an expectation that 60 billion euros from the EU could mobilize up to half a trillion euros from the private sector in this period.[22] European CSOs have raised a number of concerns relating to the sectoral focus of these investments in the context of the SDG priority to "leave no one behind", as well as the growing phenomena of increased aid tied to European companies, and weakened human rights safeguards, transparency and accountability.[23]

Chart 5.2

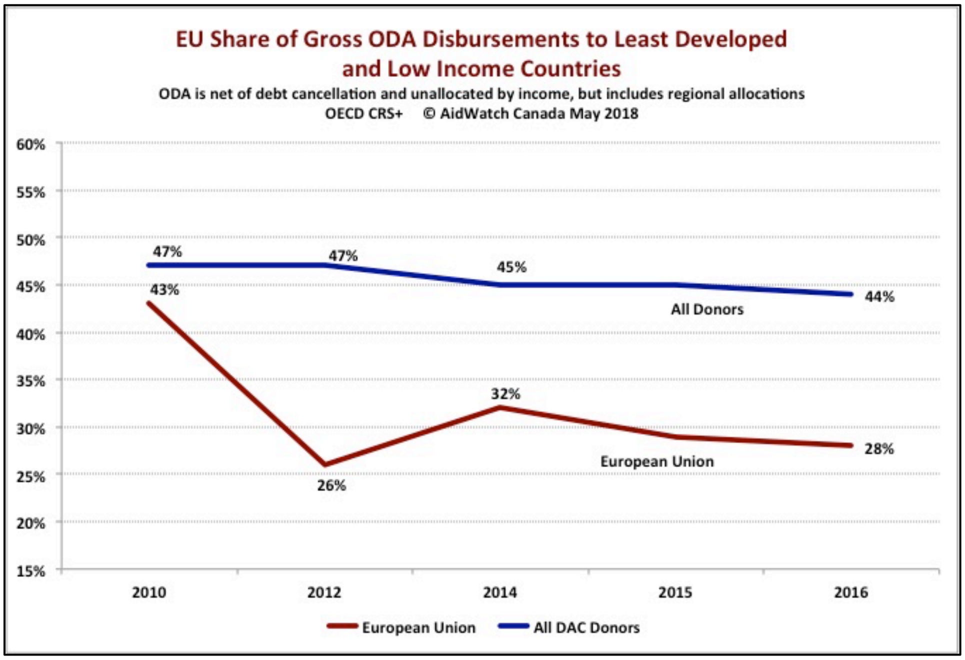


Other indicators of ODA priorities and quality

- With respect to **gender equality and women's empowerment** (see section 11 below), as a share of Real Bilateral ODA, a mere 1.7% of EU ODA was screened for the gender equality principal objective marker in 2015, compared to 5.9% of Real Bilateral ODA for all donors. Eighteen percent (17.5%) has been screened as having a gender equality significant objective (i.e. gender equality is one of several objectives), compared to 34.5% for all donors.
- With respect to the balance between **humanitarian assistance and long-term development** (see section 4 above), the EU level of humanitarian assistance is on a par with the experience of DAC donors as a whole. It ranges between 11% (2010) and 14% (2016).
- With respect to **climate finance** (see section 7 below), in 2016 the **EU allocated 12% of its ODA to climate finance** (compared to 14% for all DAC donors). More than 50% was allocated to adaptation (56%), compared to 38% for all DAC donors.
- With respect to EU aid to **Least Developed and Low-Income countries** (see section 9 below), the EU's performance has **sharply deteriorated since 2010 from 43% of ODA allocated by income group to 28% in 2016** (compared to 44% for all donors). (Chart 5.3)
- **The EU's poor performance in relation to LDCs is a reflection of the changing balance in regional allocations of disbursements, consistent with EU foreign policy concerns.** Allocations to ODA-eligible countries in Europe increased from 18% to 29% between 2010 and 2016, while disbursements for Sub-Saharan Africa shrank from 42% to 27%. Disbursements to the Middle East increased from 7% to 10% and for North Africa, from 6% to 9%. **These shifts clearly represent an assertion of the EU's foreign policy interests in**

their border regions in Europe, the Middle East and North Africa. Together these regions accounted for 45% of EU aid in 2016.

Chart 5.3



A Focus on EU Migration and Security

In 2015 the EU created the EU Emergency Trust Fund for Africa, with the purpose of encouraging African countries to cooperate with the EU on improving migration controls, migrant returns and readmissions. This Fund was allocated 3.1 billion euros ($3.6 billion), of which 90% is ODA financed through the European Development Fund.

European and African CSOs are deeply concerned about conditionalities for aid to African countries that are linked to European interests in migration control. They fear the Fund will focus on quick-fix border measures rather than longer-term development efforts that might address the drivers of migration, respecting basic human rights and principles for effective aid. Many of the projects supported are, in fact, designed in member state countries, reflecting their national interests, with local partners consulted only after project decisions have been made.[24]

Beyond efforts to limit the movement of migrants to Europe, the EU has also been directing aid resources for the purposes of preventing extremism and terrorism, or controlling insurgency. In December 2017, member states committed $117 million until 2020 towards capacity building for security and development of military actors in partner countries.[25]

This funding will augment the EU *Instrument contributing to Peace and Security*. While the new funds will not be allocated from the Development Cooperation Instrument, as first promoted by Germany and resisted by Sweden, it is a worrying trend. It is a sign that the EU and some of its members may be taking advantage of recent changes to the DAC rules governing the use of ODA to support military actors. These revised DAC rules, agreed to at its High Level Meeting in December 2016, will allow such activities to be counted as ODA in "exceptional circumstances" when non-military actors may not be sufficient.[26] The definition of "exceptional circumstances" is unclear.

The use of aid by military and security forces for reconstruction of infrastructure, mine clearing, or water infrastructure may align European aid actors with problematic developing country institutions. Many have records of deeply embedded impunity for serious human rights violations, and such aid is deemed to have little impact on conditions for peoples' security. A report by Concord, the European CSO platform, stated that:

> "improvements in the peace and security sector activities often lie less in funding top-down security sector capacity building, and rather more in fostering CSOs, local reconciliation or political and legal environments in which active citizens can promote access to security and justice."[27]

The latter is not the main orientation of this EU 'aid for security' funds.

C. Distorting the Levels of ODA

6. ODA has been dramatically inflated through in-donor refugee costs

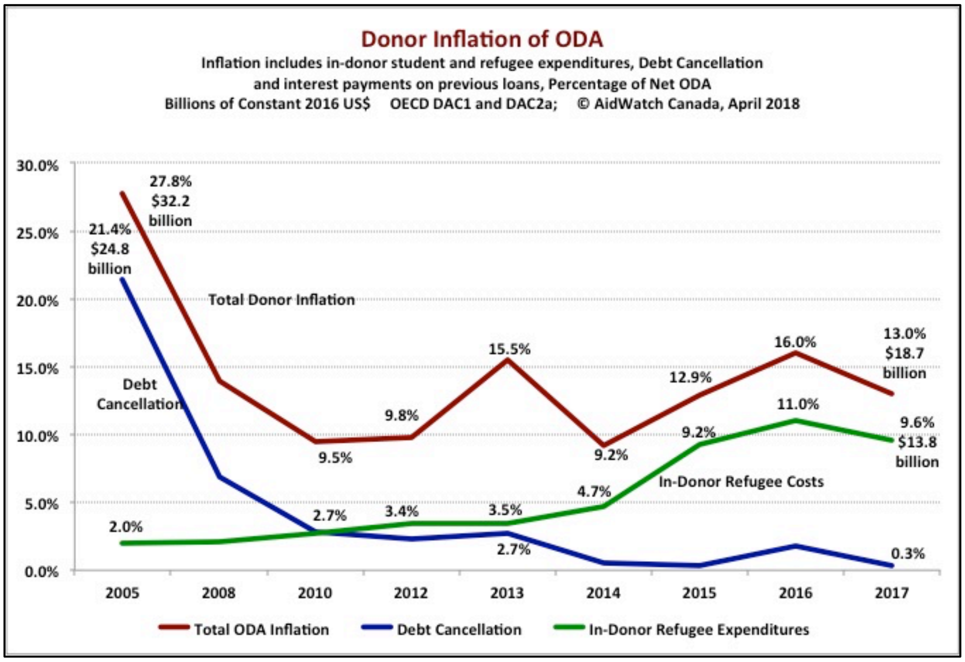
Since 2010, donors have used various methods to inflate ODA through DAC-allowable budgetary additions to ODA, beyond aid transfers for the benefit of developing countries. These charges have increased from 9.5% of ODA in 2010 to 13% in 2017, representing $18.7 billion in that year, with higher in-donor country expenditures for refugees responsible for most of this increase.

The inflation and distortion of the actual amount of ODA provided for poverty reduction and supporting development has been a persistent issue for the past two decades.

In the early 2000s, the inclusion of the full value of debt cancellation in ODA was the issue. In 2005, $24.8 billion in debt cancellation (2016 dollars) was a fifth of all ODA reported in that year. **In 2016 and 2017, the use of the DAC rule permitting the inclusion in ODA of expenditures for refugees for their first year in a donor country resulted in almost $14 billion (2016 dollars) in ODA, representing 10% of ODA in 2017.** (Chart 6.1)

There is no longer a refugee "crisis" in Europe, yet its politics and public reaction are likely to affect European ODA for years to come. Globally, the number of people displaced from their home has reached 65.6 million of which 22.5 million are refugees. More than half are under the age of 18.[28] Those arriving in Europe have fallen from 1.2 million in 2016 to 650,000 in 2017, comparable to the level in 2014.[29]

Chart 6.1



With the number of asylum seekers in Europe falling by half between 2016 and 2017, there should be a corresponding decrease in in-donor refugee expenditures in future ODA reports. Yet, as noted in section 5, several European countries, as well as the European Union, have entered into agreements with countries such as Ethiopia, Senegal, Mali and Nigeria to condition future ODA on the reduction of the flow of migrants from these countries.

7. The inclusion of climate finance as ODA, breaking the promise that climate finance is additional

Despite the 2007 promise to provide "new and additional resources, including official and concessional funding for developing country Parties," climate finance is buried within reported ODA. In the absence of an explicit target for non-climate finance ODA or separate donor climate funding mechanisms, the degree to which climate finance is "new and additional" to existing ODA cannot be determined. The promised balance between adaptation and mitigation is far from being realized, as little over a third (36%) was devoted to adaptation in 2016.

Total ODA-reported climate finance commitments averaged $17.6 billion per year from 2012 to 2016. It has been flat-lined at $18.7 billion in 2016 (based on the author's assumptions for counting different forms of finance). DAC members have estimated that bilateral contributions to the 2020 target of $100 in total climate finance should be $37.3 billion. While not inclusive of donors' non-concessional DFI finance, $18.7 billion is just half of the required $37.3 billion that the DAC Roadmap requires from such sources to achieve the $100 billion target by 2020. Climate finance comprises a significant part of Real ODA for Germany (20%), France (9%) and Japan (18%), the donors that have exhibited large increases in their ODA since 2014. As a result climate finance has included a large proportion of loans versus grants in its delivery.

An analysis of international, public-sourced climate finance is very complex and fraught with uncertainties and confusion. There are a wide range and a growing number of channels for this finance, including specialized multilateral funds such as the Global Climate Fund with the United Nations Framework Convention for Climate Change (UNFCCC), International Financial Institutions, bilateral development finance institutions and bilateral aid finance.

Compounding this fractured institutional reality is the fact that there is no agreed definition of climate finance within the UNFCCC or otherwise, and donors and institutions currently use different accounting rules in determining the value of their contributions to climate finance.[30] There is also no overarching commitment to transparency nor rules on concessionality in the reporting of loans as climate finance.

The UNFCCC's Standing Committee on Finance, the International Finance Institutions, and the DAC's Climate Change Experts Group have been working, both separately and together, to resolve these outstanding issues and to come to an agreement on standards for reporting climate finance.[31] But almost nine years after the 2009 Copenhagen Climate Summit no agreement is yet in sight.

Climate finance as "new and additional"

More than a decade ago, at the 2007 UNFCCC Conference of the Parties (COP13) in Bali, parties agreed to the principle of new and additional resources for climate finance. Developed countries agreed to work towards "improved access to adequate, predictable and sustainable financial resources and financial and technical support, and the provision of new and additional resources, including official and concessional funding for developing country Parties." [Bali Action Plan, 1(e)(i)] But since the Bali commitment, almost all donor international public finance for climate change has been included in ODA if these resources have been concessional and targeting developing countries.

Several years later, at the 2009 COP15, the Copenhagen Accord was agreed whereby developed countries agreed to urgently ramp up climate finance, promising "scaled up, new and additional, predictable and adequate funding as well as improved access … to developing countries." [§9] Developed countries committed to a Fast Track Initiative for climate finance totalling $30 billion, which was to be disbursed between 2010 and 2012, and the achievement of $100 billion goal in annual climate finance (all sources, public and private) by 2020. At COP21 in Paris, 2016, this commitment of $100 billion was extended to 2025.

Have concessional climate funds from donor countries lived up to the "new and additional" commitment? This issue has been obfuscated by the lack of a definition of "new and additional." The question was further obscured at the Paris COP21 in 2016, where the language of "new and additional resources" was removed and the commitment weakened. The Paris Agreement vaguely calls on developed countries to maximize the mobilization of resources from all sources, "noting the significant role of public funds," whereby "such mobilization of climate finance should represent a progression beyond previous efforts. [emphasis added]" [Annex, Article 9]

Under DAC rules for ODA, public concessional climate finance for developing countries is an eligible aid resource transfer. All donors count it as such. But without an explicit target for non-climate finance ODA, or separate donor funding mechanisms for climate finance, the degree to which climate finance is "new and additional" to existing ODA is virtually impossible to determine.

The analysis that follows focuses on climate finance that has been reported as ODA. It does not include analysis of investments from multilateral institutions that are non-concessional or from their internally generated resources.[32] It also does not examine public investments from bilateral Development Finance Institutions or national investments, where these public resources do not qualify as ODA.[33] There is insufficient information to analyze private sector funds dedicated to climate mitigation or adaptation.

Given its importance for future climate finance, there is a short summary of the current state of the Green Climate Fund, established under the UNFCCC, and financed mainly with ODA resources (see Box One below).

A donor roadmap for meeting the $100 billion target

In 2016, DAC donors realized their commitment in the UNFCCC process by developing a *Roadmap* for achieving $100 billion in annual climate finance, including both private sector and official public sources. **The *Roadmap to US$100 billion* estimates that by 2020 approximately $37.3 billion will come from bilateral donor sources,** $29.5 billion will come from internal resources of the Multilateral Development Banks, and at least $33.2 billion will come from private sector investments.[34]

In practice, most donors use the DAC data as the foundation for their biannual report to the UNFCCC on their climate finance (albeit with differing methodologies for projects that are said to be "main-streamed climate finance").

Donors report to the DAC using the following DAC climate finance policy marker:

1) Projects that have a sole focus on climate change are marked 'principal objective'

2) Projects with an identifiable objective for climate adaptation or mitigation are marked 'significant objective' where this is only one of the project's objectives (mainstreamed climate finance)

3) Projects that are screened but with no climate change objective are marked zero.

Both principal objective and significant objective projects are counted in the DAC database at their full value.[35] As noted above, donors have different policies in reporting significant objective projects to the UNFCCC – some report their full value, while others report only a percentage.
This chapter focuses on climate finance that has been reported to the DAC as concessional ODA in its Creditor Reporting System (CRS) database. The analysis uses the 'provider perspective' for

annual aid commitments (the full budget in the year that the commitment is made) to climate adaptation and mitigation, for the years 2012 to 2016.[36]

The ‘provider perspective’ includes all donor bilateral commitments for climate finance, plus pro-rated donor non-earmarked (core) contributions to international financial institutions, which can be related to climate finance. The latter is calculated by the DAC based on the share of disbursements by these institutions for climate finance. These imputed multilateral allocations are attributed to each donor, but are not assigned to adaptation or mitigation through the Rio Marker.

Given the absence of officially-agreed upon accounting rules for climate finance, this analysis adapts the DAC database by removing double counting for both adaptation and mitigation. It does this by discounting to 30% for projects with inflated finance attributed to climate purposes in significant purpose projects, where only one objective of an activity budget relates to climate mitigation or adaptation. It also only includes the grant equivalency of concessional loans.[37]

Climate finance and ODA: Should it be considered a development resource?

There has been debate among CSOs about the relevance of climate finance to ODA and its purpose to support transformative development, with a general agreement that priority should be given to the rights of vulnerable populations and those living in poverty (which continues to be deep and widespread across developing countries – see section 8). This issue, particularly as it relates to adaptation, has shaped earlier debates within the UNFCCC Green Climate Fund.

In 2017 developed country Board members of the Fund pushed to reject submitted projects from LDCs (from Bangladesh and Ethiopia) claiming that they addressed wider development objectives and were insufficiently focused on climate change.

In a letter to the Green Climate Fund Board, 83 NGOs from both the North and the South protested this narrow interpretation of its mandate. The letter states that the distinction between development and adaptation is “largely artificial” and suggests “vulnerability to climate change impacts is highly correlated with development deficits and capacity of people to build resilience.” It goes on to argue that “adaptation funding at its best should be transformative, in line with the GCF mandate, and as such must go well beyond addressing the most immediate climate-related impacts.”[38] Relations with CSOs have subsequently improved.

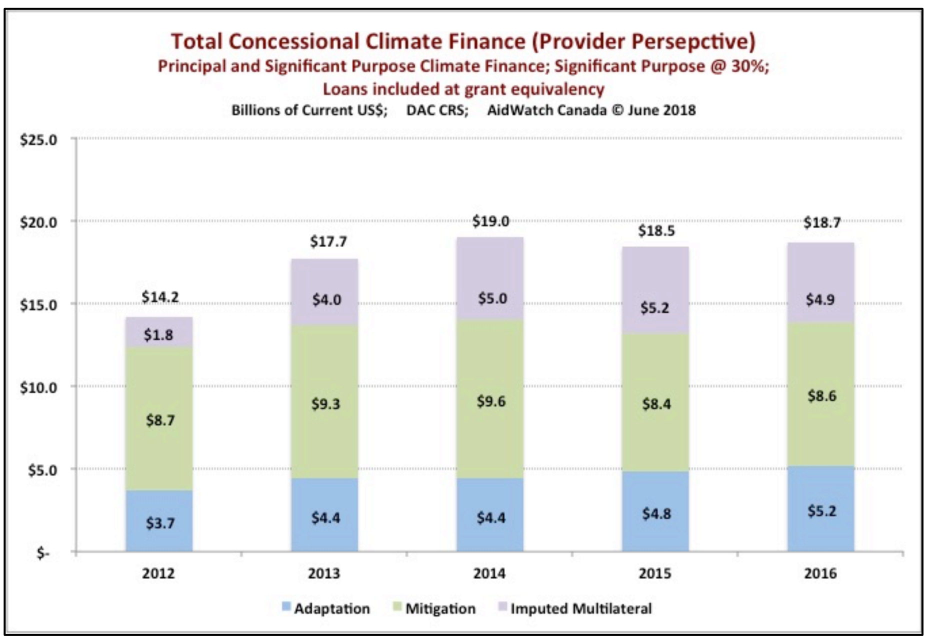
While recognizing the importance of climate finance as new and additional resources beyond existing ODA targets, this chapter maintains that effective concessional climate finance should be eligible to be considered ODA, and like other forms of aid it must also respond to the real localized, context-specific development needs of vulnerable people.

The value of ODA-reported climate finance

Total adjusted climate finance commitments averaged $17.6 billion per year from 2012 to 2016, and was largely flat-lined at $18.7 billion in 2016.[39] (Chart 7.1) While not inclusive of donors' non-concessional DFI finance, $18.7 billion is just half of the required $37.3 billion that the DAC Roadmap expects from such sources to achieve the $100 billion target by 2020.[40]

Global international finance institutions (IFIs) have been assuming a larger role in climate finance. According to the latest joint report by the multilateral development banks, **in 2017 these institutions put $33 billion towards climate finance projects from their own account** (resources raised by the banks themselves). This represented 25% of all resources from their own account[41] and already exceeds the $29.5 billion predicted in the donor *Roadmap,* noted above. However, more than 80% of these IFI climate resources were provided on a loan basis, compounding developing country debt for purposes largely driven by the high carbon practices of the developed world over the past century.

Chart 7.1



At its spring 2018 meetings the World Bank announced that climate finance, as a share of its portfolio, would rise to 30% (and for the International Finance Corporation to 35%). This is a significant increase compared to the 2017 level of 22%. All projects will be screened for climate risk.[42] Given the Bank's drive to promote private sector solutions to development issues, it is likely there will be a high reliance on the private sector in its climate finance. Meanwhile, replenishments for the Global Environment Fund, also a major actor in climate finance, were less than expected at US$4.1 billion. This pledged amount was less than the previous GEF-6 ($4.4 billion and GEF-5 ($4.3 billion).[43]

What has been the impact on ODA with the inclusion of climate finance?

Chart 7.2 suggests that climate finance has been slowly increasing as a share of total Real ODA commitments, from 11% in 2012 to 14% in 2016. **Climate finance has accounted for between $15 billion and $20 billion in reported ODA disbursements for all DAC donors each year since 2012.** On the assumption that climate finance should be additional to ODA (Bali and Copenhagen commitments), total ODA commitments available for other purposes were $111 billion in 2015 and $114 billion in 2016.

Chart 7.2

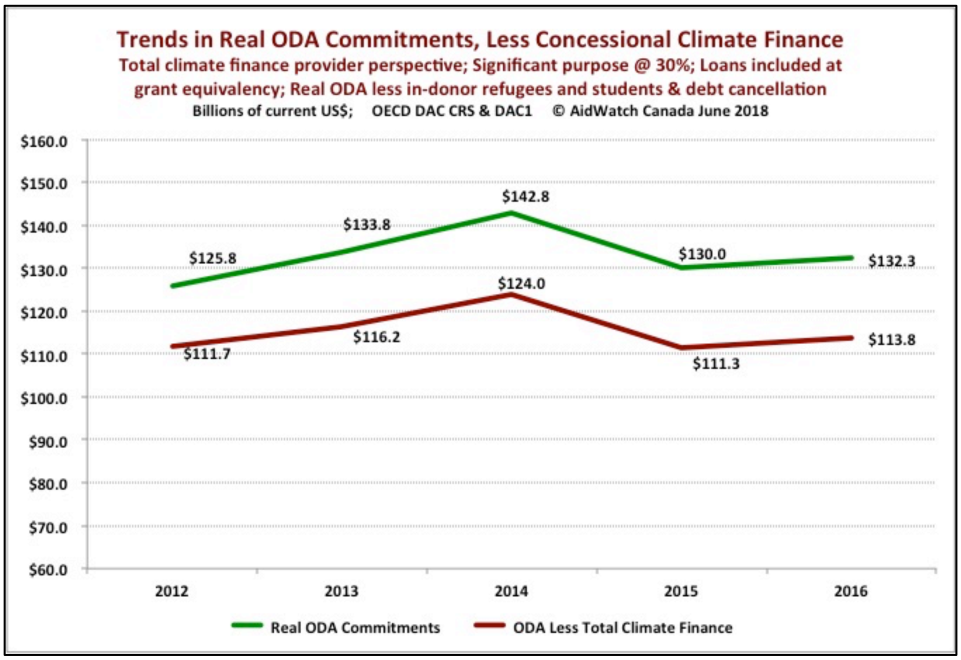
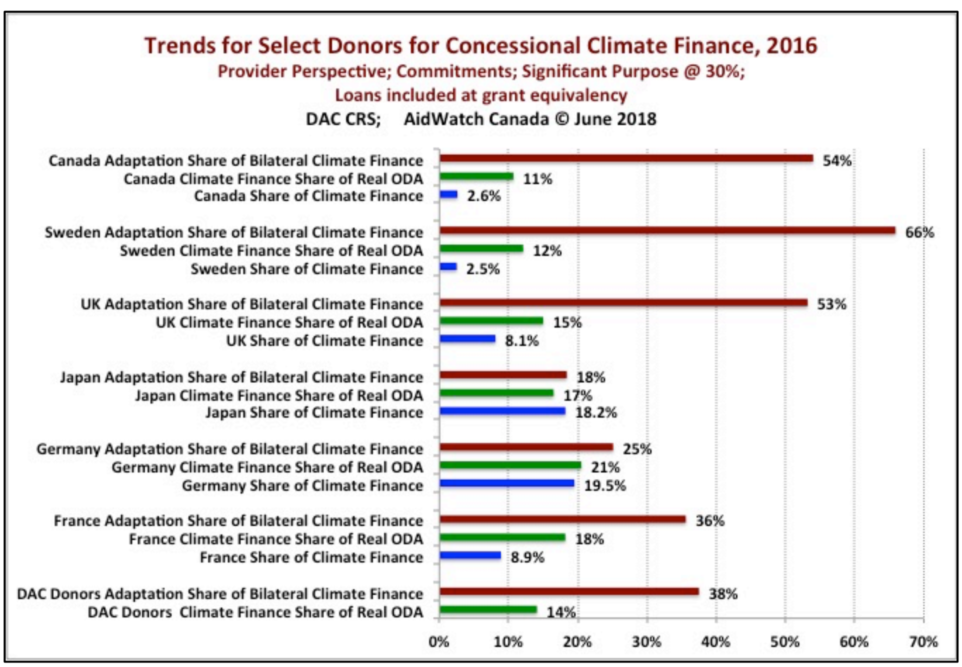


Chart 7.3



Three donors – Germany, France, and Japan – contributed more than 50% of all climate finance between 2012 and 2016. These donors were also among the largest donors to have significant increases in their ODA during this period (See Table 2.1), with climate finance likely representing a large part of this increase. **In 2016, climate finance made up 9% of French Real ODA commitments, 20% of Germany's Real ODA commitments and 18% of Japanese Real ODA commitments.** (Chart 7.3)

The influence of these three donors has also affected the quality of the modalities for ODA climate finance, resulting in a very high level of ODA loans relating to climate finance from 2012 to 2016. **Fifty-seven percent (57%) of all climate finance is delivered through loans, including 33% for adaptation finance intended for low income and vulnerable countries.** France uses loans for 97% of its climate finance, Japan 93%, and Germany 64%.

