4

International official finance

- We need greater visibility on all official finance instruments to have informed debate about the comparative advantage of each type of finance in different contexts.
- An 'instrument neutral' approach needs to be taken when deciding between different types of official financing, enabling the most appropriate type of finance to be deployed in each situation.
- Although ODA should be considered alongside other forms of finance, its focus on poverty and development means it will remain a unique and vital resource in the post-2015 era and international commitments on ODA are still important.
- Strengthening the mandate of ODA to target investments that explicitly benefit the poorest people would strengthen its role in ending poverty. Agencies with a specific mandate to tackle poverty allocate resources more effectively than agencies without such a mandate.
- We need to understand both the needs and the impact of flows on specific goals so they can be better targeted. ODA marked as supporting climate change adaptation often does not go to the countries considered most vulnerable, and the direct and indirect impact of global public goods on poverty can be difficult to assess.
- As well as targeting poverty directly, official finance can act as a catalyst. There is scope for increasingly support to domestic resource mobilisation to enable developing countries to enhance their own ability to tackle poverty within their borders.
- Development cooperation from other government providers will play an important role toward the goal of ending poverty. Greater visibility and principles for accounting and reporting can support progress in decision-making, technical capacity and effective partnerships.

International official finance is resource flows to developing countries provided by governments and international organisations that are funded by national governments, such as the World Bank, the UN and agencies of the European Union (EU). Collectively these national and multilateral institutions provide assistance to the world's developing nations through a wide variety of funding modalities.

To date, debates around the use and effectiveness of official sector development finance for reducing poverty have focused on concessional ODA – this remains a vital tool as it can target poverty reduction directly. But the scale of other investments (including non-concessional finance) disbursed through these governments and international organisations, and their role in developing country economies, means that all forms of official financing must be considered alongside ODA as important elements of the post-2015 development agenda. Each type of finance has comparative advantages that may be relevant in different contexts. This means that 'instrument-neutral' approaches need to be taken based on what form of finance is most appropriate and effective, with the poorest countries benefiting from the most concessional finance. This will need better data on all resources – on what finance is available, how is it deployed and what its impact on poverty is. The political focus on ODA means that its data is generally more comprehensive than that on other forms of official finance.

Although non-ODA resources must be considered, ODA will remain a vital and unique resource. It is the resource most able to specifically target the needs of the poorest people in the poorer countries, setting it apart from other forms of international finance. We need to strengthen the mandate for ODA to focus even more explicitly on investments that benefit the poorest people, enhancing its ability to target those most in need.

Unbundling international official finance

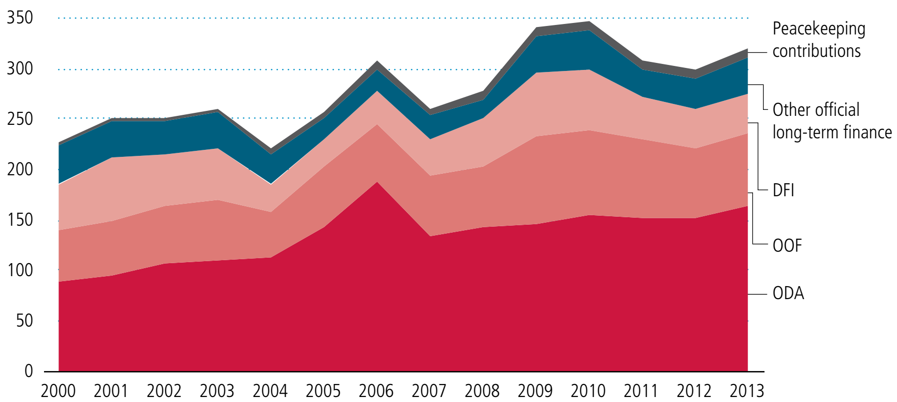
The main components of international official finance, for which data is available, are:

- **Official development assistance (ODA):** grants and concessional loans to promote economic development and welfare in developing countries.[1]
- **Other official flows (OOFs):** flows to developing countries reported by donors to the OECD DAC that do not meet the criteria for ODA, because they are not primarily aimed at development or not sufficiently concessional.
- **Other transactions from development finance institutions (DFIs):** finance from institutions funded by governments that finance development projects and is not reported in ODA and OOF statistics. These institutions include international bodies such as the World Bank's International Development Association (IDA), regional development banks and organisations associated with a single donor (such as the Netherlands Development Finance Company or France's Proparco).
- **Other official long-term finance:** long-term lending from official sources recorded in international statistics that is not included in the statistics for ODA, OOFs or DFIs. Here we call this 'other official long-term finance'.
- **Contributions to peacekeeping operations:** peacekeeping operations funded by donor governments in some developing countries – only a small proportion of this is included in ODA statistics.

FIGURE 4.1

International official finance incorporates a variety of flows

US$ billion (constant 2012 prices)



Note: Peacekeeping data is in current prices and refers to peacekeeping budgets attributable to missions, including those of ECCAS, ECOWAS, OAS, CIS and other bilateral or independent peacekeeping missions, excluding the multinational force in Iraq (2003–2006). DFI 2012 figure used for 2013.

Source: Development Initiatives calculations based on OECD DAC data, annual reports of DFIs, World Bank WDI and SIPRI data.

Much of the discourse around official development finance focuses on ODA, the single largest type of international official finance and the flow within which most international commitments have been made. Yet in 2013 gross ODA[2] disbursements represented just over half of all international official finance, totalling over US$160 billion. All other types of official finance provide resources that impact development and global poverty, and each has comparative advantages specific to different contexts. We must consider the scale and potential impact of all these types for the future of development financing.

Each type of official flow can be subdivided into modalities or types of finance. The comparative advantage of these modalities also needs to be considered to provide the most appropriate resources for development. ODA, for example, comprises cash loans, cash grants and various types of in-kind (non-cash) transfer, such as food aid and technical cooperation. Also included in the ODA statistics are elements that do not result in a direct transfer of resources to developing countries, such as debt relief, imputed student costs and donors' administrative costs. Similarly, OOFs and other flows from DFIs can be disaggregated into different modalities, including loans, grants, guarantees, export credits, technical cooperation and equity investments.

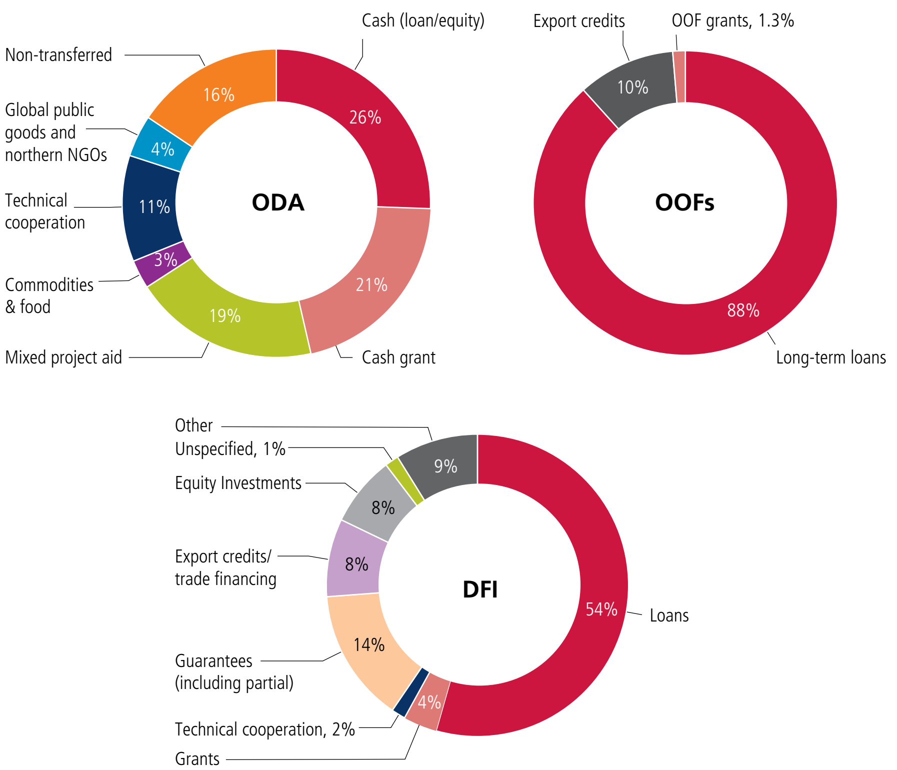
Each of these flows and associated modalities can play a role in development and poverty reduction. But care must be taken when selecting the most appropriate instrument for each purpose and context. ODA's prominence risks obscuring the potential of other sources of official finance and create perverse incentives to use instruments that can be reported as ODA even when other modalities would be more appropriate. While some developing countries with relatively robust economies may get significant benefits from lending provided at or near to market rates, the debt sustainability of others may be undermined by anything other than highly concessional financing. Some development-related activities are better served by grant money, for example social sector projects such as schools and social safety nets, because such activities do not produce direct, short-term, monetary returns that could be used to repay loans. Productive sector projects that generate additional revenue could be more appropriate to fund through lending.[3] Non-monetary forms of assistance such as technical cooperation are also of great value if delivered appropriately in the right circumstances.

