PART IV

Chapter 13

Development finance and policy trends

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This chapter highlights emerging trends in official development assistance (ODA) from members of the Development Assistance Committee (DAC) and other providers of development assistance. A key finding is that the growth in the total volume of concessional finance for development is enhanced by providers of development assistance beyond the DAC, due to the scaling up of their aid and better reporting. Furthermore, stronger global economic performance is not translating into more ODA. According to preliminary data, in 2017 net ODA from DAC members reached USD 146.6 billion, or 0.31% of gross national income, a slight fall of 0.6% in real terms from 2016. The fall was due in part to reduced spending on in-donor refugee costs. By contrast, DAC members’ humanitarian aid increased by 6.1% in real terms, to USD 15.5 billion in 2017. Country programmable aid and flows to sub-Saharan Africa and small island developing states continue to decline, while the percentage of aid channelled through the multilateral system and civil society organisations is rising.
**Infographic**

**Trends in ODA**

**TRENDS IN ODA: MORE THAN MEETS THE EYE**

**DAC AID ROSE!**

- **30%**
- FROM 2006 TO 2016

- **2006:** USD 105.6 bn
- **2016:** USD 145 bn
- **2017:** USD 146.6 bn

**But is this really enough? NO**

**WHY NOT?** Because the share of DAC countries’ spending on development directly in partner countries continues to decline.

- **58%** of ODA in 2009
- **47%** of ODA in 2016

**At the same time:**

- Humanitarian aid from DAC countries has doubled since 2006
- In-donor refugee costs have tripled since 2013

**ODA RECEIVED BY COUNTRIES MOST IN NEED: A MIXED PICTURE**

- Combined flows from DAC countries and multilateral providers to:
  - Sub-Saharan Africa: stable (0% growth)
  - Fragile contexts: 8% increase
  - Small island developing states (excluding debt): 19% decrease

*Time period: 2011-2016*

**COLLECTIVELY, DONORS MUST DOUBLE THEIR EFFORTS**

**ODA/GNI**

- **0.31%** (2017)
- **0.09%** (2016)

**TARGET**

- 0.70%
- TARGET 0.15–0.20%

**IT CAN BE DONE!**

- Denmark, Luxembourg, Norway, Sweden, Turkey, United Arab Emirates and the United Kingdom all reached or exceeded the 0.7% target in 2017.
- Other providers committed to scale up their efforts e.g. France, Italy, Korea, Switzerland.

**ACTION NOW! LET’S REACH OUR TARGETS**
The volume of official development assistance continues to increase

In the years before 2017, growth in official development assistance (ODA) from members of the Development Assistance Committee (DAC) reflected increasing support for humanitarian emergencies and the first-year costs of refugees in member countries. As spending on in-donor refugees decreased in 2017, net ODA flows from DAC countries have fallen slightly. It is not yet clear whether donors will fall back to earlier levels of total ODA, or whether the savings will translate into increased financing for developing countries in the years ahead.

Whatever the case may be, in 2017 the slight drop in ODA figures from DAC countries did not, in fact, bring about a reduction in the overall global volume of concessional finance for development. This volume continued to grow, reaching a total of USD 161 billion for the year1 (Figure 13.1).

Figure 13.1. Net ODA from all donors

A slight decrease in DAC members’ official development assistance was balanced by increases from other providers of development co-operation

Preliminary data for 2017 show that net ODA from DAC members reached USD 146.6 billion, representing a slight fall of 0.6% in real terms. ODA also fell in proportion of gross national income (GNI), from 0.32% in 2016 to 0.31% in 2017. Excluding in-donor refugee costs, ODA increased by only 1.1% in real terms compared to 2016, and has doubled since 2000. Despite commitments made at the DAC High Level Meeting in 2014 (OECD, 2014[1]), in the Addis Ababa Action Agenda (United Nations, 2015[2]), the 2030 Agenda for Sustainable Development (United Nations, 2015[3]), and in the European Consensus on Development (European Commission, 2016[4]), ODA levels remain well below the United Nations target of 0.7% of GNI.

That the volume of development finance worldwide continued to grow in 2017, despite the decrease from DAC members, can be credited to increases from other providers of development co-operation that report their development financing to the OECD. This trend was led by increased humanitarian aid from Turkey, whose total ODA volume reached USD 8.14 billion, an increase of 40.4% over 2016. Meanwhile, an increase in grants from the United Arab Emirates to developing countries saw its assistance reach USD 4.6 billion, a rise of 6.5% over 2016. Moreover, contributions are on the rise by other providers not reporting their efforts to the OECD, including South-South providers (see In My View by Jorge Faurie, Minister of Foreign Affairs and Worship of Argentina). According to OECD estimates, these providers increased their ODA-like flows by 7% in 2016, reaching USD 7.4 billion.2
In my view:
Next year’s BAPA+40 is a unique opportunity to forge a new global consensus for international development co-operation

Jorge Faurie, Minister of Foreign Affairs and Worship, Argentina

In 2019, the Second High Level Conference of the United Nations for South South Co-operation, known as BAPA+40, will be held in Buenos Aires, Argentina. This conference will celebrate the 40th anniversary of the Buenos Aires Plan of Action (BAPA) of 1978 - a defining moment for technical co-operation among developing countries. BAPA has played a powerful role in kick starting new partnerships between countries of the South and in increasing demand for equitable and sovereign participation of developing countries in international relations.