Balancing adaptation and mitigation

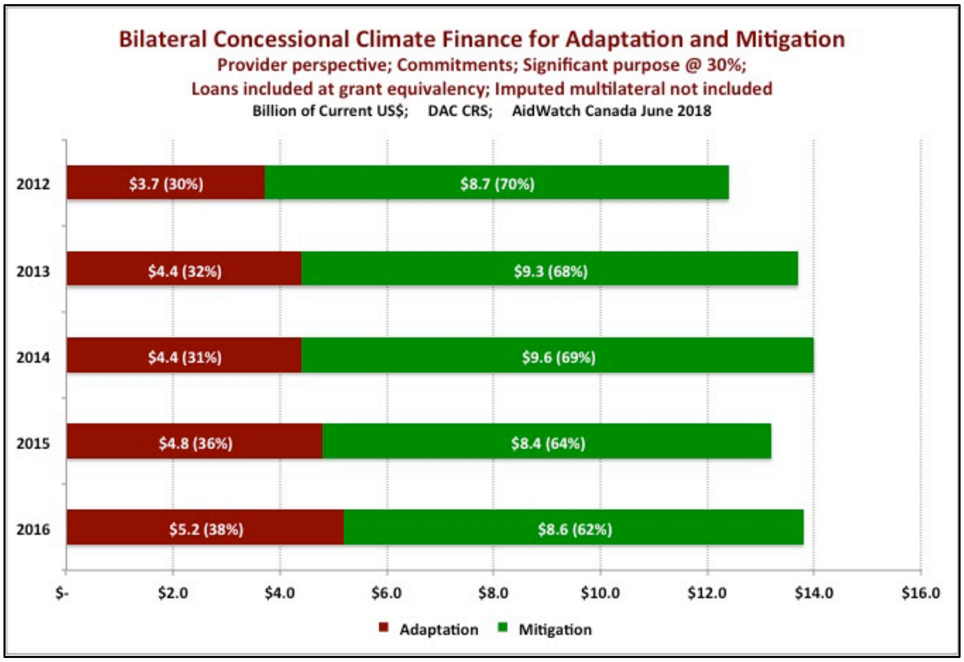
The Paris Agreement draws attention to significant imbalances in donor priorities between finance for mitigation (most of the finance to date) and adaptation (a much smaller proportion, but of significant value to vulnerable people living in poverty). The Agreement supports:

> "the provision of scaled-up financial resources, [which] should aim to achieve *a balance between adaptation and mitigation*, taking into account … the priorities and needs of … the least developed countries and small island developing States, considering the need for public and grant-based resources for adaptation [emphasis added]." [Article 9, 4]

However, the Agreement gives no definition of a "balanced" allocation.

Since 2012, the balance between adaptation and mitigation for DAC countries as a whole has improved slightly, from 30% in 2012 for adaptation to 38% in 2016. (Chart 7.4) The allocation of climate finance to Sub-Saharan Africa and Least Developed and Small Island Developing States has been significant (see Chart 7.5 and Chart 7.6 below), though greater effort is needed to realize a more equal allocation between mitigation and adaptation. The United Nations Environment Program estimates that adaptation costs for Africa alone will be close to $50 billion a year by 2025/2030.[44] Sub-Saharan Africa received a mere $1.6 billion per year in adaptation ODA finance between 2012 and 2016.

Chart 7.4


Bilateral Concessional Climate Finance for Adaptation and Mitigation
Provider perspective; Commitments; Significant purpose @ 30%;
Loans included at grant equivalency; Imputed multilateral not included
Billion of Current US$; DAC CRS; AidWatch Canada June 2018
2012
$3.7 (30%)
$8.7 (70%)
2013
$4.4 (32%)
$9.3 (68%)
2014
$4.4 (31%)
$9.6 (69%)
2015
$4.8 (36%)
$8.4 (64%)
2016
$5.2 (38%)
$8.6 (62%)
$-
$2.0
$4.0
$6.0
$8.0
$10.0
$12.0
$14.0
$16.0
Adaptation
Mitigation

The Green Climate Fund[1]

In 2010 parties to the United Nations Framework Convention on Climate Change (UNFCCC) established the Green Climate Fund as its core funding mechanism. It has been designated to implement the Paris Agreement.

As of May 2018, the Fund has raised $10.3 billion from 43 governments, including 9 developing countries. These pledges include $3 billion from the United States, of which only $1 billion is likely to be delivered, given the impending withdrawal of the United States from the Paris Climate Agreement. But at its meeting in early 2018, the Board was deadlocked on a new call for replenishment of resources.

By February 2018 the Fund had committed approximately half of its $8.3 billion budget. But projects under implementation (May 2018) totalled only $651 million, with $158 million disbursed to date. While CSOs have praised the management of the Fund for its openness to CSO comments on projects and policies prior to their approval, they have been critical of the very slow implementation and dispersal of funds. Part of the delay is due to the fact that it took the World Bank more than a year to sign a master agreement to administer the finances for the Fund.

Of the project approved,

- 57% focus on mitigation and 43% on adaptation (dividing 28% cross cutting between these two purposes);
- 60% are directed to the public sector and 40% to the private sector, with no funding of public/private projects;
- 43% are disbursed through loans and 43% grants;
- 17% were allocated to national projects; and
- 75% were allocated to international projects.

The Fund has been operating for about three years and is still establishing its major guidance policies. It recently adopted an Indigenous Peoples Policy, recognizing that a significant number of projects will be implemented in indigenous peoples' territories, as well as an Environment and Social Policy. The latter was adopted from the World Bank's International Finance Corporation. The Fund has also adopted a Gender Mainstreaming Policy. However, the recent resignation of the Executive Director and issues relating to the replenishment of the Fund has created a crisis for the Fund's immediate future.

[1] See Arkin, F., "The Green Climate Fund commits billions, but falls short on disbursements," DevEx, May 9, 2018, accessed May 2018 at https://www.devex.com/news/the-green-climate-fund-commits-billions-but-falls-short-on-disbursements-92648. See the Green Climate Fund at https://www.greenclimate.fund/home. See the Indigenous Peoples Policy at https://www.greenclimate.fund/safeguards/indigenous-peoples. See the Environment and Social Policy at https://www.greenclimate.fund/safeguards/environment-social. See the Gender Mainstreaming Policy at https://www.greenclimate.fund/how-we-work/mainstreaming-gender.

What has been the geographic focus for ODA climate finance?

Chart 7.5

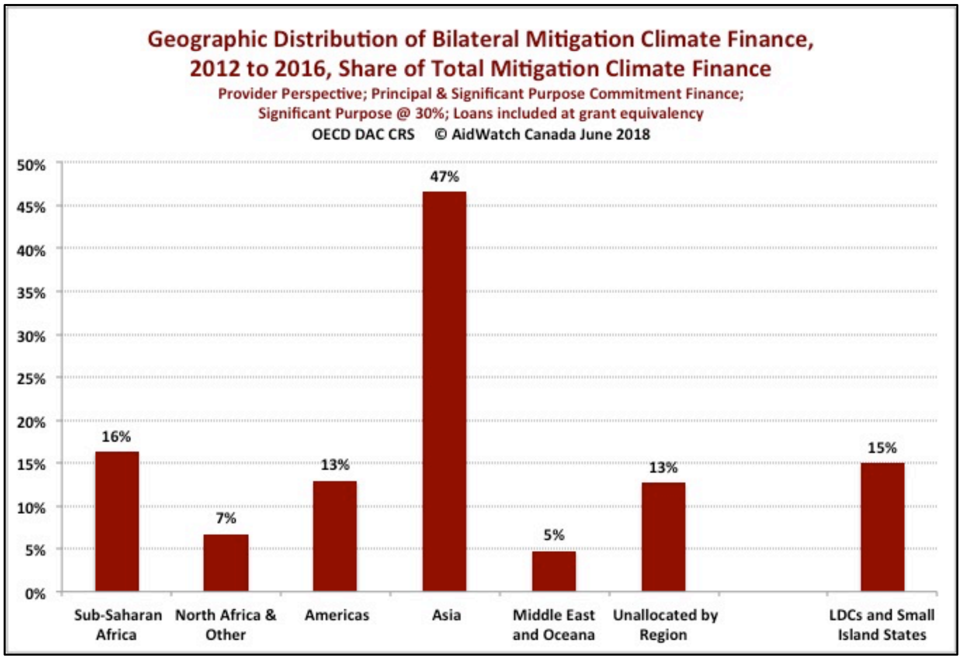
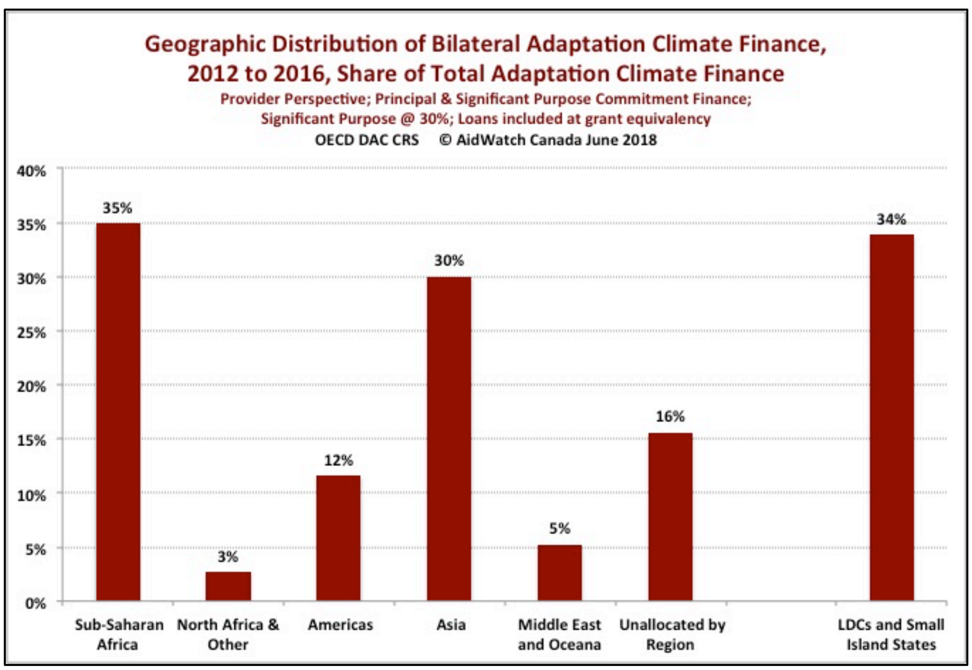


Chart 7.6



Between 2012 and 2016 bilateral ODA climate finance commitments have been heavily concentrated in Asia. This region received 47% of mitigation finance and 30% of adaptation finance. (Chart 7.5 and Chart 7.6)

The 2016 Paris Agreement gave special attention to **Sub-Saharan Africa, Least Developed Countries and Small Island Developing States** for climate finance, recognizing that these countries are highly vulnerable to the impact of climate change. The quality of climate finance in relation to these country priorities steadily improved between 2012 and 2016. Over the five years, **Sub-Saharan Africa received only 16% of bilateral mitigation finance, but it received 37% of adaptation finance. LDCs and Small Developing States had a similar experience, with 15% and 34% respectively.** (Chart 7.5 and Chart 7.6)

Chart 7.7

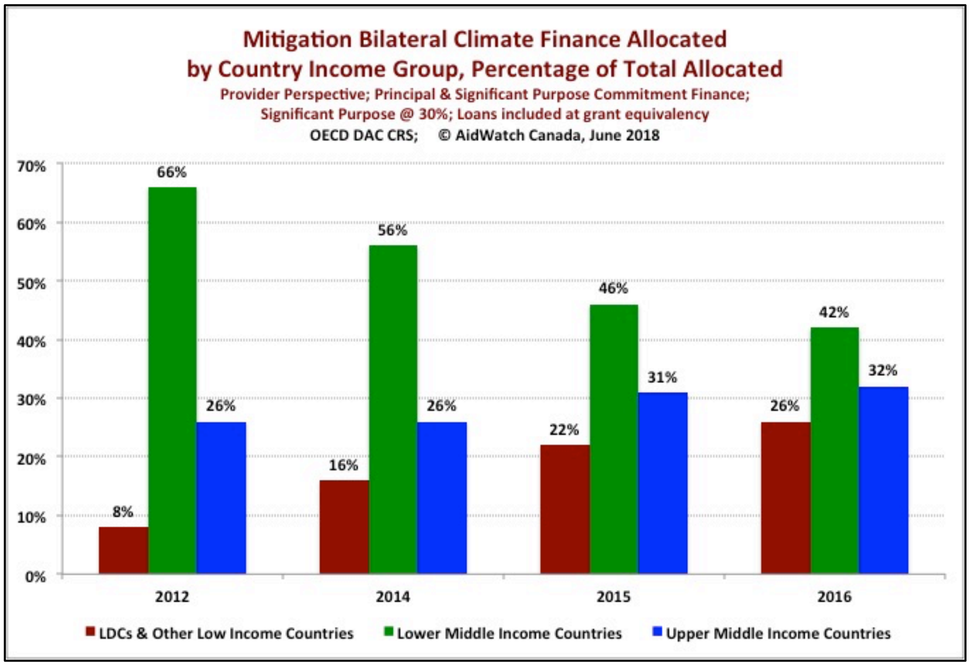
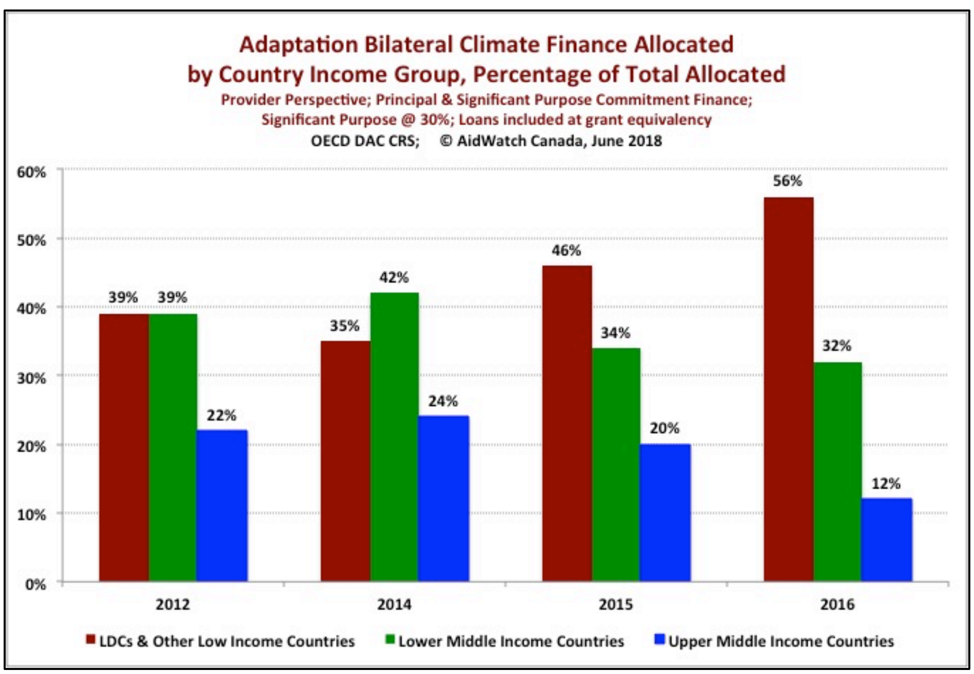


Chart 7.8

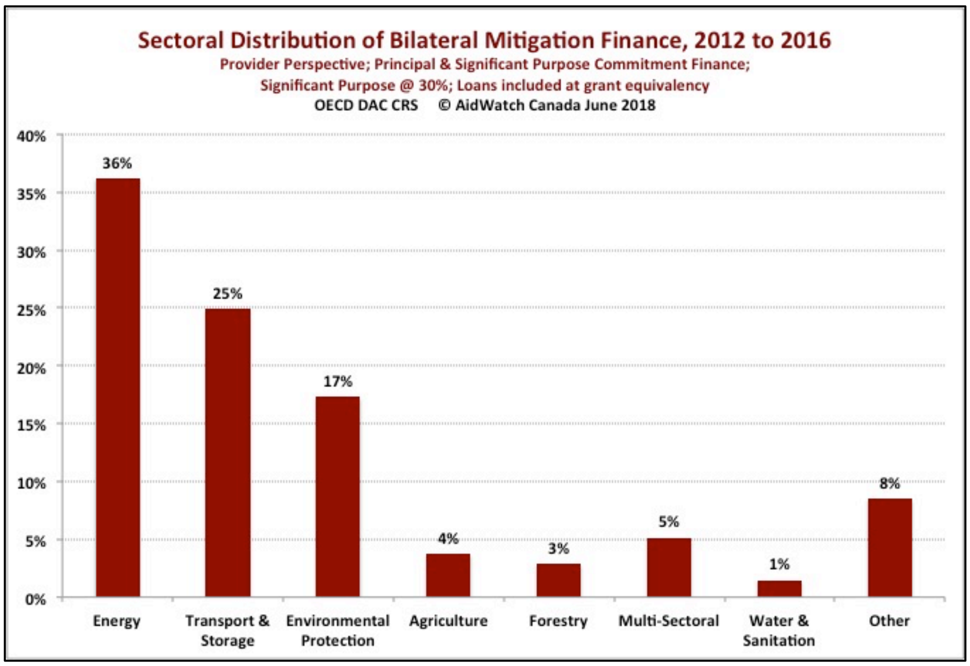


In terms of country income groups, the share of Least Developed and Low Income Countries in Bilateral ODA Adaptation Finance has increased significantly from 39% in 2012 to 56% in 2016. Lower Middle-Income and Upper Middle-Income countries both experienced a declining share of Bilateral ODA Adaptation Finance. (Chart 7.8)

Least Developed and Low Income countries increased their share of Mitigation ODA Finance from 8% to 26% between 2012 and 2016. The share of Lower Middle- Income countries decreased from 66% to 42% during this same period. Upper Middle Income Countries received almost one-third of mitigation finance in 2016. (Chart 7.7)

Sectoral allocation of ODA Climate Finance

Chart 7.8



As might be expected, the priority sectors for mitigation finance focus on energy and infrastructure. Energy allocations are slanted towards renewable energy sources, power transmission and policy. Still, non-renewables make up 16% of the sector allocation of mitigation to energy. (Chart 7.8)

The sector allocation of adaptation finance is spread among water and sanitation (22%), environmental protection (21%), agriculture (18%) and humanitarian assistance (12%).

D. The Purpose of ODA and Poverty Reduction

8. ODA as a dedicated resource for Agenda 2030 – But what constitutes the extent and depth of poverty in developing countries?

The setting of international and national poverty lines is a highly politicized exercise. Current poverty lines leave hundreds of millions of people uncounted who nevertheless are living the reality of poverty, vulnerability, and marginalization in Low Income, Lower-Middle Income and Upper-Middle Income countries. Their needs and interests should not be sidelined in donor priorities for ODA in responding to SDG One, whose target is eliminating and substantially reducing poverty, particularly in the poorest countries.

Using the World Bank's differentiated poverty lines by country income groups, an estimated 2.5 billion people are living in poverty, more than 40% of the population of developing countries as a whole. Approximately 800 million of these 2.5 billion live in extreme poverty.

The 2016 Reality of Aid Report argued that the setting of international and national poverty lines and their expression as SDG1, to end poverty in all its forms everywhere, is highly political and contentious.[45]

The imperative to address extreme poverty

There is no reason why the global community cannot work together to eradicate extreme poverty by 2030. Conditions of absolute destitution are morally reprehensible and development cooperation can play a major role in its elimination. Over the past two decades, progress has been made on reducing extreme poverty, particularly in China, India and Indonesia. But it is not clear that continuing this progress is sustainable, as extreme poverty has become more dispersed among countries, requiring significant efforts to reduce poverty in fragile states.[46]

However, a critical question is whether an exclusive concentrated focus on extreme poverty in aid allocations will reduce donor potential to strengthen broader national anti-poverty programs. It is necessary to also tackle conditions that sustain hundreds of millions who are very poor, but above $1.90 a day. These people are highly vulnerable to sudden conflict, damaging climate events, sexual violence, or family health calamities. Hundreds of millions of people who live on the edge of extreme poverty will be left behind if they are excluded from the development agenda, including the strategic choices in the allocation of aid.

Agenda's 2030's goal is ambitious – to end poverty in all its forms and "to leave no one behind." While 'leaving no one behind' relates to many of the SDGs, including reducing inequality, it also acknowledges that poverty is multi-dimensional and inter-dependent with other forms of marginalization. Poverty cannot be reduced to a minimum standard of absolute depravation implied by the poverty line of $1.90 a day income. But what measure provides an adequate assessment of national situations and determines the appropriate allocation of domestic government support and aid priorities? Unfortunately, there is currently only one specific indicator for SDG1: [the] proportion of population below the international poverty line [$1.90 a day], by sex, age, employment status and geographical location (urban/rural)."

Donors that make poverty a priority have often focused on the objective of eliminating extreme poverty as outlined in SDG1. For example, a recent UK aid review situated "tackling extreme poverty" within the context of four overarching goals for its ODA – (a) global peace, security and governance; (b) resilience and response to crisis; (c) global prosperity; and (d) tackling extreme poverty.[47]

All four goals are important and are reflected in many recent statements by other donors on ODA priorities. But such an approach potentially ignores the needs and interests of hundreds of millions of people, albeit not destitute, but who are living in extreme conditions of poverty and vulnerability. There is an underlying assumption that "pro-poor" markets and economic growth initiatives, supported by private sector partnerships, will address these conditions. To date there is little evidence that this is the case. This chapter also challenges this assumption.

Establishing poverty lines

Recent research has confirmed that the universal application of $1.90 a day as the poverty line makes invisible the experience of poverty in many countries beyond Sub-Saharan Africa. A more country specific approach is required.[48]

The World Bank has also recently acknowledged that separate international poverty lines are required to assess the condition of poverty in countries with different economic circumstances. It has consequently fixed $1.90 a day for extreme poverty in Low Income Countries, principally in Sub-Saharan Africa and South Asia; $3.10 a day for poverty in Lower Middle Income countries, and $5.50 a day for poverty in Upper Middle Income countries.

The OECD's DAC 2017 *Development Cooperation Report* analyzed the weaknesses and limitations of current country statistics on poverty.[49] The 2016 Reality of Aid Report pointed out that national poverty lines are highly politicized and may be set artificially low to exclude millions of people from social benefits and other initiatives. One can be "lifted out of poverty" by crossing an arbitrarily low benchmark for income or purchasing power of a basket of goods without a significant change in life circumstances.

In a study for the Overseas Development Institute Clair Hoy, pointed out the importance of poverty lines in China, India and Indonesia for re-assessing the breadth of global poverty. In his words,

> "These countries would have a much higher national poverty line today, given their mean consumption, if they were consistent with the cross country trend. The national poverty line would be almost four times higher in China, around 2.5 times higher in Indonesia and

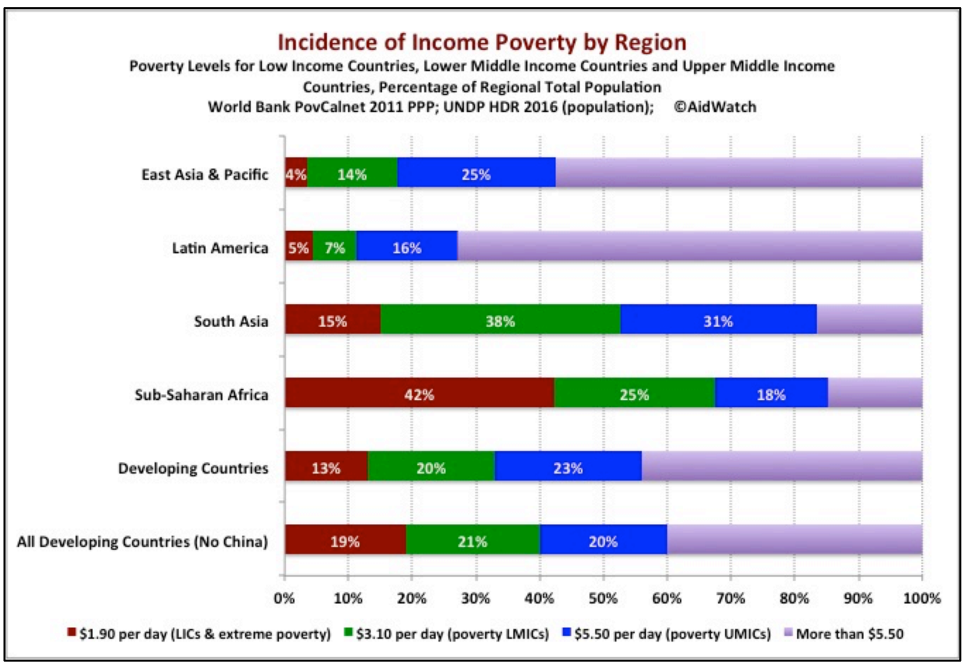
more than 50% higher in India. This would result in around two thirds of the population in these countries being defined as living in poverty."[50]

The World Bank poverty line of \$1.90 a day put 325 million people in these three countries currently living in conditions of extreme. But using Clair Hoy's rough estimate that two-third of the population are living in poverty, this would imply that approximately 1,950 million people live under these broader conditions of poverty. As middle-income countries, at the World Bank's \$3.10 and \$5.50 a day poverty lines, the Bank calculates that 1,390 million people are affected by poverty. Clearly international poverty lines are at best a vague approximation of poverty, and likely capture only the minimum population affected by poverty and marginalization.

Considerations of the extent and depth of poverty can have profound implications for country allocations of ODA. Not only does an acknowledgement of a broader range of poverty mean that significantly more aid is required. It also confirms that this aid must be programmed through partnerships that address the complexity of the conditions shaping and sustaining poverty in middle-income countries.