To assess the impact of different types of finance we need detailed data on how these instruments are used. The historic focus on ODA and international ODA targets themselves mean that data on ODA is far better than that on any other type of finance. But even ODA data needs to improve, for example we need sub-national data on ODA allocations. Data on other forms of official finance is less clear. We need complete and detailed data on all official flows so their scale, purpose and impact can be more accurately measured. This will, in turn, enable policy-makers to make informed choices about the instruments to deploy in any given circumstance.

FIGURE 4.2

Each type of flow comprises many different financing modalities

2013, constant 2012 prices



Notes: DFI data is approvals for 2012 excluding amounts reported as ODA and OOFs and excluding institutions that work primarily in developed countries (defined as DFIs with less than 80% volume operations outside of developing countries). The excluded institutions are CEB, EBRD, EIB, IMF and JBIC (Japan).

Source: Development Initiatives calculations based on OECD DAC and annual reports of DFIs

Explore further: unbundling ODA (http://bit.ly/1Qm2Wzm) and unbundling OOFs (http://bit.ly/1Qm37dX)

How is international official finance targeted?

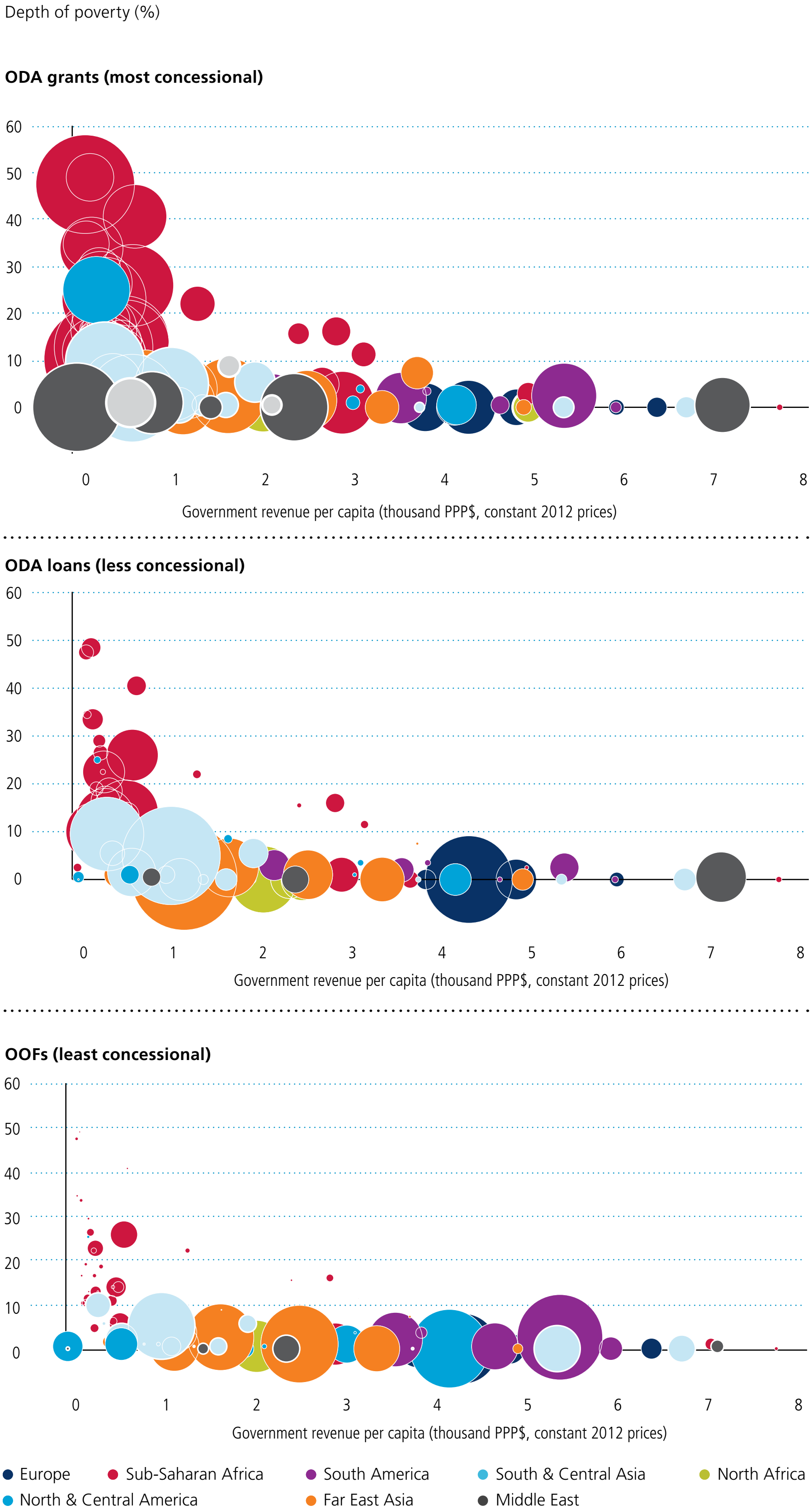
Donors and their agencies should make resource allocation decisions that are proportionate and appropriate to need. Not only should more resources be targeted at the areas of greatest need, but the most appropriate types of assistance should be chosen so countries facing the greatest challenges to end poverty – and with least domestic resources – benefit most from highly concessional finance. How do donors currently allocate the various financial instruments at their disposal? Figure 4.3 shows how donors allocate three official finance instruments against depth of poverty and the scale of government revenue in over 100 developing countries: ODA grants (the most highly concessional), concessional ODA loans and OOF loans (with low or zero concessionality).

Many of the largest recipients of ODA grants are countries with high levels of poverty and/or very low government resources: 65% of grants go to countries with per capita government revenue of less than US$1,000, with 47% going to countries with revenue below this level and where the depth of poverty is greater than 10%. But some of the largest recipients of grants – such as Indonesia, India and Jordan – are countries that do not fit this category (although India and Indonesia have substantial numbers of poor people, depth of poverty is low and domestic resources are high compared to the poorest developing countries).

Compared with grant funding, much less ODA in the form of loans goes to the poorest countries and this tendency is even more apparent in the case of OOFs, which are concentrated in just a few countries. In total 23% of ODA loans and just 3% of OOFs go to

FIGURE 4.3

More of the most highly concessional finance goes to the poorest countries



Notes: Size of bubble represents 2013 gross ODA received by each country.

Source: Development Initiatives calculations based on OECD DAC databases, PovcalNet and IMF Article IV publications

Explore further: how do different donors allocate their ODA? (http://devinit.org/#!/post/oda-donor) countries with per capita government revenue of less than US$1,000 and a depth of poverty greater than 10%.

Official finance can support the poorest countries to speed up poverty reduction (see Chapter 1), and work with rapidly growing countries to ensure no one is left behind. But with significant volumes of ODA grants going to countries with low levels of poverty, and significant concessional and non-concessional lending directed to countries with limited government revenues, they could be much better targeted. An improved system for allocating resources would allow the most concessional finance to be targeted to the countries facing the greatest challenges in ending poverty – and where local resources are not enough to either tackle poverty or repay large amounts of debt. Less concessional forms of finance can be used to boost the funds available to tackle poverty in countries with stronger economies. But under such a system, there may still be a rationale for using some highly concessional ODA in economically stronger developing countries where:

- it specifically targets the poorest people who would otherwise be left behind
- those people do not have access to services and wider resources in the country
- concessional ODA grants, rather than other forms of official finance, are the most appropriate instrument for reaching the poorest people.

ODA allocated by donor agencies

ODA providers follow different mandates that influence how they allocate ODA. The degree to which different ODA agencies – even those from the same donor country – focus on reducing poverty strongly determines how effective they are at doing so. Many donors allocate their ODA via a number of different donor agencies (such as separate government departments). For example, less than 60% of ODA from the US is managed by the United States Agency for International Development (USAID), while the rest comes from a further 30 government departments and specialist agencies including the State Department, the Department of Defense, the Millennium Challenge Corporation and the Peace Corps.

Some donor agencies have poverty reduction as a legal mandate, or at least a stated primary goal. For other agencies, reducing poverty is less of a focus or not a specific goal at all.