Forty years down the road, in a deeply changed global context, it is time to take stock of our progress, the results of our international co-operation and the central role played by the BAPA. It is also time to step up a gear, build on the strengths of South-South co-operation and collaborate better to deliver the 2030 Agenda for Sustainable Development and other international agreements on financing for development, climate change and disaster risk reduction.

To respond to new challenges brought about by globalisation we need to ensure that our co-operation model is capable of taking into account the realities, capacities, and specific needs of each state and promotes increased integration while maintaining the principle of common but differentiated responsibilities.

As the host country for the conference, Argentina is committed to facilitating a successful outcome that commits to redoubling South-South co-operation efforts and with all actors reaching a solid consensus to:

1. promote dialogue between South-South and traditional co-operation through, in particular, triangular co-operation;
2. rethink how a multidimensional concept of development can be embedded in the international co-operation system;
3. create a strategic framework for promoting effective south-south and triangular co-operation in science, technology and innovation;
4. build multi-actor alliances;
5. generate data and information systems that track and show the value of South-South and triangular co-operation in a more systematic way.

The 2019 BAPA+40 Conference offers policy makers an opportunity to reevaluate what works well with the current BAPA in an evolving global context marked by major political, economic, social and technological transformation. As BAPA states, it will be impossible to reduce vulnerabilities across and within our countries without strengthening endogenous capacities and transferring new technologies and knowledge. In today’s world, countries risk being left behind unless they reduce technological gaps and move towards more knowledge-intensive sectors that foster productive diversification, create quality jobs, sustainable production and international competitiveness.

In the same vein, tackling the issues that undermine development worldwide — such as extreme poverty, inequality and unsustainable growth, climate change, and humanitarian crises — requires a collective response and a new analytical framework that governments, multilateral organisations, and other international actors can rally behind to deliver the 2030 Agenda.

There is no doubt that global development is central to the interests, values and policies of the actors that make up the international system. Yet the apparent weakening of multilateral co-operation risks holding back progress in meeting internationally agreed goals and targets. The right and best response is global governance, regional integration and solidarity among countries. We must therefore revive the spirit of the BAPA at next year’s conference. I invite all actors to join Argentina and other partners in betting, against all the odds, on a renewed global consensus on international co-operation that is resolutely committed to peace and development.
**Stronger economic performance is not translating into more ODA**

The OECD expects the world economy to strengthen in 2018 and 2019, with global growth projected to rise to 4% from 3.7% in 2017. Growth in the France, Germany, Mexico, South Africa, Turkey and the United States, will be better than projected, with most G20 countries expected to experience improvements (OECD, 2018[5]). As countries recover from the global financial crisis it is time to rethink how commitments to address development financing made in the Addis Ababa Action Agenda and the European Consensus on Development might be met.

While austerity measures introduced to face the global financial crisis between 2007 and 2011 led to cuts in ODA budgets for several providers, aid spending increased by 20% in real terms from 2010 to 2017. Humanitarian aid rose by 66% in real terms during this period, and in-donor refugee costs rose by over 300% in real terms. By contrast, the growth in ODA for bilateral development projects, programmes and technical co-operation was only 4% (Figure 13.5).

Overall, a strengthening global economy is not yet translating into increases in the percentage of income that most countries allocate to development finance. While total ODA has increased over the last decade, the percentage of GNI spent on ODA by DAC members has remained at about 0.31%. Significant increases in recent years by Germany, Italy, Korea, Switzerland and the United Kingdom have offset dramatic falls in ODA in Australia (down by USD 1.2 billion since 2012) and the Netherlands (down by USD 920 million since 2015). The ODA/GNI ratio in 2017 has dropped markedly in other DAC members too from highs recorded between 2007 and 2011 for Austria, Canada, Denmark, Ireland, New Zealand, Portugal and Spain (Table 13.1). Canada and New Zealand, however, have recently announced increases in ODA.

Table 13.1. DAC countries where ODA as a percentage of GNI has dropped significantly

<table>
<thead>
<tr>
<th>Country</th>
<th>From</th>
<th>Level in 17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>0.34% in 2011</td>
<td>0.23%</td>
</tr>
<tr>
<td>Austria</td>
<td>0.50% in 2007</td>
<td>0.30%</td>
</tr>
<tr>
<td>Canada</td>
<td>0.34% in 2010</td>
<td>0.26%</td>
</tr>
<tr>
<td>Denmark</td>
<td>0.91% in 2010</td>
<td>0.72%</td>
</tr>
<tr>
<td>Ireland</td>
<td>0.59% in 2008</td>
<td>0.30%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>0.82% in 2009</td>
<td>0.60%</td>
</tr>
<tr>
<td>New Zealand</td>
<td>0.30% in 2008</td>
<td>0.23%</td>
</tr>
<tr>
<td>Portugal</td>
<td>0.31% in 2011</td>
<td>0.18%</td>
</tr>
<tr>
<td>Spain</td>
<td>0.46% in 2009</td>
<td>0.19%</td>
</tr>
</tbody>
</table>

In 2017, net ODA rose in 11 DAC countries but fell in another 18 (Figure 13.2). For several, the decrease was due to lower spending on in-donor refugees in 2017 compared to 2016. While almost unchanged from 2016, the United States continued to be the largest contributor of net ODA (Figure 13.3).