Levels of global poverty

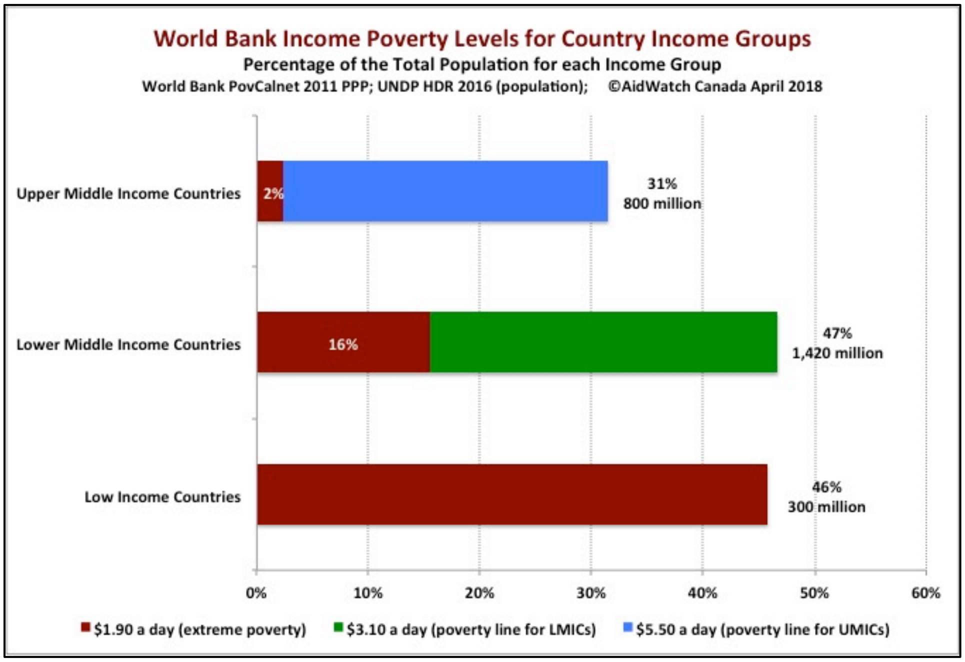
Chart 8.1



The World Bank calculates that 13% of the population of developing countries live in extreme poverty on less than \$1.90 a day. The highest concentrations are in Sub-Saharan Africa (42% of its population) and South Asia (15% of its population). Excluding China, almost a fifth (19%) of the population of developing countries live in conditions of destitution. (Chart 8.1)

An additional 20% of developing countries' populations live on less than \$3.10 a day, many of them functioning inside the informal economy where they are very vulnerable to falling back into extreme poverty. Another fifth (23%) live on a daily income between $3.10 a day and $5.50 a day, which is considered to be a measure of poverty in Upper Middle-Income countries. (Chart 8.1)

Chart 8.2



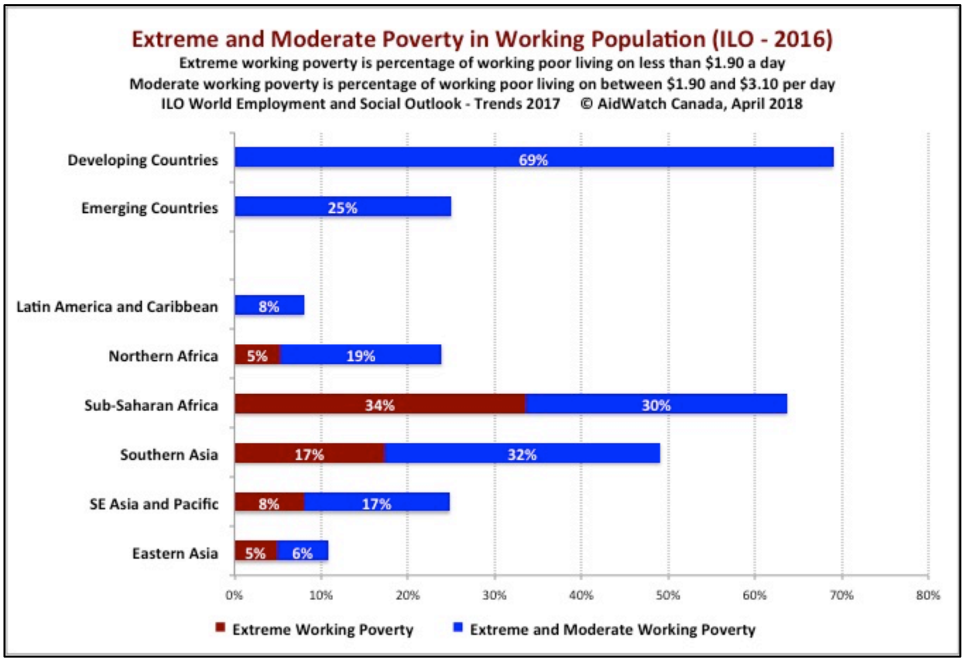
According to World Bank poverty lines for Low-Income, Lower-Middle Income and Upper-Middle Income countries, people living in poverty make up 46%, 47% and 31% of populations, respectively. Using the latest population figures for World Bank income groups, 2.5 billion people were living in poverty or more than 40% of the population of developing countries as a whole. Approximately 800 million of these 2.5 billion live in extreme poverty. (Chart 8.2)

The reach of poverty conditions in developing countries is further confirmed by statistics on poverty among the working population, which have been collected by the International Labour Organization (ILO).

According to ILO statistics, close to 70% of working people in developing countries live highly precarious lives, existing on less than $3.10 a day. These people, approximately 2 billion, earn their living mainly in the informal economy. The majority lack decent working conditions or basic rights or social protection. Informal work is widespread, making up 85% of all employment in Africa, 68% in Asia/Pacific, and 69% in Arab countries.[51]

For emerging market countries fully one quarter of those who are employed live on less than $3.10 a day. (Chart 8.3)

Chart 8.3



The ILO also calculates an index of vulnerability based on a strong correlation between the informal economy and vulnerability. In 2016, 79% of the working population were considered to be vulnerable (to unexpected economic, health or climatic shocks) in developing countries and 47% in emerging market countries.

If the primary purpose of ODA is to be a catalyst for the reduction of poverty and inequality, comprehensive donor strategies for tackling poverty should be established across the spectrum of developing countries, not only in the poorest and least developed. Aid to people living in least developed countries is essential. But donors should not ignore the fact that an estimated 1.4 billion people are living in poverty in Lower-Middle Income countries and 800 million in Upper-Middle Income countries. ODA, as well as other cross-boarder flows, should also be allocated in ways that contribute to transforming the lives of these people.

E. Is Aid actually being allocated for poverty reduction?

9. The amount of aid directed to Least Developed Countries for long-term development is relatively small?

In 2016, 44% of Real ODA was allocated to Least Developed (LDCs) and Low-Income Countries (LICs). As a proportion of allocated ODA, the share of Real ODA directed to these countries has declined since the high in 2010 (47%). ODA allocated to Upper-Middle Income Countries (UMICs) increased from 14% of Real ODA in 2010 to 17% in 2016. This share increased from 2014 when it was 15% of Real ODA.

In recent years, changing country allocations for humanitarian assistance has mainly driven these changing allocations to income groups. When humanitarian assistance is excluded (looking at aid for long-term development) regional programming expands dramatically from 11% to 39%. Aid for long-term development to LDCs and LICs has declined from 34% in 2010 to 30% in 2016 (compared to 44% including humanitarian assistance). ODA for long-term development in Lower-Middle Income Countries has also declined from 24% in 2010 to 20% in 2016. Aid to Upper-Middle Income Countries was relatively constant, at 11%, during these seven years.

ODA to Least Developed and Low Income Countries

Excluding debt cancellation and ODA unallocated by income group (in-donor refugees and student costs), **in 2016, 44% of Real ODA was allocated to Least Developed (LDCs) and Low-Income Countries (LICs). As a proportion of allocated Real ODA, the share of ODA directed to these countries has declined from 2010 when it stood at 47%, but has not changed substantially since 2014.** (Chart 9.1)

Aid to Afghanistan was $4.0 billion in 2016, or 9% of total donor aid to LDCs. This aid is largely motivated by donor foreign policy interests and the war against the Taliban. Aid to Afghanistan has declined from a high of $4.5 billion in 2014 when it encompassed 11% of donor support for LDCs.

In 2015, donors financing the SDGs reiterated their commitment to deliver 0.15% to 0.20% of their GNI as aid to the 48 least developed countries (LDCs) [*Transforming Our World*, 17.2, A/RES/70/1,26/35]. This promise has not yet been fulfilled. **DAC donors' LDC ODA/GNI ratio reached 0.10% in 2010, but since then has fallen back to 0.09% and that ratio has remained unchanged since 2012.** (Chart 9.2)

Chart 9.1

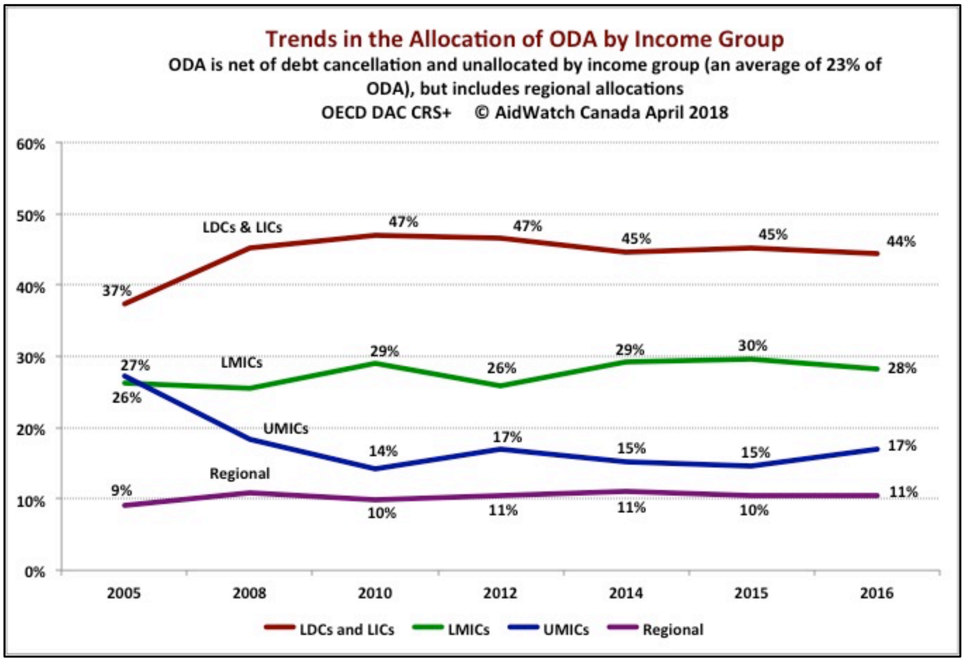
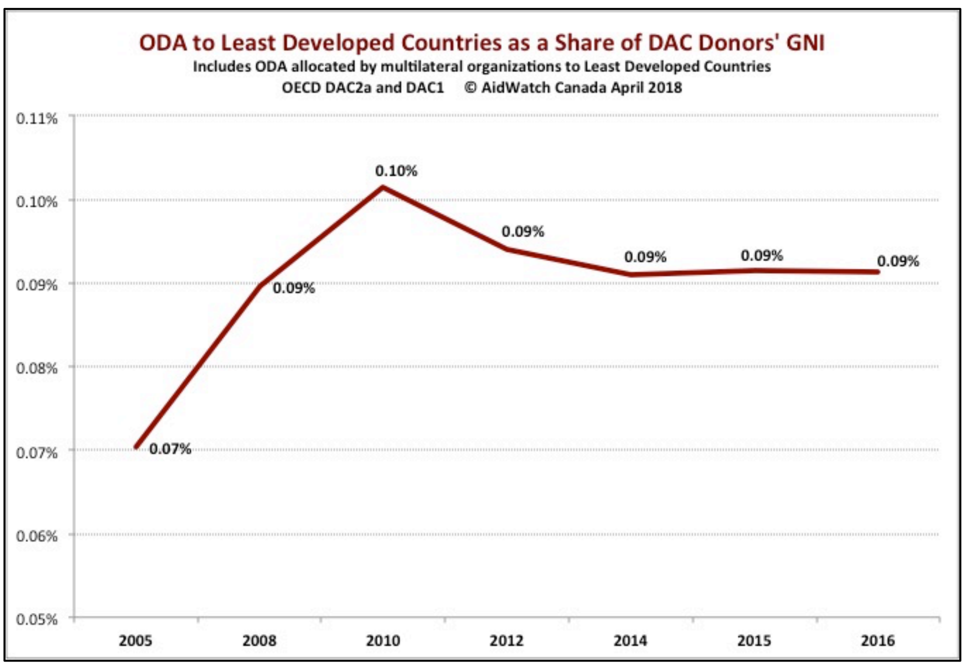
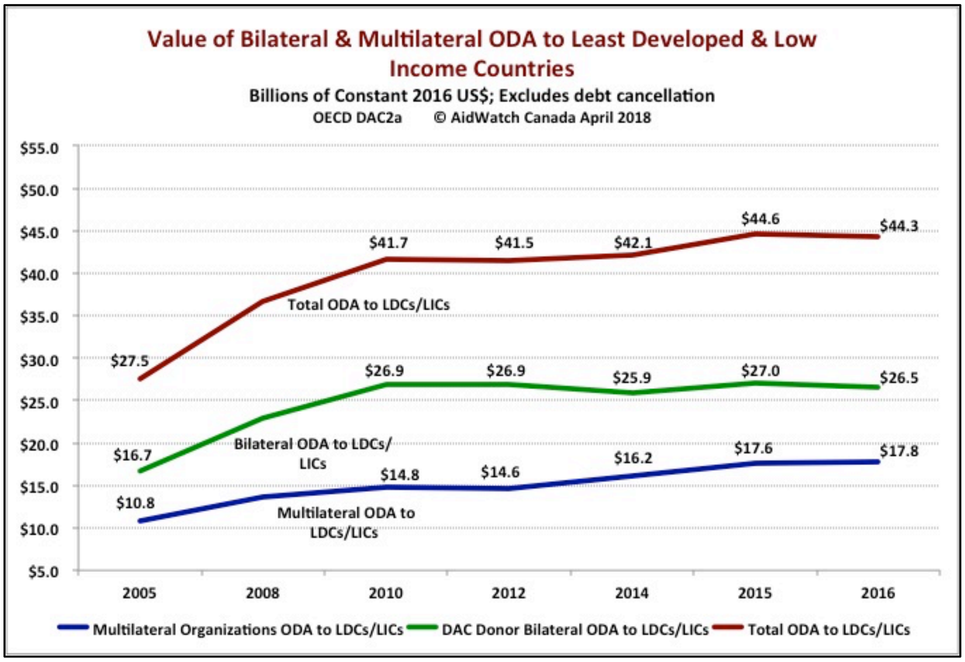


Chart 9.2



The value of Real ODA for LDCs (in 2016 dollars) has increased by 5% since 2014 moving from $42.1 billion, just prior to the 2015 launch of Agenda 2030, to $44.3 billion in 2016. (Chart 9.3) This modest increase is overshadowed by the fact that Real ODA increased by 12% between these years. (Chart 1.1) In practice, donors have ignored their commitment to substantially increase aid to LDCs.

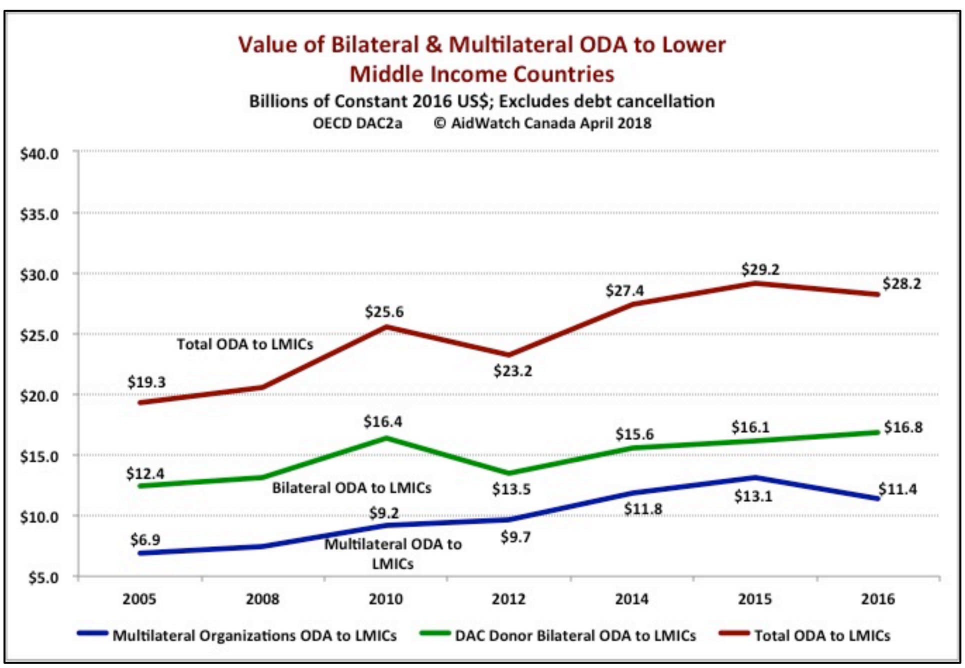
Chart 9.3



ODA to Lower-Middle Income Countries

ODA to Lower-Middle Income Countries (LMICs) has remained largely unchanged from 2010 to 2016, standing at 29% of allocated Real ODA. (Chart 9.1) **This aid amounted to $16.8 billion in 2016 (2016 dollars) and $16.4 billion in 2010.** (Chart 9.4)

Chart 9.4



However, in 2016 this aid was concentrated in fewer countries. Lower-Middle Income Countries numbered 36 in 2016, down from 48 in 2010. The 12 countries that graduated to Upper-Middle Income status received $7 billion in ODA in 2010 (56% of aid to UMICs in that year) and $9.1 billion in 2016 (54% of aid to UMICs in that year). (Chart 9.4) However, Iraq and Jordan (countries with high humanitarian assistance needs) accounted for 44% of this $7 billion and 47% of the $9.1 billion in 2016.

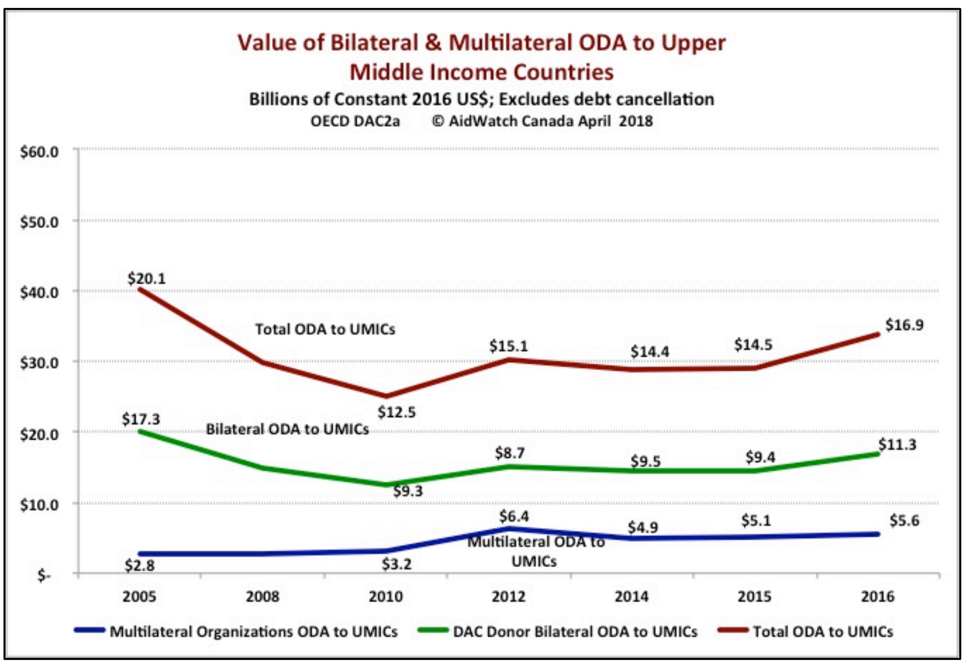
ODA to Upper Middle Income Countries

Section eight (8) documented that significant numbers of people live in poverty in middle-income countries, particularly in lower Middle-Income countries.

ODA allocated to Upper-Middle Income Countries (UMICs) increased from 14% of Real ODA in 2010 to 17% in 2016. This share also increased from 2014 when it was 15% of Real ODA. (Chart 9.1)

The value of ODA to Upper-Middle Income countries increased by 35% between 2010 and 2016, from $12.5 billion to $16.9 billion (2016 dollars). The increase in value of this ODA between 2014 and 2016 was 17%. (Chart 9.5)

Chart 9.5



Some of these increases are the result of humanitarian crises in the Middle East. Aid allocations related to the Syrian crisis have had a significant share of ODA to UMICs in recent years. In 2016, of the 58 UMICs, three countries – Turkey, Jordan and Lebanon – accounted for $3.5 billion or 21% of all aid allocated to UMICs in that year. If Iraq is included, this share rises to 32%.

Allocation of ODA for long-term development by income group

As noted in section four (4) above, humanitarian assistance has been an increasing share of ODA. Excluding humanitarian assistance in the calculations has a significant impact on the share of ODA provided for long-term development to the different country income groups.

Notably, the share of ODA devoted to regional programs rises dramatically to 39% in 2016 (compared to 11% if humanitarian assistance is included). (Chart 9.7 and Chart 9.1) Regional allocations have been increasing significantly in dollar terms (2016 dollars) from $31.9 billion in 2010 to $48.6 billion in 2016. (Chart 9.8)

ODA for long-term development in Least Developed and Low-Income Countries has been declining since 2010, from 34% of long-term development ODA in that year to 30% in 2016. (Chart 9.7) This share compares to 44% for ODA if humanitarian assistance is included. In 2016-dollar terms long term development assistance for LDCs and LICs has been flat over these seven years. (Chart 9.8 and Chart 9.1)

ODA for long-term development in Lower-Middle Income Countries has also declined from 24% in 2010 to 20% in 2016 (compared to 28% including humanitarian assistance in 2016). In the case of Upper-Middle Income Countries, this share has remained constant at approximately 11% (compared to 17% including humanitarian assistance in 2016). (Chart 9.7 and Chart 9.1)

Noting the large differences if humanitarian assistance is or is not included, it is clear that changing allocations for humanitarian assistance have been a main driver for changes in overall ODA allocations to income groups.

Chart 9.6

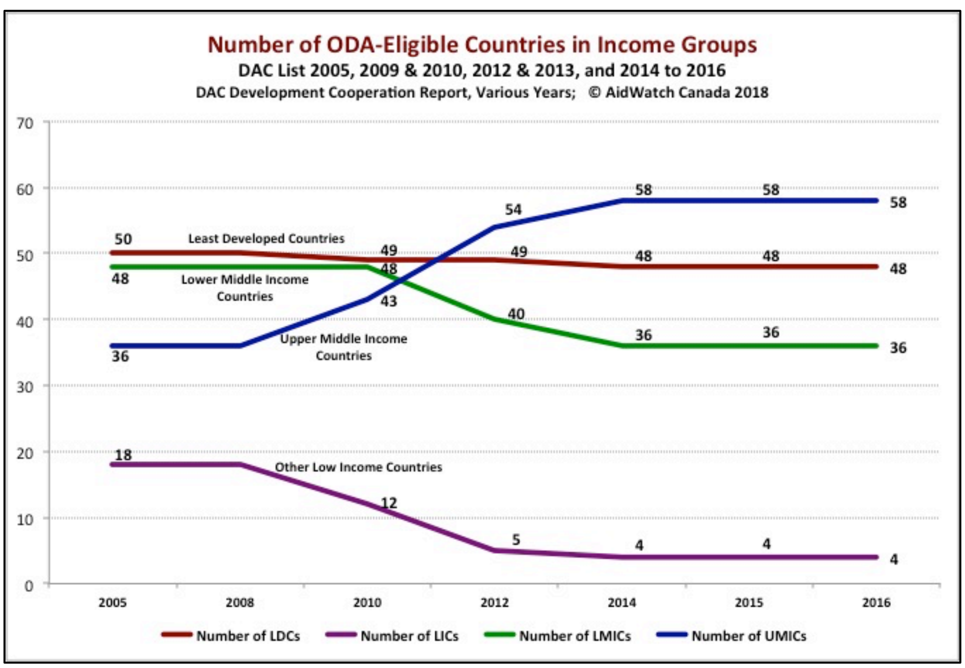


Chart 9.7

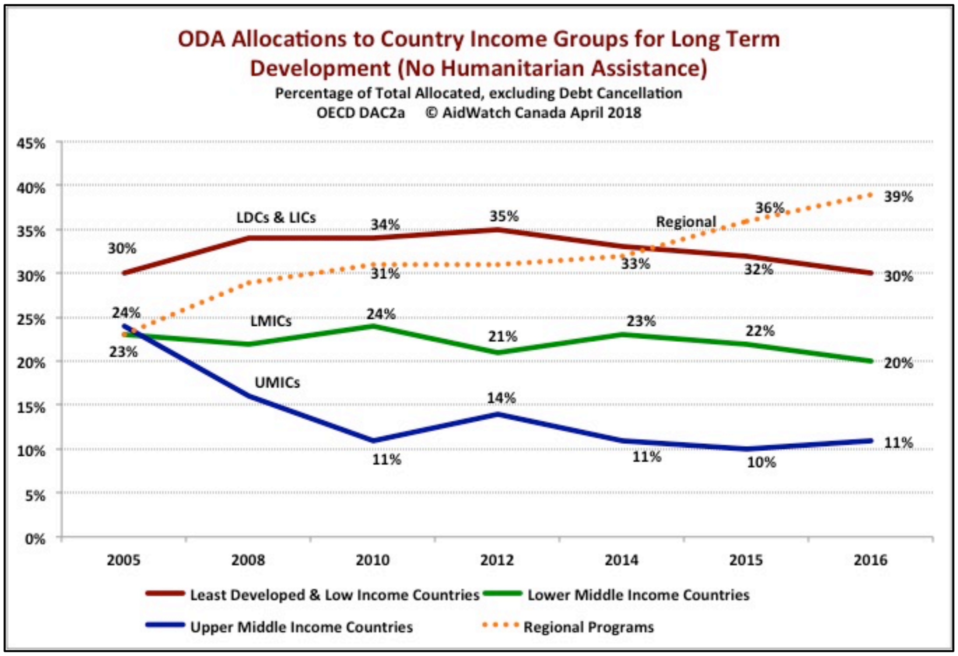
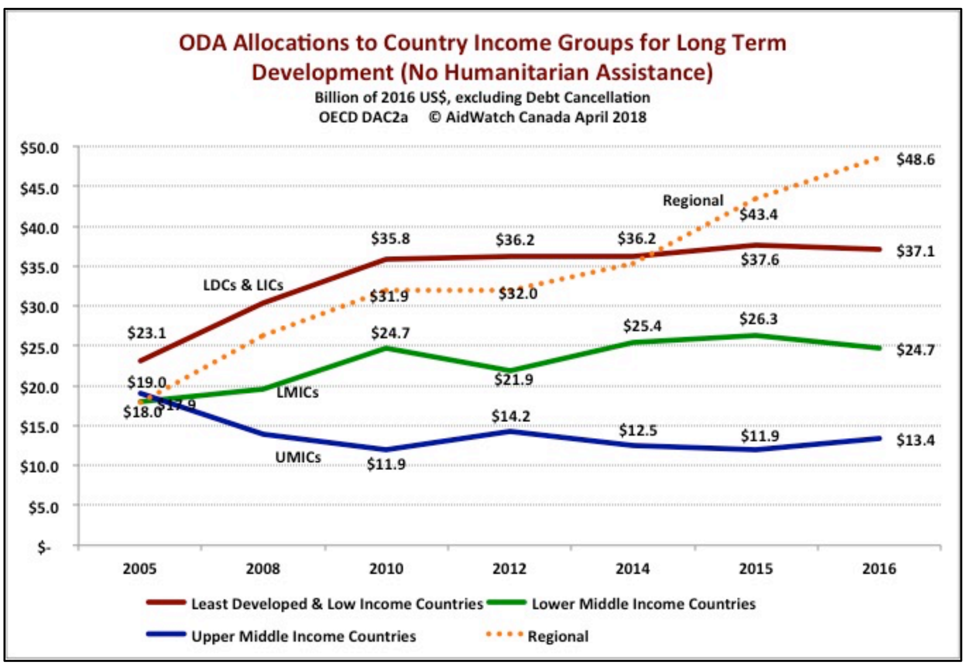


Chart 9.8



Graduation of Countries to Middle Income Status

Chart 9.6 summarizes the changing status for countries graduating upwards to a new income level. There has been a significant decline in the number of Low-Income Countries outside of Least Developed Countries, from 18 in 2005 to 4 in 2016. At the other end, there has been a dramatic increase in Upper Middle-Income Countries from 36 in 2005, to 43 in 2010, and 58 in 2016. Notably, the number of Least Developed Countries is largely unchanged – 50 countries in 2005 and 48 countries in 2016. Similarly, while countries have changed, the actual number of Lower Middle-Income Countries has remained constant.