Based on a review of the legal foundations and mission statements of 63 DAC donor agencies that report ODA to the OECD,[4] agencies can be grouped according to the mandate they have with respect to ending poverty:

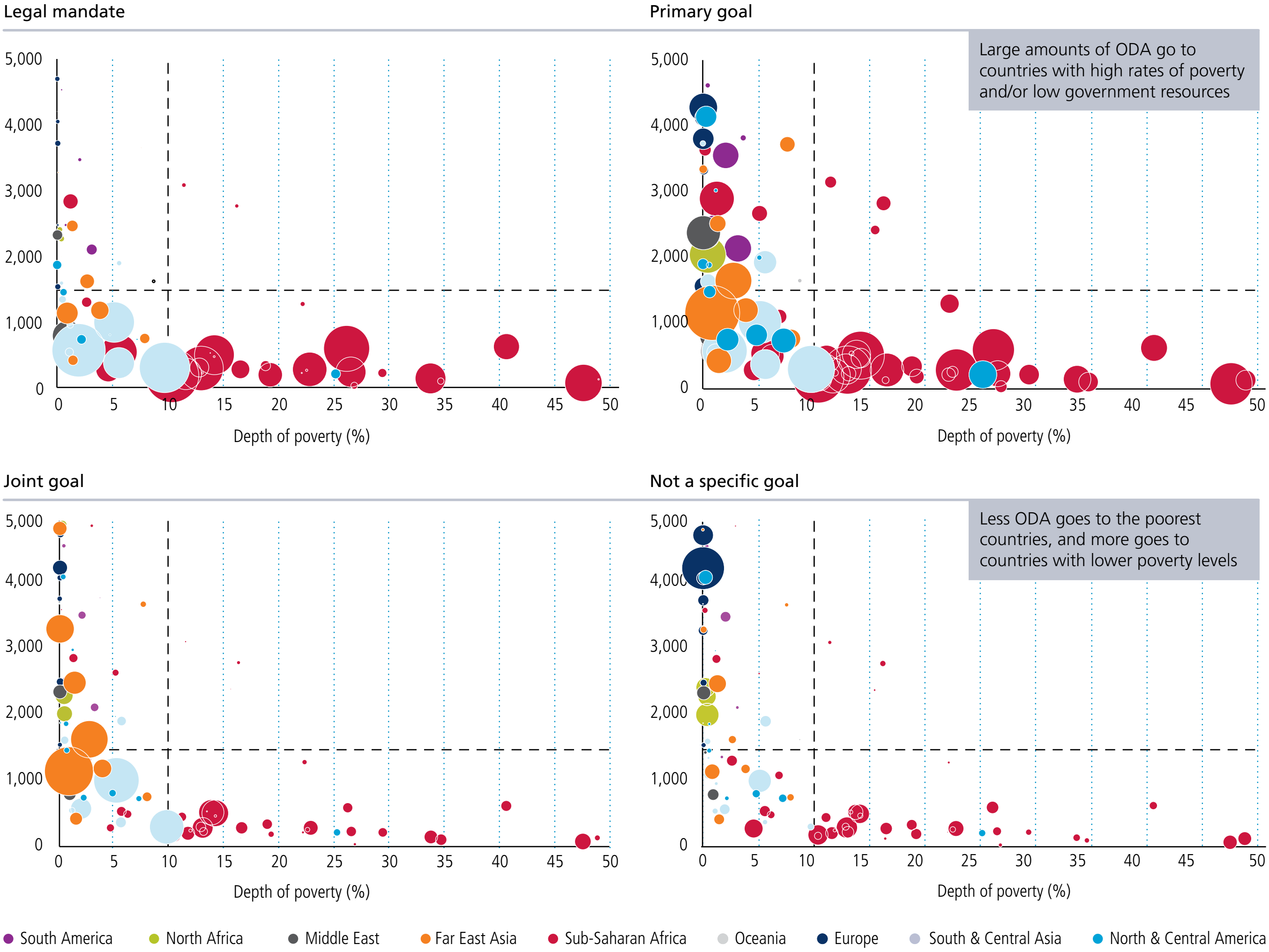
1. They have a legal mandate that specifies poverty reduction as a goal of development cooperation (six agencies)
2. Poverty reduction is the primary goal of development cooperation (21 agencies)
3. Poverty reduction is a stated joint goal alongside other goals of development cooperation (10 agencies)
4. Poverty reduction is not highlighted as a specific goal (13 agencies)

Agencies with a legal mandate to reduce poverty allocated more than half of their ODA in 2013 to countries with a depth of poverty of 10% or greater and 89% to countries where government revenue is less than PPP$1,000 per person. This highlights how strengthening the mandate for providing ODA can improve its targeting.

FIGURE 4.4

Donor agencies with different mandates on poverty allocate their ODA very differently

Government revenue (recipient countries) per capita, 2013 ($PPP)



Note: Size of bubble represents 2013 gross ODA received by each country.

Source: Development Initiatives calculations based on OECD DAC, PovcalNet, IMF WEO and data extracted from IMF Article IV publications.

How climate adaptation finance is allocated

Many of the world's poorest people live in environmentally vulnerable contexts, and are most severely impacted by environmental and climate disasters as they have the least access to sustainable coping mechanisms or safety nets.[5]

Adaptation finance therefore has an important role to play in the SDG era by strengthening the resilience of the poorest people against shocks that would otherwise undermine progress in reducing poverty. Adaptation ODA aims to build the capacity to adapt to climate change while reducing vulnerabilities to the shocks and stresses induced or exacerbated by it and their associated impacts. Donors can identify their ODA-financed projects that have adapting to climate change as primary or secondary objectives using the climate change adaptation Rio Marker.

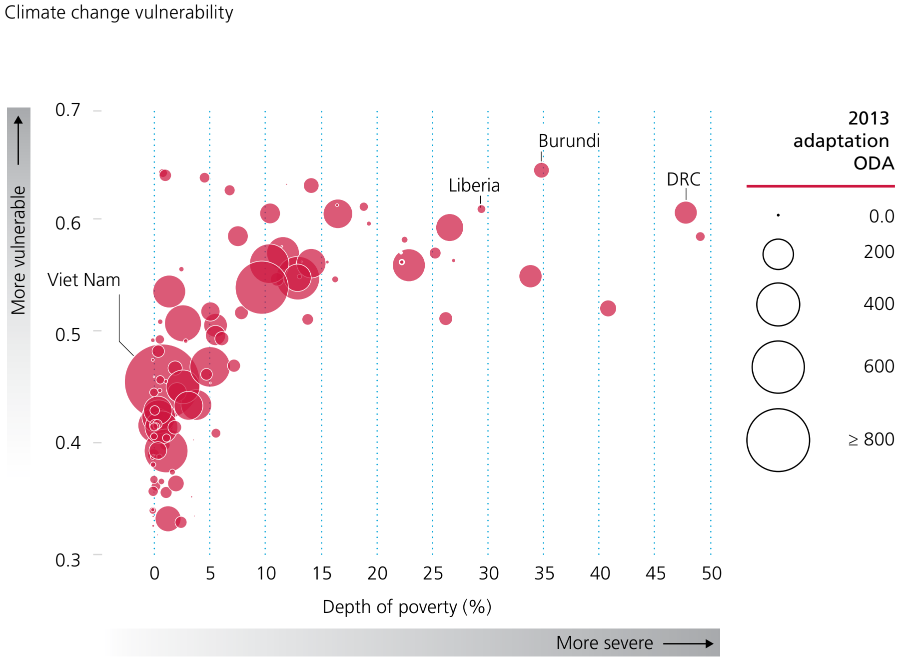
Adaptation ODA from bilateral donors is small in volume (though growing)[6] and does not adequately target countries where vulnerability to climate change and poverty is greatest. While global total public climate finance is estimated at US$137 billion (in 2013), and despite recent increased commitments, adaptation-related ODA remains comparatively small at US$9.2 billion, just over a quarter (26%) of climate-related ODA (between 2010 and 2013).[7]

The greater destinations for most adaptation ODA are not those where needs are greatest – that is, countries facing vulnerability to climate change and with high depths of poverty.[8] In 2013, just 9% of country-allocable adaptation-related ODA targeted countries with the highest levels (the upper quartile of countries) of vulnerability to climate change (Figure 4.5). Just 10% targeted countries with the most severe depth of poverty (greater than 20%), while 29% was allocated to countries with less severe depths of poverty (less than 1%). Viet Nam was the largest recipient of adaptation ODA in 2013 – 13% of total country-allocable adaptation-related ODA – although it is not among the most vulnerable countries and depth of poverty is less severe than for many others. The three countries with the highest levels of vulnerability and the deepest poverty (Burundi, DRC and Liberia) received just 2% of country-allocable adaptationrelated ODA.