The United Arab Emirates provided 1.31% of its GNI as ODA, the highest of all reporting countries. Denmark, Luxembourg, Norway, Sweden, Turkey and the United Kingdom met or exceeded the United Nations’ target of allocating 0.7% of GNI as ODA (see Figure 13.3). Kuwait, which became a DAC Participant in 2017, met the UN target in 2016. Germany, having reached 0.7% of GNI for the first time in 2016 with a significant increase in spending on in-donor refugee costs, slipped back to 0.66% in 2017.
Box 13.1. **Efforts to increase official development assistance levels: The cases of France, Italy, Korea and Switzerland**

In 2017, President Macron of France committed to meet 0.55% ODA/GNI by the end of his mandate in 2022. In 2017, France’s official development assistance (ODA) increased by 14.9% in real terms to reach USD 11 billion, or 0.43% of ODA/GNI, bringing the French effort almost back to 2012 levels.

In 2012, the government of Italy took action to reverse the significant decline in ODA since 2005 when its ODA stood at USD 5.09 billion, representing 0.29% of gross national income (GNI). From a low of USD 2.74 billion (0.14% of GNI) in 2012, Italy’s ODA more than doubled in real terms, reaching USD 5.73 billion (0.29% of GNI) in 2017.

At USD 2.2 billion in 2017, Korea’s ODA has increased by USD 1.64 billion (in 2016 prices) since 2006. This increase in volume has been matched by a steady increase in the ODA/GNI ratio, from 0.05% to 0.14% over the same period. Korea has set a goal of allocating 0.2% of its income, an estimated USD 3.2 billion, as ODA by 2020, which would be a 40% increase on 2016 levels.

In 2011, Switzerland committed to allocating 0.5% of GNI as ODA by 2015. It achieved this target in 2016, reaching an all-time high of 0.53% (USD 3.58 billion); however, its ODA dropped to 0.46% (USD 3.1 billion) in 2017.

**Countries are providing more concessional loans and keeping aid untied**

Most DAC countries provide ODA in the form of grants, meeting the requirements of the 1978 DAC Recommendation on the Terms and Conditions of Aid (OECD, 1978[6]), whereby members agreed to raise the grant element of ODA to 86%. France at 83.4% and Japan at 85.7% failed to meet the recommendation in 2016.

Since 2010, the share of loans in gross bilateral ODA has been around 15%. However, although the share has remained stable, the volume of concessional loans increased by 25% in real terms over the same time period. For some donors, the share of loans represented more than a fifth of their bilateral gross ODA in 2016: Japan (59%), France (45%), Poland (44%), Korea (39%), Portugal (27%) and Germany (23%) (Figure 13.4).
Figure 13.3. **Net ODA flows, in volume and as percentage of GNI, 2017 (preliminary data)**

![Graph showing Net ODA flows, in volume and as percentage of GNI, 2017 (preliminary data)](image)

**Note:** This chart includes preliminary 2017 ODA flows for DAC countries as well as non-DAC providers who reported their preliminary data.

StatLink: [http://dx.doi.org/10.1787/888933798314](http://dx.doi.org/10.1787/888933798314)

Figure 13.4. **Share of grants and loans in loan-giving countries, 2016**

![Graph showing Share of grants and loans in loan-giving countries, 2016](image)

Differing interpretations of what makes a loan “concessional in character” have resulted in inconsistent reporting by different DAC members. In 2014, DAC members agreed to provide a fairer picture of the provider effort by changing how the grant element, which determines the concessionality of the loan, is calculated. They agreed that only grants and the “grant portion” of concessional loans would count as ODA. This provides a more realistic comparison of loans and grants, and stronger incentives to use grants and highly concessional loans to developing countries. Measuring ODA based on the grant equivalent methodology will be implemented in 2019 on ODA data reported in 2018 (OECD, 2014[1]).

Under the 2001 DAC Recommendation on Untying Official Development Assistance (OECD, 2014[7]), DAC members agreed to untie their ODA to least developed countries (LDCs) and heavily indebted poor countries to the greatest extent possible. In 2016, 88% of DAC members’ ODA covered by the recommendation was reported as untied, an increase of 5.7% compared to 2015. The increase is
largely explained by the improved performance of the EU institutions (from 84.3% to 100%) and the United States (from 58.3% to 68.5%).

While 22 DAC members untied between 90% and 100% of ODA covered by the recommendation, a few donors continue to fall short of their untying commitments. The untying ratio for Korea has substantially increased, from 49.1% in 2015 to 67.1% in 2016, but a recent peer review found that the percentage of Korea’s ODA untied in the LDCs in 2015 (45.9%) was below the average for its total ODA (48.7%). Portugal’s share also improved, increasing the share untied to 55.4% in 2016 from 38.9% in 2015. After significantly improving from 24% in 2014 to 44.2% in 2015, the Czech Republic’s share of untied aid decreased to 34.2% in 2016. Austria’s share dropped sharply from 84.8% in 2015 to 26.9% in 2016. The level of Poland’s untied aid continues to be particularly low at 2%.