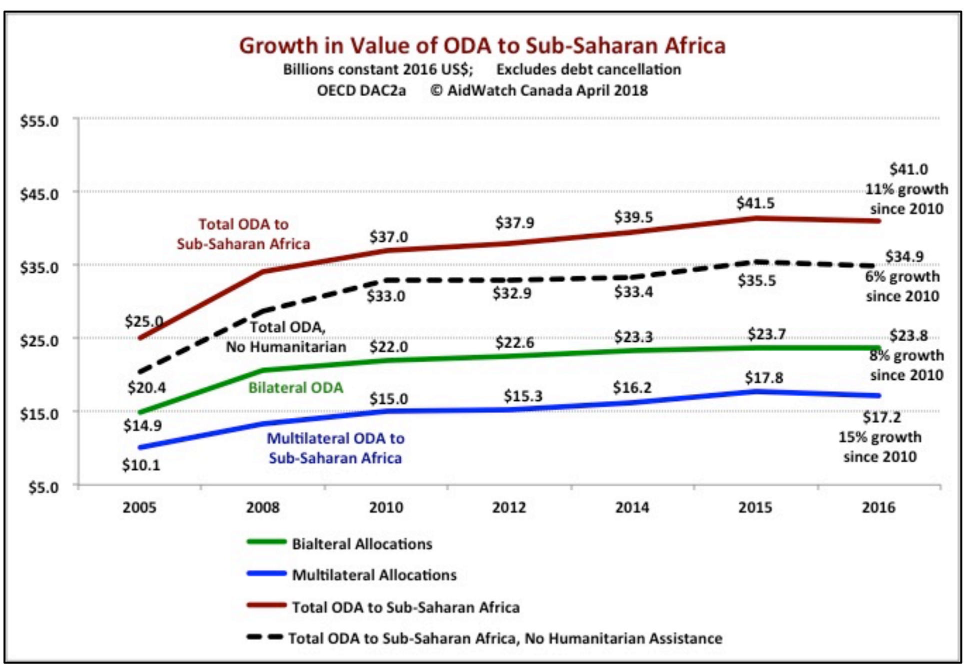
Changing income status affects the eligibility for concessional finance from the World Bank's International Development Association (IDA) as well as other programs such as GAVI, the Vaccine Alliance. It is expected that a further 9 countries, including Pakistan, Sudan and PNG will be graduating from IDA in the next cohort. Concerns have been raised about the high level of debt servicing obligations in this cohort as well as the quality of governance to manage impacts on health systems and programs that address continued levels of poverty in these countries.[52]

10. Aid directed to Sub-Saharan Africa for long-term development is also low.

Aid to Sub-Saharan Africa is a key indicator of the degree to which donors are giving priority to poverty reduction. While ODA directed to Sub-Saharan Africa has increased by 11% since 2010, much of this increase is due to increased humanitarian assistance. Excluding the latter, ODA for long-term sustainable development in the region increased by only 6% in the same period. Multilateral ODA for Sub-Saharan Africa showed the largest overall increase, at 15%, while bilateral ODA increased more modestly at 8%.

Sub-Saharan Africa has the largest proportion of people (42%) living in destitution, at less than $1.90 a day. An additional 25% live in poverty with between $1.90 a day and $3.10 a day, many of whom are highly vulnerable to slipping back into extreme poverty.

Chart 10.1



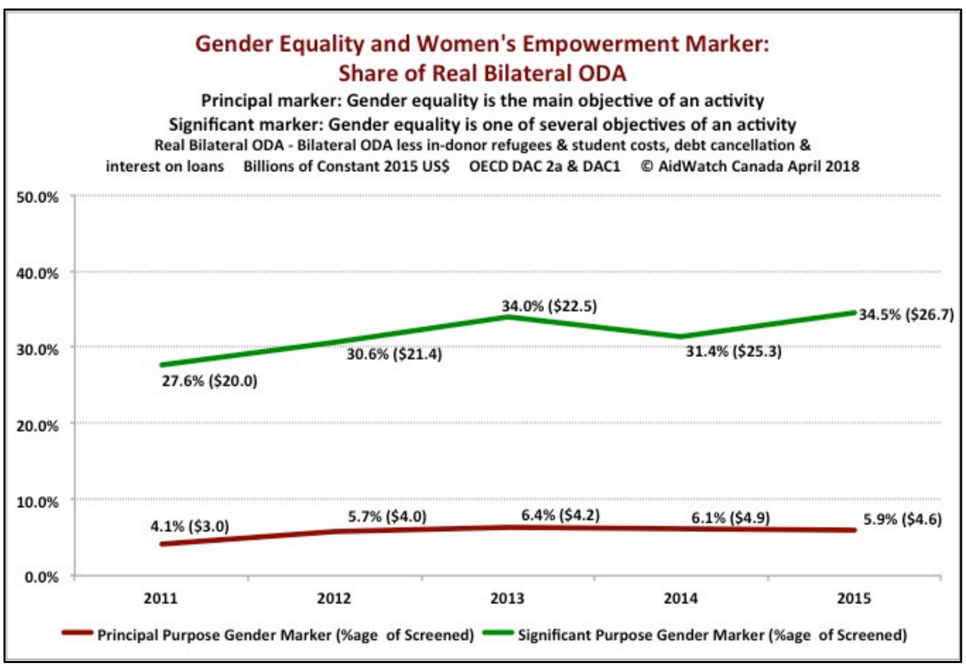
11. Aid directed to gender equality and women's empowerment shows modest improvement, but is unacceptably low.

Given the centrality of women's rights and gender equality for making progress in the SDGs, it is alarming that 65% of all Real ODA in 2015 still does not have any objectives relating to these purposes. In 2015, as a share of Real Bilateral ODA, only 6% of projects had gender equality as their primary objective.

Donor support for women's rights organizations is a key catalyst for sustainable progress in gender equality and women's empowerment. While the value of this support (in 2016 dollars) has increased by more than 50% since 2011 reaching a total of $479 million in 2016 (Chart 11.2), as a share of ODA marked "principal gender purpose," it declined from 11% to 9% between 2011 and 2015.

The DAC monitors donor intentions and commitment to gender equality and women's empowerment through its gender policy marker. Donors screen and score their projects according to three criteria: 1) Gender equality is the *principal* objective of the project (gender equality is the stated primary goal); 2) Gender equality is a *significant* objective (gender equality is one of several objectives of the activity); or 3) There are no gender equality objectives in the activity. The DAC produces an annual report on progress using this marker as its reference point.[53]

Chart 11.1



Projects with gender equality as *principal* and *significant* objectives have demonstrated modest improvement over the past five years (between 2010 and 2015). Nonetheless, in 2015 **only 6% of projects by value had gender equality as their primary objective, as a share of Real Bilateral ODA**.

Projects where gender equality was one of several explicit objectives were 35% of Real Bilateral ODA in that year. (Chart 11.1)

Most donors have set out explicit policies relating to gender equality in development cooperation. Canada recently adopted a feminist international assistance policy and Sweden has set out a feminist foreign policy.[54] Other donor countries have put some emphasis on gender equality in development cooperation, but have resisted the implications of feminist policies.[55] A feminist international assistance policy implies not only strong commitments to gender equality as a cross-cutting concern, but also implementation of a gender analysis for all program areas, as the basis for determining funding priorities.

In 2015 several donors, committed significant resources to projects and programs with gender equality as a principal objective (Sweden – 17% of screened projects; Spain – 12%; Belgium – 12%; Netherlands – 11%; Norway – 9%; United Kingdom – 9%.) As part of its Feminist International Assistance Policy, Canada has set a target, whereby 15% of its bilateral programs are to have gender equality as a principal objective by 2020. In 2015 only 3% of its screened projects were designated with this marker.

In terms of sector priorities, in 2015 health and population/reproductive health made up 42% of all projects marked gender equality principal purpose, democratic participation and civil society, 10%, and education, 9%. Given the importance of women in agricultural production, it is surprising that only 4% of all projects were marked gender equality principal purpose. Similarly, humanitarian assistance projects accounted for only 2% of these projects.

Chart 11.2

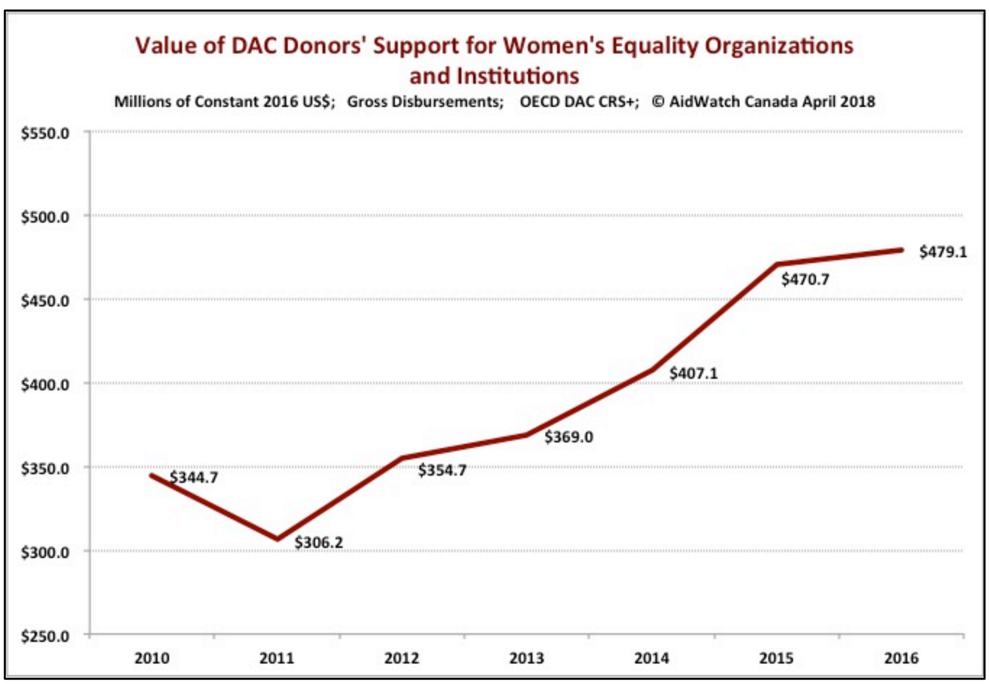
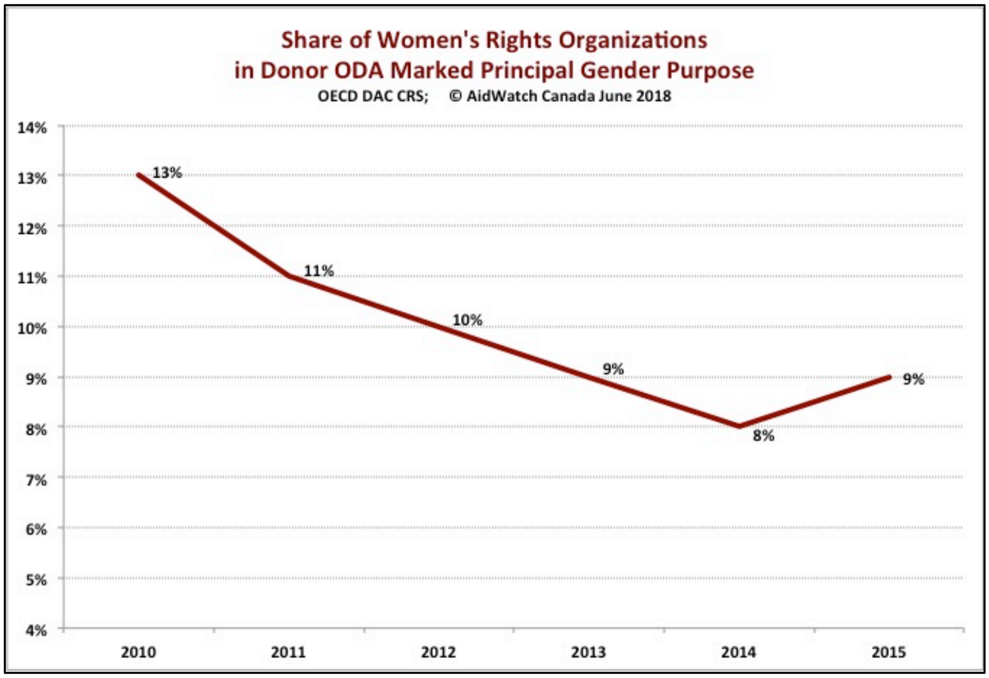


Chart 11.3



Donor support for women's rights organizations is a key catalyst for sustaining progress in gender equality and women's empowerment. This support made up only a small proportion of donor aid and donor commitments to gender equality. **While its value (in 2016 dollars) has increased since 2011 by more than 50% to a total of $479 million in 2016 (Chart 11.2), as a share of ODA marked "principal gender purpose," it has declined from 11% to 9%**. (Chart 11.2 and Chart 11.3)

In 2015, almost half (44%) of ODA to women's rights organizations was channelled through NGOs/CSOs. Another 33% was channelled through multilateral organizations (including contributions to UN Women) and only 8% through the public sector.

Given the centrality of women's rights and gender equality for the SDGs, the overall weakness apparent in donor performance on the gender marker is troubling. Combined with other trends, such as increased attention to engagement of private sector actors through blended finance (see section sixteen [16] below), this performance may worsen. Recent analysis of blended finance demonstrates weak targeting of gender equality and the potential to exacerbate other forms of inequalities such as conditions for people living with disabilities.[56]

12. Proportion of aid directed to sectors important for poverty reduction is largely unchanged.

A review of DAC donors' disbursements, including multilateral disbursements, indicates a modest priority for sectors of importance to poverty reduction. This is largely unchanged since 2010, at 36% of sector allocable ODA in 2016. Significantly less than half of donor ODA that has been allocated by sector is devoted directly to sectors of primary importance for people living in poverty. This proportion has been unaffected by the rhetoric of Agenda 2030 with the commitment to "leave no one behind." Several of the largest donors, the EU (24%), France (15%), Germany (21%) and Japan (13%) have poor performance on this indicator.

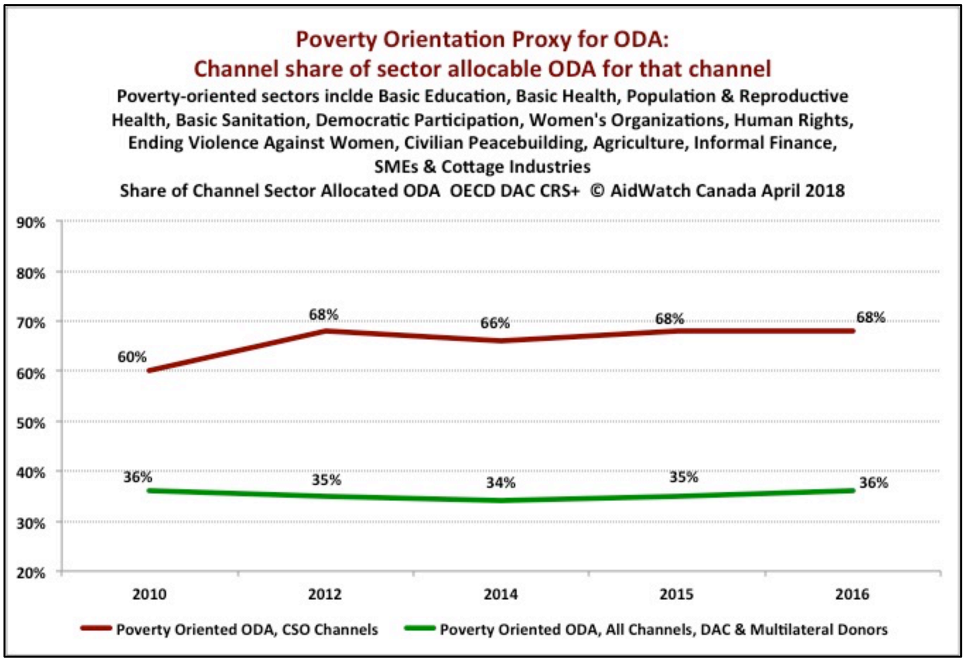
The DAC does not measure the degree to which poverty reduction is a focus in the allocation of DAC ODA. Given the importance of several key sectoral areas that directly affect the prospects for people living in poverty, it is possible to create a proxy indicator and apply it to donor aid disbursement. These twelve (12) DAC sectors for this poverty-focused ODA proxy include:

- Basic Education (DAC sector 112: I.1.b)
- Basic Health (122: I.2.b)
- Population and Reproductive Health (130: I.3)
- Basic Water and Sanitation (14030, 14031, 14032)
- Democratic Participation and Civil Society (15150)
- Women's Rights Organizations (15170)
- Ending Violence Against Women (15180)
- Civilian Peace-building (15220)
- Agriculture (310: III.1)
- Informal Finance (24040)
- Small and Medium Enterprises (32130)
- Cottage Industries (32140)

There has been a very modest priority for these sectors, largely unchanged since 2010, at 36% in 2016, including multilateral aid. (Chart 12.1) This proportion of donor ODA that has been allocated by sector has been largely unaffected by the rhetoric of Agenda 2030, with the commitment to poverty eradication, reducing inequality and "leave no one behind."

Civil society organizations are very important channels in the allocation of aid resources to these key sectors. As a share of aid delivered by CSOs, poverty sector allocations have increased from 60% in 2010 to more than two-thirds, or 68% in 2016. (Chart 12.1)

Chart 12.1



Donor bilateral disbursements for poverty-oriented sectors varied considerably, with large donors such as France, Germany and Japan, having a poor performance. In contrast, both the United States and the United Kingdom provided significant levels of aid to these sectors. Other (select) donors also tended to perform well with this indicator. (Table 12.1)

Table 12.1, Share of Sector-Allocable Bilateral ODA to Poverty-Sector Proxy

Donor	2010	2014	2016
France	19%	16%	15%
Germany	23%	18%	21%
Japan	15%	11%	13%
United Kingdom	35%	41%	41%
United States	53%	58%	62%
Canada	55%	50%	54%
Denmark	48%	48%	48%
Netherlands	28%	54%	49%
Norway	39%	38%	45%
Sweden	47%	51%	50%
All Donors	35%	36%	37%

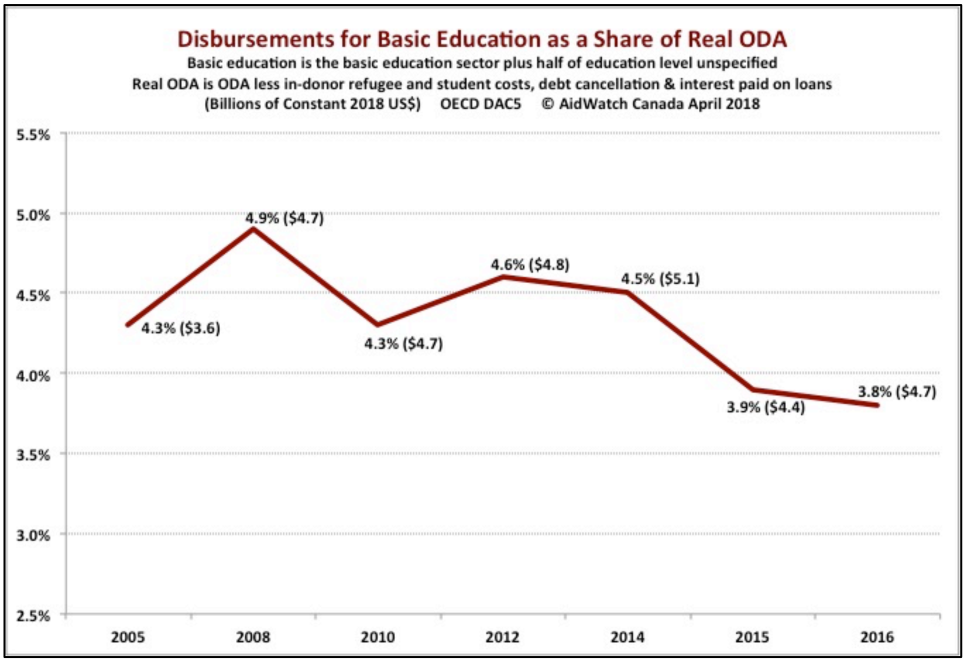
Despite the overall failure of donors to substantially improve their profile in poverty-oriented sectors, some of these sectors have exhibited modestly positive trends.

Specific Sector Allocations

While the value of ODA to the basic education sector remained constant at $4.7 billion (2016 dollars) between 2010 and 2016, its share of Real ODA has declined from 4.3% to 3.8%. (Chart

12.2) Global funding for basic education is woefully short of what is required. An estimated 260 million children are still not enrolled in school and 330 million face a school environment in which they learn very little. It is estimated that the funding gap to achieve the SDG for education is $39 billion (including domestic investments).[57] Nevertheless, donors only committed $2.3 billion for the replenishment of the Global Partnership for Education, in relation to a target of $3.1 billion for the 2018 – 2020 period.[58]

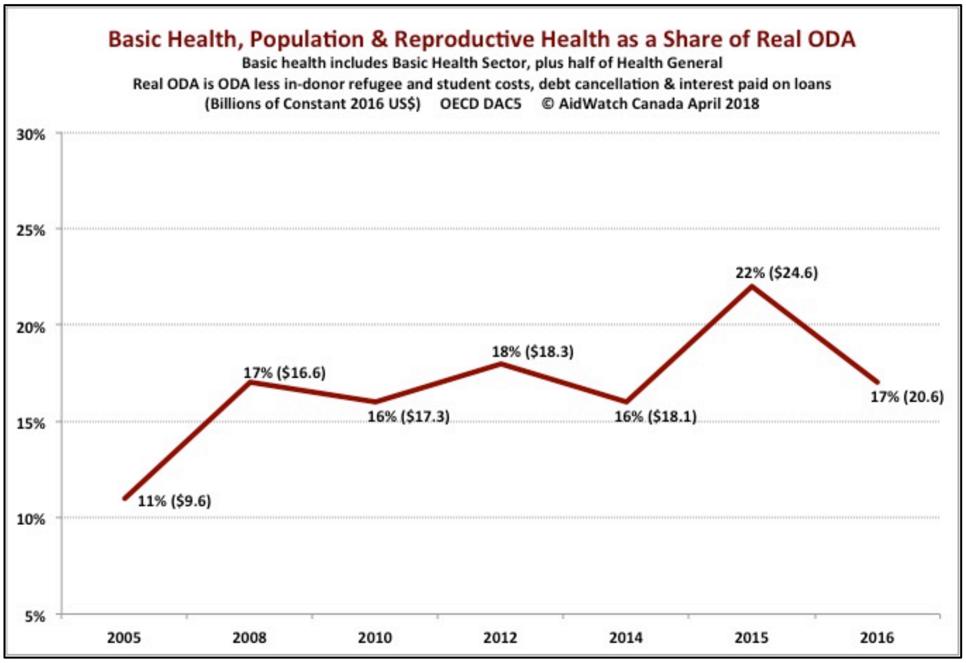
Chart 12.2



Since 2005, donors have made basic health and reproductive health sectors a priority. The value of investments in these sectors doubled from $9.6 billion (2016 dollars) in 2005 to $20.6 billion in 2016. **However, with the exception of 2015, as a share of Real ODA, disbursements to these sectors have changed little since 2010, remaining more or less at 17%.** (Chart 12.3) In 2015, a large disbursement by the Global Fund to Fight AIDS, Tuberculosis and Malaria accounted for the significant increases in2015. Unfortunately, this disbursement was an anomaly. Levels increased from $2.6 billion in 2014 to $6.7 billion in 2015, but then returned to $2.8 billion in 2016.

Recent developments in the US political scene have had major consequences for women's reproductive health programs. In 2017 the Trump administration re-instated and expanded the "Global Gag Rule," which effectively bans US funding to any family planning institution or CSO that promotes or performs abortions using funding from any source, not just the United States government. Human Rights Watch has estimated that the implementation of this broad financing criterion by the United States has expanded the impact on international funding for family planning from $575 million (with just US financing) to an estimated $8.8 billion in global health assistance.[59]

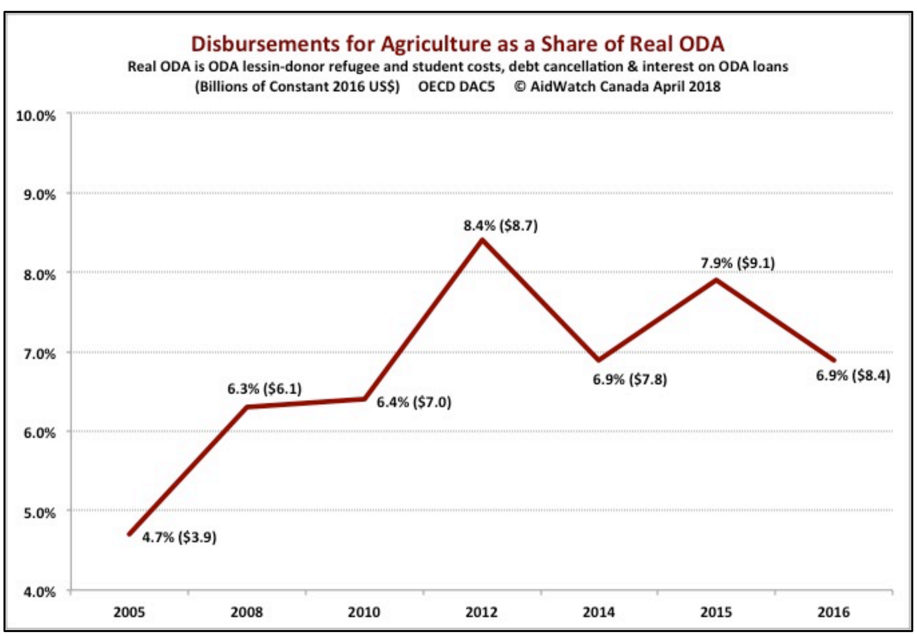
Chart 12.3



In addition, the US Center for Disease Control is expected to implement massive cuts to its overseas operations in 2019. The Centre plays a critical role in global disease surveillance and early identification of illnesses such as HIV, TB or Zika virus. The cutbacks will severely limit its work as a result of plans to reduce country offices from 124 to 10.[60]

S**ustained investments of ODA in agriculture, a key sector for marginalized women and people living in poverty has grown by only 0.5% as a share of Real ODA since 2010.** While amounts (in 2016 dollars) varied between 2010 and 2016, the value of ODA for this sector is $1.4 billion higher in 2016 than 2010. (Chart 12.4)

Chart 12.4



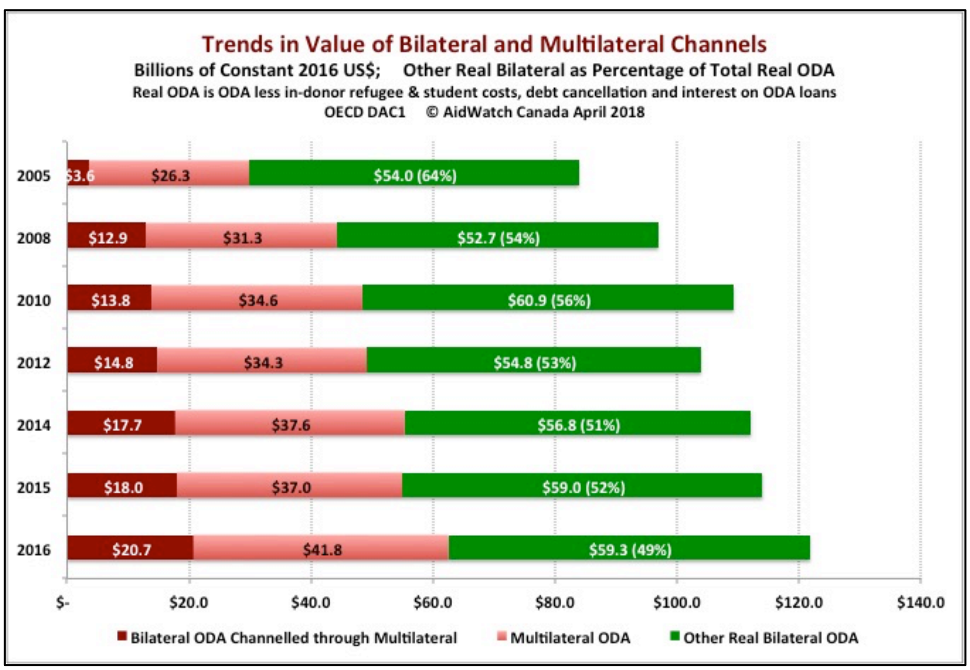
F. Undermining the Quality of ODA

13. Instrumentalizing the United Nations multilateral system

Donor support for the core budgets of multilateral organizations has been relative constant at 33% of Real ODA. But donors have increasingly relied upon donor-controlled special purpose funds within multilateral organizations to reduce their own transaction costs. In 2016 these funds amounted to $20.7 billion. The multilateral system administered more than 50% of Real ODA in 2016, up from 36% in 2005. The proliferation of dedicated funds, with their own separate and different governance and policies for allocation, have a significant affect on the capacities of these organizations to mount a coherent and sustained program.