Even such a limited picture shows that support currently provided to developing countries for climate change adaptation falls short of needs and could be targeted more effectively.[9]

FIGURE 4.5

A large proportion of adaptation-related ODA is allocated to countries with relatively low levels of vulnerability to climate change



Note: Size of bubbles represents volume of adaptation-related ODA commitments in 2013. Vulnerability to climate change is defined as a country's exposure, sensitivity and ability to adapt to the negative impacts of climate change, based on data from ND-GAIN – higher scores mean greater vulnerability.

Source: Development Initiatives calculations based on OECD DAC, PovcalNet and ND-GAIN.

Explore further: which countries are most vulnerable to climate change? (http://bit.ly/1iBmchX)

BOX 4.1

ODA to global and regional public goods

A significant proportion of official resources is not allocated to specific countries but instead spent on activities designed to benefit all developing countries or those in a specific region. Such activities may be termed global (or regional) public goods; examples include research programmes into drought-resistant crops and region-wide vaccination initiatives. In 2013 approximately US$40 billion – a quarter of gross disbursements – were not allocated to specified recipient countries.

Yet there is no standard way of measuring how much of this US$40 billion is spent on global or regional public goods. Here we have adopted a broad definition that counts ODA as being for global or regional public goods if there is no specified recipient country *and* if it:

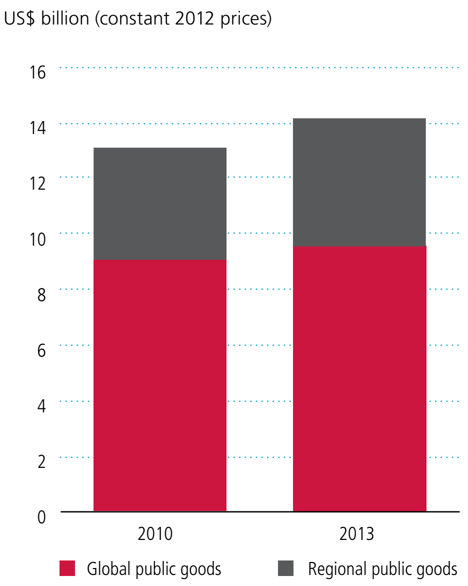
- Funds the work of NGOs or special-purpose funds that may have a global reach
- Funds research bodies or programmes
- Is earmarked for projects relevant to environmental, climate change and global trade issues.

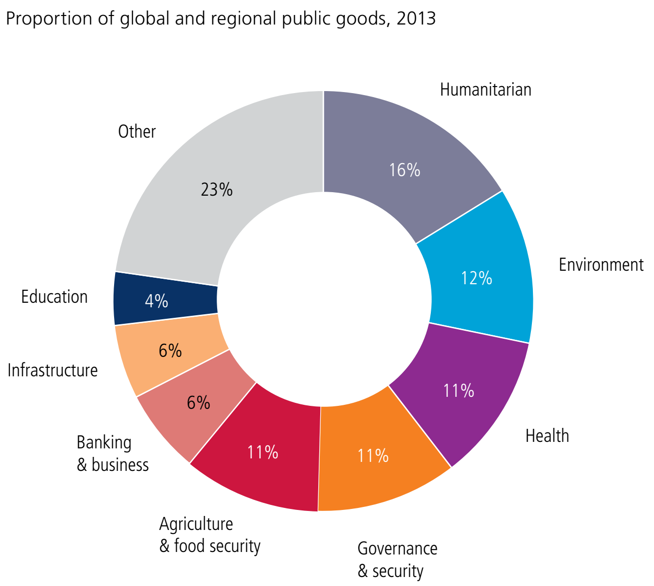
Using this measure the amount of gross ODA to global and regional public goods in 2013 stood at US$14.2 billion, up from US$13.1 billion in 2010. In 2013 over 60% of this ODA went to five sectors: humanitarian, the environment, health, governance and security, and agriculture.

The value of ODA allocations should be determined by how it benefits people in poverty. Investments in such public goods can be of real benefit to poor people and thus a very appropriate use of ODA. But we need further research and additional data to determine how much of the ODA channelled through NGOs or special-purpose funds is ultimately used to finance public goods and, more importantly, to understand how proximate and impacting such investments are to people in poverty.

FIGURE 4.6

ODA to global and regional public goods has grown slightly since 2010 and funds a variety of sectors[10]





Note: the large amount of funding going to `Other' (right-hand chart) reflects that data on these investments often lacks sufficient detail to determine the exact use to which it is put.

Source: Development Initiatives calculations based on OECD DAC data

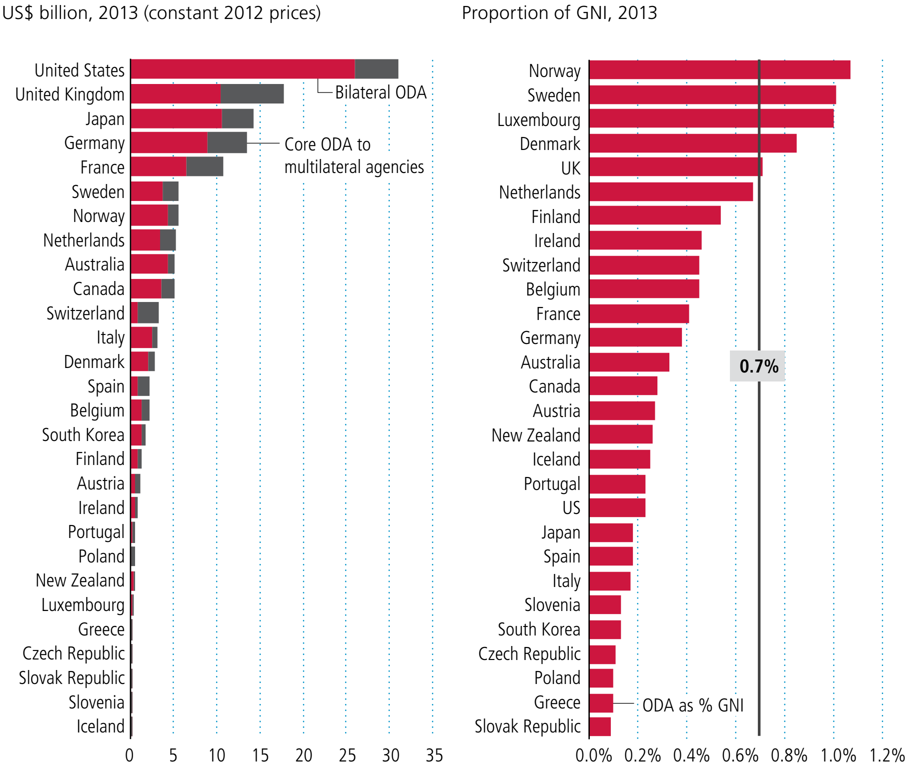
ODA – a vital resource for the future

Although all international official finance is important for development, ODA is a unique resource as it is the only financial flow that, by definition, explicitly targets the economic development and welfare of developing countries. It is also the only resource for which international targets have been set to ensure it responds to the needs of developing countries. Commitments by donors to provide an annual net ODA equivalent to 0.7% of their gross national income (GNI), with ODA given to least developed countries (LDCs) equivalent to 0.15%–0.20% of their GNI, are widely recognised. Furthermore, as discussed in Chapter 2, ODA remains the most important source of international finance for the poorest countries (those with low levels of domestic resources and high levels of poverty restricting their ability to support development through domestic spending).