An increase in crisis spending is displacing aid to address the drivers of fragility

DAC countries’ efforts to deal with humanitarian crises and influxes of refugees have risen, from an average of 16% of bilateral ODA between 2010 and 2014 to an average of 28% between 2015 and 2017, representing a fifth of DAC countries’ total net ODA in 2016 and 2017 (Figure 13.5). This demonstrates a shift towards responding to emergency situations rather than addressing the drivers of crises and fragility. Indeed, in 2016, for the 58 contexts identified as fragile on the 2018 OECD fragility framework, 27.5% of aid from DAC members was humanitarian.

A growing share of aid is going to humanitarian crises

Since 2010, humanitarian aid from DAC countries has risen by 66% in real terms to reach USD 15.5 billion in 2017, a 6.1% increase in real terms compared to 2016. Most DAC countries saw increases in their humanitarian aid over this time period. The largest contributors in 2016 were the United States (USD 6.3 billion), Germany (USD 2 billion), the United Kingdom (USD 1.8 billion), Japan (USD 771 million) and Canada (USD 492 million); EU institutions provided USD 2.4 billion in 2016.
In 2016, countries in the Middle East, or hosting refugees from the Middle East, received over a third of total DAC humanitarian flows: the Syrian Arab Republic (USD 2 billion), Iraq (USD 1 billion), Yemen (USD 610 million), the West Bank and Gaza Strip (USD 525 million), Jordan (USD 353 million) Lebanon (USD 339 million) and Turkey (USD 490 million). Other countries also received substantial amounts: South Sudan (USD 781 million) and Ethiopia (USD 559 million).

With the ongoing humanitarian crises, and the growing share of ODA budgets being used to deal with them, there is a need to reassess ODA allocations and ensure that aid is not diverted to crisis spending without a focus on longer term economic development in developing countries.

Support to refugees in DAC countries has tripled

The refugee crisis has had a particularly significant impact on DAC countries’ ODA. Preliminary data show that ODA for in-donor refugee costs tripled from USD 4.9 billion in 2013 to USD 14.2 billion in 2017 for all DAC countries combined, accounting for 9.7% of total net ODA flows. In nine countries the share of in-donor refugees in total ODA in 2017 exceeded 10%, the highest being Iceland (36%), Italy (31%), Germany (25%) and Greece (23%). Spending on in-donor refugee costs fell by 13.6% in real terms from 2016 (Table 13.2).

Table 13.2. In-donor country refugee costs reported as ODA by DAC countries

<table>
<thead>
<tr>
<th>In-donor refugee costs, million USD</th>
<th>In-donor refugee costs as a share of total net ODA (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>343</td>
</tr>
<tr>
<td>Austria</td>
<td>63</td>
</tr>
<tr>
<td>Belgium</td>
<td>196</td>
</tr>
<tr>
<td>Canada</td>
<td>211</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>9</td>
</tr>
<tr>
<td>Denmark</td>
<td>162</td>
</tr>
<tr>
<td>Finland</td>
<td>21</td>
</tr>
<tr>
<td>France</td>
<td>453</td>
</tr>
<tr>
<td>Germany</td>
<td>139</td>
</tr>
<tr>
<td>Greece</td>
<td>21</td>
</tr>
<tr>
<td>Hungary</td>
<td>-</td>
</tr>
<tr>
<td>Iceland</td>
<td>0</td>
</tr>
<tr>
<td>Ireland</td>
<td>0</td>
</tr>
<tr>
<td>Italy</td>
<td>404</td>
</tr>
<tr>
<td>Japan</td>
<td>1</td>
</tr>
<tr>
<td>Korea</td>
<td>-</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>0</td>
</tr>
<tr>
<td>Netherlands</td>
<td>373</td>
</tr>
<tr>
<td>New Zealand</td>
<td>19</td>
</tr>
<tr>
<td>Norway</td>
<td>270</td>
</tr>
<tr>
<td>Poland</td>
<td>-</td>
</tr>
<tr>
<td>Portugal</td>
<td>2</td>
</tr>
<tr>
<td>Slovak Republic</td>
<td>1</td>
</tr>
<tr>
<td>Slovenia</td>
<td>0</td>
</tr>
<tr>
<td>Spain</td>
<td>25</td>
</tr>
<tr>
<td>Sweden</td>
<td>705</td>
</tr>
<tr>
<td>Switzerland</td>
<td>450</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>51</td>
</tr>
<tr>
<td>United States</td>
<td>977</td>
</tr>
<tr>
<td>Total DAC of which:</td>
<td>4 854</td>
</tr>
<tr>
<td>DAC EU countries</td>
<td>2 584</td>
</tr>
</tbody>
</table>

Note: (p): preliminary.
Despite the focus on recent efforts by European countries, the United Nations High Commissioner for Refugees estimates that just 17% of the world’s displaced people were hosted in Europe in 2016\(^4\) (Figure 13.6). In that year, an unprecedented 65.6 million people were displaced by conflict and persecution all over the world, and the situation continues. The total number of refugees in Bangladesh, for example, stood at 876 049 in April 2018.\(^5\)

![Regions hosting the world’s displaced people](http://dx.doi.org/10.1787/888933798371)

**Figure 13.6. Regions hosting the world’s displaced people**

A coherent and transparent approach to reporting financing for refugees and migrants is in development

As DAC members faced the challenge of responding to growing numbers of refugees and migrants in 2015, it became apparent that a coherent, comparable and transparent approach was needed to report in-donor refugee costs in ODA statistics.