Donor support for the core budgets and programs of multilateral organizations, particularly within the UN system, can be a quality development resource. These organizations, which are governed by UN members, tend to allocate their development resources in response to the expressed needs of developing country governments (country ownership). They are often able to rise above individual donor political and foreign policy interests that can drive the allocation of bilateral assistance.[61]

Chart 13.1



Donor support for core budgets of multilateral institutions has been relatively constant at 33% of Real ODA since 2010. But, in 2016, donors also channelled an additional $20.7 billion in bilateral aid through these multilateral organizations, in addition to $41.8 billion in assessed core contributions. **Together, the multilateral system administered more than 50% of Real ODA in 2016, up from 44% in 2010 and 36% in 2005.** (Chart 13.1)

Bilateral ODA channelled through multilateral organizations is generally directed to special-purpose donor funds. These funds are administered by UN organizations, but the donors retain degrees of control over the terms and conditions for their allocation. Examples of non-core funding mechanisms include multi-donor trust funds (e.g. UNDP's South Sudan Humanitarian Fund), special thematic funds (e.g. support for victims of sexual abuse by UN peacekeepers), or donor earmarked funds dedicated to specific projects.[62]

These bilateral/multilateral non-core funds have grown by more than 50% since 2010, from $13.8 billion to $20.7 billion in 2016. Many donors are taking advantage of the capacities of the various multilateral organizations to manage development resources, while significantly reducing their own administration and transaction costs. Essentially they make one electronic transfer in order to declare a large fund spent by the donor, but then they still maintain a high degree of control over the policies that govern their delegated funds.

These non-core funds have grown quickly for the UN system, and less so with multilateral banks. In 2016, assessed core contributions to the UN system (over which the UN system controls their allocation) were $5.9 billion, while special bilateral funds administered by the UN system totalled $13.5 billion. By comparison, assessed contributions to the World Bank Group were $8.8 billion, but delegated donor funds only totalled $2.6 billion. As noted above, this trend has profoundly affected the capacities of multilateral organizations to mount a coherent and sustained program.[63]

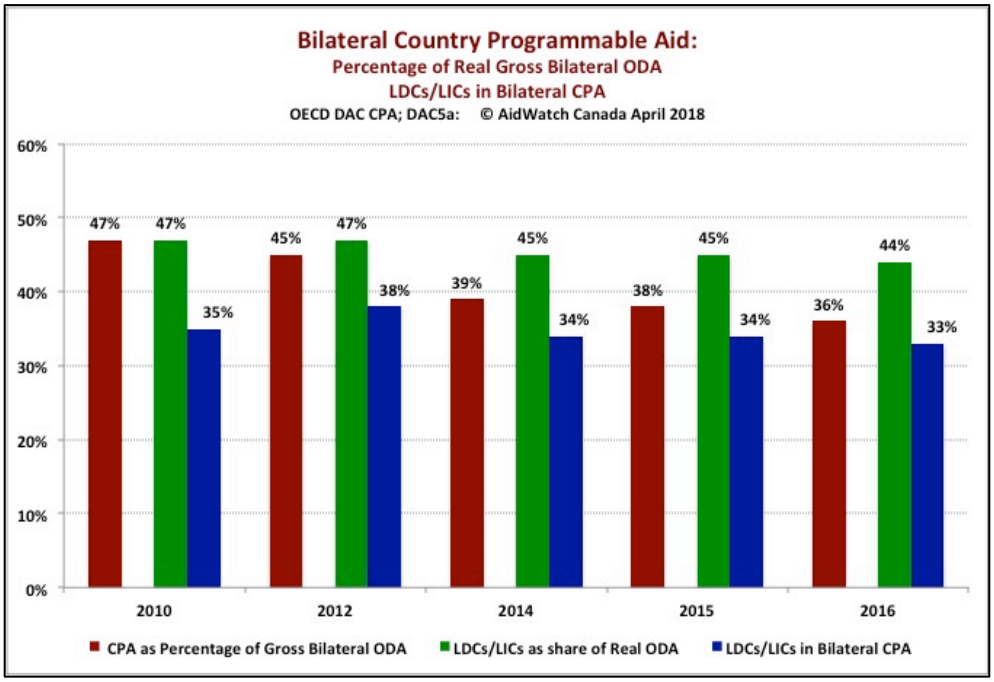
14. Declining commitment to developing country ownership in development cooperation

Despite repeated commitments to the importance of developing countries "owning" their own development priorities, aid that is available to support these purposes is declining. Country Programmable Aid (CPA) was 36% of Gross Bilateral ODA in 2016, down from 47% in 2010. Direct budget support or sector-wide programming with government ministries is also declining. Support for these mechanisms declined from a mere $5.2 billion in 2010 to $4.1 billion in 2016.

Declining Country Programmable Aid

The DAC has developed a measurement of aid that is available to be programmed by developing country partners. 'Country Programmable Aid' (CPA) is the proportion of bilateral aid disbursements where partner countries can have a significant say in defining the priorities for its use. As a concept it goes beyond the notion of 'Real Aid' and excluded donor administration, humanitarian assistance, and other forms of aid that is unavailable at the country level.[64]

Chart 14.1



Country Programmable Aid, as a share of Gross Bilateral ODA, was 36% in 2016, declining over the decade from 47% in 2010. (Chart 14.1) Less and less aid is actually available to developing countries for partner-initiated programming (with the optimistic assumption that all CPA is available for this purpose and is not being programmed by the donor). For Least Developed and Low-Income Countries, much less CPA is available to partner countries than is apparent in LDCs/LICs share in Real Bilateral ODA – 33% (CPA) compared to 44% (share of Real ODA) in 2016.

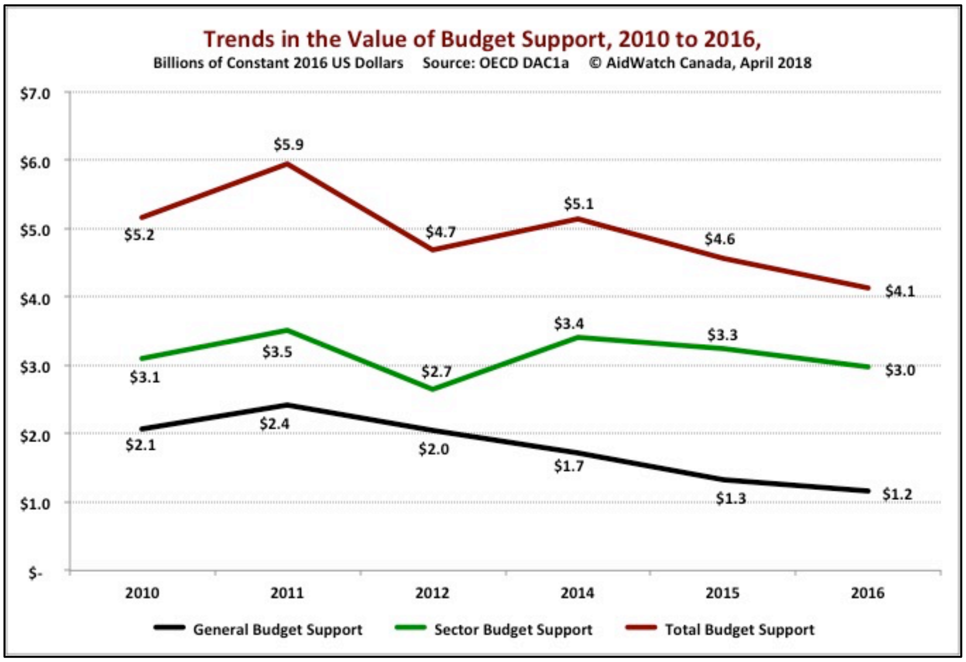
Declining Budget Support Mechanisms

The provision of aid to developing countries as direct budget support or sector-wide programming (SWAP) has been an important mechanism for advancing a country's ownership of its development priorities through aid. With budget support, a developing country government have the authority to establish its budgetary framework for development initiatives within the national budget or a sector ministerial budget. Donors then agree, in the context of policy dialogue and capacity development, to support these budgetary priorities with either general budget support or support for line ministries.

While budget support and SWAPs were recognized as an important aid mechanism in the 2000s, donors have substantially reduced their commitment to this approach since 2010. **From a peak of $5.9 billion in 2011, aid through budget support and SWAPs reached a low of $4.1 billion in 2016 with the** EU providing half of this budget support ($2.1 billion).

Issues of fungibility have plagued general budget support, particularly where the recipient government was able to use general budget support intended for one area to offset higher expenditures in another. Sector-wide programs were understood to be more effective, as it promoted collaboration with line ministries to build capacity and strengthen poverty-oriented expenditures.[65] Aid for sector-wide mechanisms has remained constant over this decade, albeit at a modest level. A recent German review of budget support evaluations concluded that there was strong evidence for the positive impacts of budget support as a funding modality. It called on donors to reassess their withdrawal from this modality of support.[66]

Chart 14.2



The project modality for aid delivery is still the dominant form of bilateral assistance. In 2016, $58.4 billion of gross bilateral assistance, or 61% of Real Gross Bilateral Assistance, was in the form of projects. [DAC CRS+ Database] For developing country partners, particularly in the poorest countries, the proliferation of projects across many sectors is extremely difficult to manage within a coherent country development strategy.

15. Priority for loans increasing among some donors.

Concessional loans have been a growing form of aid delivery since 2010. In dollar value (2016 dollars), ODA loans have increased by almost 45%, from $28 billion in 2010 to $40.4 billion in 2016, with a large number of loans related to climate finance included as ODA. Growth in loans is also apparent for LDCs/LICs and LMICs, countries that are vulnerable to a return of a debt crisis that existed in previous decades.

While concessional loans have been a component of DAC bilateral and multilateral ODA for many decades, they have been growing in importance since 2010. **ODA loans have increased from $28 billion in 2010 to $40.4 billion in 2016** (in 2016 dollars). (Chart 15.1) This represents an increase of almost 45%. As a percentage of Gross Real ODA, the share of loans grew from 26% in 2010 to 29%

in 2016. (Chart 15.2) A very large part of this increase in loans is due to the extensive use of loans in climate finance by France Germany and Japan.

Chart 15.1

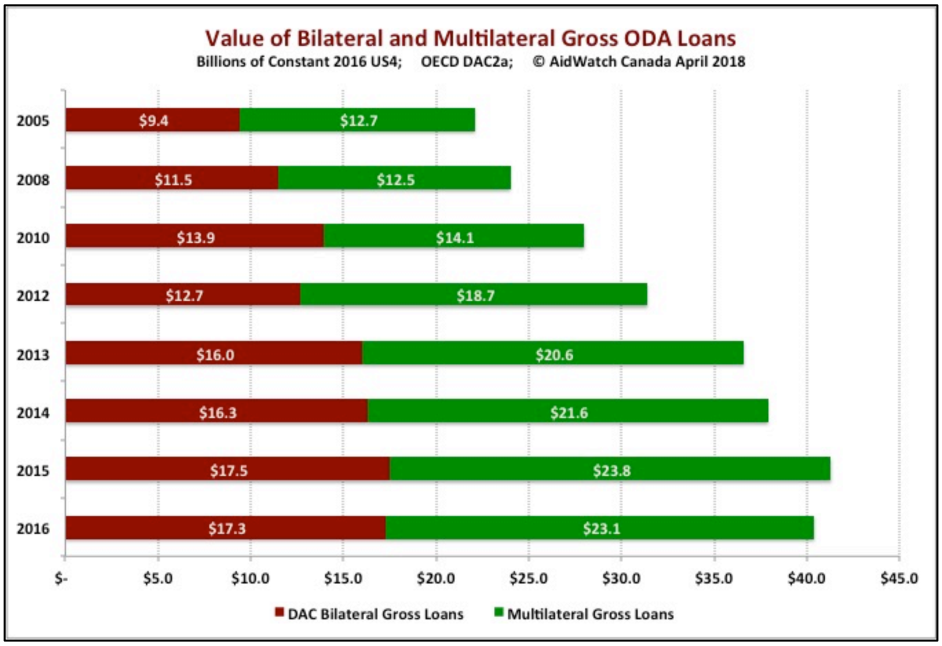
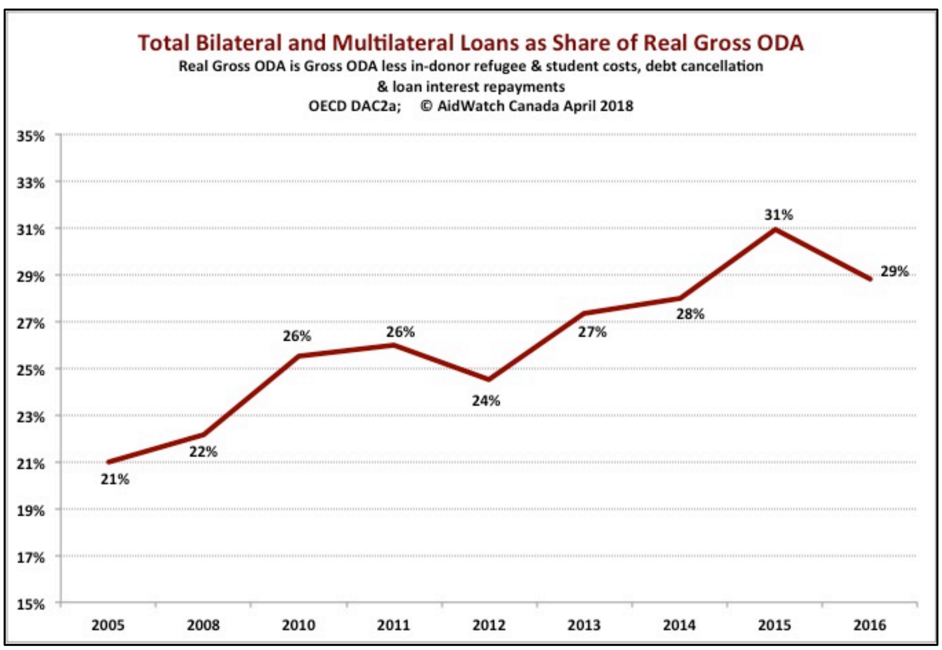


Chart 15.2



Japan, France, Germany, Korea and the European Union are responsible for almost all ODA loans. Chart 15.3 documents the current share of loans in their respective Real Gross Bilateral ODA for 2016, which range from 59% for Japan to 28% for the EU.

Chart 15.3

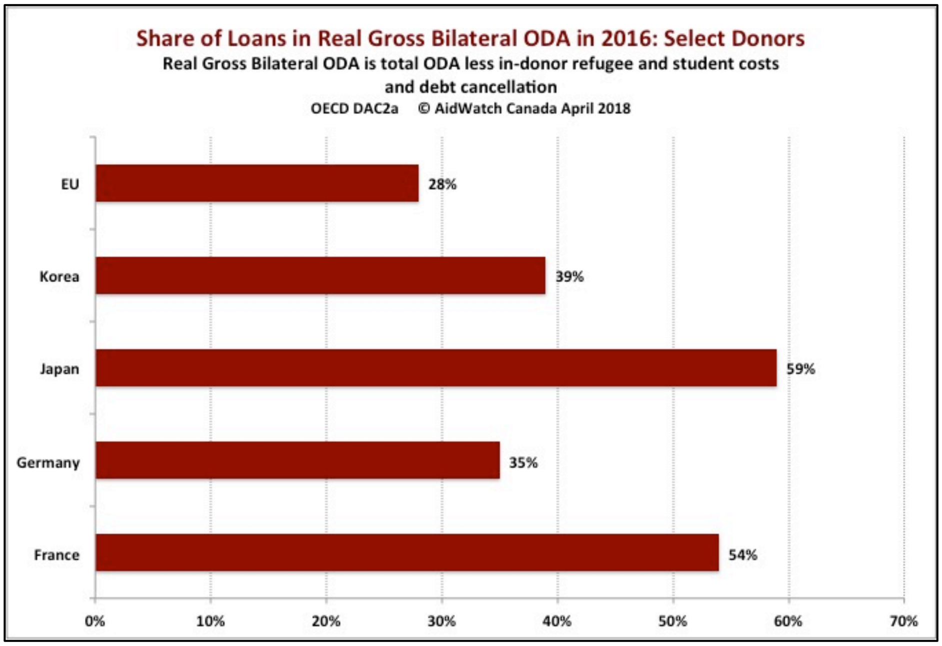
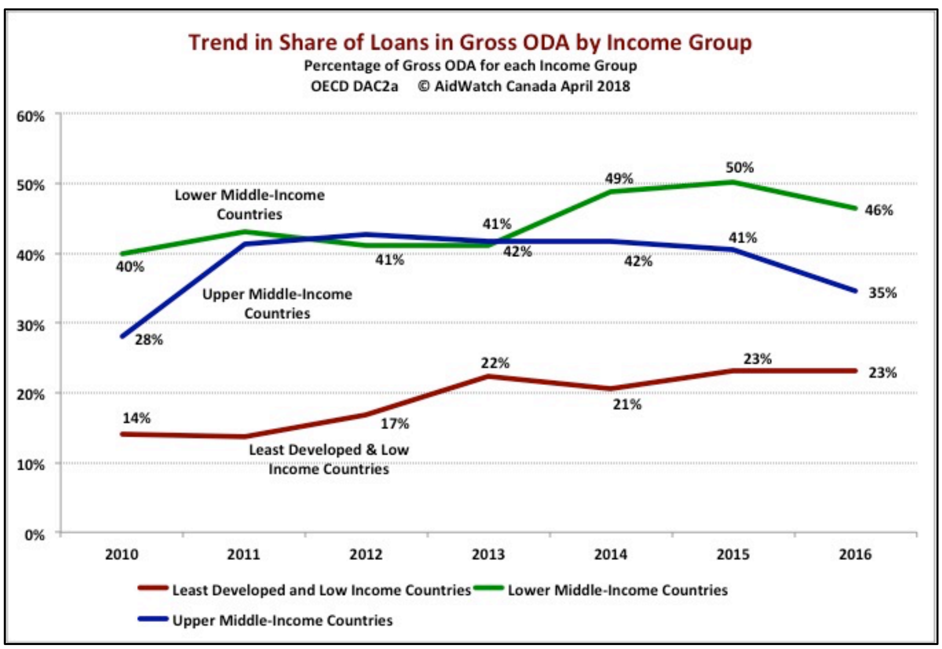


Chart 15.4



Somewhat surprisingly the share of loans for both Least Developed and Lower Middle-Income countries has also been growing since 2010 (Chart 15.4). For Lower Middle Income Countries, loans made up 46% of Gross ODA directed to these countries (up from 40% in 2010). Similarly, loans have grown from 14% in 2010 to 23% in 2016 as a share of Gross ODA to Least Developed and

Low Income Countries. These are countries with very low government revenues and high vulnerability to economic shocks so they can ill-afford to take on substantial debt.

An emerging (renewed) debt crisis

Increasing use of ODA loans, particularly for LDCs and LMICs, is a worrying trend, particularly in light of evidence of the re-emergence of unsustainable debt levels in an increasing number of countries. The lingering effects of the 2008 financial crisis and the recent collapse in commodity prices have given rise to increased debt stress in some of the poorest countries. An official with the IMF recently pointed out, "our debt sustainability analyses indicate that 40% of Low-Income Countries are currently at high risk of or already in debt distress. It doubled in five years."[67] The expanded use of Development Finance Institutions for aid delivery and to catalyze the private sector may add to the debt burden of vulnerable countries.

While ODA loans have been provided at concessional rates, developing country governments sent $25.6 billion back to donors in principal and interest payments on previous loans in 2016, up from $19.0 billion in 2010, an increase of 35% in 2016 dollars. Of this $25.6 billion in 2016, $16.9 billion was received from Least Developed and Low-Income and Lower Middle-Income Countries.

Changing the DAC rules for loans

DAC members have agreed to change the reporting rules relating to ODA loans after 2018. At that point only the grant element of a concessional loan will be included as ODA.[68] On the other side, the repayments of the principal from previous loans will no longer be deducted from nominal ODA, as is the current practice. In addition, there will be a differential discount rate for calculating concessionality of the loan based on a country's income status. For LDCs, the discount rate (which determines concessionality) has been set at 9%, for LMICs it is 7%, and for UMICs t 6%. The minimum reportable grant element for LDCs is 45%, for LMICs, 15%, and for UMICs it is 10%. This policy is intended to promote concessional lending to LDCs.[69]

Development Initiative calculates that the net effect of these rules, if applied to 2016 data, would have been a 1% increase in ODA for that year or $1.8 billion. However, for some donors there may be greater differences. Japanese aid would have been 33% higher in 2016 under the new rules, and Germany 7% lower (due to the different levels of consessionality in the current loan portfolio).[70]

16. Catalyzing or subsidizing the private sector?

All donors are calling for increased use of ODA to mobilize private sector investment in the SDGs. An ODA private sector proxy indicates that the share of sector-allocated ODA related to the private sector has increased from 21% in 2010 to 26% in 2016. Germany, France and Japan have a heavy concentration in these sectors. The promotion of public-private partnerships, particularly for infrastructure, ignores well-documented assessments that challenge the notion that they are an efficient and effective means of finance for the public sector. Equally, the recent emphasis on "blended finance" is fraught with issues of transparency, development effectiveness and additionality, the potential for increased tied aid, and a lack of agreement on rules to report ODA support for Private Sector Instruments (PSIs) to the OECD DAC.

Since the adoption of Agenda 2030 in 2015, there has been a seeming consensus among donors that the SDGs can only be realized if major private sector investments are attracted to fill a funding gap which the World Bank estimates is $2.5 trillion. Donor narratives are consumed by the challenge of moving from billions in aid to trillions in investments.[71] In the words of the OECD DAC,

> "Smart and strategic use of development finance to catalyse private capital is an emerging frontier and a growing priority for most the international development community. Development co-operation providers are increasingly working with the private sector to mobilise and target commercial finance …"[72]

For both bilateral and multilateral aid actors the overwhelming focus is on instrumentalizing ODA to leverage private sector capital, often to the detriment of cost-effective public solutions or alternative finance. Much more attention should be put to ways for expanding cutting-edge innovative financing (such as taxes relating to private use of the global commons), which could be dedicated to the SDGs. In addition, effective measures to stop tax evasion and illicit private capital flows out of developing countries are urgently needed.

Private finance is allocated in ways that are guided by profit maximization, with rules and principles that are different, and cannot be assumed to serve the public interest. When donors engage with the private sector in development cooperation, these partnerships must be informed by human rights norms and development effectiveness principles. ODA, even when used to catalyze other development resources, should be preserved as a resource to advance bilateral and multilateral partnerships to reduce poverty and inequality and the realization of the SDGs. Instrumentalizing aid to mobilize private sector investment has the potential to divert aid in ways that undermine these core goals.

In October 2017, the Development Committee of the World Bank adopted a new private sector-centric approach to development finance, 'Maximizing Finance for Development' (MFD). Along with other development banks, they agreed, to increase private sector finance for SDGs by 25% to 35% by 2020. This approach is to be implemented through partnering with Bank projects, loan guarantees and equity finance. Through MFD, the Bank now intends to:

> "consistently [be] testing—and advising clients on—whether a project is best delivered through sustainable private sector solutions (private finance and/or private delivery) while limiting public liabilities, and if not, whether WBG [World Bank Group] support for an improved investment environment or risk mitigation could help achieve such solutions."[73]

The Bank is pursuing a so-called "cascade" approach in which public funding is the last resort:

> "When a project is presented, ask: "Is there a sustainable private sector solution that limits public debt and contingent liabilities?
>
> - If the answer is "Yes" – promote such private solutions.

- If the answer is "No" – ask whether it is because of:

➢ Policy or regulatory gaps or weaknesses? If so, provide WBG support for policy and regulatory reforms.

➢ Risks? If so, assess the risks and see whether WBG instruments can address them.

➢ If you conclude that the project requires public funding, pursue that option."[74]

With this approach, developing countries may be facing the emergence of new 1990s-style aid conditionality pushing uncritically broad privatization across essential development areas for aid-dependent countries.