Most ODA from the 28 DAC member countries comes from a small number of donors. The five largest donors in 2013, which each disbursed over US$10 billion, accounted for almost two-thirds of total net ODA in that year. The 10 largest donors, which each disbursed over US$5 billion, accounted for 84% of total net ODA; the remaining 16% was split between 18 smaller donors. But absolute volumes of ODA only convey part of the picture. To assess the priority that each donor places on ODA we need to compare the amount given by each country with its level of GNI. In 2013 only five countries – Norway, Sweden, Luxembourg, Denmark and the UK – met the long-standing UN target of an annual net ODA equivalent to 0.7% of GNI. Having previously met this target, the Netherlands' ODA has dropped in recent years and in 2013 fell just short. In contrast, some of the

FIGURE 4.7

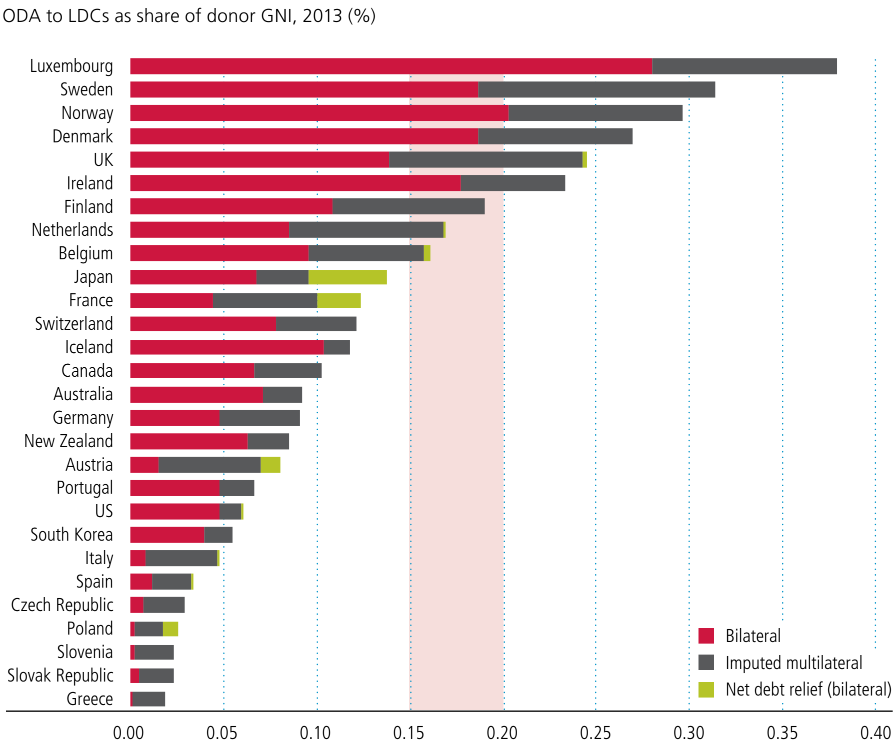
A few key countries provide the bulk of ODA, but some smaller donors give the highest proportion of their national income



Source: Development Initiatives calculations based on OECD DAC data

FIGURE 4.8

Around one-third of donors meet international targets on ODA to LDCs



Note: ODA is net and does not include LDC regional/unspecified ODA imputation. The pink shaded area represents the Istanbul Programme of Action target to provide 0.15–0.20% of GNI to LDCs.

Source: Development Initiatives calculations based on OECD DAC data' largest donors in absolute terms give a relatively small proportion of their GNI as ODA; the US and Japan (the largest and third-largest donors, respectively) disbursed ODA equivalent to around 0.2% of GNI in 2013.

In 2011 the Istanbul Programme of Action for LDCs established a target for OECD DAC donors to provide 0.15–0.20% of their GNI as ODA to LDCs.

In total, DAC countries provided US$46 billion of net ODA to LDCs in 2013, around half of the US$91 billion needed to reach 0.20% of GNI. This represented 0.10% of their overall national income in 2013, up from 0.06% in 2000. Performance among DAC donors varied; nine donors provided more than 0.15% of their GNI as ODA to LDCs, with six of these exceeding 0.20%. Fourteen donors provided less than 0.10%, with seven giving less than 0.05%.

Multilateral agencies including EU institutions, the World Bank's IDA, regional development banks and vertical funds such as the Global Fund to Fight AIDS, Tuberculosis and Malaria, disburse significant funds to developing countries. Many of these disburse amounts of ODA on the scale of all but the largest bilateral donors.

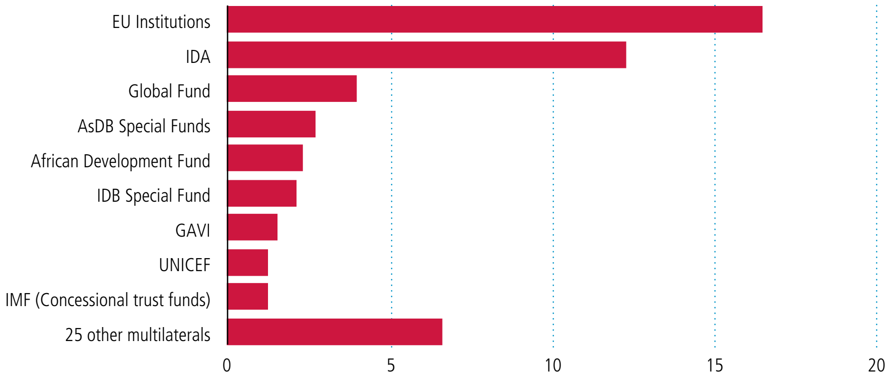
ODA as a catalyst for mobilising other resources and reducing risk

While ODA can be effectively used to fund projects directly targeting poverty, a sustained reduction in (and the ultimate end of) poverty requires more than the targeting of funds to direct pro-poor interventions. Other (structural) changes are needed in some developing economies and we cannot ignore the international threat posed by climate change. ODA's role in areas such as stimulating the public sector, mobilising domestic resources, creating an environment where private sector growth directly benefits poor people, and responding to climate change, therefore needs to be taken into account.

FIGURE 4.9

Some multilateral bodies make very large ODA disbursements

US$ billion, 2013 (constant 2012 prices)



Note: ODA figures are gross disbursements from multilaterals.
Source: Development Initiatives calculations based on OECD DAC data

BOX 4.2

The concessionality of ODA varies and the rules on counting ODA are changing

Most DAC donors disburse ODA entirely (or almost entirely) in the form of grants, with only a few DAC members, including three of the largest donors (Japan, Germany and France), giving significant amounts of aid in the form of loans. The level of concessionality of ODA loans (how 'soft' the loans are) varies widely in this group of loan-giving donors. The average grant element[11] of loans from South Korea and Japan stood at 89% and 79%, respectively, in 2013, while ODA loans from France had an average grant element of just under 50% and loans from Germany were the least concessional of all, averaging just 42%. Despite these disparities the current system of measuring ODA treats all loans in the same way, provided the loan has a grant element of at least 25%. This means that loans at near to market rates count for the same amount of ODA as highly concessional finance. In response to this, the OECD DAC is overhauling the rules on how donor lending is counted as aid. In future, only the grant element rather than full value of the loan will be counted as ODA and repayments will no longer be subtracted from donors' ODA. There will also be new thresholds for lower and middle-income countries to determine which loans count as ODA. These rules were proposed in 2014 and are due to be in full force by 2018. This could have a major impact on the ODA levels of the large loan-giving donors. For example, if the new rules had been applied in 2013 Japan's reported ODA could have been US$6.5 billion higher and German and French ODA could have been US$445 million and US$770 million lower, respectively.[12]

The role of ODA in mobilising domestic resources

Developing countries' ability to mobilise and effectively use domestic resources is a prerequisite for sustainable development. ODA can play a role in mobilising domestic resources but only a very small proportion of ODA disbursements are currently targeted at this area.

In 2013, US$80.9 million was disbursed to 190 'core' domestic resource mobilisation projects in 73 developing countries, down from the US$104.6 million (269 projects to 75 countries) estimated in 2011.[13] This represents 0.05% of total ODA in 2013. The average amount disbursed to these projects was around US$426,000, with only seven projects disbursing more than US$2 million. Afghanistan received the most (US$11.3 million), followed by Tanzania (US$9.8 million) and Mozambique (US$9.1 million).

The UK was the largest donor of core domestic resource mobilisation aid in 2013, with 26 projects totalling US$28.2 million and representing 0.26% of total UK aid. The next largest donors were Norway (13 projects worth US$7.5 million), the EU (18 projects worth US$6.7 million) and the US (26 projects worth US$6.3 million).

Meanwhile, a further US$597 million was disbursed to 366 'wider' domestic resource mobilisation projects across 96 countries that had an identifiable component addressing tax or revenue-related issues.

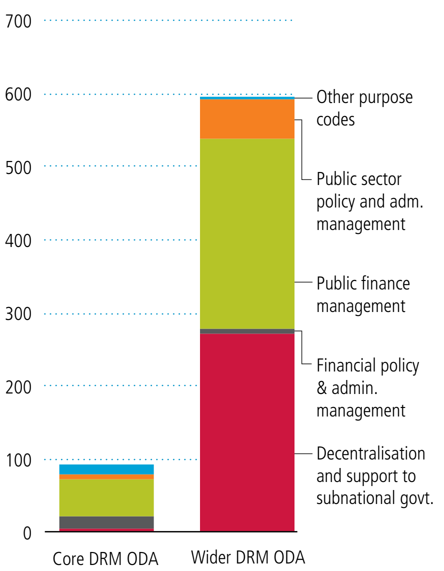
ODA and the private sector

The private sector's role in development is a hotly debated issue, as is the interaction between public and private actors. ODA can play many roles in the private sector: projects may aim to directly stimulate growth and development of the sector (such as working with micro, small and medium-sized enterprises) or work to create conditions in the wider business environment in which it can flourish. In some cases providers of ODA work with private firms in public-private partnerships or may engage private firms as the delivery agent for ODA projects. This is clearly a potentially important area, but there is little actual information on the scale of collaboration between these actors in developing countries beyond ad hoc case studies and small-scale projects. We have examined the sectors funded by ODA and the types of organisation used to implement ODA-funded projects to provide two proximate measures of allocations to projects that aim to work with or through the private sector[14].