In a special survey carried out in 2015, 13 DAC countries indicated that in-donor refugee costs would be funded from budgets other than development co-operation, whereas 7 countries indicated that they would use their ODA budgets to fund these costs in 2015 and 2016. In order to preserve their ODA budgets, some members set a ceiling for in-donor refugee costs so that these would not exceed a certain share of their total ODA (e.g. Sweden at 30%). While Canada reports in-donor refugee costs as ODA, its spending is additional to the international assistance envelope. Australia does not report in-donor refugee costs as ODA.

The DAC agreed in 2017 to clarify the rules in order to assess what could or could not be counted as ODA. The clarifications highlighted the following:

- **Rationale:** As refugee protection is a legal obligation, the provision of assistance to refugees may be considered as a form of humanitarian assistance.

- **Categories of refugees:** The categories of refugees eligible for in-donor refugee costs must be based on legal definitions (i.e. asylum seekers and recognised refugees may be included).

- **The “12 month rule”:** Only costs within the first 12 months of eligible assistance may be counted as ODA.
Eligibility of specific costs: Costs for temporary sustenance like food, shelter or training may be counted as ODA, but costs to integrate refugees in the donor country may not.

Methodology: The DAC emphasised the need for a conservative approach in assessing the costs for in-donor refugees that was accurate and transparent.

International focus on fragile contexts is too reactive

The development-humanitarian-peace nexus is becoming increasingly important in fragile contexts, where crisis response is traditionally divided into silos and programmed according to a range of different mandates and financial tools, making the international response incoherent and reducing its effectiveness. In particular, humanitarian aid is being stretched in both scope and time well beyond its traditional mandate of saving lives. It is not a tool to solve the root causes of crises. As noted in the forthcoming OECD report, States of Fragility 2018, in crisis contexts development assistance should be used wherever possible, and humanitarian assistance only when necessary.

On average, DAC members spend 33% of their gross bilateral ODA in fragile contexts, amounting to USD 44.1 billion. The United States is the largest DAC donor in this area, spending USD 13.7 billion (47% of gross bilateral ODA), while Ireland, at USD 279 million (66% of gross bilateral ODA) leads DAC members in the percentage of its spending that goes to fragile contexts. In addition, Turkey and the United Arab Emirates focus most of their bilateral aid on humanitarian and fragile contexts such as in Jordan, Syria, the West Bank and Gaza Strip, and Yemen.

Unfortunately, peer reviews find that DAC members’ attempts to achieve coherence between stabilisation, humanitarian aid and development are largely reactive. Except for France, the Netherlands and the United States, conflict prevention is often overlooked, and there are no links between early warnings of political, social or economic deterioration and a flexible and rapid response mechanism that could prevent a situation worsening.

ODA commitments need to be honoured

Countries that signed up to the Addis Ababa Action Agenda, the 2030 Agenda for Sustainable Development, the European Consensus on Development as well as the DAC 2014 High Level Meeting have reinforced their commitments to address development financing. Despite this, ODA as a percentage of GNI remains stubbornly low; the commitment to the LDCs is far from being met by most DAC members; and financing for small island developing states (SIDS), sub-Saharan Africa and country programmable aid continues to decline. Greater efforts are needed to improve the quantity and quality of development finance, and the commitments made must be met if the ambitious 2030 Agenda and the Paris Agreement are to be achieved.

The share of programmable aid to developing countries is falling despite increases in ODA

In 2016, country programmable aid (CPA) represented 47% of DAC countries’ gross bilateral ODA (USD 54 billion), down from 49% in 2015. From 2010 to 2014, the average share of CPA was 54%, remaining at roughly the same level while gross bilateral and gross total ODA continued to increase in volume. The recent decrease in CPA suggests that some DAC members have substituted in-donor refugee costs for ODA previously programmed at the country level. On the other hand, the decline may also represent an increase in regional funding and financing of global public goods (Figure 13.7).

Findings from recent DAC peer reviews suggest that DAC members are scaling up their thematic funds that are centrally managed and not earmarked for specific countries. This would suggest further decreases in the share of country programmable aid.
The decline in aid to least developed countries may be turning around

Gross bilateral ODA flows from DAC countries to the LDCs have been declining: between 2011 and 2016, they fell by 17% in real terms. Preliminary data for 2017, however, indicate that this trend may be reversing: net ODA flows to the LDCs increased by 4%.

The United States is the largest donor by volume, followed by the United Kingdom, Japan and Germany. Combined these four countries provided more than two-thirds of total bilateral flows to the LDCs in 2016 (Figure 13.8).

Aside from bilateral ODA, DAC countries also provide aid through the multilateral system to the LDCs. In 2016, the volume of this aid increased by 20% compared to 2015, mostly due to larger contributions from DAC countries to EU institutions and regional development banks.