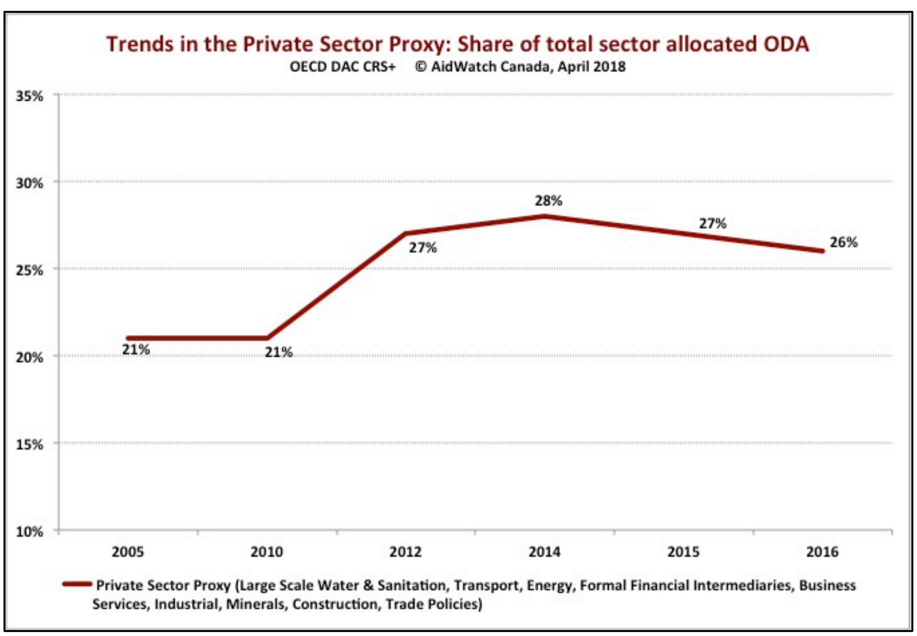
Growth of sectors with implicating private sector partnerships

The OECD DAC does not track private sector partnerships in the implementation of ODA across all sectors. In order to estimate trends in the engagement of the private sector, a "private sector proxy indicator" has been developed, which aggregates ODA in a number of DAC sectors in which the private sector plays a major role and/or aligns with private sector interests in development (see the list of sectors in Chart 16.1).[75] **The long-term trend for this proxy is clearly an increasing share of sector-allocated ODA, from 21% in 2005 to 26% in 2016.** But this share has declined from a high of 28% in 2014.

Table 16.1: Share of Private Sector Proxy (see Chart 16.1) in Donor Sector-Allocated ODA

Donor	2010	2013	2016
France	11%	30%	35%
Germany	31%	30%	35%
Japan	45%	56%	55%
United Kingdom	15%	12%	10%
United States	13%	12%	7%
DAC Donors	20%	23%	22%
Multilateral Donors	24%	33%	32%

Chart 16.1



As indicated in Table 16.1, **a number of large donors have given a large and increasing share of their sector-allocated ODA to those favouring the private sector.** France, Germany and Japan are notable among these donors. An increase in the multilateral donors' share to these proxy-related sectors is a reflection of changing priorities by the development banks.

Public Private Partnerships

Public-Private Partnerships (PPPs) have been a high-profile catalyst for private sector investment through ODA, particularly in support of infrastructure projects. ODA allocated to sectors that are likely to be involved in infrastructure projects was approximately 25% of sector-allocated ODA in 2016.[76] These projects often combine major private sector investments with small amounts of public sector funding. In most cases the public sector assumes the majority of the short and long-term risks in the implementation of the project and the recovery of the original investment.

PPPs have been heavily criticized, not just by NGOs and civil society, but also by the UK National Auditor and the European Court of Auditors. The latter commented, "the PPP option was chosen without any prior comparative analysis of alternative options (…) thus failing to demonstrate that it was the one maximising value-for-money and protecting the public interest."[77] A similar 2015 review by the UK's National Audit Office found that "investment through PFI [Private Finance Initiative] schemes more than doubles a project's cost to the public sector."[78] While these assessments are related to PPPs in these countries, the critique is consistent with other such projects implemented in developing countries.

Felix Dodd has summarized some of the main overarching concerns with an uncritical expansion of PPP in developing countries:[79]

- The distortion of the public agenda;
- Loss of local control over critical infrastructure and services, and co-option of government or civil society partners;
- Commoditization of the commons;
- Lack of strong legal/regulatory frameworks;
- Lack of transparency and accountability - including hidden or off-the-books accounting treatment of PPP debt;
- The displacement of public employees; and
- Lack of engagement with stakeholders throughout.

Eurodad has also analyzed the impact of PPPs, looking at various factors. One of the most critical is the crowding out government fiscal space for SDG finance, particularly where government revenue is tied into large PPP investments. A second concern is the inequitable burden of user fees on poor populations for essential services financed through PPPs. And, finally, Eurodad has voiced concerns regarding the potentially large and unexamined environmental and social consequences.[80]

In 2016 DAC donors invested only $704 million in PPPs, slightly more than the seven-year average of $600 million since 2010. This represented less than 1% of Real ODA in that year. The Netherlands, the United States and the United Kingdom were responsible for more than half of these investments.

While PPPs make up a relatively small proportion of DAC ODA, they may be associated with large private capital investments. The Reality of Aid's 2016 Aid Trends chapter noted that US PPPs were highly associated with the commercial interests of the business partner, which could be considered an informal modality for tying US aid to US corporate interests.[81] While the direct use of ODA in PPPs may be light, there is strong indication that ODA-funded technical advice and ODA-related conditionalities play a strong role in promoting PPPs.[82]

Advancing the donor private sector agenda: Blended finance

Current donor pre-occupations focus on a dramatic expansion of ODA engagement with 'blended finance.' Despite this attention and priority, there is no common agreement on either the definition of blended finance or the range of modalities that could be used in support of private finance.

OECD has adopted the following definition: "Blended finance is the strategic use of development finance for the mobilization of additional finance [where additional finance = commercial finance] towards sustainable development in developing countries."[83] Other definitions also stress the inclusion of philanthropic capital. With respect to modalities, the OECD's analysis of blended finance includes the use of syndicated loans, credit lines, direct share investment, investment guarantees, and shares in investment vehicles.[84]

According to the OECD, 17 DAC members now employ various forms of blended finance. Since 2000, DAC members have created 167 mechanisms for pooling public finance with private capital. The majority of these initiatives were established after 2010 and many are Development Finance Institutions (DFIs).[85]

The OECD estimates that these mechanisms mobilized $81.1 billion in private sector finance between 2012 and 2015. But such estimates inevitably involve a level of subjectivity since they are shaped by various assumptions.[86] As well, there is no estimate of related amounts of public resources invested for this result.[87] This gap in statistics is part of a larger issue, where DFIs are being implemented in a policy and evaluation vacuum. Of the 17 donors involved in blending, only 6 have donor guidance policies governing these operations, and only 4 monitor blending finance activities as a separate activity.[88]

In 2016, DAC members agreed to a set of principles to guide blended finance.[89] But to date, members have failed to reach a consensus on rules to operationalize these principles. Development effectiveness and human rights standards must be integrated into these rules to guide the inclusion of official contributions to these private sector instruments as reported ODA. To date there has been no agreement on the interpretation of development-oriented private sector projects or safeguards to protect the integrity of ODA in these arrangements.

Despite this lack of consensus, the DAC High Level Meeting (October 2017) agreed to allow reporting of "development-oriented" transfers to private sector instruments. Reported ODA could be in the form of total public finance to DFIs (institutional approach, which was formerly not allowed) or on a transaction basis approach (finance for specific identifiable activities of a DFI). The former has the potential to inflate aid as it may include public finance for DFI activities that could be ineligible as ODA. In both approaches, the issue of concessionality, as a core value of ODA, is potentially compromised. The absence of clear guidelines and rules will further undermine the quality of DAC data on ODA, already weakened by inclusion of in-donor refugee costs etc. (see sections 6 and 7 above).

The OECD study on blended finance[90] makes a number of observations, which raise questions about its relevance as a complementary resource for ODA's purposes in poverty reduction:

- "There is a tendency for blended finance to go towards sectors for which the business case is clearer and the potential for commercial gains more apparent" (page 27), which are often not high risk poverty oriented sectors.
- Are DFIs only a donor priority, with limited interest on the part of the private sector? To date, "the share of commercial investors is still quite limited when compared with development investors." (page 26)
- The diversity of 167 mechanisms creates a highly fragmented development finance environment, with potential partners having to deal with a diversity of modalities, terms and conditions. (pages 27-28)
- More work is required "to understand how blended finance can work in LDCs and LICs," which alongside LMICs are high priorities for "leaving no one behind," (page 27)
- Most blended finance is concentrated in the formal finance and energy sectors. (page 26)
- Monitoring and evaluation systems for blended finance are weak, something that has been compounded by multiple layers of private financial inter-mediation for specific projects. (page 30)

The OECD's detailed analysis of the $81 billion of private sector funding by DFIs confirms many of the OECD DAC observations: [91]

- Least Developed and Low Income Countries benefitted from only 10% of this private finance, while Upper Middle Income Countries received 43%, and Lower Middle Income Countries, 34%. Another 13% was unspecified.
- In terms of the origins of the private sector funds, 62% originated in OECD countries and 38% in developing countries (excluding those with multiple sources). This raises questions about tied aid, development effectiveness and country ownership.
- In terms of public finance instruments used to mobilize private finance, 40% were investment guarantees (in which potentially no public funds were transferred), 27% were

syndicated loans, 16% were credit lines, 10% were shares in Collective Investment Vehicles, and 6% were direct investments. The high level of guarantees has the potential to inflate ODA as they are only financed when the investment or loan fails. Following the DAC's 2017 High Level Meeting, the door is now open for donors to report guarantees as ODA under the institutional approach. This is a serious anomaly, since no rules for reporting guarantees under the instrumental approach have yet to be agreed upon.

- Multilateral DFIs were responsible for 64% of the capital mobilized; bilateral providers accounted for 36%. The latter was heavily concentrated with the top five bilateral providers making up close to 90% of the total (The United States:54%, the UK: 13%, France: 9%, Germany: 7% and Denmark:6%).
- Investments were sectorally concentrated in (mostly formal) banking and financial services (33%), energy (25%), and industry, mining and construction (21%).
- Investments related to climate change accounted for 26% of the total investments, with 89% of these funds devoted to mitigation and only 11% to adaptation.

Blended finance is clearly no panacea for closing the finance gap for SDGs, particularly in relation to poverty reduction, inequality, health or education. If increased amounts of ODA are to be directed towards private sector blending institutions, there is a clear danger that scarce ODA will be diverted from its central purpose of support for global public goods, poverty reduction and reaching populations that have been excluded.[92]

Nevertheless the expansion of DFIs is proceeding quickly. The US Congress is presently considering a measure to create an International Development Finance Corporation, which would expand the current activities of the Overseas Private Investment Corporation and USAID in private sector engagement.[93] The proposed institution will likely meet with the approval from the Trump Administration. Canada has just launched its DFI, but its initial capital of Cdn$300 million will not be drawn from the country's ODA. The UK government, on the other hand, through its 0.7% aid program, has been significantly increasing ODA resources for the Commonwealth Development Corporation.[94]

CSOs involved in development cooperation have been critical of DFIs, while also acknowledging that certain carefully targeted private sector initiatives may benefit poor and marginalized populations.[95]

- The OECD DAC is clear that only private finance that is additional "to what would have been available without blending" is considered mobilized finance.[96] But the methodology for determining **whether such finance is additional or a mere subsidy for the private sector** is not spelled out, not is it clearly a yes/no answer. A project may go ahead with adjustments, without the public resource of a DFI, confusing what is "additional". Eurodad's analyst, Polly Meeks, quotes a 2016 European Union evaluation of its blended finance program noting that half the cases from 2007 to 2014 had no clear added value for blending.[97]
- **Development additionality** is equally important in determining the fit with Agenda 2030. With few evaluations, there is little evidence about blended finance impact on

development outcomes. The EU evaluation, noted above, found that "the projects selected for blending did not emphasize the pro-poor dimension" and "gender was rarely targeted." DFIs often have scant policy guidance on labour, social and environmental standards. There is also little evidence that DFIs are supporting projects **consistent with development effectiveness principles**, such as strengthen country ownership or inclusive partnerships at the country level.[98]

- **Concessionality** of finance is not a DFI condition for blending, but it is a crucial condition for Low-Income Countries and those facing a growing potential debt crisis.
- W**eak transparency** plagues any assessment of projects supported through blended finance. Improving aid accountability is a challenge where these resources cannot be traced in the multiple layers of DFI financial transactions with intermediaries.
- Activities funded through PSIs have the potential to erode finances available for developing country governments, as they can be a factor in introducing unsustainable levels of public and private **debt**,[99] or through **tax avoidance** by the corporations involved.[100]
- There are **major confusions and lack of agreement on the rules** in reporting DFI-related ODA to the OECD DAC. How will the DAC determine whether such activities are sufficiently 'development oriented' to count as ODA? How will the DAC resolve the anomalous treatment of guarantees under the institutional approach, which currently risks inflating ODA? How far will the final reporting rules deviate from the concessionality principles applied to public sector loans?
- There is a strong risk that donors will **increase tied aid** through engagement of donor private sector companies in DFI initiatives. This outcome has been documented for US PPPs.

17. Demand-Driven Technical Assistance?

After a sharp decline from 2005 to 2010, technical cooperation has been a large but constant share of Real ODA, averaging 15% to 17% from 2010 to 2017. It currently exceeds 20% of Real Bilateral ODA. Among donors, France, Australia, Germany and Japan have heavily relied on technical cooperation in their bilateral aid. Much of this technical cooperation continues to be donor-driven in relation to financial management, infrastructure development, and trade agreements.

Demand-driven technical assistance can be an important modality for meeting technical needs and improving capacities in developing countries, which partners define and seek cooperation.

At the Accra High Level Forum (2008) donors pledged their support "for capacity development [that] will be demand-driven and designed to support country ownership." The theme of the 2016 Global Reality of Aid Report was 'Technical Cooperation as an aid modality: Demand-driven or donor-driven?'.[101] Contributions and evidence collected for that Report suggest that technical assistance is still largely responsive to donor-perceived needs for capacity development, infrastructure requirements, and advise to governments linked to approval of World Bank loans, financial management and trade agreements. It is often been a resource to embed donor country interests and orientations within their aid programs and ensures direct accountability to donors.[102]

Following a sharp decline from 2005 to 2010, **technical cooperation has become a large and constant share of Real ODA, averaging 15% to 17% from 2010 to 2017.** (Chart 17.1) As a share of DAC Real Bilateral ODA, it has averaged just over 20% since 2010. Technical cooperation was 16% of multilateral ODA in 2016.

Chart 17.1

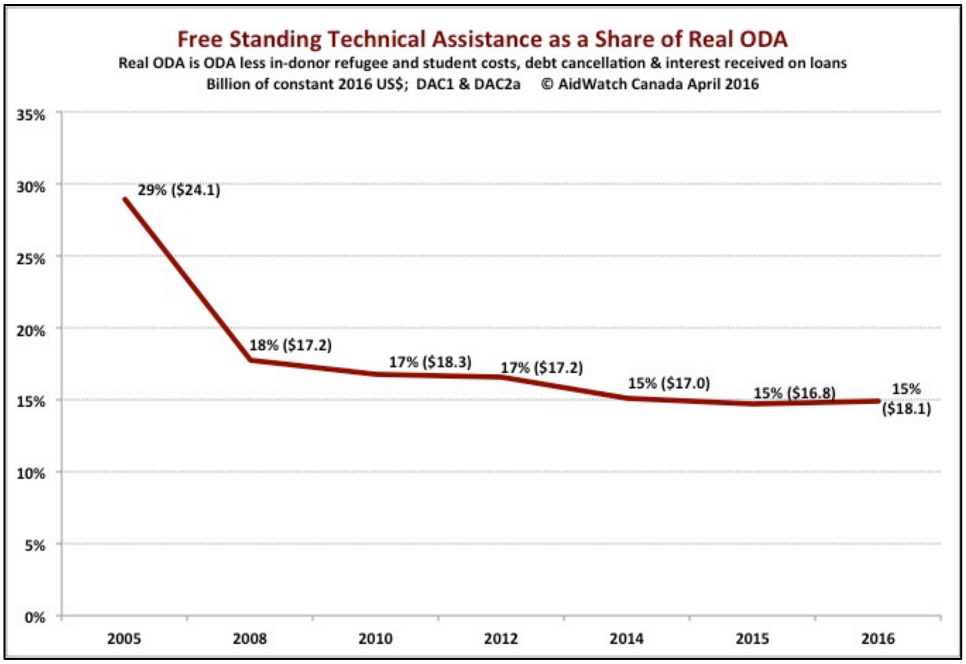


Table 17.1: Technical Cooperation Share of Real Bilateral ODA*

Donor	2005	2010	2016
France	101.5%	55.8%	41.7%
Australia	54.7%	50.4%	39.0%
Germany	105.0%	67.4%	37.5%
Japan	48.9%	53.0%	37.1%
United Kingdom	18.2%	8.6%	23.1%
Austria	73.5%	63.4%	20.9%
Netherlands	18.8%	9.9%	16.8%
Belgium	64.3%	50.5%	14.6%
Norway	16.2%	9.2%	6.6%
United States	42.9%	4.7%	3.1%
All Bilateral DAC Donors	40.8%	22.5%	19.6%

Note: Real Bilateral ODA is Bilateral ODA less in-donor refugee and student costs, debt cancellation and interest repayments on ODA loans. Percentages greater than 100% indicate that technical cooperation was larger than bilateral ODA after the above deductions were made.

Table 17.1 demonstrates that technical cooperation as a share of individual donor ODA has varied considerably. France, Germany and Japan made up 51% of all bilateral technical cooperation in 2016 (combined these donors represent 26% of all Real Bilateral ODA).

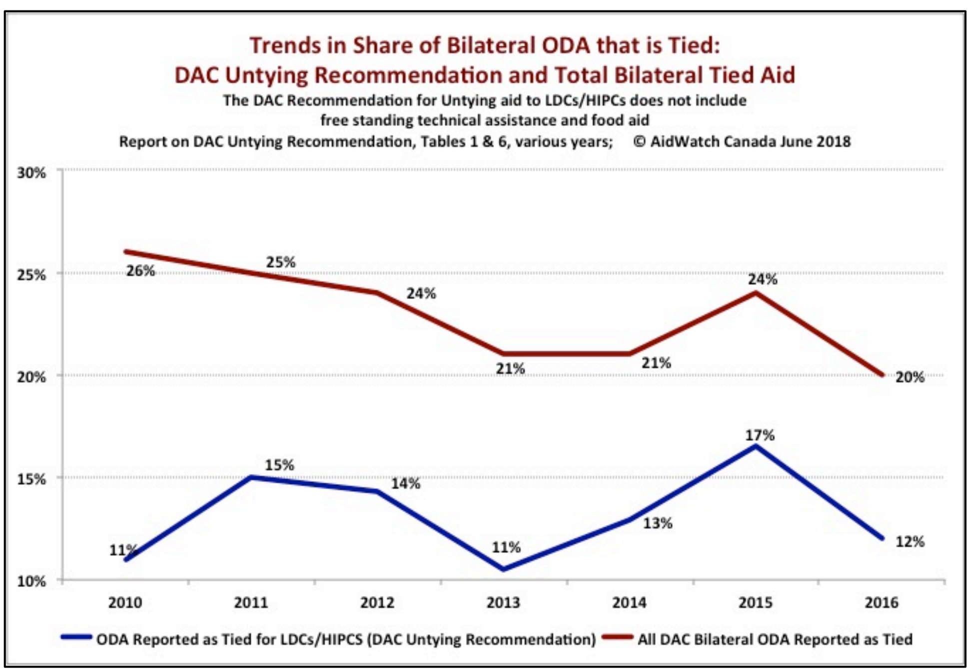
Almost all of the donors listed below have reduced the proportion of ODA devoted to technical cooperation since 2010. The two exceptions are the Netherlands and the United Kingdom - both have increased their reliance on technical cooperation in recent years.

18. Renewed attention to tied aid

Tied aid has fluctuated from 21% of bilateral ODA in 2013 to 24% in 2015, and back to 20% in 2016. For LDCs, a pronounced increase from 11% in 2013 to 17% in 2015 was reversed in 2016 to 12%. There is indirect evidence that many donors have practiced a high level of informal tying of aid. For example, on average more than 60% of aid procurement contracts have been awarded in donor countries since 2010.

It has been repeatedly demonstrated that the tying of aid disbursements to commercial purchases in donor countries reduces the effectiveness of this aid. In many cases it not aligned to a recipient country's needs and can raise project costs by as much as 30%. In 2001 the DAC agreed to fully untie aid to Least Developed Countries. This was extended to Highly Indebted Poor Countries (HIPC) in 2008, against which progress reports are to be issued each year. At the 2011 Busan High Level Forum, providers agreed to develop a plan for accelerating the untying of aid by 2012. At the Global Partnership's 2016 High Level Meeting in Nairobi, all providers of aid agreed to "accelerate untying of aid, and promote development cooperation that supports local businesses throughout the supply chain" [Nairobi Outcome §42(g). Given all these initiatives, how much progress has there been?

Chart 18.1

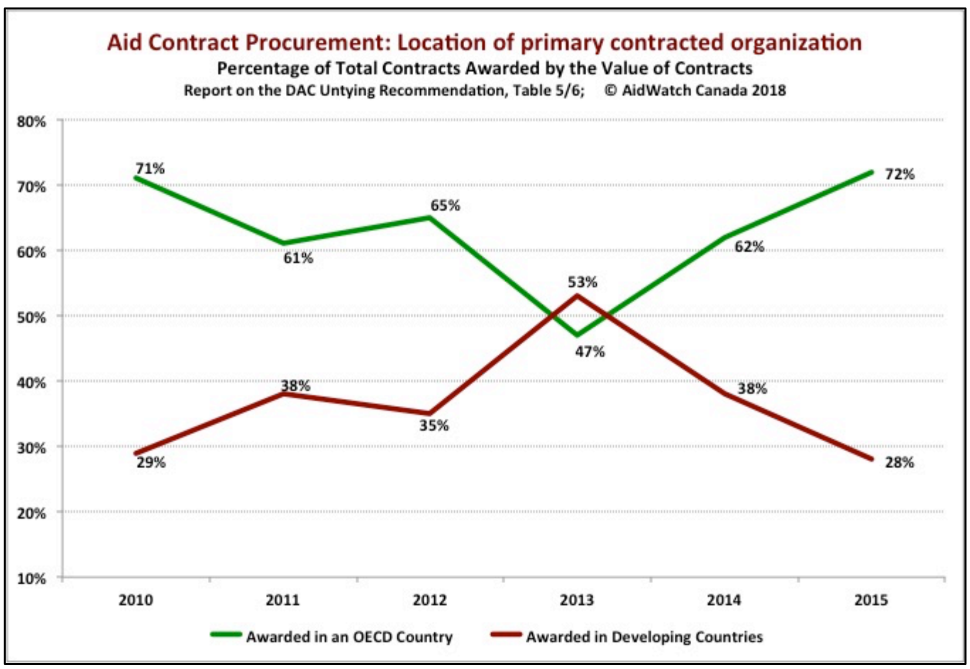


The overall trends in tied aid since 2010 are mixed. **Notably, tied aid increased in recent years, from 21% of bilateral ODA in 2013 to 24% in 2015. This trend was reversed in 2016 when tied aid went down to 20%. For LDCs there was a pronounced increase from 11% in 2013 to 17% in 2015, but back to 12% in 2016**. (Chart 18.1)

Donors are required to report to the DAC on the formal status of their aid contracts, whether these contracts legally oblige procurement in the donor country or not. But irrespective of legal requirements, it is clear from DAC procurement statistics that a high level of informal tying of aid is common. A measure of this informal untying is captured by the DAC through donor reporting the actual country where each aid contract is awarded.

Chart 18.2 paints a picture of aid untying in practice with a considerable contrast to that provided by the formal aid tying recommendation data. While the proportion of aid contracts awarded in OECD countries, rather than a developing country, has varied from year to year, **on average more than 60% of these contracts have been awarded in donor countries since 2010.**

Chart 18.2



The formal and informal experience of individual donor is mixed. With respect to formal legal untying of bilateral aid, Austria (36% untied in 2015), Greece (15% untied), European Union (62% untied), Japan (75% untied), and the United States (56% untied) are outliers from the DAC norm of above 80%. With respect to informal tying through the awarding of aid contracts, Canada (83%), the United Kingdom (96%) and the United States (96%) were highly skewed towards OECD country contractors in 2015 (the last year for data).[103] As noted above, increased use of Private Sector Instruments will likely increase the levels of both formal and informal tied aid.

G. Measuring Official Resource Flows for the SDGs

19. Total Official Support for Sustainable Development (TOSSD) – A flawed new metric.

The current framework for TOSSD is unclear and deeply flawed. It may include commercial private sector flows beyond official flows, which would substantially undermine donor accountability for official financing of the SDGs. The establishment of clear developmental criteria, including the SDG norm that no one is to be left behind, is essential for TOSSD's credibility. These criteria must be transparent and applied across the different financing modalities. To date, there is no elaboration of pillar two for TOSSD – the flow of donor resources for a broad range of global public goods, including those related to security and peacekeeping. Given that TOSSD will include cross-border flows of ODA, there could be strong political incentives to substitute TOSSD in donor discourse on development cooperation, ignoring the crucial role of ODA for the SDGs. This will be particularly true for donors with weak performance on ODA.

As part of the response to the vast scope of financing required for Agenda 2030, DAC donors initiated discussions in 2012 on a new measurement of development finance. This measure is now called 'Total Official Support for Sustainable Development' (TOSSD). TOSSD is intended to be a new international statistical standard within the Agenda 2030 and SDG framework.

According to the DAC, this metric will purportedly capture the full array of official development cross-border flows relevant to sustainable development. TOSSD is meant to complement ODA, going beyond dedicated DAC concessional flows to include other "resources provided through South-South cooperation, triangular cooperation, multilateral institutions and emerging and traditional donors."[104] TOSSD will also include humanitarian assistance and ODA cross border flows, which essentially correspond to Country Programmable Aid (see section 14). The inclusion of ODA will be a major incentive for donors to substitute TOSSD for ODA in public discourse when profiling their commitment to SDGs. This move away from ODA as the measure of "aid" will be particularly tempting in the case of donors with weak performance on ODA alone.

The current working definition for TOSSD is:

> "[TOSSD] includes all officially-supported resource flows to promote sustainable development in developing countries and to support development enablers and/or address global challenges at regional or global levels."[105]

The implementation of this definition, particularly with respect to inclusion of "officially-supported resource flows," is moving in seriously worrying directions. TOSSD will include not only flows by official agencies, but also by "state-owned companies and enterprises under government control" (an addition to attract China to report), and by "other enterprises under significant government influence" - a very vague notion. In relation to the latter, the draft DAC rules suggest that it will be at "the discretion of the reporter to determine whether companies under significant government influence should be included." Even more troubling is that possibility that TOSSD may also include "private resources mobilized by official interventions, where a direct causal link between the official intervention and the private resources can be demonstrated."[106] How that causal link will be determined is not elaborated.

Even though the DAC expects to implement TOSSD in 2019, they are far from finalizing a comprehensive draft proposal for the metric. In particular, to date there has been no elaboration of pillar two in the metric – resources that are "development enablers" and dedicated to "global challenges".[107] Details on what constitutes a 'development enabler' and the scope of global challenges will not be elaborated before September 2018. Pillar two is certain to be controversial as there is strong possibility that it will likely be broad and include problematic areas related to security, peacekeeping and support for trade and investment.