FIGURE 4.10

ODA for domestic resource mobilisation supports a range of functions

US$ million, 2013 (constant 2012 prices)

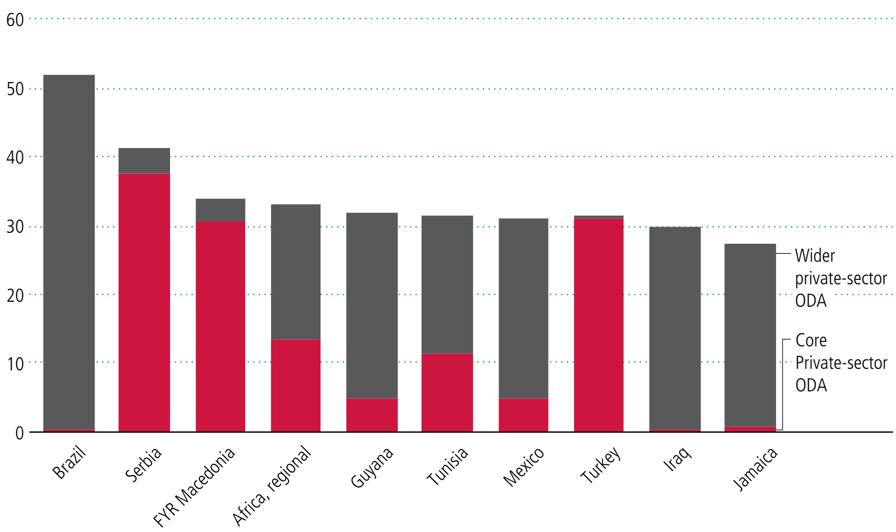


Source: Development Initiatives, forthcoming paper, calculations based on OECD DAC data

FIGURE 4.11

Around half of ODA going to Brazil is relevant to developing the private sector

% of total gross ODA disbursements, 2013



Note: The 10 countries shown are those that receive the largest share of their ODA in forms relevant to the development of the private sector. FYR - Former Yugoslav Republic of.

Source: Development Initiatives calculations based on OECD DAC data

In 2013 core private-sector ODA from all sources totalled US$4.4 billion, or 2.7% of total gross ODA; wider public-sector ODA totalled US$12.8 billion, or 7.9% of total gross ODA. The EU was the largest single donor of private-sector-relevant ODA, with 11% of its gross ODA counting as core private-sector ODA and a further 6% as wider private-sector ODA, giving a total of US$2.8 billion. Other significant donors of this type of aid in 2013 were the US (US$2.2 billion), IDA (US$ 2.1 billion), Germany (US$1.8 billion) and Japan (US$1.7 billion).

In absolute terms, Turkey was the largest single beneficiary of this type of ODA in both 2012 and 2013. In 2013, Turkey received US$1.1 billion in private-sector ODA, almost all of which was core private-sector ODA from EU programmes. Though as a percentage of total ODA disbursed, countries that receive a high proportion of their ODA in the form of private-sector ODA tend to be middle-income developing countries, in 2013 Brazil received over 50% of its ODA in forms relevant to developing the private sector. In other countries such as Serbia, Tunisia, Mexico and Iraq, private-sector ODA accounted for around 30%–40% of total disbursements.

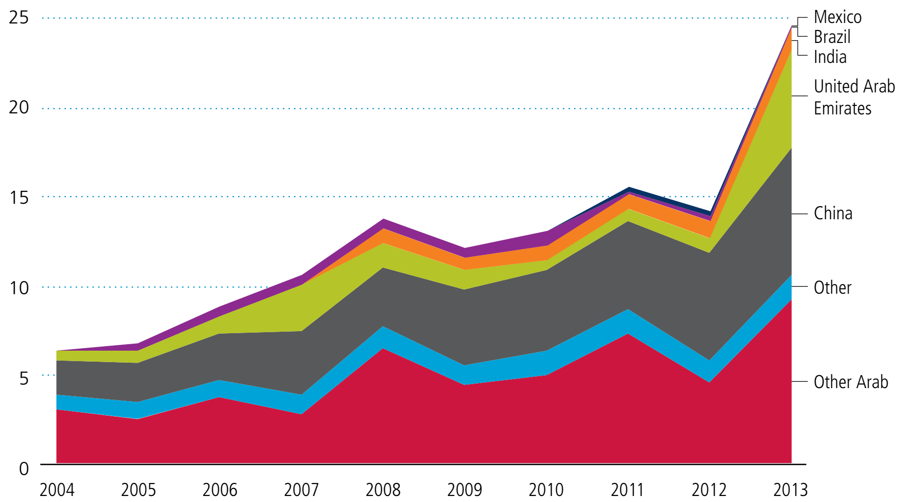
Development cooperation from other government providers[15]

Development cooperation from other government providers is a growing and complementary source of international official finance important for ending poverty. Some of these providers have strong recent experience in reducing poverty and stimulating economic development within their borders. While they still face challenges, they can share their experiences with fellow developing countries to address common social and economic issues.

FIGURE 4.12

Development cooperation from other government providers outside the DAC grew almost fourfold in the last decade

US$ billion (constant 2012 prices)



Note: Disbursements from Brazil between 2011 and 2013 only includes humanitarian assistance as data on other aspects of development cooperation is not available.

Source: Development Initiatives calculations based on national sources and OECD DAC data.

Estimated development cooperation from other providers almost quadrupled from US$6.4 billion to US$24.4 billion in the last decade. In 2013, Arab countries were the largest providers in aggregate (60% of total); China was the largest single provider.

But despite improvements in reporting, information remains very limited. The actual increase is skewed by better information: only 12 providers had data on their development cooperation in 2004; 25 had data in 2013 (27 in 2012). Sources of development cooperation are widely spread: UN OCHA's Financial Tracking Service (FTS) included 55 non-DAC humanitarian assistance providers out of 86 country donors in 2013. Analysis relies on estimates and we are unable to give compelling answers to basic questions (how much is there, on what is it spent, where does it go?). Crucially, we are not able to assess to what extent development cooperation reaches the people who most need it.

A clearer development cooperation framework is needed with principles for accounting and reporting that can support progress in political commitment and technical capacity. Better visibility would help to systematically exploit synergies between development cooperation from other providers, ODA and other resources. These providers' resources, expertise and knowledge are important for meeting the ambitious SDG agenda and particularly to end poverty in every form, everywhere. Better information can help realise their impact through better decision-making, informed and supportive domestic constituencies, effective partnerships, and stronger national planning by recipients.

Brazil

Brazil's development cooperation is largely based on its own domestic policies. Civil servants with domestic policy expertise design and implement most international projects.

In 2010 (the latest year for which data is available) Brazil allocated US$156 million directly to countries; 72% went to the Americas. Haiti, a country with a high poverty burden, received the largest volume (US$53 million), but most of Brazil's development partners are relatively better-off neighbours.

Brazil has published two reports on its development cooperation but information is still difficult to access. Current efforts to improve this (such as a new report and online data on humanitarian cooperation) are welcomed and should be strengthened. Better information could underpin and expand current discussions on the framework and impact of Brazilian development cooperation.

Brazil is also an aid recipient (US$1.4 billion received in 2013) and reduced extreme poverty from 9% of the population in 2002 to 4.5% in 2011.