DAC countries provided 0.09% of their combined GNI as ODA to the LDCs in 2016, and only six met the United Nations target to allocate 0.15% of their GNI as ODA to the LDCs (Figure 13.9).
In 2015-16, half of gross bilateral ODA expenditures from DAC countries were directed at 8 countries out of the 48 LDCs: Afghanistan (USD 3.4 billion), Ethiopia (USD 2.0 billion), the United Republic of Tanzania (USD 1.5 billion), Bangladesh (USD 1.4 billion), South Sudan (USD 1.3 billion), the Democratic Republic of Congo (USD 1.2 billion), Mozambique (USD 1.1 billion) and Uganda (USD 1.0 billion).

Small island developing states remain vulnerable and overlooked

Average external debt in SIDS has reached almost 60% of their GNI, exacerbated by the need to borrow in order to recover from the impact of natural disasters. New development solutions and approaches are needed to address the challenges faced by this group of vulnerable countries (Box 13.2).

Box 13.2. The United Arab Emirates Pacific Partnership Fund – working with small island developing states

The UAE-Pacific Partnership Fund helped deploy renewable energy in 11 small island developing states (SIDS) in the Pacific, filling some of the urgent investment gap in the energy sector in the region and providing capacity building on newly created energy assets. The fund is a USD 50 million grant facility established by the United Arab Emirates in 2013 and in operation until 2017. The United Arab Emirates worked with the state-owned company Masdar to run competitive, international tenders for project implementation. One of the country’s strategic goals with the fund was to co-operate with other providers and build on existing activities in the region. This led to close technical co-ordination with several providers, such as the Asian Development Bank, the World Bank, Japan, the European Union and, especially, New Zealand in the case of the Solomon Islands. This marked the “first time an OECD member country used a UAE implementing agency” (Masdar, 2016[8]) and helped build trust between the United Arab Emirates and New Zealand through joint planning and implementation – both sides met regularly and disclosed project and investment details. The highly successful implementation of the fund led to the creation of a new fund targeting the renewable energy sector in the Caribbean region and which has been in operation since 2017.

ODA to SIDS peaked in 2010 due to post-earthquake relief aid for Haiti. Since 2011, the total has fallen by nearly 30% (excluding debt relief). In 2016, gross bilateral ODA flows from DAC countries to SIDS were USD 4.8 billion, an increase of 65% in real terms compared to 2015, due to exceptional debt relief to Cuba, mainly from Spain. Excluding such debt grants, however, ODA flows fell by 10% in real terms from 2015.

In 2016, the top five DAC providers of gross bilateral ODA to SIDS were: Spain (USD 2.1 billion), Australia (USD 704 million), the United States (USD 648 million), Japan (USD 319 million) and France (USD 263 million). Combined these countries provided 85% of total flows to SIDS. If the exceptional debt relief is excluded, then New Zealand would replace Spain in the list of top five donors.

**Assistance to Africa, and especially sub-Saharan Africa, is falling when it needs to rise**

Gross bilateral ODA to the African continent fell by 10% in real terms between 2011 and 2016. The largest donors in 2016 were the United States (USD 10.2 billion), Germany (USD 4 billion), the United Kingdom (USD 3.9 billion), France (USD 3.2 billion) and Japan (USD 1.9 billion), which combined provided more than three-quarters of ODA flows to the African continent. Within this group, only aid from Germany and the United Kingdom increased between 2011 and 2016.

Within Africa, gross bilateral ODA to sub-Saharan Africa fell even more, by 13% in real terms between 2011 and 2016. The top aid recipients in the region in 2016 were Ethiopia (USD 2.1 billion), Kenya (USD 1.6 billion), Tanzania (USD 1.5 billion), South Sudan (USD 1.3 billion) and Nigeria (USD 1.2 billion). Regional programmes for sub-Saharan Africa amounted to USD 2.2 billion in 2016. By contrast, the largest drops were for Congo, the Democratic Republic of Congo, Eritrea, Mauritius and Togo, with aid falling by 60% or more in real terms in each country.

**Sustainable development requires a coherent approach and greater participation of other actors**

The 2030 Agenda for Sustainable Development (United Nations, 2015[3]) and the Paris Agreement (United Nations, 2015[9]) provide a new framework for development co-operation, drawing on a broader set of policies, instruments and financing mechanisms. While development co-operation remains critical, especially for the LDCs and many SIDS and in fragile contexts, it needs to be complemented by coherent policies, regulations and approaches to sustainable development. Economic, trade, foreign, migration, defence and environmental policies need to achieve a positive impact on developing countries (OECD, 2017[10]). In addition, donors need to encourage other actors, particularly the private sector, to maximise their contribution to sustainable development in developing countries.

**Multilateral funding continues to rise**

Total concessional and non-concessional flows from multilateral organisations were USD 66 billion in 2016, and have increased by about 40% in real terms over the last five years. USD 42 billion of this was provided on concessional terms. The EU institutions, whose aid increased by 17%, and the World Bank’s International Development Association, whose aid increased by 30%, together accounted for 60% of concessional financing to developing countries. Funding by United Nations organisations also increased by 30% in real terms.