Direct private capital flows may not be included in the metric, but published as a parallel set of data on private sector support for SDGs. While not disputing that the private sector has an important role in achieving the SDGs, along with other private stakeholders such as CSOs, these contributions should be monitored and measured separately. Given the rationale that drives large-scale private investment, one focussed on maximizing profits, the value added of private sector support for the SDGs needs to be clearly identified and measured against human rights and development effectiveness norms.

The reporting of non-concessional flows from state institutions and donor discretion as to what it chooses to include presents major challenges. Such an approach could well create a TOSSD metric that will only confuse and undermine donors' accountability, as governments, to the SDGs. There is great potential that it will lack the rigour to allow for data to be comparable amongst donors, and TOSSD therefore will have low credibility.

For whom is this metric being developed? To date, the sole actors have been donors embedded in the DAC, with a few representatives of partner country governments on the TOSSD Taskforce. Consultations with other stakeholders for in-depth discussions of the issues and the form of the metric have been perfunctory. CSOs are deeply concerned that donors are creating a public tool for themselves that will remove current pressures to increase levels of ODA to meet the 0.7% target for poverty-oriented financing for SDGs.[108] This concern is compounded by the measurement of resource flows leaving donor countries, and not based on cross-border flows actually received in developing countries, which could be a meaningful tool for partner countries.

What are some of the key concerns?

- Despite the notion that TOSSD resources must demonstrably promote sustainable development, it is not clear how this criterion will be met. Many of the official flows that providers intend to include – such as loan and investment guarantees, equity, credit lines or pooled investment funds – are often determined purely on commercial grounds. **Establishing some clear developmental criteria, including the crucial SDG norm that no**

one is to be left behind, is essential for the credibility of TOSSD. These criteria must be transparent and applied across the different financing modalities.

- For flows that will be included, such as those coming from South-South Cooperation, global challenges and multilateral organizations, or alternative finance mechanisms in donor countries, **the scope and terms of these resource transfers, and their impact on SDG implementation in developing countries, are an essential consideration**.
  - The **scope of resource transfers to be included** in TOSSD should be determined by the access of developing countries to these resources. **Loan and investment guarantees**, for example, may reduce risk for private sector investors, but seldom are translated into real demands on the provider's budget. Such guarantees should be counted only in cases where these guarantees are legitimately drawn upon.
  - Unlike ODA, there is no requirement for TOSSD flows to be grants or concessional loans. Because it is open to many types of flows, the degree of **concessionality** of flows is an essential consideration and must be transparent. Concessionality is particularly relevant for both debt-stressed Least Developed and Low-Income Countries and many Lower Middle- Income countries. Providers are committed to maximizing resources for countries least able to achieve the SDGs. All providers, including those from the South, should be held accountable to the ways they address the needs of countries with limited resources to service debt.
  - **What is to be counted?** Inclusion of official resources for the SDGs within a TOSSD measure must **take into account official measures that continue to undermine the achievement of these goals**. Loans should be included on a grant equivalency for concession loans or on a net basis, accounting for return flows. Financing climate change mitigation measures, for example, need to account for official support for measures, such as fossil fuel subsidies, that undermine movement towards a carbon free global economy.
  - Transparency about **the degree of formal and informal tying** to provider country commercial interests, which may be inherent in many TOSSD flows, is essential. Tying of resources undermines developing country ownership in shaping and supporting their development priorities. Currently there are no safeguards in TOSSD to ensure a focus on recipient-driven development. How will the metric limit the inclusion of resources that are mainly driven by donor foreign policy interests?
- The scope for the inclusion of flows "to support **development enablers and/or address global challenges at regional or global levels**" [TOSSD definition] has not been defined. Presumably, these flows would relate to areas of global public goods demonstrably and directly aligned to the SDGs. However, this area still is largely undefined and potentially open to inflated reporting.
- As a development resource for the SDGs, TOSSD re**source tran**s**fers should be clearly aligned with the Busan development effectiveness principles** – country ownership, inclusive partnerships, a focus on development results, transparency and mutual accountability. CSOs would add that such principles must be informed by human rights

standards and norms. TOSSD resource transfers should be guided and monitored in relation to these principles. **They should be subject to review by partner country-driven mutual accountability forums** that include all development stakeholders. Finally, in order to assess the relevance of TOSSD resources for development outcomes, it would be important to disaggregate TOSSD in the GPEDC bi-annual partner-country monitoring exercise.

In summary, a credible TOSSD metric will be one that is substantially informed by Agenda 2030, including the overarching goal of leaving no one behind. The rules governing the inclusion of flows should be determined by the application of strong development criteria. There should be an exclusive focus on official resources that are clearly and transparently linked to cross border transfers to developing countries. It should exclude ODA to ensure that it is truly complementary to ODA and its purposes. Inclusion of transfers for global public goods should be determined by their direct relevance to achieving the SDGs. As an expansive measure of development cooperation, TOSSD resource transfers should be guided by development effectiveness principles and human rights norms, and should be monitored accordingly.

Unfortunately the current framework for TOSSD is deeply flawed in several respects. It has not been confirmed how it will include commercial private sector flows beyond official flows (perhaps as a parallel metric). It may be open to substantial donor discretion, and thereby substantially undermines clear donor comparability and accountability. No development criteria have been elaborated and there is no reference to issues and principles affecting the effectiveness of development cooperation.

For some donors, especially those with weak ODA performance, there will be strong political incentives to use TOSSD in their discourse on development cooperation. In this scenario, the international community will surely fail the SDGs, as substantially increasing ODA is a critical resource for poverty eradication, gender equality, resilience to climate change, and the reduction of growing socio-economic inequality.

H. Other Sources of Development Cooperation Finance

20. South-South Cooperation – Heavily concentrated among a few providers

South-South Cooperation (SSC) concessional finance for development is estimated at $27.6 billion in 2015/16, down 14% from an estimate of $32.2 billion for 2013/14. This decrease is mainly due to declining flows from Saudi Arabia and China. Almost 75% of SSC flows are from Middle East providers and are directed toward the humanitarian crises in the region. A growing South-South sharing of experience and knowledge, which sometimes takes the form of technical assistance and exchanges, is probably not fully captured in the headline amount for SSC finance

In addition to concessional finance, China and other BRICs have been developing a parallel Southern-led financial architecture in the BRICS New Development Bank and China's new Asian Infrastructure Development Bank. China's launched its Belt and Road Initiative (BRI) in 2013 as a highly ambitious umbrella for Chinese investment in infrastructure across 65 countries in Asia, the South Pacific, Africa and Europe. Current projects total more than $1.8 trillion, but many of these are still very much in the planning stages.

Concessional South-South Cooperation

South-South Cooperation (SSC) concessional finance for development declined in 2015/16 by 14% from an estimated $32.2 billion in 2013/14 to an estimated $27.6 billion in 2015/16.[109] (Table 20.1) The main reasons for this decline is a substantial decline in estimated assistance from Saudi Arabia ($13.6 billion in 2014 to $6.8 billion in 2015) and from China ($3.4 billion in 2014 to $2.3 billion in 2015). The decrease in Chinese aid was due mainly to the availability of carryover funds from previous years.[110]

Of the $27.6 billion in SSC, $20.3 billion (74%) is estimated to come from providers in the Middle East. Much of this aid is allocated to humanitarian crises in that region. Several donors have exceeded the UN target of 0.7% of GNI, including Turkey at 0.95% of GNI and UAE at 1.31%. These providers are responding to the wide-spread humanitarian initiatives in the region. In April 2018, it was announced that Saudi Arabia and the UAE together were donating $930 million, a third of the $2.96 billion current UN appeal for Yemen, This is a conflict characterized by significant human suffering and humanitarian blockades. Saudi Arabia and its allies are directly engaged in the conflict and bear a huge responsibility. They have been strongly criticized by human rights and humanitarian organizations.[111]

At $3.9 billion, India and China accounted for 14% of SSC in 2015/2016. Much of India's SSC is directed to Bhutan and regional partners for hydro and other infrastructure projects. But in early 2018, India announced $50 million for a Commonwealth Window for Least Developed and Small Island Developing States, augmenting its 2017 $100 million India-UN Development Partnership Fund, which is managed by the UN Office for South-South Cooperation.

Table 20.1 Estimates of South-South Cooperation Concessional Flows for Development (DAC ODA-like flows)

Aid Provider	Concessional Assistance (millions US$)	Notes
a) SSC Providers Reporting to the DAC		
United Arab Emirates	$4,241	2016 (DAC Table 33a)
Turkey	$6,488	2016 (DAC Table 33a)
Russia	$1,258	2016 (DAC Table 33a)
Kuwait	$1,060	2016 (DAC Table 33a)
Israel	$351	2016 (DAC Table 33a)
Chinese Taipei	$326	2016 (DAC Table 33a)
Romania	$269	2016 (DAC Table 33a)
Nine (9) Other providers	$322	2016 (DAC Table 33a)
b) SSC Providers Not Reporting to the DAC		
Saudi Arabia	$6,758	2015 (DI)
China	$2,253	2016 (See Sources)
India	$1,600	2015/16 Budget (See Sources)
Qatar	$1,400	2016 (Estimate – See Sources)
Brazil	$500	2010 (Brazil)
Mexico	$251	2013 (DI)
South Africa	$148	2014
Hungary	$156	2015 (DI)
Four (4) Other Providers**	$175	2014
Total SSC Providers 2015/2016	**$27,556 (estimate)**	$11,952 in 2012, $27,325 in 2013, $32,240 in 2014/15 (same sources)
Percentage of DAC Real ODA (2016)	**23%**	**26% in 2014-2015**
Percentage of DAC Country Programmable Aid, including Humanitarian Assistance (2016)	**40%**	**46% in 2014-2015**

Sources: Providers reporting to the DAC: OECD Dataset DAC1a (2016 current prices);
Providers not reporting to the DAC: OECD DAC Table 33a: Estimates of concessional finance for development (ODA-like flows) of key providers of development cooperation that do not report to the OECD-DAC, accessed April 2018 at http://www.oecd.org/development/stats/statisticsonresourceflowstodevelopingcountries.htm; For India, DevEx, "India's Foreign Aid Budget: Where is the money going?," March 9, 2015, accessed April 2018 at https://www.devex.com/news/india-s-2015-16-foreign-aid-budget-where-the-money-is-going-85666. For China, John Hopkins China-Africa Research Initiative, Chinese Global Foreign Aid Expenditures, accessed at http://www.sais-cari.org/s/ForeignAid_v2-tfwt.xlsx, April 2018. Qatar is an estimate based on "Qatar's annual development aid stands at $2bn, says minister," November 19, 2017, http://www.gulf-times.com/story/571701/Qatar-s-annual-development-aid-stands-at-2bn-says-, with 70% from government sources. DI indicates that the source is Development Initiatives, Datahub: http://data.devinit.org.

** The four providers are Chile, Colombia, Costa Rica and Indonesia.

SSC is approximately 40% of DAC donors combined Country Programmable Aid and humanitarian assistance, down from 46% in 2014-15 (Table 20.1). SSC continues to be an important, albeit modest, resource for achieving the SDGs. Its importance may lie less in the amount of finance, and more in its expression of solidarity across developing countries. There is a growing South-South sharing of experience and knowledge, which takes the form of technical assistance and exchanges, but not fully captured in the headline amount for SSC finance.[112]

SSC is also becoming an increasing factor in climate finance. In a review of developing countries Nationally Determined Contributions (NDCs), 15 countries referred to SSC as an important part of these contributions. Brazil has reported that it is supporting developing country efforts in forest monitoring, reforestation and climate resilient agriculture. Similarly China is reporting financing for climate smart agriculture, low carbon urban development renewable energy, and disaster risk reduction. In 2015 China established a South-South Climate Cooperation Fund.[113] This new Fund complements earlier Chinese promises of new investments of $500 million in its South-South Cooperation Fund to benefit sustainable development and respond to humanitarian crises in developing countries.[114]

South-South Cooperation beyond concessional finance

China's 15-year investment in government-funded projects, between 2000 and 2015, could be as high $354 billion in 140 countries. But only 23% of this amount would qualify as concessional aid. NBy contrast, for the same time period, the US government spent over $400 billion, but 93% could be counted as ODA. The top five recipients of China's aid during this period were Cuba, Cote d'Ivoire, Ethiopia, Zimbabwe and Cameroon.[115]

Along with the other BRICS (Brazil, Russia, India, China, and South Africa), China is leading in the development of a new Southern-initiated architecture for financing development. The BRICS launched its New Development Bank in July 2015. Base in Shanghai, its main purpose is to mobilize finance for infrastructure and sustainable development in the BRICS. It expects to reach a loan portfolio between $10 billion to $15 billion by 2021.[116]

China also launched an Asian Infrastructure Development Bank (AIDB) in January 2016, which currently has 86 approved member states. Up to 2018, the AIDB had lent about $4.4 billion, with the expectation that its total multi-year loan portfolio would grow to between $10 billion and $15 billion in the coming years. As a point of reference, the Asia Development Bank lends about $18 billion a year. Many of its early projects are co-financed with other finance institutions such as the Asia Development Bank and the World Bank.[117] The AIDB maintains a strong focus on Asian infrastructure development closely related to China's One Belt One Road Initiative.

In 2013 China launched its Belt and Road Initiative (BRI), a highly ambitious umbrella for Chinese investment in infrastructure projects across 65 countries in Asia, the South Pacific, Africa and Europe. Current projects total more than $1.8 trillion, though many are still very much in the planning stage.[118] The Initiative is closely linked to China's external export strategy for rail, hydroelectric power, technology and industrial goods. It has been suggested that the BRI strengthens China's political influence in the region through the "connectivity power" of these projects, which are implemented by the Chinese government and its large state-directed corporations.[119]

There is growing concern that several of these Chinese projects have entrenched "connections" through high debt loads for recipient countries. Chinese loans for BRI projects are collateralized through the project or natural asset investment. They have already created a debt trap for several countries (Sri Lanka, Namibia, Laos), where several large projects proved to be economically unviable.[120]

Chinese SSC received mixed reviews from African CSO representatives polled by the Belgian NGO 11.11.11. While there was great appreciation for the SSC principles of solidarity, non-interference, and respect for sovereignty, there were doubts that these principles actually informed practice. Recipient countries appreciated cost effective investments in infrastructure, telecommunications and access to scholarships. However, there were significant concerns about the impact on local economies, unable to compete with China's cheap imports and exploitative natural resources deals, and often undermining efforts to improve accountability and fight corruption.[121]

Institutionalizing South-South Cooperation – China's new aid agency

Increasingly, South-South Cooperation providers are institutionalizing their SSC within a dedicated agency of their government. Some providers have long-standing agencies for this work, such as Brazil's ABC or TIKA in Turkey. Others, such as India and South Africa, are in the process of establishing such an agency. In April 2018 China launched the State International Development Cooperation Agency to facilitate and coordinate its international cooperation efforts, with Wang Xiaotao, an experienced internationalist, as its first director.

Previously billions of dollars of international assistance, including concessional finance, were allocated from several government ministries without an overarching plan. In future, the Agency will work under the State Council. It will coordinate and increase the profile of China assistance programs, with particular emphasis on overseeing the implementation of policy and monitoring the One Belt One Road Initiative. The new Agency will also better integrate Chinese aid into its foreign policy objectives. But the actual implementation of these aid programs will remain with the current line ministries involved in delivering aid programs. [122]

21. Civil Society Organizations – Focused on poverty reduction and partnerships in LDCs/LICs, in a deteriorating enabling environment

Including both private and government funds channelled through CSOs, these organizations contributed at least an estimated $52 billion in 2014 in development cooperation. Ten of the largest international NGO families collectively provided approximately $10.5 billion in 2016.

While the value (in 2016 dollars) of ODA channelled through CSOs by DAC donors has increased by more than 12% between 2012 and 2016 (from $18.3 billion to $20.6 billion), the actual share of this ODA has been relatively constant at 17% of Real ODA. This ODA has been concentrated (79%) in eight out of twenty-eight donors -- the United States, the United Kingdom, the European Union, and Germany, along with Sweden, Canada, the Netherlands, and Norway.

CSOs are highly invested in sectors associated with poverty reduction (68% in the 12 proxy sectors for reducing poverty) and are concentrated in LDCs and LICs (52%).

Civil Society Organizations (CSOs) are essential actors in development in their own right. As peoples' organizations and agents of democracy, they not only deliver programming on the ground, they also monitor human rights and hold governments and other stakeholders to account. They provide significant financing for development partnerships.

Civil Society financing for development

In 2014 (the last year for comprehensive data), **CSOs managed an estimated $52 billion in development assistance**[123] including both privately raised funds and donor resources channelled through CSOs in OECD DAC countries. A study of the ten (10) largest international NGOs and NGO families confirmed that these organizations raised an estimated $10.5 billion in 2016 (including both privately-raised funds and government-channelled funds).[124] Comparable revenue figures for eight of these large NGO families (excluding ACT Alliance and CARITAS) indicates that their total revenue increased by 50% between 2006 and 2011, but then fell by 20% from 2011 to 2016, from $8.7 billion to $7 billion.

While the value (in 2016 dollars) of ODA channelled through CSOs by DAC donors has increased by more than 12% between 2012 and 2016 (from $18.3 billion to $20.6 billion), the share of this ODA has been relatively constant at 17% of Real ODA. (Chart 21.1)

Donor-funded partnerships with CSOs whereby they serve as a delivery channel for aid, is particularly concentrated among several donors. Four donors together make up close to two-thirds (62%) of all ODA channelled through CSOs – the United States (35%), the United Kingdom (11%), the European Union (10%) and Germany (6%). Four other donors – Sweden (5%), Canada

(4%), the Netherlands (4%) and Norway (4%) – provide approximately 17% of their ODA through CSOs.

Chart 21.1

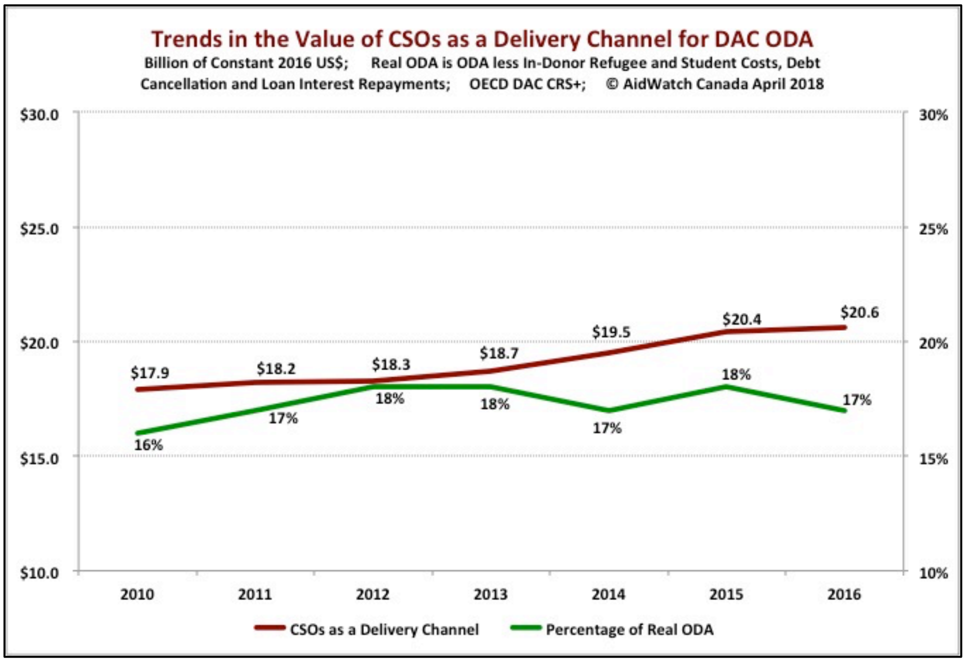
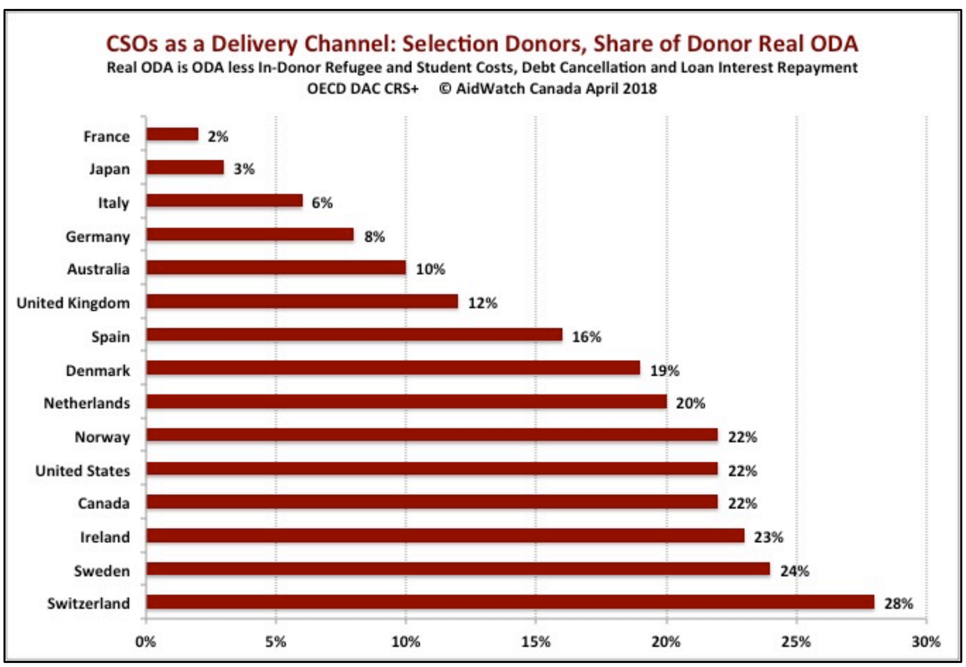


Chart 21.2



In terms of the delivery of ODA with and through CSOs, certain donors stand out. Seven (7) donors provide more than 20% of their Real ODA in CSOs partnerships – Denmark (20%), the

Netherlands (22%), Norway (22%), the United States (22%), Canada (22%), Ireland (23%), Sweden (24%), and Switzerland (28%). The average for all donors is 17%. (Chart 21.2)

In terms of their practices as donors the European Union and the United Kingdom have strong commitments to work with and through CSOs. The uncertainty surrounding Brexit has created an insecure future for UK CSOs as they draw considerable resources from the EU for their work. Similarly CSOs that work closely with major governance programs funded by USAID, or are contracted by the Agency, may be affected by the potential massive cuts in US aid and changes in aid priorities by the Trump Administration.

Priorities in CSO Development Cooperation

As noted earlier (Chart 12.1) CSOs are particularly focused on sectors that are strongly associated with priorities for poverty reduction. In 2016, 68% of CSO sector-allocated ODA focused on the 12 proxy sectors that directly affect the prospects for people living in poverty (compared to 36% for official donors). **CSOs are more concentrated in the least developed and low-income countries than DAC bilateral ODA as a whole, with 52% of ODA for CSOs, and 43% for bilateral ODA in 2016.** (Chart 21.3)

CSOs have also been strongly involved in the delivery of humanitarian assistance. Since 2010, CSO-delivered ODA humanitarian assistance has averaged 30% of total humanitarian assistance, not including any privately raised funds for these purposes.

Chart 21.3

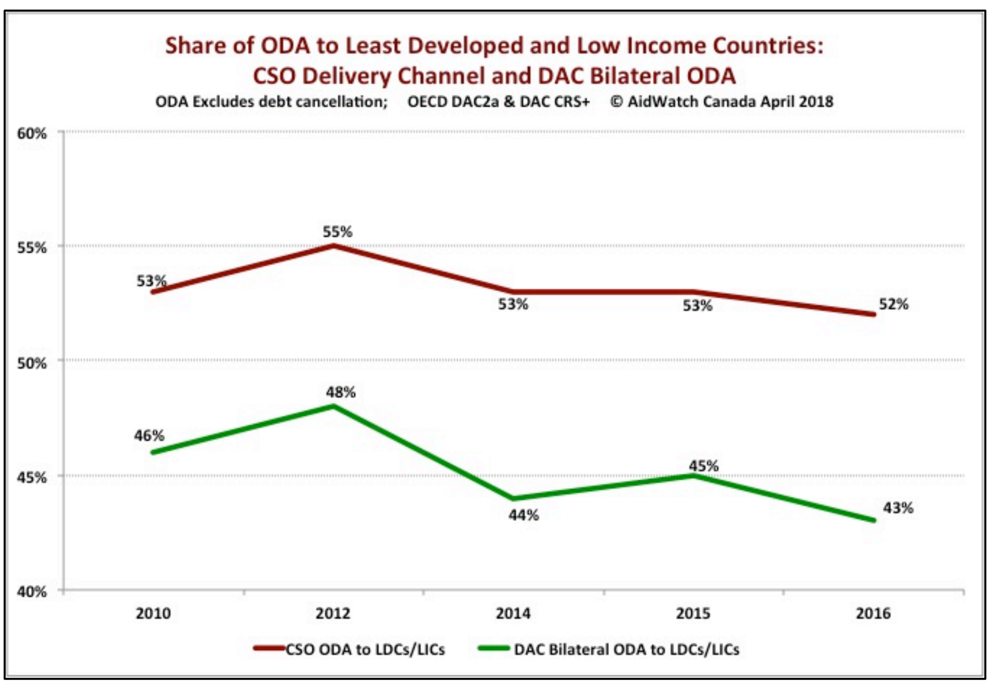


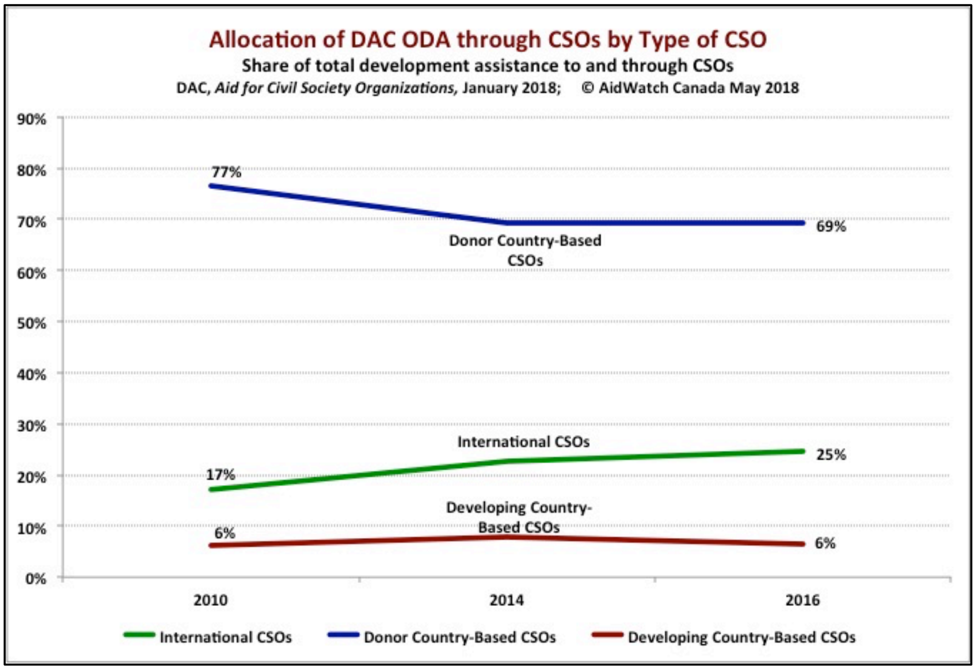
Chart 21.4

CSOs have been less involved in the delivery of climate finance, representing only 5% of total ODA climate finance from 2010 to 2016, and 15% of adaptation climate finance.