China

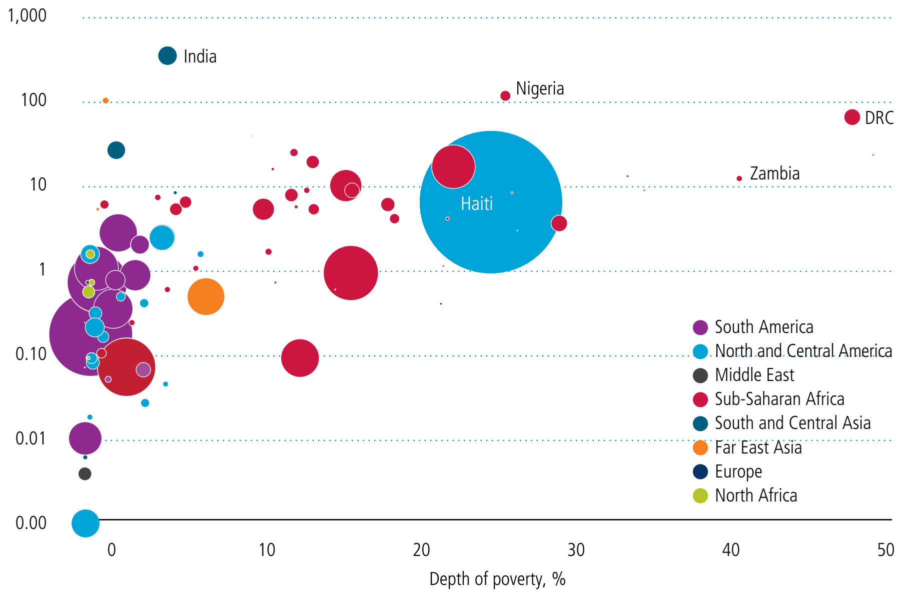
China is the largest provider of development cooperation among the countries outside the DAC, disbursing an estimated US$7 billion in 2013 following a fourfold rise in the last decade. Concessional loans increased by a factor of ten, accounting for 52% of disbursements in 2013. It is difficult to access detailed information on where these resources go. Publicly available data shows that China provided assistance to 121 countries between 2010 and 2012, of which most went to Africa (52%) and Asia (31%).

China has published two aid white papers; the latter states that China operates in the framework of South–South cooperation and aims to support other developing countries to reduce poverty and improve livelihoods, in particular in LDCs.

FIGURE 4.13

Brazil's development cooperation goes mainly to Latin American countries

Millions of people living below $1.25 per day, log scale



Note: Development Cooperation from Brazil by recipient, depth of poverty and number of people living below PPP$1.25 per day. The size of each bubble represents volume of Brazilian development cooperation to each country in 2010 (the latest year for which official data is available).

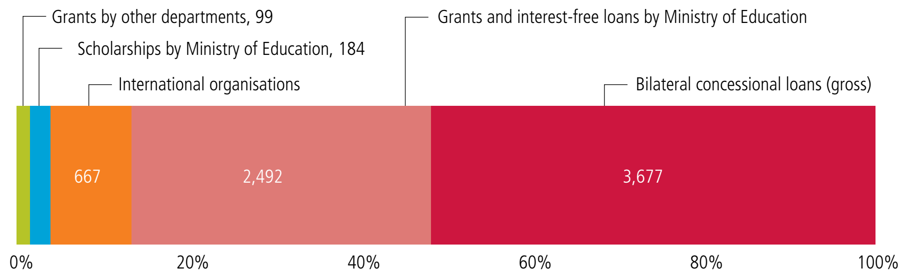
Source: Development Initiatives calculations based on IPEA/ABC, Brazilian international development cooperation (2010 and 2013) reports and PovcalNet.

Explore further: Brazil country profile (http://devinit.org/#!/country/brazil?tab=0).

FIGURE 4.14

Concessional loans accounted for 52% of Chinese development cooperation in 2013

Development cooperation commitments, US$ millions, 2013 (constant 2012 prices)



Source: Information Office of the State Council (The People's Republic of China), China's Foreign Aid, July 2014; Naohiro Kitano and Yukinori Harada, Estimating China's Foreign Aid 2001-2013, JICA, June 2014; and Brautigam, Deborah, The Dragon's Gift: The Real Story of China in Africa, Oxford University Press, 2009.

Explore further: China country profile (http://devinit.org/#!/country/china?tab=0)

China is also an aid recipient (US$2 billion in 2013) and was home to 84 million people in extreme poverty in 2011, down from 275 million in 2002.

India

India's development cooperation reached an estimated US$1.3 billion in 2013. Technical and economic cooperation almost doubled and was the largest of India's flows (63%) in 2013. Loans and advances to foreign governments were the second largest and increased by 63% since 2008. Contributions to interest subsidies on concessional lines of credit and to international organisations fell by 70% and 35% respectively.

While limited detail is available on its geographical breakdown, there is some evidence that India focuses on South Asia, but is expanding its cooperation to countries in Africa and Latin America.

India has shown eagerness in taking on further international responsibility while promoting national interests.[16] This includes development cooperation and other policy areas (such as trade). In 2012, India established the Development Partnership Administration, a new Ministry of Foreign Affairs division that aims to consolidate operations.

India is home to the largest number of poor people globally (301 million in 2011, down from 476 million in 2002). The country received US$5 billion in aid in 2013.

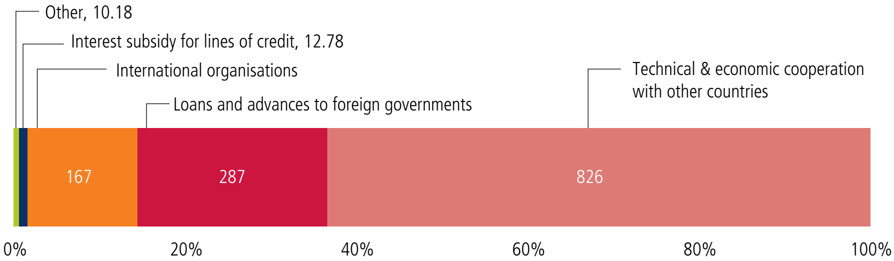
Mexico

Mexico's development cooperation came to US$277 million in 2012. It grew by 5.6% between 2011 and 2012, especially due to an almost fourfold increase of economic and financial cooperation (US$71 million in 2012). Contributions to international organisations are the largest component of Mexican development cooperation, and most of this goes to countries in Latin America and the Caribbean (69% of 'direct cooperation').[17]

FIGURE 4.15

Technical and economic cooperation accounted for 63% of India's development cooperation in 2013

Development cooperation, 2013, US$ millions



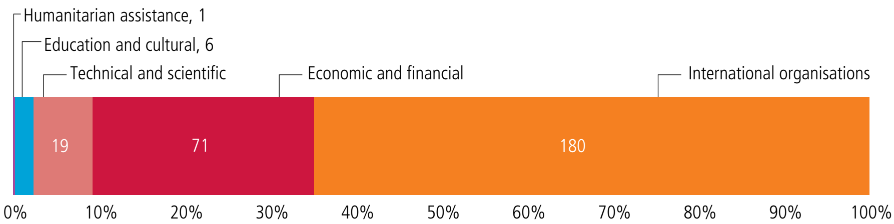
Source: Development Initiatives calculations based on Union Budget, Ministry of Finance, Government of India

Explore further: India country profile (http://devinit.org/#!/country/india?tab=0)

FIGURE 4.16

Most Mexican development cooperation goes to international organisations

Development cooperation, 2012, US$ millions



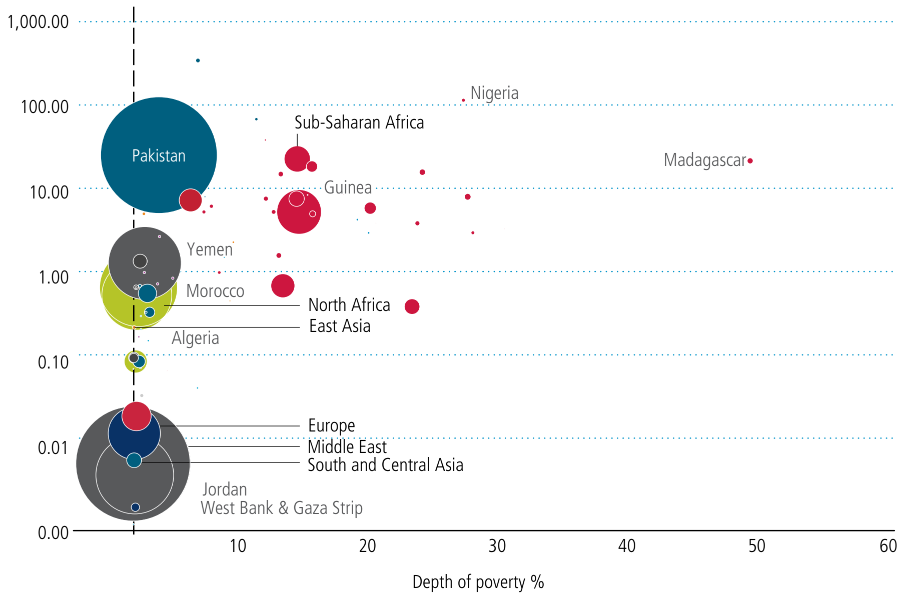
Source: Development Initiatives calculations based on AMEXCID online platform http://amexcid.gob.mx/images/ccid

Explore further: Mexico country profile (http://devinit.org/#!/country/mexico?tab=0)

FIGURE 4.17

The Middle East and North Africa receive most funds from the United Arab Emirates

Number of people living below $1.25 per day, millions, log scale



Notes: Development cooperation from the UAE by recipient, depth of poverty and number of people living below PPP$1.25 per day. Size of bubble represents 2013 UAE development cooperation. Egypt (receiving US$4.6 billion) omitted for visualisation purposes.