In 2016, DAC countries channelled 40% of their total ODA to and through multilateral organisations, a slight increase from 2010 when it was 37%. The share of core (or assessed) contributions to multilateral organisations has remained stable at around 27% of total ODA, while aid channelled through international organisations has increased, from 11% in 2010 to 13% in 2016 (Figure 13.10). Finance geared towards specific programmes and funds has increased by 19% in real terms since 2010 to reach USD 16.3 billion in 2016. Contributions to pooled funds and basket funds stood at USD 1.2 billion in 2016, having dropped by 10% since 2010.
Private philanthropic flows are also increasing

The volume of development finance delivered by private philanthropic institutions continues to increase. While modest in volume compared with ODA, foundations are significant players in the health and reproductive health sectors, where they were the third largest source of financing for developing countries behind the United States and The Global Fund to Fight AIDS, Tuberculosis and Malaria.

An OECD survey found that private foundations provided USD 23.9 billion from 2013 to 2015, averaging USD 7.96 billion per year (OECD, 2018[11]). Eighty-one per cent of giving came from just 20 foundations. The Bill & Melinda Gates Foundation is the most significant of the 143 foundations surveyed, providing 49% of total philanthropic finance. Its aid has risen over the past five years by nearly 50% in real terms, reaching over USD 3 billion in 2016.

Middle-income countries received 67% of country allocable philanthropic funding and just one-third benefited the LDCs. Almost all funding (97%) was implemented through intermediary institutions. Africa was the largest beneficiary region, receiving about a third of this aid. Domestic philanthropic flows play an important role, representing 83% of total philanthropic flows in Turkey, 60% in Mexico and 35% in the People’s Republic of China.

Foundations value engaging in coalitions with governments, donors, social entrepreneurs and civil society organisations (CSOs). The OECD suggests that donors could engage more systematically with private foundations (OECD, 2018[11]).

As the OECD expands its engagement with foundations and the coverage of DAC statistics improves, reported volumes of philanthropic finance will continue to increase. The United Postcode Lotteries commenced reporting in 2017 and more private donors will follow this year.

Civil society organisations are important partners in crisis response

In 2016, DAC countries channelled nearly USD 18 billion to and through CSOs, which represented 15% of their bilateral ODA. A fifth was spent in Syria (USD 821 million, mostly on humanitarian aid), Ethiopia (USD 668 million), the Democratic Republic of the Congo (USD 433 million), Kenya (USD 408 million),
Afghanistan (USD 380 million), Nigeria (USD 377 million), Bangladesh (USD 348 million) and South Sudan (USD 342 million). Peer reviews undertaken in 2016 and 2017 found that the majority of DAC members channel their CSO funding to and through organisations registered in their own country. Australia, Denmark and the Netherlands channel significant volumes through non-governmental organisations based in developing countries, with this channel increasing in significance for Denmark.

Non-DAC countries channelled USD 346 million to and through CSOs, which represented 6.4% of their bilateral ODA.

The mobilisation of private investment remains modest

Increasing the volume of private sector investment in sustainable development is critical to achieving the Sustainable Development Goals. For the time being, amounts of private sector investment mobilised by official development finance are modest. Donors need to step up their efforts to stimulate private investment while being careful to ensure that the necessary policy and regulatory frameworks are in place to facilitate this.

A 2016 OECD survey (Benn et al., 2016) found that USD 81.1 billion was mobilised from the private sector by official development finance interventions from 2012 to 2015. Volumes increased annually, from USD 15.0 billion in 2012 to USD 26.8 billion in 2015. Guarantees represented 44% of the total. Most of the finance supported projects in middle-income countries (77%), especially in Africa which was the main region to benefit (30%). The banking sector received the largest share (33%), followed by energy (25%) and industry (14%), and 26% contributed to combating climate change.

Bilateral and multilateral development banks and development finance institutions are using blended finance instruments to help bridge the investment gap in developing countries, using public support to mobilise commercial investment. The OECD-DAC Blended Finance Principles were endorsed by the DAC High Level Meeting in 2017; building on these, the OECD’s 2018 blended finance report recommends that DAC members ensure blended finance mobilises commercial resources that are not currently supporting development and better target blended finance to a broader range of development issues and contexts. This report found that donor governments had set up 167 dedicated facilities between 2000 and 2016 to pool public financing for blending, using a variety of approaches and instruments (OECD, 2018).
Financing for gender equality and environmental action is increasing

While aid targeting gender equality and women’s empowerment reached an all-time high in 2015-16 with USD 41.4 billion of bilateral contributions focusing on gender equality, only USD 4.6 billion of this aid was designed with these issues as the main objective. Gender equality is a policy priority for many DAC members. However, even though guidelines and strategies are in place, peer reviews find that implementation is lagging behind. DAC donors should design more aid programmes that specifically target gender equality and women’s empowerment as a primary objective.

In 2016, total ODA commitments by DAC members in support of the environment were USD 38 billion, representing 32% of bilateral allocable ODA. This was an increase of 4% in real terms over 2015. Climate-related ODA was USD 30 billion, of which 52% supported climate mitigation only, 29% climate adaptation and 19% both.

Commitments with a “significant” focus on climate objectives have increased over the last five years for both adaptation and mitigation. This may in part be explained by enhanced emphasis by providers to take climate change considerations into account, and by a greater focus on reporting these data.

In 2015-16, five sectors received over 70% of total adaptation-related development finance, with the agriculture, forestry and fishing sector receiving 21% and the water supply and sanitation sector receiving 20%. This suggests that these two sectors are particularly vulnerable to the impact of climate change.