While many donors have a general commitment to civil society's roles as development actors, this commitment has not been reflected in their support of women's rights organizations. It is true that allocations to women's rights organizations have increased since 2011 (see Chart 11.2**). But as a share of total financing to and through CSOs, this funding is a very small percentage, ranging between 0.9% and 1.6% of sector-allocated ODA to and through CSOs.**[125] (Chart 21.4)

The OECD DAC collects disaggregated statistics on ODA finance through different types of CSOs. **While International CSOs have increased their share of ODA that is channelled to and through them, the share of Developing Country-Based CSOs has not changed and stands at a mere 6% of total CSO finance**.[126] (Chart 21.5)

Chart 21.5



A Deteriorating Enabling Environment for CSOs

Civil society organizations (CSOs) are crucial actors for achieving progress for Agenda 2030. However, a global crackdown on civil society is growing more prevalent in both non-democratic and democratic countries, in the South and in the North. CIVICUS reports that as many as 109 countries currently have closed, repressed or obstructed civic space. This reality sets a disturbing context for citizen's participation in local development in which no one is left behind.[127] Along with human rights activists, women's rights promoters, and environmentalists, civil society organizations are facing increasing levels of threats of violence and intimidation, as well as legal and regulatory obstruction or harassment, in their work with vulnerable and poor populations.

In recent years, governments across the globe have implemented a contagion in hundreds of restrictive laws against CSOs. These actions have ranged from onerous legal requirements for registration and operation to severe restrictions on foreign funding and limitations on the freedom to peaceful assembly. There has been widespread repression of trade unions, indigenous rights organizations, women's rights organizations and other human rights defenders. Many governments are indiscriminately using existing laws and regulations to harass organizations that raise uncomfortable issues for government.

A free and open civil society is essential in order to hold governments accountable, and to give voice to marginalized populations seeking to realize their rights, regardless of the circumstances.

22. Philanthropic Foundations – Role in development cooperation growing, but dominated by the Gates Foundation

Philanthropic Foundations provide an average of $8 billion in development cooperation a year. The Gates Foundation provides half of these contributions and is the third largest contributor to the health and reproductive health sectors.

The role of large philanthropic foundations has received an increasingly high profile in development cooperation**. From 2013 to 2015 an OECD DAC study of more than 130 foundations documented an average of $8 billion in philanthropic initiatives in developing countries**.[128] The US-based Bill and Malinda Gates Foundation dominates this engagement, providing almost half of the $8 billion total**. In 2016, the Gates Foundation disbursed $3.7 billion to developing countries, up from $3.0 billion in 2014.**

In 2016 the majority of the assistance from foundations (79%) concentrated on the health and reproductive health sectors. The $2.7 billion for these sectors was close to 20% of the total support provided by all bilateral donors for health and reproductive rights, with foundations being the third largest donors. When the Gates Foundation is removed from the analysis, the top sector is education, followed by health, government and civil society, population and reproductive health, and environmental protection.

Philanthropic foundations allocate most of their resources (67%) to Middle-Income Countries. According to the study, India, Mexico, China, Brazil and Turkey were among the top 10 recipients of foundation funding. These allocations meant that the distribution by income group puts a strong emphasis on Upper Middle Income Countries (29%) compared to 17% for ODA from donors and multilateral organizations. The share for LDCs and LICs was 33% (compared to 44% for ODA). Foundations allocated 38% to Lower Middle Income Countries (compared to 28% for ODA).

The study also noted that several developing countries have a growing domestic philanthropic sector, with domestic flows representing 83% of philanthropic finance in Turkey, 60% in Mexico and 35% in China.

23. Domestic Resource Mobilization – Limited government revenue to invest in SDGs, with modest donor support for domestic resource mobilization

Almost all LDCs/LICs and many LMICs have a per-capita government revenue of less than $3,000. Revenue per capita in OECD DAC countries is more than $15,000, which is five times the revenue capacity of most developing countries. In countries with less than $3,000 per capita government revenue, 59% of the population are living below the $3.10 a day World Bank poverty line. Even among UMICs, close to one third (29%) are living on less than $5.50 a day.

While there is clear scope for increasing domestic revenue generation in many developing countries, it is also clear that these countries will require various levels of budget support and other forms of concessional assistance if they are to meet the SDG targets. Increased levels of ODA will be essential for many years to come.

Per capita revenue available to government

The 2016 Reality of Aid Report 's Global Aid Trends chapter examined the domestic revenue available for governments to meet their commitments, across a range of developing countries.[129] This revenue included not only expenditures for health and education and other social and economic support programs, but also for managing the rule of law, infrastructure investment, foreign policy, defense and other legitimate government expenses.

Updating this analysis for 2018, the conclusion remains the same. Almost all Lower Middle-Income Countries, Least Developed and Low-Income Countries have per capita government revenue of less than $3,000. The comparable per capita government revenue for OECD DAC Countries is more than $15,000. In OECD countries, social spending by government has an impact on inequalities. However, the limited government revenue of most developing countries leaves little besides spending on broken health and education systems.[130]

This 2018 analysis looks at government revenue and poverty statistics for 101 developing countries (based on available data, current at least to 2010), of which 43 were LDCs or LICs, 25 were LMICs, and 33 were UMICs. The following observations can be made:

- **For the 49 countries with less than $3,000 in per capita revenue (all but one is LDC/LIC or LMICs), 59% of the population were living on less than the $3.10 a day poverty line.**
- Of the 22 countries (out of 25) that are classified as LMICs, 39% of the population were living on less than $3.10 a day.
- Among the 28 UMICs with more than $3,000 per capita government revenue, 29% were living on incomes of less than $5.50 a day, the poverty line for these countries as set by the World Bank. Within this share of the population consider poor, there was 12% who were living on less than $3.00 a day.

While there is scope for increased domestic revenue generation in many developing countries, increased levels of ODA will be essential for many years to come, if these gross inequalities in government capacities to meet the needs of hundreds of millions of poor and vulnerable people are to be overcome.

Domestic revenue generation

The World Bank suggests that countries with tax revenues below 15% of their Gross National Product will have difficulty funding "basic state functions." They observe that:

> "tax revenues in over one-third of IDA countries (36 percent) and 70 percent of fragile and conflict-affected countries are below that threshold, and tax revenues are lowest in countries where most of the very poor live."[131]

Domestic resource mobilization in the poorest countries is falling behind needed expenditures. A recent IMF report on global economic prospects concluded,

> "while lower commodity prices since 2014 have dragged on revenue in commodity exporters, the broader pattern across low-income countries of worsening fiscal positions suggests that domestic revenue mobilization efforts have generally fallen short of rising expenditure requirements."[132]

In Sub-Saharan Africa, where the collection of tax revenue is weakest, another IMF study pointed out that the maximum rate of personal income tax has fallen from 44% to 32% since 2000, while the collection of indirect value added taxes has increased substantially.[133]

Many CSOs, including the Reality of Aid network, have called for donors to support measures of fair taxation in developing countries, ones which focus on progressive taxes on assets such as income or land. These taxes take into account the ability of taxpayers to pay their share.[134] Value added taxes are easier to collect, but place a heavy burden on poor people and the hundreds of millions of working poor who may live just above the poverty line. A study of several African countries discovered that value added taxes are actually contributing to poverty. In four out of five countries "the net effect of taxes and transfers is to increase the number of people living below the World Bank's extreme poverty line" and in Tanzania "poverty is nearly 20 percent higher due to taxes and transfers."[135]

Donor support for domestic resource mobilization (DRM) remains modest, but is growing.[136] Gross disbursements for projects dedicated to DRM almost doubled, going from $191 million in 2015 to $365 million in 2016. Unfortunately, only a quarter of this investment (26%) was made in Least Developed and Low-Income Countries. The majority - almost 60% - was devoted to Lower Middle Income Countries.[137]

The 2016 Reality of Aid analysis also pointed to the importance of international initiatives to stem the flow of illicit capital flight from developing countries as well as the loss of revenue to developing countries as a result of "profit sharing techniques" by transnational companies. The IMF estimates this to be between $100 billion and $300 billion.[138]

H. Conclusions

In the face of converging global crises of widespread poverty, increasing concentrations of wealth and power, and the prospects of environmental catastrophe, ODA is a deeply compromised resource to help realize Agenda 2030. Yet ODA also remains the only resource, under government direction, which has the potential to be a catalyst for truly transformative and collective action. Donor reforms in policies and practices could give real priority to measures that directly support poverty eradication, reduce inequality, and build resilience to climate change.

Aid effectiveness for Agenda 2030 requires donors to move beyond short-term commercial and foreign policy interests that currently drive aid allocations and partnerships. Aid providers must return to the reduction of poverty and inequality as the driving purpose of aid, collaborate in transformative partnerships towards these ends, and reform their practices in support of developing country priorities.

What are some benchmarks and directions that indicate a determined donor commitment to shape ODA as an effective resource for the SDGs?

1. **Donors must immediately set out specific fiscal plans to increase concessional Real Aid volumes to meet the UN ODA target of 0.7% of their GNI. .** Realizing this goal would have produced an additional $200 billion in 2017, which is the order of investment required to make a difference for poverty eradication. Without substantial and sustained increases in aid volume, the urgent demands of increasing humanitarian crises, which must be met, will continue to reduce aid resources available for sustainable long-term development.

2. **The policy foundation for aid increases requires well-defined donor aid strategies that focus ODA on partnerships in developing countries, or in global public goods, with a clear demonstration of a positive impact on poor and vulnerable populations**. These policies must not only respond to emergency humanitarian needs. Instead, they must also give priority attention to long-term structural changes affecting all dimensions of poverty and the many expressions of inequality, including those relating to gender and disability. Such policies are rooted in an ethic of global solidarity, working for a sustainable planet and a meaningful future for all.

3. **Donors must commit to greater ODA transparency through a reform of current DAC rules for aid reporting, consistent with an exclusive focus on public concessional resources for poverty reduction**. Such reforms require DAC agreement to remove in-donor refugee and student costs and the full value of debt cancellation from their reported ODA. DAC

members must also revisit the expansion of these rules in the area of security and military training. Aid is increasingly being used to backstop donor interests in the deployment of military in fragile situations and migration control, their use in anti-terror security sector reform, and as subsidies to donor country-based corporations.

4. **Donors must ramp-up resources for climate mitigation and adaptation finance to achieve, and hopefully exceed, the $100 billion global climate finance target by 2020** (of which $37 billion is expected to come from individual donor funding). Resilience and adaptation to the impact of climate change is an essential screen for all aid projects. At the same time, donors must live up to their commitments in Bali (2007) and Copenhagen (2009) that climate finance resources are to be additional to current aid obligations. This commitment requires that climate resources be additional to donor schedules to achieve the 0.7% ODA target (noted in #1 above). This goal can only be monitored if there are clear aid and climate finance targets, or separate funding mechanisms through which climate finance can be tracked.

5. **Poverty focused ODA requires particular attention to overarching country and gender manifestations of poverty and inequality**:

   - **Donors must address the expressed needs of Least Developed and Low-Income Countries by meeting the long-standing commitment that up to 0.2% of donor GNI is devoted to LDCs as part of increasing aid budgets**. Meeting this commitment in 2017 would have resulted in more than $90 billion for partnerships in these countries.

   - **Donors must return to the priority given to Sub-Saharan Africa in the 2000s, a strategy that resulted in more than doubling the ODA to that region over the decade.** There is an urgent need for an emphasis on strengthening the capacities of Sub-Saharan African partners to address poverty where 42% of the population are estimated to live in destitution and extreme poverty.

   - **Donor support for programs focusing on gender equality, including women's rights organizations, must be dramatically increased. Currently, 65% of Real ODA has no gender equality objectives – this is untenable.** Advancing women's rights and gender equality are central to making progress on all of the SDGs. Support for programs tackling other dimensions of identity-based inequality, though not currently tracked in DAC statistics, is also essential in the context of the SDGs' "leave no-one behind" commitment.

6. **Donors must tackle quality issues for ODA**, including the implementation of the 2011 development effectiveness principles that inform the Busan commitments of the Global Partnership for Effective Development Cooperation. These includes:

   - **Increase country partner ownership over the priorities of ODA and other development flows intended for country development.** While this core development effectiveness principle implies changes in donor practices at the country level (see human rights based approaches below), it also means reversing the declining levels of Country Programmable Bilateral Aid (CPA) accessible to country partners.

- **Strengthen country-led inclusive mechanisms for policy dialogue and mutual accountability for development cooperation at the country level.** Mechanisms should include an institutionalized review of progress in donor practices promoting development effectiveness, ones that are open to a diversity of development actors, including civil society, and be fully transparent.

- **Reverse the trend towards increased use of loans as a modality in ODA, particularly for Low-Income and Lower Middle-Income Countries.** There is increasing concern that debt unsustainability is returning for several of the poorest countries, particularly in Africa.

- **Where ODA is partnered with the corporate private sector, or used to mobilize such financing (blended finance and DFIs),** all stakeholders should be assured that initiatives 1) are driven by poverty and inequality reduction as the primary objective; 2) priorities are consistent with inclusive country-led development strategies; and 3) all initiatives take account of human rights standards at all stages. Full transparency is key to development effectiveness.

- **Reform technical cooperation (TC) practices to respect the principle of demand-led technical cooperation.** These reforms imply country management of TC, avoiding "soft conditionality" in the deployment of TC, focusing on mutually agreed upon capacity development efforts to transfer skills and knowledge, and be fully transparent and accountable for the work of technical assistants in TC programs.

- **Reverse the trend towards increased tied aid**. Renewed attention to tied aid is urgent, particularly as there is evidence that informal tying of aid continues unabated. As donors consider directing increased levels of aid to mobilize investment from the corporate private sector, there is concern that these measures will lead to more and different forms of tied aid. Tied aid has long been demonstrated to increase costs for developing country partners and lead to inappropriate responses to their development needs.

- **Strengthen the effectiveness and responsiveness of the multilateral system to issues of poverty eradication and the reduction of inequality in both the priorities and delivery of multilateral ODA.** This objective includes not only increasing core resources under the control of UN organizations, but also measures to bring coherence to UN initiatives by reducing donor-led special funds and/or allowing UN organizations to direct these funds based on organizational priorities.

7. **Donors should strengthen the focus of ODA for Agenda 2030 by implementing their ODA through partnerships that have a human rights based approach (HRBA).**[139] While aid is

delivered through a range of instruments and relationships, the focus of HRBAs is on ownership of development priorities and approaches at the country level. Central to this approach is an understanding of the unique human rights challenges of poor and vulnerable populations. HRBA approaches work with local partners to assess the changing power dynamics faced by these marginalized populations. While sectoral priorities for ODA may not shift with the adoption of a HRBA, their objectives and implementation may well do so. Implementation of HRBAs on the part of official donors requires concerted senior institutional and political leadership as well as deliberate efforts to build institutional capacities. The latter may involve human resource training and tools to support country programmers.

8. **Donors must address the shrinking and closing space for CSOs as development actors.** Civil society in all its diversity is a crucial actor in advancing country level accountability as well as direct engagement with communities affected by poverty and discrimination. The space for CSOs is closing, particular for human rights and women's rights advocates, LGBTO activists and environment activists working with affected communities. Donors can support this work through ongoing contact with vulnerable human rights activists at the country level. Collectively donors can raise the profile of relevant issues at the international and national level. They can also undertake human rights due diligence in their foreign policy and support for donor-based corporations' investments in developing countries. They can facilitate flexible financial arrangements for a diversity of CSOs in developing countries and provide institutional support. They can help expand the space for engagement with civil society in international organizations and multilateral negotiation processes.

End Notes

[1] The following characteristics of ODA are adapted from Box One in Brian Tomlinson, ""Global Aid Trends, 2016, Financing Agenda 2030: Where are the resources?," *The Reality of Aid 2016*, Manila: IBON Foundation, 2016, accessible at http://www.realityofaid.org/roa_report/technical-cooperation-as-an-aid-modality-demand-led-or-donor-driven/ and an unpublished CSO Working Document on TOSSD, April 2018, coordinated by Luca De Fraia.

[2] See Busan Partnership for Effective Development Cooperation, December 2011, accessible at http://www.oecd.org/development/effectiveness/busanpartnership.htm.

[3] All figures are in US dollars unless otherwise stated.

[4] See Adams, B., Martens, J. *Fit for Purpose: Private Funding and Corporate Influence in the United Nations*. Global Policy Forum, September 2015, accessed May 2018 at https://sustainabledevelopment.un.org/content/documents/2101Fit_for_whose_purpose_online.pdf and "Market discourse has captured the development agenda to a point that may be incompatible with UN mandates," Interview with Barbara Adams, Global Policy Forum, March 2, 2018, access May 2018 at https://www.globalpolicy.org/home/270-general/53041-market-discourse-has-captured-the-development-agenda-to-a-point-that-may-be-incompatible-with-un-mandates.html.

[5] See Concord, *Aid and Migration: The externalization of Europe's responsibilities,* AidWatch 2018, accessed May 2018 at https://concordeurope.org/2018/03/19/aid-migration-aidwatch-paper/'

[6] Saldinger, A., "What the US National Security Strategy sais about global development," DevEx, December 19, 2017, accessed May 2018 at https://www.devex.com/news/what-the-us-national-security-strategy-says-about-global-development-91778.

[7] Curtis, M. et al, *The Conflict, Stability and Security Fund: Diverting aid and undermining human rights.*" Global Justice Now, December 2017, accessed May 2018 at http://www.globaljustice.org.uk/sites/default/files/files/resources/conflict_security_and_stability_fund_diverting_aid_and_undermining_human_rights_web.pdf.

[8] On export credits, debt relief and ODA see Eurodad, *Exporting Goods or Exporting Debt: Export Credit Agencies and the roots of developing country* debt, December 2011, accessed May 2018 at http://eurodad.org/files/pdf/4735-exporting-goods-or-exporting-debts-export-credit-agencies-and-the-roots-of-developing-country-debt-.pdf. The DAC has agreed to change the rules regarding the inclusion of ODA loans effective in 2018. These rule changes and their implications are elaborated below in the section on trends in ODA loans.

[9] See Michael Igoe, "How Donald Trump changed US Development Policy in 2017," Devex, December 21, 2017, accessed at https://www.devex.com/news/how-donald-trump-changed-us-development-policy-in-2017-91763, and Adva Saldinger and Michael Igoe, "What the budget bill says about the future of US aid," Devex, March 26, 2018, accessed at https://www.devex.com/news/what-the-budget-bill-says-about-the-future-of-us-aid-92407.

[10] Norwegian Refugee Council and the Internal Displacement Monitoring Center, *Global Report on Internal Displacement,* May 2018, accessed May 2018 at http://www.internal-displacement.org/global-report/grid2018/.

[11] United Nations, *UNHCR, "*, Report of the UN Secretary General for the World Humanitarian Summit, 2016, accessed at http://sgreport.worldhumanitariansummit.org/

[12] Development Initiatives, *Global Humanitarian Report 2018,* June 2018, page 18, accessed July 2018 at http://devinit.org/post/global-humanitarian-assistance-report-2018/.

[13] *Ibid*., 15.

[14] *Ibid*., 27.

[15] For an excellent overview of amounts and trends for humanitarian donors see chapter three of the Global Humanitarian Report, 2018, noted above.

[16] See Ibid., pp 41-42 for more details.

[17] Ibid., p. 11.

[18] See the discussion of the outcomes of the World Humanitarian Summit in "Global Aid Trends, 2016" in the 2016 Global Reality of Aid Report, accessible at http://www.realityofaid.org/roa_report/technical-cooperation-as-an-aid-modality-demand-led-or-donor-driven/.

[19] Derzsi-Horvath, A., Streets, J., Ruppert, Lotte, *Independent Grand Bargain Report*, Global Public Policy Institute and Inspire Consortium, June 2017, accessed April 2018 at http://www.gppi.net/publications/humanitarian-action/article/independent-grand-bargain-report/.

[20] Development Initiatives, *op. cit*., p. 51. The Localization Marker Working Group defines localization as funds provided directly or passing through one intermediary. By this definition, 3.6% of humanitarian assistance was localized in 2017, up from 2.4% in 2016.

[21] See the discussion of these issues in Sophie Edwards, "Dispute over 'Grand Bargain' localization commitments boils over," DevEx, July 3, 2017, accessed at https://www.devex.com/news/dispute-over-grand-bargain-localization-commitments-boils-over-90603.

[22] European Commission, European Budget for the Future, June 14, 2018, accessed July 2018 at https://ec.europa.eu/commission/sites/beta-political/files/budget-may2018-neighbourhood-development-cooperation_en.pdf.

[23] See "CSOs' recommendations for the use of Official Development Assistance (ODA) to support private investments in developing countries, ahead of future EU Multiannual Financial Framework discussions," May 2018, accessed July 2018 at http://www.eurodad.org/ODA-recommendations-ahead-of-MFF#_ftn1.

[24] Concord, *Aid and Migration: The externalization of Europe's responsibilities,* AidWatch 2018, accessed May 2018 at https://concordeurope.org/2018/03/19/aid-migration-aidwatch-paper/'

[25] Vince Chadwick, "EU to invest in military capacity for development work," DevEx, December 19, 2017, accessed May 2018 at https://www.devex.com/news/eu-to-invest-in-military-capacity-for-development-work-91756. The DAC has developed an ODA Casebook on Conflict, Peace and Security Activities, which is intended as guidance for implementing the new rules in this area. See the Casebook at http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DCD/DAC(2017)22/FINAL&docLanguage=En. See also Dalrymple, S., "Revised ODA casebook on conflict, peace and security: A useful resource but falls short of providing practical guidance on what activities can and cannot be counted as aid," Development Initiatives Blog, November 9, 2017, accessed May 2018 at http://devinit.org/post/the-revised-oda-casebook/.

[26] Vince Chadwick, *Ibid*.

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[124] Author's calculation derived from annual reports of the various organizations for 2016. For ACT Alliance and CARITAS, the figures are estimates based on the majority of these network's members. Caritas - $2.1 billion; MSF - $1.7 billion; World Vision International - $1.6 billion; ACT Alliance - $1.3 billion; Oxfam International - $1.2 billion; Save the Children International - $1.1 billion; Plan International - $0.8 billion; CARE International - $0.3 billion; Actionaid International - $0.3 billion; Terre des Homme International – $0.2 billion.

[125] DAC, Aid for Civil Society Organizations, 2015-2016, OECD DAC, January 2018.

[126] Ibid, Table A3.

[127] CIVICUS, *State of Civil Society Report*, 2018, accessed May 2018 at https://www.civicus.org/index.php/state-of-civil-society-report-2018. See also Young, R., and Echague, Ana. "Shrinking Space for Civil Society: The EU response," European Parliament, Director General for External Policies, April 2018, accessed May 2018 at http://www.europarl.europa.eu/RegData/etudes/STUD/2017/578039/EXPO_STU(2017)578039_EN.pdf and International Center for Not for Profit Law, "Effective Donor Responses to the Challenge of http://www.icnl.org/news/2018/Effective%20donor%20responses%20FINAL%201%20May%202018.pdf Closing of Civic Space," April 2018, accessed May 2018 at http://www.icnl.org/news/2018/Effective%20donor%20responses%20FINAL%201%20May%202018.pdf.

[128] OECD, Private Philanthropy for Development, the Development Dimension, March 2018, accessed May 2018 at https://www.oecd-ilibrary.org/development/private-philanthropy-for-development_9789264085190-en.

[129] Brian Tomlinson, Global Aid Trends, 2016, Reality of Aid 2016, accessible at http://www.realityofaid.org/roa_report/technical-cooperation-as-an-aid-modality-demand-led-or-donor-driven/. This 2016 analysis and the analysis in this section is draws from the excellent data base maintained by Development Initiatives, which can be found at http://data.devinit.org/. The author is very grateful for the assistance provided by Development Initiatives in accessing and interpreting this data. He also is responsible for the analysis derived from the data.

[130] Kenny, C., and Sandifur, J., "Taxing the poor to give to the bureaucrat," Center for Global Development Blog, May 15, 2018, accessed May 2018 at https://www.cgdev.org/blog/chart-week-taxing-poor-to-give-to-bureaucrat.

[131] World Bank Group, Equitable Growth, Finance, and Institutions (EFI), "Domestic Resource Mobilization (DRM) and Illicit Financial Flows (IFFs)," Board Update, February 2017, accessed May 2018 at http://documents.worldbank.org/curated/en/877291492623853466/pdf/IFFs-DRM-Board-Note-Master-vFINAL-04102017.pdf.

[132] IMF, World Economic Outlook, April 2018, Washington, accessed May 2018 at http://www.imf.org/en/Publications/WEO/Issues/2018/03/20/world-economic-outlook-april-2018.

[133] IMF, "Sub-Saharan Africa: Domestic Revenue Mobilization and Private Investment," Regional Economic Outlook, April 2018, accessed May 2018 at http://www.imf.org/en/Publications/REO/SSA/Issues/2018/04/30/sreo0518. Eurodad suggests that this

decline is the result of a broader tax "race to the bottom," for which donors bear some responsibility. See http://www.eurodad.org/Entries/view/1546849/2017/11/29/Tax-Games-the-Race-to-the-Bottom.

[134] Brian Tomlinson, op. cit.

[135] Kenny et. al, op. cit.

[136] For a thorough analysis of DRM see Oxfam America, "State of DRM: What is driving DRM? And in which direction?," Briefing Note, December 2017, accessed June 2018 at https://www.oxfamamerica.org/static/media/files/State_of_DRM_2017.pdf.

[137] Data from the DAC CRS data set and its sector code for domestic resource mobilization. Oxfam America's analysis suggests that this dataset under-estimates DRM support as it misses significant components devoted to DRM in larger projects.

[138] Brian Tomlinson, op. cit., *Reality of Aid Global Report* 2016.

[139] See the review of human rights based approaches in aid relationships and some lessons donor agencies in Brian Tomlinson, "Implementing a Human Rights Based Approach: Lessons from the experience of providers' international assistance," AidWatch Canada, August 2017, accessed May 2018 at http://aidwatchcanada.ca/wp-content/uploads/2017/11/Final-Implementing-a-HRBA-by-Providers.pdf.