Source: Development Initiatives calculations based on OECD DAC data and PovcalNet.

Explore further: UAE country profile (http://devinit.org/#!/country/uae?tab=0)

The Ministry of Finance (Secretaría de Hacienda y Crédito Público) disbursed 47% of development cooperation in 2012, but other agencies delivered resources. Mexico provides data on its development cooperation to the public through an online platform.[18]
It is also developing a national registry to improve information for better planning and implementation.

Mexico is also an aid recipient (US$772 million received in 2013) and reduced its extreme poverty rate from 4% in 2002 to 1% in 2011.

UAE

The United Arab Emirates disbursed US$5.3 billion in 2013 and is the third-largest provider after China and Saudi Arabia. Most assistance was bilateral, delivered as grants (US$2.7 billion) or loans and equity investments (US$2.1 billion).

Egypt was by far the largest recipient, receiving US$4.6 billion (88% of UAE's bilateral flows): US$3 billion of this went to general budget support and US$1 billion to oil and gas. Pakistan (US$139 million), Jordan (US$135 million), Morocco (US$62 million) and the West Bank and Gaza Strip (US$62 million) followed.

The Middle East and North Africa remain the largest regional destinations. Countries with greater depth of poverty such as Madagascar, Zambia, Burundi, Malawi, Liberia, CAR and Rwanda received less than US$0.4 million each in 2013.

The UAE reports to the DAC and produces a yearly national report, which presents DAC ODA figures along with data on the UAE's foreign assistance and the national concept for aid.

Defining climate finance

'Climate finance' generally refers to financial resources directed at initiatives to mitigate the severity of climate change, transition to less carbon-intensive economies, and reduce the impacts of climate change through adapting to the changed conditions it creates. It consists of public and private investments, sourced using various instruments and mechanisms and delivered through different channels and modalities.

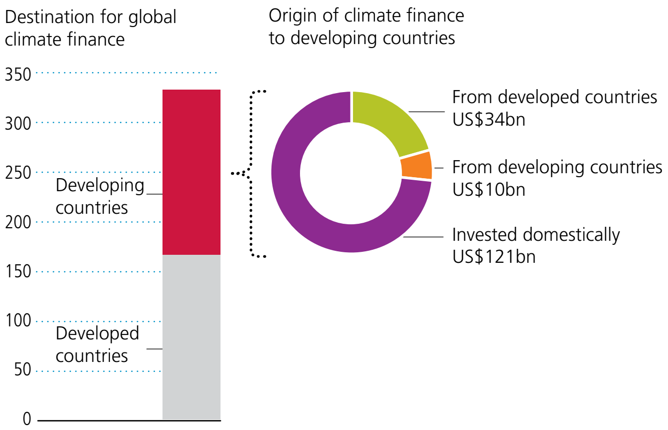
- Global climate finance reached US$331 billion in 2013 – of which public finance constituted US$137 billion, or 42%.
- Just under half (49.8%) of global climate finance was invested in developing countries (US$165 billion), of which US$34 billion came from developed countries; most came from developing countries themselves.[19]
- ODA with climate-related objectives grew to US$20 billion in 2013.

Flows of climate finance from developed to developing countries include official finance from development finance institutions, climate-specific funds such as the Clean Technology Fund and the Adaptation Fund, and ODA directly from donor government agencies. Data from the OECD illustrates the scale and nature of bilateral climate-related ODA investments, which have been increasing over the last decade[20] (Figure 4.18). Since 2010 over half (58%) of climate-related

FIGURE 4.18

Climate finance from developed to developing countries is estimated at US$34 billion in 2013

US$ billion, 2013



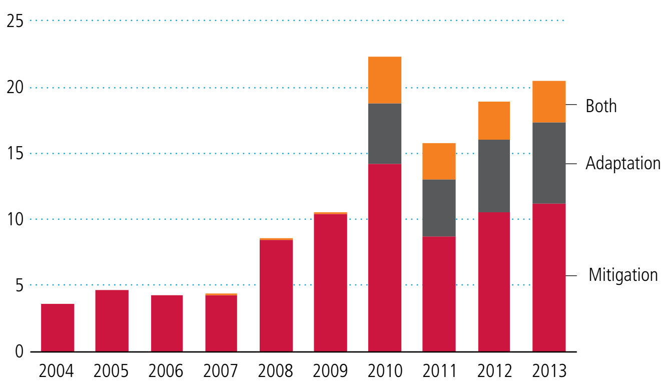
Note: Global total climate finance figures refer to mid-range estimates.

Source: Buchner et al; http://climatepolicyinitiative.org/wp-content/uploads/2014/11/The-Global-Landscape-of-Climate-Finance-2014.pdf

FIGURE 4.19

Bilateral climate-related ODA continues to increase

ODA commitments, constant 2012 prices, US$ billion



Note: Figure includes activities marked principal or significant using the climate-related Rio markers.

Source: Development Initiatives calculations based on OECD DAC data.

ODA has been committed to mitigation projects, 26% to adaptation projects, and 16% to projects with both adaptation and mitigation aims. The proportion committed to adaptation projects is low but increasing, and mitigation projects accounted for 55% of all climate-related commitments in 2013.

Dedicated funds are also delivering significantly more climate finance to developing countries. These funds are governed by development finance institutions, multilateral organisations and national agencies that administer various forms of climate finance to mitigation and/or adaptation projects. Cumulative pledges to these funds are US$35 billion to date, though this varies by the purpose of each fund (Figure 4.15). Despite substantial pledges, recorded disbursements to date remain very low at US$1 billion, at just 6% of total pledges.[21]

Obtaining better data on climate finance is complicated by poor reporting, lack of comparable definitions across reporting and technical challenges. Methodological challenges, for example related to using data on commitments which fluctuate year-on-year as a proxy for annual disbursement flows, also make it difficult to compare between years.

Data poverty

The quality and completeness of data on official international finance varies widely. As noted, there is more detailed and comprehensive data on ODA than any other resource covered in this chapter, with detailed information available at the aggregate and project level. But data on ODA is mostly historical in nature, with the most detailed data available from the OECD always one to two years out of date. It is also difficult to determine exactly how much ODA was disbursed as cash and how much as aid in kind – hindering discussion of the economic impact and effectiveness of ODA. Although a recipient country is given for most disbursements, information on the sub-national geographical distribution of ODA is typically weak.

Large amounts of ODA are also channelled via a number of 'special purpose' funds, but data on ODA often does not supply detailed information on what these resources were used for. Finally, some categories of ODA, such as ODA to global public goods, are not explicitly recognised in the data, making it difficult to analyse the resources targeted on these areas. The International Aid Transparency Initiative (IATI) data repository does address a number of these shortcomings in the OECD's ODA data, but detailed IATI data is not yet available for all providers, leaving gaps in the data that make it impossible to analyse ODA from IATI data alone.

Data on OOFs, also collected by the OECD, is next in terms of quality and completeness, with data on providers, recipients and sectors all available. Though data is available on the total amount of OOFs disbursed by each provider and the total received by each recipient, it is not always possible to analyse how much was disbursed from a given provider to any one recipient. Also, not all donors provide the detailed data needed for a complete sector and geographical analysis.

Data on international official finance that falls outside the definition of ODA and OOFs is typically sparse and often not available in publicly accessible databases. Sectoral data on these flows is typically absent and geographical data incomplete. Data on development cooperation from other government providers (often referred to as South–South cooperation) is patchy and often difficult to access.

To establish an 'instrument-neutral' approach to development financing we need detailed, comparable data to be available on all of these flows. We need data on current and, where possible, planned spending as well as current historical data. This will aid evidence-based analysis of the comparative advantage of each type of finance and, ultimately, better targeting of these resources towards ending poverty.

Summary

Official finance comes in various forms, ranging from concessional ODA and less concessional forms of other official flows, to funds from development finance institutions and peacekeeping operations. Each type of funding may comprise multiple different modalities and ODA also includes actions that do not result in any transfer of resources to developing countries, while other funds may go to developing global and regional public goods.

Each type of finance should be allocated in the most appropriate manner for any given circumstance if their impacts on poverty are to be maximised. Better visibility of these flows through improved data is needed to ensure the most effective allocation of finance is achieved and this should also extend to new sources of finance from emerging donors.

ODA will continue to be an important resource due to its focus on poverty and welfare and its ability to act as a catalyst in areas such as domestic resource mobilisation and global public goods. Indeed ODA's mandate should be strengthened further to target it more explicitly on those investments that benefit the poorest people and which will, ultimately, end poverty.