Peer reviews have found that while development finance is increasingly supporting global environmental issues, mainstreaming of environmental concerns in projects is relatively low. An ongoing DAC peer learning exercise is seeking to understand the obstacles to managing and mainstreaming environmental issues and share good practices and tools to promote synergies between environment and development interventions.

There has been little change in sector financing

Forthcoming OECD sector analysis finds that there has been very little change in the allocation of official development finance to broad sectors in recent years. Between 2012 and 2016, 34% of official development finance was committed to social sectors and 33% to infrastructure. Concessional flows concentrated on social sectors such as education; health; governance and civil society; and social infrastructure and services, where ODA provides 81% of development finance. Infrastructure sectors (transport and storage, energy, water and communications) received 56% of ODA and 40% of other official flows. ODA represented 52% of flows to the productive sectors (agriculture, industry, mining and construction, and trade and tourism).

While private finance is mobilised in sectors where business is traditionally active (energy, banking and business, industry and mining), the report suggests that it could contribute more in the water and transport and storage sectors.

DAC countries provided an average of USD 87 billion per year in sector-allocable development finance from 2012 to 2016, with social sectors comprising some 40% of their portfolio. High volumes of funding are provided by a limited number of donors in most sectors, especially infrastructure with more than 80% provided by France, Germany, Japan, Korea, the United States and the multilateral development banks. The United States and the World Bank Group provided an average of USD 26.2 billion per year to the social sectors compared with USD 29.5 billion from the next 13 top contributors. The European Union and the United States provide the largest volume of governance financing, and Germany contributes 20% of grants to the education sector. Non-DAC providers are increasing their contribution to a number of sectors with the United Arab Emirates one of the top 10 bilateral providers in the production sector and Kuwait in the infrastructure sector.
Aid for trade commitments decreased to USD 51 billion in 2016 from USD 55.2 billion in 2015 (2016 constant prices). The drop was the highest in the energy sector, banking and financial services, and the agriculture sector. Despite this drop, aid for trade commitments remain high when compared to the 2002-05 baseline and more than doubled during this period, from USD 22.9 billion to USD 51 billion in 2016. Africa was the largest recipient of aid for trade (36%), followed by south and central Asia (25%).

2016 was the second year for which ODA to domestic revenue mobilisation (DRM) was tracked via a dedicated-purpose code in the OECD's Creditor Reporting System. ODA commitments for DRM were USD 291 million in 2016. The most significant development in ODA to DRM in 2016 was the provision of ODA loans, which represented 54% (USD 156 million) of total commitments to DRM, with one loan alone making up 38% of total commitments. By contrast, grants represented USD 135 million, a fall of 24% in real terms from 2015. ODA to DRM has become less focused on the LDCs since 2015, with only USD 37 million (13%) of total commitments for the LDCs, compared to USD 102 million (56%) in 2015.

Key trends in summary

- Net ODA from DAC members was USD 146.6 billion in 2017, a slight fall of 0.6% in real terms from 2016.
- The overall volume of development finance continues to grow thanks to increases by providers of aid beyond the DAC members, including Turkey and the United Arab Emirates.
- DAC countries’ humanitarian aid has increased by 66% since 2010 to reach USD 15.5 billion in 2017, a rise of 6.1% from 2016.
- Following dramatic increases in 2015 and 2016, DAC members’ spending on in-donor refugee costs fell by 13.6% in 2017.
- DAC members have reversed the trend of declining aid to least developed countries since 2011, increasing their bilateral flows by 4% in 2017.
- The share of concessional loans has increased by 25% since 2010.
- In 2016, 88% of DAC members’ ODA covered by the 2001 DAC Recommendation on Untying was reported as untied, an increase of 5.7% compared to 2015.
- Aid targeting gender equality and women’s empowerment reached an all-time high in 2015-16 with USD 41.4 billion of bilateral contributions focusing on gender equality.

However, despite commitments made by DAC members in 2014, in the 2015 Addis Ababa Action Agenda and in the European Consensus on Development:

- ODA as a share of gross national income fell from 0.32% in 2016 to 0.31% in 2017.
- Country programmable aid represented 47% of bilateral ODA in 2017, down from 54% in the period 2010-14.
- Total ODA to least developed countries from DAC countries combined averaged 0.09%, well below the UN target of 0.15-0.20% of gross national income.
- Bilateral ODA to small island developing states has dropped by nearly 30% since 2011, excluding debt relief.
- Bilateral ODA to fragile and conflict-affected contexts fell by nearly 7% in real terms between 2011 and 2016.
- Bilateral ODA to sub-Saharan Africa fell by 13% in real terms between 2011 and 2016.

Notes

1. The figure of USD 161 billion in 2017 includes preliminary 2017 ODA flows from DAC countries as well as other providers of development co-operation who reported these data to the OECD in spring 2018. Final and more comprehensive data will be available in December 2018.
3. Annual gross domestic product in OECD countries averaged 2.1% between 2013 and 2017, with a high of 2.6% in 2015.


6. Pooled funds are managed jointly with other donors or recipients; these may have specific purposes, modes of disbursement, etc. Basket funds have common project documents, common funding contracts and common reporting/audit procedures amongst donors.

7. Official development finance is defined as the sum of bilateral ODA, concessional and non-concessional resources from multilateral sources, and bilateral other official flows made available for reasons unrelated to trade.

References


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